



**Summary of responses to questions received from shareholders  
in advance of the General Meeting  
on the proposed sale of Viridor  
28 May 2020**

**(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?**

As a responsible employer, Pennon will continue to support its pensions obligations into the future.

All defined benefit pensions in payment will continue to be paid from the Pennon Group Pension Scheme, the Citrus Pension Plan and the Devon Pension Fund. As part of the Disposal, Pennon has agreed to assume responsibility for funding the pensions payable from the Citrus Pension Plan and the Pennon Group Pension Scheme in respect of a large number of current and former Viridor personnel (Viridor will only retain responsibility for a very small number of active members in the Citrus Pension Plan and all of the Viridor members in the Devon Pension Fund).

**(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**

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**(a) will more of the proceeds than originally planned be used to reduce the deficit?**

The Circular sets out the intended use of proceeds which is subject to developments and board consideration of opportunities. At this stage the amount of proceeds to be directed towards a particular use has not been determined.

**(b) who takes responsibility for the pension fund of the Viridor employees?**

As part of the Disposal, Pennon has agreed to assume responsibility for funding the pensions payable from the Citrus Pension Plan and the Pennon Group Pension Scheme in respect of a large number of current and former Viridor personnel (Viridor will only retain responsibility for a very small number of active members in the Citrus Pension Plan and for all of the Viridor members in the Devon Pension Fund).

**(c) will they have deferred benefits in the Pennon pension scheme, or will some other arrangement apply?**

The status of Viridor members within its defined benefit schemes (i.e. Pensioner, deferred or active) does not change as a direct result of the sales transaction. The Company is however in the process of concluding a comprehensive consultation on pension provision with all Pennon employees on a proposed closure of the Pennon Group Pension Scheme, which could depending on the outcome result in currently active Pennon Group Pension Scheme Viridor members becoming deferred.

**(3) How does Pennon intend to deal with the proceeds generated from the disposal of Viridor? Will shareholders benefit?**

As outlined in the circular, Pennon intends to reduce a significant proportion of its net borrowings, which will ensure that, following the Disposal, the group can optimise its cost of debt.

Pennon also intends to use a portion of the cash proceeds from the Disposal to reduce the

Company's current pension fund deficit.

Pennon also intends to return a portion of the cash proceeds to shareholders, with a view to retaining some funds for future investment opportunities which may arise.

**(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?**

The Board intends to consider an appropriate capital structure for the group going forward in light of any other value creating investment opportunities pursued and in conjunction with the broader use of proceeds. As outlined already, a proportion of the Company's net borrowings will be repaid, which will be done in a manner that results in a sustainable gearing level for the Group.

**(5) With the intent to return to funds to investors, will the board take into account the interests of private investors regarding the form of return of capital?**

The board is aware that there are a number of options available to it when considering making a return to shareholders and Pennon does intend to speak to major shareholders, insofar as is reasonably practicable, regarding their views at the appropriate time.

**(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?**

The Pennon board conducted a review of the group's strategic focus, future options and capital allocation. It was decided that the sale of the Viridor would achieve an attractive value for the business, with an enterprise value of £4.2 billion, and would accelerate the realisation of value in cash for Pennon, reflecting its long-term investment in, and development of, the Viridor business.

While the Viridor business will no longer contribute to the Pennon group's trading profit following the disposal, Pennon intends to invest in the continued growth of its retained operations and in additional, value-creating growth opportunities which may arise.

Pennon continues to closely monitor the impact of the COVID-19 pandemic. However, with strong funding and liquidity, the group is well positioned to weather the current uncertainty. Pennon has secured a raft of new or renewed financing, much of which has been secured through the group's Sustainable Financing Framework for South West Water, ensuring that the group achieves long-term growth in a sustainable way.

**(7) How will the disposal impact Pennon's commitment to delivering South West Water's business plan for the K7 regulatory period?**

Pennon's water and residual waste & recycling businesses have always been operated entirely independent of one another, with South West Water (including Bournemouth Water) afforded additional protections due to its regulated status.

The disposal of Viridor will allow Pennon to focus on delivering the strategic priorities for its retained water and wastewater businesses, including: (i) leadership; (ii) cost efficiency; and (iii) sustainable growth in the UK water industry.

South West Water's approved business plan for the K7 regulatory period is key to achieving those priorities and, with a renewed focus on operational performance and customer service, Pennon aims to ensure delivery of the commitments under the business plan.

