

Pennon Group plc
3 June 2021

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

Pennon Group plc

Acquisition of the Bristol Water Group and proposed Special Dividend and Share Consolidation

Pennon Group plc (**Pennon** or the **Group**) is pleased to announce that it has acquired 100% of the issued share capital of Bristol Water Holdings UK Limited and its subsidiaries, including Bristol Water plc (**Bristol Water**), (together, the **Bristol Water Group**), from its indirect shareholders: infrastructure funds advised by iCON Infrastructure LLP (80% of the shares); and ITOCHU Corporation (20%) for an equity value of £425 million, and an enterprise value of £814¹ million including assumed debt (the **Acquisition**). Pennon is also announcing a return of capital to shareholders, consisting of a Special Dividend of c.£1.5 billion, and a share buy-back programme of up to £0.4 billion.

Highlights

- Acquisition of the Bristol Water Group for £425 million cash consideration, adding a high-quality business with approximately 1.2 million customers
- Acquisition is expected to be earnings accretive and will result in an increase of c.16% in the Group regulatory capital value (**RCV**) as at 31 March 2021
- The acquisition price equates to a premium to RCV of 44%²
- Proposed c.£1.5 billion special dividend and share consolidation, and a proposed share buyback programme of up to £0.4 billion
- Following the Acquisition and the return of capital to shareholders, the Group is targeting net debt to RCV gearing of below 65% by the end of K7³
- The Board has decided to increase the Group's dividend level by c.9% (equivalent to an increase of 2 pence per share on a pre-consolidation basis) from 2021/22 onwards, and to continue its sector-leading dividend policy of CPIH + 2% growth.

¹ Based on assumed net debt of approximately £389 million as at 31 March 2021

² Relating solely to the regulated business, Bristol Water plc, reflecting value attributed by Pennon to other activities

³ Before Acquisition-related fair value adjustments

Commenting on the Acquisition, Susan Davy, Group Chief Executive said:

'The acquisition of Bristol Water brings great people and a great business to Pennon and I am hugely excited about building a future together. We see attractive opportunities to continue to invest in the Bristol Water business to deliver enhanced resilience and water security to benefit customers in Bristol and beyond. This latest acquisition, building on a strong heritage and history, firmly cements Pennon as one of the leading UK water and waste water companies.

Additionally, we have demonstrated our credentials as a responsible business, reducing debt levels, increasing pension contributions, and further supporting the Green Recovery for the much-needed regeneration of our region.

Pennon is also proposing an on-market share buy-back programme of up to £0.4 billion expected to be conducted through to September 2022, noting that this may be reconsidered if other attractive growth opportunities are identified. We are also pleased to be recognising shareholder support through the return of c.£1.5 billion to shareholders in the form of a special dividend.

Our sector-leading dividend policy, which we have strengthened today, together with the proposed special dividend, recognises the ongoing loyalty of our shareholders, underpinned by the Group's confidence in our ongoing growth strategy, and building a sustainable future for all.'

Presentation and Conference Call

A presentation for investors and analysts covering the acquisition of the Bristol Water Group, return of capital to shareholders and Pennon's full year results 2020/21 will take place today at 8.30 a.m. by Susan Davy, Group Chief Executive and Paul Boote, Group Finance Director.

The presentation can be accessed here: <https://pennon-group.connectid.cloud/register>.

The presentation will be followed by a live Q&A conference call at 10.00 a.m.

United Kingdom:	0800 640 6441
United Kingdom (Local):	020 3936 2999
All other locations:	+44 203 936 2999
Conference passcode:	635235

1. Background to and rationale for the Acquisition⁴

2020/21 has been a transformative year for the Group. On 8 July 2020, we completed the sale of Viridor to KKR for net proceeds of £3.7 billion. The sale recognised the strategic value developed by Pennon over many years, realising significant value for shareholders, and creating the opportunity to refocus the Group exclusively on UK water.

