

THIS DOCUMENT AND THE ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under FSMA, if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you sell or otherwise transfer, or have sold or otherwise transferred, all your Ordinary Shares in the Company, please forward this document, but not the accompanying personalised Form of Proxy, as soon as possible to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or the transferee. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale or transfer was effected. If you receive this document from another Shareholder, as a purchaser or transferee, please contact the Registrar for a personalised Form of Proxy.



(Incorporated in England and Wales with registered number 02366640)

Proposed Disposal of the Viridor Business
Circular to Shareholders
and
Notice of General Meeting

This document should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out in Part 1 (Letter from the Chairman of Pennon) of this document and which contains a recommendation from the Pennon Directors that you vote in favour of the Disposal Resolution to be proposed at the General Meeting. The Disposal will not take place unless the Disposal Resolution is passed at the General Meeting.

Notice of the General Meeting, to be held at Peninsula House, Rydon Lane, Exeter, United Kingdom, EX2 7HR at 11 a.m. on 28 May 2020, is set out in Part 8 (Notice of General Meeting) of this document.

In view of the restrictions introduced by the UK Government in response to the COVID-19 pandemic, in particular the prohibition on public gatherings of more than two people and restrictions on non-essential travel, which remain in place as at the date of this document, it is intended that the General Meeting be convened with the minimum quorum of two shareholders present. The health and wellbeing of its Shareholders is of the utmost importance to Pennon. Shareholders are asked not to attend the General Meeting in person and, in the interests of safety, any attempted entry to the meeting will be refused. Shareholders are requested instead to appoint the chairman of the meeting as their proxy and provide voting instructions to the proxy in advance of the General Meeting. Further information is provided in paragraph 10 of Part 1 of this document.

The situation is constantly evolving, and the UK Government may change current restrictions or implement further measures relating to the holding of general meetings during the affected period. Pennon continues to closely monitor the situation and any changes to the General Meeting will be communicated to Shareholders before the meeting through Pennon's website at www.pennon-group.co.uk/investor-information/viridor-disposal and, where appropriate, by RIS announcement.

You are asked to complete and return the Form of Proxy in accordance with the instructions printed on it to the Company's Registrar, Link Market Services at The Registry, 34 Beckenham Road, Beckenham, Kent, United Kingdom, BR3 4TU, as soon as possible and, in any event, so as to be received by no later than 11 a.m. on 26 May 2020 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). Shareholders wishing to appoint a proxy online should visit www.signalshares.com and follow the instructions. To use this service, you will need your personal details and Investor Code which can be found on recent communications such as your dividend confirmation or your share certificate.

If you hold your Ordinary Shares in CREST, and you wish to appoint a proxy or proxies through the CREST electronic proxy appointment service, you may do so by using the procedures described in the CREST Manual (available via www.euroclear.com). In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST Proxy Instruction must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Link Market Services, ID RA10 not later than 11 a.m. on 26 May 2020 (or, in the case of an adjournment, not later than 24 hours (excluding any part of a day that is not a working day) before the time fixed for the adjourned meeting).

Barclays, which is authorised by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority in the United Kingdom, is acting exclusively for Pennon as joint financial adviser and as joint sponsor and for no one else in connection with the Disposal and will not be responsible to anyone other than Pennon for providing the protection offered to clients of Barclays or for providing advice in relation to the Disposal, the contents of this document or any transaction, arrangement or other matter referred to in this document.

Morgan Stanley, which is authorised by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority in the United Kingdom, is acting exclusively for Pennon as joint financial adviser and as joint sponsor and for no one else in connection with the Disposal and will not be responsible to anyone other than Pennon for providing the protection offered to clients of Morgan Stanley or for providing advice in relation to the Disposal, the contents of this document or any transaction, arrangement or other matter referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed upon Barclays or Morgan Stanley by FSMA or the regulatory regime established thereunder, Barclays and Morgan Stanley and their respective subsidiaries, branches and affiliates, and such entities' respective directors, officers, employees and agents (the **Barclays Group** and the **Morgan Stanley Group**, respectively) do not accept any responsibility whatsoever or make any representation or warranty, express or implied, concerning the contents of this document, including its accuracy, completeness or verification, or concerning any other statement made or purported to be made by it, or on its behalf, in connection with the Company or the Disposal, and nothing in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Each of the Barclays Group and the Morgan Stanley Group accordingly disclaim, to the fullest extent permitted by law, all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to herein) which it might otherwise have in respect of this document or any such statement.

