



25 September 2020

PENNON GROUP PLC

Trading Statement

Pennon Group, one of the leading water companies in the UK, is issuing the following update ahead of its results for the half year ended 30 September 2020, which will be announced on 24 November 2020.

Key Highlights

- Pennon is on track to deliver resilient financial results in line with management expectations
- The impact of COVID-19 to date is broadly in line with our initial assumptions for a net revenue impact in 2020/21 of £10 million. We will continue to monitor the ongoing financial impact of COVID-19 closely
- £4.2 billion sale of Viridor completed on 8 July with net cash proceeds of £3.7 billion received
- We continue to focus on our sector leading water and wastewater businesses, whilst pursuing opportunities for growth within the UK water industry, alongside reviewing the most effective and efficient method of returning value to shareholders.

COVID-19 – Resilient delivery

We continue to deliver essential services through the ongoing COVID-19 pandemic, supporting our customers, employees and communities, without utilising any government support schemes and with no employees furloughed. The vast majority of our operations continue as usual in COVID-19 secure environments, prioritising the health and wellbeing of our employees. In addition, we have signed up to the Kickstart Scheme as part of our commitment to supporting the Government's broader build back better campaign.

As expected, the largest impact of COVID-19 on water usage has been on businesses and commercial customers (non-household). Overall revenue has reduced with an increase in household revenue offset by lower non-household revenue. Ofwat's regulatory model allows for differences in revenue compared to the Final Determination to be trued up in future years.

Pennon Water Services (our Business-to-Business retailer) continues to work to minimise bad debt risk through the implementation of cash collection initiatives. Whilst cash collections across the Group to date have remained robust, we continue to closely monitor changes in revenue and payment patterns in response to new national and regional restrictions and changes in government support for businesses and individuals.

To support customers who have seen an impact on their household finances we have accelerated planned affordability and vulnerability initiatives ensuring accessible support to those who need it most during these challenging times.

Delivering for customers, communities and shareholders

South West Water remains on track to deliver continued Return on Regulated Equity (RORE) outperformance, driven by efficient financing and totex, and we remain focused on

targeting improvements to support the delivery of our most stretching Outcome Delivery Incentives.

Delivery of South West Water's c.£1 billion investment programme to 2025 to improve services for customers, protect and enhance the environment, and strengthen resilience is well underway, with continued innovation central to our plans.

South West Water has signed a new sustainable £30 million long funding finance lease with a deferred draw down period and a margin in line with those seen pre COVID-19. In addition, a maturing £30 million lease has been extended, supporting South West Water's ongoing capital programme.

South West Water's WaterShare+ scheme launched earlier in September which will see c.£20 million of outperformance from K6 shared with customers via either Pennon shares, a bill reduction or a cash rebate – for eligible customers to choose.

On 1 April 2020 South West Water successfully completed the expansion into the Isles of Scilly, following collaboration with regulators and stakeholders. A first for the industry, our plans over the next five years include significant investment in critical infrastructure and improvements for both customers and the environment.

Outlook

The Group remains in a strong financial position with expected cash and committed facilities well in excess of £3 billion at 30 September 2020.

Following the completion of the sale of Viridor in July, Pennon's debt restructuring programme is progressing well, with around two thirds repaid to date of the up to £900 million the Group announced it would seek to retire. With shorter term deposit rates remaining low, the swift repayment of debt has significantly reduced the Group's cost of carry. Alongside this, a contribution of £36 million has also been made into the Group pension schemes.

We continue to review the most efficient and effective method of returning value to shareholders, alongside considering earnings accretive market opportunities. Any potential investment will be assessed in terms of value creation and the impact on shareholder returns, income and growth, as well as the impact on customers and other stakeholders. Any use of capital to pursue an investment opportunity will be compared with the alternative of returning that capital to shareholders, ensuring our strong focus on financial discipline is maintained.

An update for shareholders on this review will be provided at Pennon's half year results announcement in November 2020.

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Cautionary statement

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 2020 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.