The Group has undertaken a highly disciplined strategic review of potential growth options to look to deploy the net proceeds (the **Strategic Review**). The Strategic Review considered a range of factors including earnings accretion, value creation from the impact on shareholder returns (both income and growth) and the impact on customers and other stakeholders. All opportunities have been benchmarked against a return of capital to shareholders.

The Acquisition marks an important step in that review, with the Board considering the Bristol Water Group to be highly complementary to the Group. The Board believes that the Acquisition presents an attractive opportunity to expand South West Water's wholesale capabilities, whilst also deploying best practice from both businesses to deliver value for customers, shareholders and broader stakeholders.

The Acquisition will increase the size and scale of the Group to serve a total population of c.3.5 million in our region and will deliver an estimated 16% increase in RCV. It also adds another 500 dedicated employees to the Group, enabling access to a new, wider and diverse talent pool in the South West, with further opportunities to become an employer of choice.

Pennon will fund the cash consideration for the Acquisition from existing cash resources. The Acquisition is not conditional on any acquisition financing and will not involve any deferred consideration. The Acquisition has been irrevocably signed and will complete later today, 3 June 2021 and, following completion, is subject to review by the Competition and Markets Authority (CMA), with input from the Water Services Regulation Authority (Ofwat). Pennon considers that the Acquisition will create a net benefit for customers and shareholders and expects to receive a decision from the CMA within its usual timescales.

⁴ Capitalised terms not otherwise defined in this Announcement have the same meaning given to them in the shareholder circular published by Pennon today, 3 June 2021, relating to the return of capital to shareholders

Further detail on adjustments to Pennon's base dividend, reflecting the accretive nature of the Acquisition and the new shape of the Group, are set out in Pennon's full year results for 2020/21, published today, 3 June 2021.

2. Proposed Special Dividend and Share Consolidation, and planned Share Buy-back

Since Pennon's successful sale of Viridor which realised net proceeds of £3.7 billion, the Group has taken steps to ensure that the balance sheets of both the Group and South West Water are in a sustainable position for the future. To right-size our debt portfolio at the Pennon company level, we have repaid c.£1.1 billion, with c.£0.1 billion of the Viridor sale proceeds retained in cash by Pennon and gross debt at the Pennon company level of c.£0.2 billion.

In addition, the Group plans to invest a further £0.1 billion into South West Water in support of the Green Recovery, which will aim to deliver solutions to address climate change, improve public health and create jobs, over and above existing commitments. The Group also plans to increase our contribution to Pennon's principal pension scheme, over and above normal contributions, to £53 million (which includes an amount of £36 million already contributed in H1 2020/21). The balance of £17 million is payable within six months of payment of the Special Dividend.

After these adjustments, taking into account the Acquisition and rounding of the amounts outlined above, the residual net cash proceeds Pennon has retained from the Disposal amount to c.£1.9 billion (the **Net Proceeds**). The Board has now determined that a proportion of the Net Proceeds should be returned to shareholders by way of a proposed special dividend of c.£1.5 billion in aggregate, representing £3.55 per Existing Ordinary Share (the **Special Dividend**). The Board is proposing to pay the Special Dividend to shareholders on the register of members of the Company as at 6.00 p.m. on 2 July 2021.

As is common when an amount representing a significant proportion of the market capitalisation of a company is returned to shareholders, the Board is recommending that the Special Dividend is combined with an associated share consolidation on the basis of 2 New Ordinary Shares with nominal value of 61.05 pence each for every 3 Existing Ordinary Shares (the **Share Consolidation**). The effect of the Share Consolidation will be that the Existing Ordinary Shares will be replaced by the New Ordinary Shares so as to reduce the number of shares in issue and reflect the amount of cash to be returned to Shareholders. The result of the Share Consolidation will be to reduce the number of Ordinary Shares in issue by approximately the same percentage of market capitalisation returned via the Special Dividend (for these purposes, the market

capitalisation used is that as at market close on 2 June 2021). It is anticipated, therefore, that the market price of each Ordinary Share should remain at a broadly similar level following the Special Dividend and the Share Consolidation. The current ISIN (GB00B18V8630) in relation to Existing Ordinary Shares will be disabled in CREST as at 6.00 p.m. on 2 July 2021. A new ISIN (GB00BNNTLN49) in relation to the New Ordinary Shares will come into effect at 8.00 a.m. on 5 July 2021.

