

GENERAL MEETING IN RELATION TO THE PROPOSED DISPOSAL OF VIRIDOR

OF

PENNON GROUP PLC

**TO BE HELD AT
PENINSULA HOUSE, RYDON LANE, EXETER, DEVON, UNITED KINGDOM,
EX2 7HR**

**INTRODUCTORY STATEMENT, PRESENTATION AND QUESTIONS ON
PROPOSED DISPOSAL OF VIRIDOR AND FORMAL BUSINESS**

**THURSDAY 28 MAY 2020
AT 11:00 A.M.**

INTRODUCTIONS

Good morning and thank you to those of you who have dialled in to listen to Pennon's general meeting regarding the proposed disposal of Viridor.

My name is Susan Davy, Group Chief Financial Officer and a shareholder. In the absence of Sir John Parker and the other board members who could not be here in person today due to public health guidelines, I will be chairing the general meeting today. However, Sir John Parker and the other board members have dialled in and are listening to this broadcast along with you.

COVID-19 OVERVIEW

Due to the ongoing restrictions in place because of the COVID-19 pandemic, in particular, the prohibition on public gatherings, we have had to take the step of not meeting with you face-to-face today.

The health and safety of all our stakeholders is of paramount importance to us. As a result, this is one of several changes we have had to make to the format of this general meeting in order to comply with public health guidelines.

We are closely monitoring developments around the COVID-19 pandemic and, as the situation becomes clearer in the coming months, we will explore ways in which we can offer you an opportunity to engage in person with your Board.

However, I do hope that you will see we have endeavoured to do what we can to give you, our shareholders, an opportunity to engage with us in relation to today's general meeting in what are exceptionally challenging times.

Traditionally at this point, I would introduce you to your Board, but for obvious reasons they are not physically with me today. However, I am joined here by my colleague, Simon Pugsley, General Counsel and Company Secretary and a shareholder – at the required 2 meters distance – who is here to assist me in

talking about the proposed disposal of Viridor. Simon and I form a quorum for the purposes of the formal business of the meeting, which I will come on to later.

PRESENTATION AND QUESTIONS

Presentation

As part of this broadcast, you have been provided with access to a series of slides which I will walk you through during this general meeting. For those of you dialling in, the slides are also available to shareholders online in the Investor Information section of the Pennon website.

These slides summarise:

- a) the need for the explanatory circular dated 7 May 2020 (which we will refer to as the "circular" for this meeting), along with the accompanying documents including the proxy form for this meeting, all of which were provided to shareholders earlier this month;
- b) secondly, the slides summarise the requirement for this general meeting;
- c) thirdly, they summarise the sale price of the proposed disposal of Viridor and the conditions which must be met before the proposed disposal can proceed; and
- d) finally, they set out a number of questions which have been raised by shareholders in advance of the general meeting.

I will now take each of the slides in turn. However, I should point out that neither the presentation slides nor my summary of them are intended to be a substitute for reading the circular and accompanying documents. These documents contain detailed information on the proposed disposal of Viridor.

Instead, I will take the circular (and accompanying documents) as having been read and the presentation slides and my summary of them are intended to provide key points we feel should be highlighted to you for the purposes of this general meeting. I will now take each of the slides in turn, starting with slide 1.

[Slide 1]

On 18 March 2020, Pennon Group plc signed a conditional sale agreement for the sale of the entire Viridor business with Planets UK Bidco Limited for an enterprise value of £4.2 billion.

Planets UK Bidco Limited is a new company established by funds advised by KKR. KKR is a leading global investment firm that manages multiple alternative asset classes, including energy, and infrastructure. KKR aims to generate attractive investment returns for its investors by following a disciplined investment approach, driving growth and value creation within the KKR portfolio of companies.

The Disposal constitutes a Class 1 transaction under the UK Listing Rules. A

Class 1 transaction requires the approval of Pennon Group plc's shareholders. That is the reason, therefore, for the publication of the circular and the calling of this general meeting.

As mentioned earlier, and due to the COVID-19 pandemic, the format of the general meeting is different from previous general meetings but we have taken all reasonable steps to ensure shareholder engagement - is a key priority of ours in relation to this general meeting is maintained, whilst adhering to the Stay at Home Measures and ensuring the safety of our stakeholders.

