

## **PENNON GROUP**

**12 April 2022**

### **TRADING STATEMENT**

Pennon Group, one of the leading water groups in the UK, announces the following trading update ahead of its results for the year ended 31 March 2022, which will be announced on 31 May 2022.

A spotlight presentation for investors and analysts will be held at 08:30am today, followed by live Q&A at 09:30am.

#### **Key Highlights**

- Pennon remains on track to deliver resilient financial and operational performance across the Group in line with management expectations – continued South West Water RORE outperformance run rate
- CMA clearance for Bristol Water merger with South West Water – integration process underway, synergies targeting c.£20 million per annum identified across the Group by 2024/25
- Largest environmental investment programme in 15 years of c.£1.4 billion, across South West Water and Bristol Water well underway
- Planned acceleration and additional spend of c.£150 million in the current regulatory period, funded by re-investment of RORE outperformance announced to date, driving RCV growth
- £200 million of the share buy-back programme delivered so far – further phases expected to commence, subject to review of growth opportunities
- Continuing to support customers, with a bill cut for 2022/23, and bills lower than they were 10 years ago for South West Water customers.

#### **Bristol Water Integration**

Following the CMA's clearance of the Bristol Water merger with South West Water on 7 March 2022, we are pleased to be able to update on the integration which is anticipated to complete over the next 24 months.

Synergies of c.£20 million per annum by 2024/25 have been identified across the Group through service improvements, driving supply chain efficiencies, creating common systems and processes, and sharing best practice. We expect the profile of these efficiencies to ramp up to deliver c.£50 million over K7, with one-off, non-underlying integration costs of c.£10 million anticipated.

Pennon will retain the valuable Bristol Water brand and will continue to deliver the existing PR19 business plans of both South West Water and Bristol Water. For PR24, the combined entity will deliver for all our regulated water customers in accordance with a single business plan, with separate price controls.

#### **Environmental Investments and Customer Returns**

We have made good progress in delivering our £1.4 billion<sup>1</sup> environmental investment programme for South West Water and Bristol Water, driving RCV growth in K7. This is Pennon's largest environmental investment programme for over 15 years. In line with our K7 delivery profile, capital investment has increased c.20% year on year, with schemes focused

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<sup>1</sup> Capital investment as per Final Determinations, using forecast inflation of 3.1% CPIH, and including Green Recovery investments.

on increasing resilience, improving water quality, and protecting and enhancing the natural environment.

We are announcing today our WaterFit plans for 2022-25, outlining how we will play our part, working with partners, customers, visitors and local communities to protect and enhance the South West's waters for future generations. Our plans incorporate wastewater investments of c.£330 million over this period, which will improve the quality of the region's rivers and seas. Of this investment, c.£45 million will be funded by reinvesting totex efficiencies realised to date, on new projects. This, together with pre-funding of our Green Recovery initiatives and planned acceleration of our second c.£20 million WaterShare+ return to customers equates to accelerated and additional spend of c.£150 million in K7.

This acceleration and additional spend will be funded by South West Water's K7 RORE outperformance announced to date, consisting of c.£94 million in totex efficiency and c.£60 million financing outperformance.

### **Resilient Financial and Operational Performance**

Financial performance has remained resilient across the Group despite the challenging macro-economic environment.

As we enter the summer period, our water resources remain in a robust position with reservoir storage at c.93%. We continue to look for strategic value enhancing opportunities in this area having recently procured a site for development in our region.

For South West Water, we continue to anticipate RORE outperformance to a level which doubles base returns<sup>2,3</sup> with the elevated inflationary environment skewing outperformance from totex, where costs are increasing, into financing, where the Group benefits from a relatively low level of index linked debt. ODI financial performance is expected to improve from the prior year<sup>3</sup> as a result of our improved leakage and pollutions performance. Overall, we anticipate around c.80% of South West Water's ODIs will be on track or ahead of target, for the year. For Bristol Water we anticipate RORE performance to be marginally below their allowed base returns for this current year.

South West Water's wastewater Pollutions Incident Reduction Plan continues to deliver results, although we recognise that there is still more to do in this area as our targets become more stringent, impacting our relative EPA performance. Our steadfast focus remains in this area as we work to deliver a meaningful step change in performance.

Whilst long-term protection from the increasing inflationary environment is provided through inflation linked revenues and RCV growth, along with regulatory true-ups, we continue to expect our cost base to be impacted in the near term by:

- 26% of Pennon's regulated water businesses' gross debt of £3.1 billion<sup>4</sup> is index linked, meaning a 1% increase in inflation results in an additional £8 million of financing costs.
- Wholesale power costs account for c.10% of Pennon's regulated water businesses' operating costs. Pennon is c.60% hedged for 2022/23 and, as such, has c.40%

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<sup>2</sup> WaterShare RORE inflation assumptions have been updated to reflect the current increasing inflationary environment, using an average assumption for the K7 regulatory period of 3.1%.

<sup>3</sup> Excluding potential impact of third-party event at Carland Cross, Cornwall. In late August a third-party utility company, performing work unconnected with South West Water, damaged mains supply pipes at Carland Cross in Cornwall, causing a localised loss of supply. Any impact from this event in terms of ODI mechanism remains under evaluation.

<sup>4</sup> Gross debt as at H1 2021/22. Water Business net debt at H1 2021/22 was £2.6 billion.



The Group's principal risks were described in the 2021 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.