The Company currently operates a Dividend Reinvestment Plan (**DRIP**) under which eligible shareholders may use their dividends to buy additional shares in the Company. The DRIP cut-off time and date is 6.00 p.m. on 2 July 2021 (the **DRIP Cut-Off Time**). Accordingly, those eligible shareholders who do not as of the DRIP Cut-Off Time participate in the DRIP may not apply to participate in the DRIP in respect of the Special Dividend. The Special Dividend payable to shareholders who are participants in the DRIP as of the DRIP Cut-Off Time will, unless such participation is revoked, be reinvested in additional New Ordinary Shares.

Subject to (i) shareholder approval of the Special Dividend and the Share Consolidation and (ii) admission in respect of the New Ordinary Shares, the Special Dividend is expected to be paid to shareholders on 16 July 2021.

As all Existing Ordinary Shares will be consolidated, the number of Ordinary Shares held by each shareholder will reduce, but the proportion of the total issued ordinary share capital of the Company held by each shareholder immediately before and following the Share Consolidation will, save for fractional entitlements and participation in the DRIP, remain unchanged. Apart from having a different nominal value, each New Ordinary Share will rank *pari passu* for dividends and will carry the same rights as set out in the Company's articles of association that currently attach to the Existing Ordinary Shares.

In addition to the c.£1.5 billion Special Dividend, Pennon intends to initiate an up to £0.4 billion share buy-back programme in order to purchase Ordinary Shares from shareholders (a **Share Buy-back**). The Share Buy-back is expected to start after payment of the Special Dividend and conclude before 30 September 2022. The Board considers this approach an appropriate means of returning capital to shareholders, whilst providing Pennon with ongoing financial flexibility. In the event that compelling growth opportunities arise in the UK water sector, the Board may decide not to initiate or to halt any Share Buy-back and use the remaining proceeds to pursue those opportunities in order to drive further shareholder value.

3. Full Year Results

Pennon will present its Full Year Results today, 3 June 2021 where it will update on performance.

This announcement contains inside information. The individual responsible for releasing this announcement is Simon Pugsley, Group General Counsel and Company Secretary.

For further information, please contact:

Pennon Group plc

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About Pennon

Pennon is a UK-focused water infrastructure group, comprising South West Water (incorporating Bournemouth Water) and Pennon Water Services.

South West Water is focused on providing services in the most efficient and sustainable way possible. Innovation, new technologies and a holistic approach underpins our commitment to delivering service improvement and long-term value.

South West Water (incorporating Bournemouth Water) provides water and waste water services to a population of c.1.8 million in Cornwall, Devon and parts of Dorset and Somerset and water only services to c.0.5 million in parts of Dorset, Hampshire and Wiltshire.

Entering the new regulatory period (2020-25), South West Water is the only water and waste water company to have achieved fast-track status for two consecutive price reviews. South West Water is focused on delivering for our customers and communities and continues to be committed to the highest standards of environmental performance. Work is already underway to deliver the commitments in the New Deal Business Plan 2020-2025 focusing on cost base efficiency, operational performance, customer service and sustainable growth.

Pennon Water Services (an 80:20 venture with South Staffordshire Plc) provides retail water, waste water and value-added services to over 160,000 non-household customer accounts across England and Scotland, and is focused on achieving long-term, sustainable growth.

Further information on Pennon can also be found on the Group's website, www.pennon-group.co.uk

Pennon LEI: 213800V1CCTS41GWH423

About the Bristol Water Group

Bristol Water Holdings UK Limited is the holding company for the following group of trading companies with total consolidated Gross Assets of £709 million and Net Assets of £162 million as at 31 March 2021⁵.