[Slide 2]

Slide 2 sets out in a brief summary the principal terms and conditions of the Disposal.

The Viridor business will be sold for an enterprise value of £4.2 billion on a cash free, debt free basis, with net cash proceeds expected to be approximately £3.7 billion, which will be payable to Pennon Group plc in cash on completion of the Disposal.

The Disposal requires satisfaction of a number of conditions, meaning the Disposal cannot proceed until these conditions have been met or, where relevant, waived.

These conditions are:

- a) approval of the Disposal by the Company's shareholders at a general meeting (which, as I just explained, is the purpose of the current general meeting);
- b) secondly, merger control clearance being obtained from the European Commission for European competition law reasons. This clearance was obtained on 8 May 2020;
- c) the final condition, which has two parts, the first being the release of the Company from its obligations under existing bonding commitments relating to the Viridor landfill business or the putting in place of cash collateral or letter of credit support for those obligations if the Company is not released from them; and

the second part of the final condition being the release of the Company from its obligations under parent company guarantees given in favour of Viridor entities for the purposes of existing financing arrangements.

If the resolution is passed at this general meeting, the only condition remaining will be the third one, which is the one relating to the release from bonding commitments and parent company guarantees.

All of the conditions must be satisfied by 13 August 2020. This date is referred to as the Long Stop Date in the Sale Agreement and is the date five months after the Sale Agreement was signed. However, it is important to note that the Company has the ability to waive the third condition, which as I explained is the

condition relating to the release from the bonding commitments and parent company guarantees.

The Company and the Purchaser have also agreed to enter into a transitional service agreement on completion of the Disposal. Under this agreement, the Company will provide certain transitional services to Viridor for a period of up to 18 months pending the establishment by Viridor of its own standalone operations.

Completion of the Disposal is expected to occur in early summer 2020.

For any further details on terms and conditions of the Disposal, please refer to the circular (and accompanying documents).

That concludes my summary of the key terms of the Disposal and we will now move to answering the questions submitted by shareholders prior to this meeting.

Presentation – Questions [length of answers provided at general meeting to be considered]

In the Notice of Meeting, we asked you to submit any questions you had and I would like to thank those of you who have taken the time to do that.

A number of questions may have been covered by my summary of the terms and conditions of Disposal. However, we would like to address the specific questions submitted prior to the meeting. These questions are set out on slides [4 and 5] of the presentation.

Copies of the questions and answers will be made available to shareholders online following the general meeting.

You can find the questions and answers and relevant details on the Investor Relations page of our website. I will now provide answers to the various questions starting with question 1 on slide 4.

I will hand over to Simon who will now take us through the questions.

[Slide 4]

Transaction Questions

Questions 1 to 7 (inclusive) relate to the Disposal itself. These are as follows:

(1) Are you able to reassure retired personnel that their pensions will continue in the event of Viridor being sold and that the pension fund will be maintained into the future?

As a responsible employer, Pennon will continue to support its pensions obligations into the future.

All defined benefit pensions in payment will continue to be paid from the Pennon Group Pension Scheme, the Citrus Pension Plan and the Devon Pension Fund. As part of the Disposal, Pennon has agreed to assume responsibility for funding the pensions payable from the Citrus Pension Plan and the Pennon Group Pension Scheme in respect of a large number of current and former Viridor personnel (Viridor will only retain responsibility for a very small number of active

members in the Citrus Pension Plan and all of the Viridor members in the Devon Pension Fund).

(2) The company is proposing to reduce the pension deficit on completion of the Viridor disposal. Pension funds have been badly affected by market weakness caused by Covid-19 –

(a) will more of the proceeds than originally planned be used to reduce the deficit?

The Circular sets out the intended use of proceeds which is subject to developments and board consideration of opportunities. At this stage the amount of proceeds to be directed towards a particular use has not been determined.

(b) who takes responsibility for the pension fund of the Viridor employees?

As part of the Disposal, Pennon has agreed to assume responsibility for funding the pensions payable from the Citrus Pension Plan and the Pennon Group Pension Scheme in respect of a large number of current and former Viridor personnel (Viridor will only retain responsibility for a very small number of active members in the Citrus Pension Plan and for all of the Viridor members in the Devon Pension Fund).