This document is a circular relating to the Disposal which has been prepared in accordance with the Listing Rules and approved by the FCA. For a discussion of the risks relating to the Disposal, please see the discussion of risks and uncertainties set out in Part 2 (Risk Factors) of this document.

Capitalised terms have the meaning ascribed to them in Part 7 (Definitions) of this document.

A summary of action to be taken by Shareholders is set out in Part 1 (Letter from the Chairman of Pennon) of this document and in the Notice of General Meeting set out in Part 8 (Notice of General Meeting) of this document.

This document is dated 7 May 2020.

Important notices

Information regarding forward-looking statements

This document contains statements which are, or may be deemed to be, “forward-looking statements” which are prospective in nature. All statements other than statements of historical fact are forward-looking statements. They are based on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as “plans”, “expects”, “is expected”, “is subject to”, “budget”, “scheduled”, “estimates”, “forecasts”, “goals”, “intends”, “anticipates”, “believes”, “targets”, “aims” or “projects”. Words or terms of similar substance or the negative thereof, are forward-looking statements, as well as variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “should”, “would”, “might” or “will” be taken, occur or be achieved. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations.

Forward-looking statements include statements relating to: (a) future capital expenditures, expenses, revenues, earnings, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (b) business and management strategies and the expansion and growth of the Company’s operations; and (c) the effects of global economic conditions on the Company’s business.

Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause actual results, performance or achievements of the Company to differ materially from the expectations of the Company, include, among other things, general business and economic conditions globally, industry trends, competition, changes in government and changes in regulation and policy, including in relation to the environment, health and safety and taxation, labour relations and work stoppages, interest rates and currency fluctuations, changes in its business strategy, political and economic uncertainty and other factors discussed in Part 2 (Risk Factors) of this document. Such forward-looking statements should therefore be construed in light of such factors.

Neither the Company nor any of its Directors, officers or advisers provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date of this document.

Other than in accordance with its legal or regulatory obligations (including under the Listing Rules, Market Abuse Regulation and the Disclosure Guidance and Transparency Rules), the Company is not under any obligation and the Company expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The above explanatory wording regarding forward-looking statements does not in any way seek to qualify the statement regarding working capital that can be found at paragraph 11 of Part 6 (Additional Information) of this document.

No profit forecast

Other than as expressly stated, no statement in this document is intended as a profit forecast or a profit estimate and no statement in this document should be interpreted to mean that earnings per Ordinary Share for the current or future financial years will necessarily match or exceed the historical published earnings per Ordinary Share.

Non-IFRS measures

This document contains certain unaudited supplementary financial measures for the Viridor Business that are not defined by or recognised under IFRS, including Underlying Revenue, Underlying Profit Before Tax, Operating Profit before non-underlying items, EBITDA, Adjusted EBITDA and Underlying EBITDA (together, **non-IFRS measures**).

The definition of each of these non-IFRS measures is given below:

- **Underlying Revenue** excludes non-underlying items from statutory revenue. Non-underlying items are those that in the Directors’ view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group’s financial performance in the year and business trends over time;
- **Operating Profit before non-underlying items** excludes non-underlying items from operating profit;

- **Underlying Profit Before Tax** excludes non-underlying items from statutory profit before tax;
- **EBITDA** represents earnings before interest, tax, depreciation and amortisation;
- **Underlying EBITDA** represents earnings before interest, tax, depreciation and amortisation and excludes non-underlying items; and
- **Adjusted EBITDA** further adjusts EBITDA to include Viridor's share of EBITDA from its joint ventures and finance income on service concession arrangements and exclude non-underlying items.

Viridor Business	For the	For the year ended		
	6-months ended 30 Sep 2019 £m	31 Mar 2019 £m	31 Mar 2018 £m	31 Mar 2017 £m
Operating profit	50.9	71.3	81.7	60.8
Depreciation	41.4	73.5	68.7	64.6
Amortisation of intangibles	2.3	4.5	3.0	2.7
Non-underlying items	(2.2)	29.6	(3.2)	10.2
Underlying EBITDA	92.4	178.9	150.2	138.3
IFRIC 12 interest receivable	7.4	14.6	13.8	16.1
Joint venture IFRIC 12 interest receivable	–	–	5.7	11.2
Joint venture EBITDA ⁽¹⁾	20.2	31.9	33.2	32.9
Adjusted EBITDA	120.0	225.4	202.9	198.5

Notes:

(1) Joint venture operating profit was £14.0 million, £23.2 million, £24.4 million and £23.6 million and joint venture depreciation was £6.2 million, £8.7 million, £8.8 million and £9.3 million, resulting in joint venture EBITDA of £20.2 million, £31.9 million, £33.2 million and £32.9 million for each of the six-month period ended 30 September 2019, and the financial years ended 31 March 2019, 31 March 2018 and 31 March 2017, respectively. Joint venture amortisation and interest were £nil in each period presented.