For the year ended 31 March 2021, the unaudited consolidated results for the Bristol Water Group recorded combined revenues of £118 million, operating profits of £21 million and underlying profit before tax of £9 million.

Bristol Water plc

Bristol Water plc is a regulated water only company supplying drinking water to a population of approximately 1.2 million people in the Bristol region, initially established in 1846 to meet the drinking water needs of the entire Bristol community.

Bristol Water plc is delivering across a range of indicators including:

⁵ Unaudited consolidated results at 31 March 2021

- Leakage – achieving target this year
- Properties at risk of low pressure
- Customer service (CMeX) ahead of industry average

The RCV for Bristol Water is £555.9 million as at 31 March 2021⁶.

Bristol Wessex Billing Services Limited (trading as Pelican Business Services)

Pelican Business Services is a 50%⁷ joint venture with Wessex Water providing meter reading, billing, debt recovery and customer contact management services for household customers.

Water 2 Business Limited

Water 2 Business is a 30%⁸ joint venture with Wessex Water providing retail services to non-household businesses nationally under its own Water Supply Licence. It serves over 150,000 customers representing c.5% of national market share.

Important notices

Important information relating to the joint financial advisors and corporate brokers

Barclays Bank PLC, acting through its Investment Bank (**Barclays**), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting exclusively for Pennon as joint financial advisor and corporate broker, and for no one else, in connection with the Acquisition and related matters and will not be responsible to anyone other than Pennon for providing the protection offered to clients of Barclays or for providing advice in relation to the Acquisition, and related matters, the contents of this Announcement or any transaction, arrangement or other matter referred to in this Announcement.

Morgan Stanley & Co. International plc (**Morgan Stanley**), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting exclusively for Pennon as joint financial advisor and corporate broker and for no one else in connection with the Acquisition, Special

⁶ Post RCV midnight adjustments, using the Final Determination inflation assumptions

⁷ 50% of equity and voting rights

⁸ 30% equity rights and 40% voting rights

Dividend and Share Consolidation and will not be responsible to anyone other than Pennon for providing the protection offered to clients of Morgan Stanley or for providing advice in relation to the Acquisition, Special Dividend and Share Consolidation, the contents of this Announcement or any transaction, arrangement or other matter referred to in this Announcement.

Important information regarding forward-looking statements

This Announcement contains statements which are, or may be deemed to be, “forward-looking statements” which are prospective in nature. All statements other than statements of historical fact are forward-looking statements. They are based on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as “plans”, “expects”, “is expected”, “is subject to”, “budget”, “scheduled”, “estimates”, “forecasts”, “goals”, “intends”, “anticipates”, “believes”, “targets”, “aims” or “projects”. Words or terms of similar substance or the negative thereof, are forward-looking statements, as well as variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “should”, “would”, “might” or “will” be taken, occur or be achieved. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations.

Forward-looking statements include statements relating to: (a) future capital expenditures, expenses, revenues, earnings, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (b) business and management strategies and the expansion and growth of the Company’s operations; and (c) the effects of global economic conditions on the Company’s business.

Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause actual results, performance or achievements of the Company to differ materially from the expectations of the Company, include, among other things, general business and economic conditions globally, industry trends, competition, changes in government and changes in regulation and policy, including in relation to the environment, health and safety and taxation, labour relations and work stoppages, interest rates and currency

fluctuations, changes in its business strategy, political and economic uncertainty and other factors. Such forward-looking statements should therefore be construed in light of such factors.

Neither the Company nor any of its Directors, officers or advisers provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Announcement will actually occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date of this Announcement.

Other than in accordance with its legal or regulatory obligations (including under the Listing Rules, Market Abuse Regulation and the Disclosure Guidance and Transparency Rules), the Company is not under any obligation and the Company expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.