(c) will they have deferred benefits in the Pennon pension scheme, or will some other arrangement apply?

The status of Viridor members within its defined benefit schemes (i.e. Pensioner, deferred or active) does not change as a direct result of the sales transaction. The Company is however in the process of concluding a comprehensive consultation on pension provision with all Pennon employees on a proposed closure of the Pennon Group Pension Scheme, which could depending on the outcome result in currently active Pennon Group Pension Scheme Viridor members becoming deferred.

(3) How does Pennon intend to deal with the proceeds generated from the disposal of Viridor? Will shareholders benefit?

As outlined in the circular, Pennon intends to reduce a significant proportion of its net borrowings, which will ensure that, following the Disposal, the group can optimise its cost of debt.

Pennon also intends to use a portion of the cash proceeds from the Disposal to reduce the Company's current pension fund deficit.

Pennon also intends to return a portion of the cash proceeds to shareholders, with a view to retaining some funds for future investment opportunities which may arise.

(4) Given the stable nature of the remaining business and the current very low cost of debt what is the board's intention for the longer term gearing of the business?

The Board intends to consider an appropriate capital structure for the group

going forward in light of any other value creating investment opportunities pursued and in conjunction with the broader use of proceeds. As outlined already, a proportion of the Company's net borrowings will be repaid, which will be done in a manner that results in a sustainable gearing level for the Group.

(5) With the intent to return to funds to investors, will the board take into account the interests of private investors regarding the form of return of capital?

The board is aware that there are a number of options available to it when considering making a return to shareholders and Pennon does intend to speak to major shareholders, insofar as is reasonably practicable, regarding their views at the appropriate time.

[Slide 5]

(6) The sale of Viridor would lead to a reduction of the Pennon group's operating profit. What is the rationale for proceeding with the disposal, especially in light of current adverse market conditions resulting from the COVID-19 outbreak?

The Pennon board conducted a review of the group's strategic focus, future options and capital allocation. It was decided that the sale of the Viridor would achieve an attractive value for the business, with an enterprise value of £4.2 billion, and would accelerate the realisation of value in cash for Pennon, reflecting its long-term investment in, and development of, the Viridor business.

While the Viridor business will no longer contribute to the Pennon group's trading profit following the disposal, Pennon intends to invest in the continued growth of its retained operations and in additional, value-creating growth opportunities which may arise.

Pennon continues to closely monitor the impact of the COVID-19 pandemic. However, with strong funding and liquidity, the group is well positioned to weather the current uncertainty. Pennon has secured a raft of new or renewed financing, much of which has been secured through the group's Sustainable Financing Framework for South West Water, ensuring that the group achieves long-term growth in a sustainable way.

(7) How will the disposal impact Pennon's commitment to delivering South West Water's business plan for the K7 regulatory period?

Pennon's water and residual waste & recycling businesses have always been operated entirely independent of one another, with South West Water (including Bournemouth Water) afforded additional protections due to its regulated status.

The disposal of Viridor will allow Pennon to focus on delivering the strategic priorities for its retained water and wastewater businesses, including: (i) leadership; (ii) cost efficiency; and (iii) sustainable growth in the UK water industry.

General Meeting and Shareholder Engagement Questions

In addition to those questions specifically relating to the Disposal, we also received questions about the format of this meeting and shareholder engagement. Although there was an explanation for this in the circular, one of our key priorities is shareholder engagement and in light of the current situation, we felt it appropriate that we also address this point during the meeting.

The relevant questions are questions 8 to 10 (inclusive) and are set out on slide 5 of the presentation slides.

South West Water's approved business plan for the K7 regulatory period is key to achieving those priorities and, with a renewed focus on operational performance and customer service, Pennon aims to ensure delivery of the commitments under the business plan.

(8) The company has arranged for the meeting to be held “with the minimum number of attendees to satisfy the requirements for a quorate meeting.” What is such a quorum and is the general meeting still valid if shareholders cannot attend in person?

