

9 February 2017

PENNON GROUP PLC

Trading Statement

Pennon, one of the UK's largest environmental infrastructure groups, is issuing the following update.

Chris Loughlin, Pennon Group Chief Executive said:

“Our water and waste businesses are performing well and we are on track to deliver a good set of results for the full year 2016/17. South West Water is on course to remain at a sector-leading 11.7% RORE and Viridor is on track to contribute the targeted c.£100 million of EBITDA from its portfolio of Energy Recovery Facilities. With our sector-leading dividend policy, our growth profile and our strong balance sheet, Pennon is well-placed to continue to deliver for customers, communities and shareholders.”

Trading Update

The Board considers that Pennon will deliver trading performance consistent with its expectations and prior guidance.

Pennon continues to focus on delivering for customers, communities and shareholders across its water and waste businesses. Operational performance is supported by cost savings and synergies across the Group. Growth is being delivered through Viridor's portfolio of twelve Energy Recovery Facilities (ERFs) across the UK.

As announced at the half year, Glasgow's Recycling and Renewable Energy Centre (GREEC) is being completed by an experienced team assembled by Viridor, which will work with a new Engineering, Procurement and Construction (EPC) contractor. The Glasgow-based firm Doosan Babcock are currently finalising an assessment and project plan at the site. They have been chosen for their experience in delivering large capital projects in the energy and power space. This follows the decision to terminate the EPC contract with Interserve due to repeated delays in the completion of GREEC, for which Viridor has contractual remedies. The client, Glasgow City Council, has been consulted throughout this period of change, and is supportive of Viridor's actions and the revised plan for completion.

In Greater Manchester, Viridor recognises the financial challenges faced by its client, the Greater Manchester Waste Disposal Authority, due to prolonged austerity. Viridor is working together with its partners to respond. Modifications are being undertaken and funded at a handful of sites by the original construction contractor Costain PLC, to ensure the facilities operate effectively for the mix and profile of waste arisings. Diversion of waste from landfill remains ahead of contractual commitments and Viridor and its partners are keen to ensure this progress is able to continue.

Pennon has announced today that it has agreed terms with Nomura to unwind a derivative, entered into in 2011, through Peninsula MB Ltd. The derivative had been due to end in 2027, however, following a change in the economic benefit of this derivative outlined at the half year results 2016/17, Pennon is exercising its option to unwind the transaction early. The estimated overall post-tax impact of unwinding this derivative has already been reflected through the £39.5m derivative liability recognised at the half year results 2016/17.

Full Year Results 2016/17 - 24 May 2017

Pennon intends to announce its full year results for 2016/17 on Wednesday 24 May 2017. Further information on Pennon, Viridor and South West Water can be found on the Group's website, www.pennon-group.co.uk

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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 2016 Pennon Group Annual Report which can be viewed online at <http://www.pennonannualreport.co.uk/2016/>. 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.