

28 September 2015

PENNON GROUP PLC

PRE-CLOSE TRADING STATEMENT

Pennon Group

- Continued good performance across the Group underpins the 2015/16 delivery of our sector-leading dividend policy of 4% year-on-year growth above RPI inflation.
- Strong liquidity and funding position.
- Group performance on track to meet management expectations for 2015/16.
- Pennon Group is increasingly well positioned for the future as Viridor's Energy Recovery Facilities (ERF) come on stream.

South West Water

Building on a successful K5 (2010-2015) regulatory period, South West Water is focused on remaining at the frontier of efficiency and is targeting K6 (2015-2020) outperformance. The company's enhanced business plan status allowed it to advance K6 capital expenditure in 2014/15, delivering tangible benefits for customers and shareholders.

As anticipated, revenues for 2015/16 will be impacted by the reduction in base allowed returns as part of the 2014 final determination. Over the full K6 period, South West Water will have an opportunity to generate the highest returns in the sector, ahead of the assumed returns on equity through Total Expenditure (TOTEX) and financing efficiency, Service Incentive Mechanism (SIM) improvement and Outcome Delivery Incentives (ODIs). Overall performance is forecast to deliver financial rewards from 2015/16.

South West Water is well-prepared for market liberalisation in 2017, with established retail and wholesale strategies. Within the South West region, South West Water has Water Business Services, which is tasked with retaining existing business customers, and outside the region it has Source for Business, which is focused on winning new customers.

Bournemouth Water

Bournemouth Water's results are in line with expectations and the Competition and Markets Authority (CMA) referral is progressing as expected.

Provisional findings from the CMA are due to be published shortly.

Viridor

Viridor's progress in establishing its ERF business continues with a focus on optimising performance at the seven operational ERFs. This includes the normal steady ramp-up of the five new ERFs brought on stream in 2014/15, the same process performed at Lakeside, bringing the plants up to consistent performance at the beginning of their lives, before targeting outperformance of nameplate capacity⁽¹⁾ over the life of each plant.

⁽¹⁾Manufacturer's design capacity

Viridor is also focused on completing the construction of Peterborough, Glasgow and Dunbar ERFs. Peterborough ERF is already in commissioning and is due to be brought on stream during the second half of 2015/16. Glasgow will be brought on stream in the first half of 2016/17 and Dunbar in the second half of 2017/18. Construction of the Beddington ERF in South London has also now begun following receipt of the Notice to Proceed with construction. The ERF business is contributing significantly to EBITDA and is on track to contribute c.£100m to Viridor's Statutory EBITDA in 2016/17.

Viridor was pleased to be announced as preferred bidder for the 25-year Tomorrow's Valley Joint Waste contract in Wales, and is currently working towards financial close. This will feed the Trident Park ERF in Cardiff, underscoring the evolution from a merchant plant under construction in 2012 to a plant that is 80% contracted with two life of plant local authority contracts.

Although there continues to be pressure on commodity prices, recycling EBITDA in the first half of 2015/16 has improved on H2 2014/15. This is as a result of Viridor's ongoing Input, Throughput and Output Optimisation (ITOO) programme, which is addressing the effectiveness and efficiency of operations and is yielding financial benefits. Viridor remains confident of the long-term regulatory drivers from the EU and UK Government underpinning demand for recycling and the business is well-placed to deliver sustainable returns.

In the landfill business, volumes are gradually declining as expected and waste is being diverted to energy recovery. A focus on maximising landfill gas capture rates has ensured that power generation from this source continues to contribute strongly, against a backdrop of declining yields.

On the regulatory front, a recent Government change to remove the climate change levy exemption for renewables led to the end of Levy Exemption Certificates (LECs), which Viridor had been receiving for both its landfill gas and ERF businesses. This has had a modest impact on Viridor's earnings.

Half Year Results

Pennon Group intends to announce its half year results for 2015/16 on Friday 27 November 2015. Further information on Pennon, South West Water and Viridor can be found on the Group's website, www.pennon-group.co.uk

For further information, please contact:

Pennon: Susan Davy – Group Director of Finance
Sarah Heald – Head of Investor Relations
01392 443401

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 are described in the 2015 Pennon Group Annual Report which can be viewed online at <http://www.pennonannualreport.co.uk/2015> 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.