

30 March 2020

PENNON GROUP PLC

Full Year 2019/20 Trading Statement

Pennon, one of the UK's largest environmental infrastructure groups, is issuing the following update ahead of its results for the year ended 31 March 2020, which will be announced on 4 June 2020.

Key highlights

- Group performance for 2019/20 in-line with management expectations
- We are doing all we can to support our employees and customers through this unprecedented COVID-19 epidemic, with the Group being well positioned with strong funding and liquidity to weather current uncertainty
- South West Water has outperformed in K6 (2015-20) on TOTEX and financing and will end the five year period to 2020 in a net reward position on Outcome Delivery Incentives (ODIs)
 - Revenue for 2019/20 has reduced, driven by prolonged wet weather with rainfall 50% more than the levels seen last year and higher than long-term averages. Year on year shortfalls in revenues (compared with the Final Determination) are subject to a revenue true-up mechanism in future years
 - Operationally the business has performed well, ensuring minimal impact to customers at times of extreme wet and stormy weather
 - Water resources now over 95%
- Viridor continues to perform well - focused on operational excellence and driving ongoing efficiency
 - Growth in energy recovery with ramp-up of existing plants. Avonmouth Energy Recovery Facility (ERF) is now in commissioning and contributing to earnings, operational ramp-up expected during 2020/21
- Announced on 18 March 2020, the sale of Viridor to Planets UK Bidco Limited, a newly formed company established by funds advised by Kohlberg Kravis Roberts & Co. L.P. for an Enterprise Value of £4.2 billion. The transaction is expected to complete in Summer 2020
- Following the sale of Viridor, Pennon will focus on its sector-leading water and wastewater businesses and will continue to pursue growth within the UK water industry.

COVID-19

In these unprecedented times, the health and safety and wellbeing of our employees and customers is paramount and our number one priority during the COVID-19 epidemic. We are doing all we can to support them and help prevent the spread of the virus. Following the latest Government and Public Health guidance, we have strict precautions in place at our sites including enhanced levels of cleaning, additional hygiene facilities and social distancing. Many of our employees are designated key workers and are delivering the best possible service to customers during this challenging time. Enhanced precautions and safety checks are in place and only essential customer visits are taking place, everything possible is being handled remotely. We know that this is a difficult time for our customers, and we have stepped up our support for those on our priority services register and customers that need extra support with their bills during this period.

Outlook

The Group is well positioned with strong funding and liquidity to weather the current uncertainty as a result of COVID-19, but we continue to closely monitor the current situation as it develops. £840 million of new or renewed finance was raised in 2019/20, including £245 million of funding through the Sustainable Financing Framework for South West Water. The Group has c.£1.6 billion of cash and committed facilities providing liquidity, with Pennon's £300 million perpetual capital security approaching the first call date in May 2020.

On completion of the sale of Viridor, Pennon will continue to focus on its sector-leading water and wastewater businesses and will consider further growth opportunities that create value for customers, employees and shareholders. A further update, alongside a new dividend policy will be provided at the Full Year Results on 4 June 2020.

South West Water accepted Ofwat's final determination for K7 (2020-25). Whilst revenues in K7 have reduced, reflecting the re-based cost of capital allowance across the industry, we are focused on delivering for our customers and communities. Work is already underway to deliver our business plan, with capital investment being advanced to support delivery of the ODIs on leakage, supply interruptions and pollution incidents. Further information on our K7 Business Plan is available here: <https://www.pennon-group.co.uk/system/files/uploads/financialdocs/sww-fd-investor-summary.pdf>

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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 2019 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.