

**24 September 2018**

**PENNON GROUP PLC**

### **Trading Statement**

Pennon, one of the UK's largest environmental infrastructure groups, is issuing the following update ahead of its results for the half year ended 30 September 2018, which will be announced on 27 November 2018.

#### Key highlights

- On track to meet management expectations for 2018/19
- Continued leading efficiency in water, driving an enhanced Return on Regulated Equity (RORE)
- No water restrictions for the 22<sup>nd</sup> consecutive year, despite high demand and dry weather
- Ambitious South West Water business plan for the period 2020-2025 published
- Glasgow, Dunbar and South London Energy Recovery facilities (ERFs) are all receiving waste. Operational ramp up over the next 18 months
- £430m of financing raised, of which £240m under Pennon's sustainable financing framework.

#### **South West Water delivering for customers and shareholders**

South West Water continues to deliver strong operational and financial performance, with a focus on efficiency and customer service.

Cost saving momentum is being maintained, leading to ongoing Total Expenditure (Totex) outperformance.

South West Water continues to score highly on the customer experience survey, and operationally there were no water restrictions this summer despite the unprecedented demand as a result of the prolonged dry weather. Revenue from increased customer demand is expected to broadly offset the operational cost of delivery.

RORE is on track for continued outperformance for 2018/19.

#### **Viridor on track for growth**

The three new ERFs at Glasgow, Dunbar and South London (Beddington) are all receiving waste through the process of final commissioning.<sup>1</sup> Optimisation is ongoing and operations will ramp up over the next 18 months as has previously occurred at the other ERFs in our portfolio.

Works at the Avonmouth ERF are on track for commissioning in 2020/21, with process construction proceeding as planned.

There has been some improvement in recyclate pricing since the end of last financial year, in particular for paper. Output quality demands remain high, and we continue to focus on our processes to ensure we meet these requirements. As a result, the mix of output has continued to move towards higher value product. Our recycling performance for the half year and full year remain in line with our expectations.

---

<sup>1</sup> Protected by contractual compensation, primarily liquidated damages received /receivable when construction completed post original contractual completion date.

### **Strong liquidity and funding position**

Since 31 March 2018, Pennon has secured £430m of financing, £240m of which has been through the use of its sustainable financing framework, with £110m through the European Investment Bank with an inaugural Pennon facility.

### **Outlook**

On 3 September 2018, South West Water submitted its Business Plan to Ofwat for the next five year period 2020-2025. Given South West Water's strong operational and financial delivery in K6 (2015-2020), we are well positioned to deliver outstanding services to customers through K7 (2020-2025).

We await Ofwat's assessments by 31 January 2019. Draft determinations are expected between 1 March and 31 July 2019, with Final Determinations by December 2019.

We remain confident in the UK residual waste sector fundamentals, with further capacity essential to meet longer term demand.

With our clear strategy of focusing on the UK water and waste market, supported by a strong balance sheet, Pennon is well-placed to continue to deliver for customers, communities and shareholders.

### **Half Year Results - 27 November 2018**

Pennon intends to announce its half year results for 2018/19 on Tuesday 27 November 2018. Further information on Pennon, Viridor and South West Water can be found on the Group's website, [www.pennon-group.co.uk](http://www.pennon-group.co.uk).

### **For further information, please contact:**

Pennon: Susan Davy – Chief Financial Officer  
Steve Hodges – Investor Relations Manager  
01392 443 046

Finsbury: James Murgatroyd  
Faeth Birch  
0207 251 3801

### **Cautionary statement in respect of forward-looking statements**

Certain statements in this announcement are forward-looking statements relating to the Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, management. They are subject to a number of risks, uncertainties and other factors that could cause actual results, performance or achievements of the Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements. The Group's principal risks were described in the 2018 Pennon Group Annual Report which can be viewed online at <http://annualreport.pennon-group.co.uk/> Such forward looking statements should therefore be construed in light of such risks, uncertainties and other factors and undue reliance should not be placed on them. They are made only as of the date of this announcement and no representation, assurance, guarantee or warranty is given in relation to them including as to their accuracy, completeness, or the basis on which they are made. No obligation is accepted to publicly revise or update these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required. Nothing in this Statement should be construed as a profit forecast.