**(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?**

In accordance with article 31 (Quorum) of the company’s articles of association, no business may be conducted at a general meeting unless a quorum is present. Two qualifying persons entitled to vote at the general meeting will constitute a quorum. Article 31(c) defines a “qualifying person” as being: (i) an individual who is a shareholder of the company; (ii) a person authorised to act as the representative of a corporation in relation to the general meeting; or (iii) a person appointed as proxy of a shareholder in relation to the general meeting.

As mentioned earlier, I am attending the meeting, both in my capacity as shareholder and Chief Financial Officer. As the Chair of the meeting, I am the proxy for shareholders who have appointed the Chair as such in accordance with the instructions in the Notice of General Meeting included in the explanatory circular dated 7 May 2020 and the proxy card supplied. My colleague, Simon Pugsley, is also attending the meeting in his capacity as a shareholder of the company. Together we form the required quorum.

**(9) On what legal basis have shareholders been prevented from attending the general meeting in person?**

On 23 March 2020, the UK Government published compulsory measures prohibiting public gatherings of more than two people. These measures were passed into law on 26 March 2020 in England and Wales with immediate effect by way of the Health Protection Regulations 2020 made pursuant to the Public Health (Control of Disease) Act 1984 ie the Stay at Home Measures. Despite changes made to the Stay at Home Measures by the UK Government with effect from 11 May 2020, which resulted in modest changes to the current restrictions, the Stay at Home Measures still prohibit public gatherings of more than two people.

The only exceptions to this prohibition are situations in which the gathering is “essential for work purposes” or if a gathering consists of people from the same household or people from the same household and one person from another household.

Attendance at a general meeting by a shareholder (other than those specifically required to form the quorum for that meeting is not “essential for work purposes” and would therefore be in contravention of the Restrictive Measures.

The chair of the general meeting also has broad legal powers to preserve order at the meeting, ensure the safety of attendees and allow the business of the meeting to be conducted. Given the attendance of more than two people at a general meeting is not permitted under the Restrictive Measures, as the chair of the general meeting, I would have had to exercise these powers to exclude excess attendees. The health and safety of Pennon’s shareholders, workforce and officers is paramount.

**(10) What consideration was given to enabling shareholder engagement in the general meeting by electronic means or otherwise?**

The company is committed to maintaining shareholder engagement and a range of alternatives on how to hold the upcoming general meeting were considered, particularly in light of COVID-19 and the Stay at Home Measures.

Pennon is a FTSE 100 listed company with approximately 18,000 shareholders as at 31 March 2020.

It is difficult to find appropriate technology which allows participation by all shareholders at the same time, enables shareholders to vote and for those votes be properly counted, and which ensures the chairperson can run an effective meeting. In light of these factors, Zoom and a number of other video conferencing platforms were considered but none were deemed appropriate to hold a meeting of this scale and ensure the issues noted above could be effectively safeguarded.

In particular, the company gave consideration to a situation where the technology failed and shareholders were not able effectively to communicate or cast their vote. This may have resulted in the meeting being invalid and any resolutions passed being subject to challenge.

The holding of general meetings in light of COVID-19, has been the subject of much debate. The ability to participate in meetings has been considered in deciding whether a meeting was validly held. Whilst a general meeting of the company can be held at more than one place under article 37 (which is entitled "Meeting at more than one place") of our articles of association, a meeting is deemed to be validly held at more than one place only if the chair is satisfied that facilities are available to enable those present at each place to participate in the business of the meeting.

Given the uncertainties of technology for a meeting of this scale and the potential risks, which could have wide ranging consequences for both Pennon Group plc and its shareholders, the Company did not consider any technology suitable in the present case.

Having said that, the company has sought to provide shareholders with the greatest level of engagement for this general meeting whilst maintaining the integrity of the meeting and the health and safety of both company employees and shareholders (which is of paramount importance to us all). These steps include:

- providing all shareholders with all material information about the Disposal in the form of the circular which has been made available to every shareholder as explained earlier in the general meeting;
- encouraging shareholders to vote by proxy;
- allowing questions to be submitted in advance of the general meeting which we are now answering at the general meeting;
- ensuring shareholders can listen to the proceedings of the meeting; and
- addressing any queries from shareholders by encouraging the submission of questions by shareholders.