In accordance with article 31 (Quorum) of the company's articles of association, no business may be conducted at a general meeting unless a quorum is present. Two qualifying persons entitled to vote at the general meeting will constitute a quorum. Article 31(c) defines a “qualifying person” as being: (i) an individual who is a shareholder of the company; (ii) a person authorised to act as the representative of a corporation in relation to the general meeting; or (iii) a person appointed as proxy of a shareholder in relation to the general meeting.

As mentioned earlier, I am attending the meeting, both in my capacity as shareholder and Chief Financial Officer. As the Chair of the meeting, I am the proxy for shareholders who have appointed the Chair as such in accordance with the instructions in the Notice of General Meeting included in the explanatory circular dated 7 May 2020 and the proxy card supplied. My colleague, Simon Pugsley, is also attending the meeting in his capacity as a shareholder of the company. Together we form the required quorum.

(9) On what legal basis have shareholders been prevented from attending the general meeting in person?

On 23 March 2020, the UK Government published compulsory measures prohibiting public gatherings of more than two people. These measures were passed into law on 26 March 2020 in England and Wales with immediate effect by way of the Health Protection Regulations 2020 made pursuant to the Public Health (Control of Disease) Act 1984 ie the Stay at Home Measures. Despite changes made to the Stay at Home Measures by the UK Government with effect from 11 May 2020, which resulted in modest changes to the current restrictions, the Stay at Home Measures still prohibit public gatherings of more than two people.

The only exceptions to this prohibition are situations in which the gathering is “essential for work purposes” or if a gathering consists of people from the same

household or people from the same household and one person from another household.

Attendance at a general meeting by a shareholder (other than those specifically required to form the quorum for that meeting is not “essential for work purposes” and would therefore be in contravention of the Restrictive Measures.

The chair of the general meeting also has broad legal powers to preserve order at the meeting, ensure the safety of attendees and allow the business of the meeting to be conducted. Given the attendance of more than two people at a general meeting is not permitted under the Restrictive Measures, as the chair of the general meeting, I would have had to exercise these powers to exclude excess attendees. The health and safety of Pennon’s shareholders, workforce and officers is paramount.

(10) What consideration was given to enabling shareholder engagement in the general meeting by electronic means or otherwise?

The company is committed to maintaining shareholder engagement and a range of alternatives on how to hold the upcoming general meeting were considered, particularly in light of COVID-19 and the Stay at Home Measures.

Pennon is a FTSE 100 listed company with approximately 18,000 shareholders as at 31 March 2020. It is difficult to find appropriate technology which allows participation by all shareholders at the same time, enables shareholders to vote and for those votes be properly counted, and which ensures the chairperson can run an effective meeting. In light of these factors, Zoom and a number of other video conferencing platforms were considered but none were deemed appropriate to hold a meeting of this scale and ensure the issues noted above could be effectively safeguarded.

In particular, the company gave consideration to a situation where the technology failed and shareholders were not able effectively to communicate or cast their vote. This may have resulted in the meeting being invalid and any resolutions passed being subject to challenge.

The holding of general meetings in light of COVID-19, has been the subject of much debate. The ability to participate in meetings has been considered in deciding whether a meeting was validly held. Whilst a general meeting of the company can be held at more than one place under article 37 (which is entitled “Meeting at more than one place”) of our articles of association, a meeting is deemed to be validly held at more than one place only if the chair is satisfied that facilities are available to enable those present at each place to participate in the business of the meeting.

Given the uncertainties of technology for a meeting of this scale and the potential risks, which could have wide ranging consequences for both Pennon Group plc and its shareholders, the Company did not consider any technology suitable in the present case.

Having said that, the company has sought to provide shareholders with the greatest level of engagement for this general meeting whilst maintaining the

integrity of the meeting and the health and safety of both company employees and shareholders (which is of paramount importance to us all). These steps include:

1. providing all shareholders with all material information about the Disposal in the form of the circular which has been made available to every shareholder as explained earlier in the general meeting;
2. encouraging shareholders to vote by proxy;
3. allowing questions to be submitted in advance of the general meeting which we are now answering at the general meeting;
4. ensuring shareholders can listen to the proceedings of the meeting; and
5. addressing any queries from shareholders by encouraging the submission of questions by shareholders.

That concludes the presentation and questions and answers, and we will now move to the formal business of the meeting.

Formal Business of the General Meeting

The Notice of Meeting convening the general meeting has been issued to all shareholders as part of the Circular and I'll treat the Notice of Meeting as having been read.

As noted in the circular (in particular, the Letter from the Chairman of the Company, Sir John Parker), the Company has made arrangements for the General Meeting to be convened with the minimum number of attendees in order to satisfy the requirements for a quorate meeting. Given that Simon and I are in attendance as shareholders of the Company, and the quorum for a valid shareholder meeting is two qualifying persons entitled to vote, I am pleased to confirm that a quorum is present.

Details on how to submit your proxy vote were provided in the Notice of General Meeting and Shareholders were urged to appoint the Chair of the meeting as their proxy to ensure their vote will be counted. Accordingly, the votes at today's general meeting will be cast in accordance with the proxies that were received by the proxy deadline date. Thank you to those Shareholders who have submitted proxy votes.

[Slide 6]

Disposal Resolution

For ease of reference, the full text of the Disposal Resolution is included in the Notice of General Meeting, and on slide 6 of the presentation slides.

Before I propose the Disposal Resolution, I confirm that, consistent with the articles of association and the approach we have taken at previous general

meetings, the vote will be conducted on a show of hands. This is simply to facilitate the efficient running of the general meeting. We will ensure that the overall result of the vote reflects the proxy instructions received from shareholders by the proxy deadline. Details of the proxy instructions received are set out on slide 7, and I confirm that we will also publish this information via the Regulatory News Services and on the Company's website following the conclusion of the meeting.

Overall, proxy instructions were received in respect of 300,608,157 shares.

Of the proxy votes received:

- 300,163,886 shares were voted in favour of the Disposal Resolution (including those voted at the chairman's discretion);
- 444,271 shares were voted against the Disposal Resolution; and

Votes in respect of 1,301,669 shares were withheld.

As you may know, a shareholder who has abstained is deemed to have withheld their vote. A withheld vote is not a vote in law and is not counted when calculating the proportion of votes for and against a resolution.

As a result, this means that 99.85% of proxy votes received were in favour of the Disposal Resolution (including those voted at the chairman's discretion) with only 0.15% of proxy votes received against the Disposal Resolution.

Given that I am chairing the meeting, I am entitled to exercise the proxy votes received from all shareholders who appointed the Chair of the meeting as their proxy. Since proxy votes have been provided both in favour of and against the Disposal, I will place a vote both for and against the Disposal on the show of hands vote so that, as required by law, I have voted in accordance with the proxies instructions given to me. I would note that I am personally in favour of the Disposal which, as you know, has been recommended by the board. Simon is here in his capacity as shareholder and will vote his shares as he sees fit, which he has indicated will be in favour of the Disposal.

So I now **PROPOSE** the Disposal Resolution, to:

- a) approve the disposal of the Viridor business substantially on the terms and subject to the conditions of the share purchase agreement dated 18 March 2020 between the Company and Planets UK Bidco Limited and all other agreements and ancillary documents contemplated by the Sale Agreement; and
- b) authorise the directors of the Company:
 - i. to do or procure to be done all such acts and things on behalf of the Company and any of its subsidiaries as they may consider necessary or desirable in connection with and to implement the Disposal; and
 - ii. to agree such modifications, variations, revisions, waivers, extensions or amendments of a non-material nature as they may

in their absolute discretion deem necessary or desirable in connection with the Disposal.

[Slide 7]

On behalf of those proxies received in favour of the Disposal, I vote in favour of the Disposal. Both Simon and I in our personal capacity as shareholders also vote in favour of the Disposal

On behalf of those proxies received against the Disposal, I also place a vote on this show of hands against the Disposal.

The Disposal Resolution is an ordinary resolution requiring a simple majority of votes to be in favour of the resolutions in order for it to be passed.

I therefore declare the resolution CARRIED on a show of hands vote which reflects the overwhelming will of the shareholders in accordance with the proxy voting instructions and communicated earlier.

Close

Ladies and Gentlemen, that concludes the formal business of the General Meeting, and I declare the General Meeting closed.

Thank you for joining us today.