EBITDA for the Viridor Business has been reconciled to IFRS measures in Part 4 (Historical Financial Information relating to the Viridor Business) of this document.

The Board believes that these non-IFRS measures provide valuable information to readers because it enables them to, inter alia, understand how the Board manages the Group's business, develops budgets and evaluates the performance of the Group against those budgets.

The non-IFRS measures used in this document should not be considered superior to, nor a substitute for, measures calculated in accordance with IFRS. You should not consider these non-IFRS measures in isolation, but in conjunction with measures calculated in accordance with IFRS. Non-IFRS measures reported by the Group may not be comparable to similarly titled measures reported by other companies as those companies may define and calculate such measures differently from the Group.

Shareholder helpline

If you have **any questions about this document**, the General Meeting or on the completion and return of the Form of Proxy, you should visit www.signalshares.com or, alternatively, **please call** the Link Market Services shareholder helpline between 8:30 a.m. and 5:30 p.m. (London (UK) time) Monday to Friday (except UK public holidays) on 0371 664 9234 (calls to this number are charged at the standard national rate and will vary by provider) or on +44 371 664 9234 from outside the UK (charged at the applicable international rate).

Please note that calls may be monitored or recorded and the helpline cannot provide financial, legal or tax advice or advice on the merits of the Disposal.

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Expected timetable of principal events

Event	Time and/or date
Announcement of the Disposal	18 March 2020
Publication and posting of this document	7 May 2020
Latest time and date for eligibility to vote at the General Meeting	Close of business on 26 May 2020
Latest time and date for receipt of Form of Proxy and CREST Proxy Instructions in respect of the General Meeting	11 a.m. on 26 May 2020
General Meeting	11 a.m. on 28 May 2020
Expected date of completion of the Disposal (subject to Shareholder approval)	early Summer 2020

Notes:

- (1) All references in this document to time are to London (UK) time unless otherwise stated.
- (2) The timetable may be subject to change. If any of the above times and/or dates should change, the new times and/or dates will be announced to Shareholders through a Regulatory Information Service.

Directors, Company Secretary, Registered Office and Advisers

Directors

Sir John Parker (Chairman)
Christopher Loughlin (Chief Executive Officer)
Susan Davy (Chief Financial Officer)
Gill Rider (Senior Independent Non-Executive Director)
Neil Cooper (Independent Non-Executive Director)
Iain Evans (Independent Non-Executive Director)
Claire Ighodaro (Independent Non-Executive Director)

Group Company Secretary

Simon Pugsley

Registered and Head Office

Peninsula House
Rydon Lane
Exeter
United Kingdom
EX2 7HR

Joint Sponsor and Financial Adviser

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London
United Kingdom
E14 4BB

Joint Sponsor and Financial Adviser

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London
United Kingdom
E14 4QA

Legal Adviser

Allen & Overy LLP
One Bishops Square
London
United Kingdom
E1 6AD

Sponsors' Counsel

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London
EC2A 2EG

Auditors and Reporting Accountants

Ernst & Young LLP
1 More London Place
London
United Kingdom
SE1 2AF

Registrar

Link Market Services
The Registry
34 Beckenham Road
Beckenham, Kent
United Kingdom
BR3 4TU

PART 1

Letter from the Chairman of Pennon



Pennon Group plc ("Pennon" or the "Company")

Directors:

Sir John Parker (Chairman)
Christopher Loughlin (Chief Executive Officer)
Susan Davy (Chief Financial Officer)
Gill Rider (Senior Independent Non-Executive Director)
Neil Cooper (Independent Non-Executive Director)
Iain Evans (Independent Non-Executive Director)
Claire Ighodaro (Independent Non-Executive Director)

Registered and head office:

Peninsula House
Rydon Lane
Exeter
United Kingdom
EX2 7HR

7 May 2020

Dear Shareholder,

Proposed Disposal of the Viridor Business and Notice of General Meeting

1. Introduction

On 18 March 2020, Pennon announced that it had entered into a conditional agreement with Planets UK Bidco Limited (the **Purchaser**), a newly formed company established by funds advised by Kohlberg Kravis Roberts & Co. L.P. (**KKR**), to sell Viridor to the Purchaser for an enterprise value of £4.2 billion on a cash free, debt free basis (the **Disposal**). The principal terms of the Sale Agreement are described in more detail in Part 3 (Principal Terms and Conditions of the Disposal) of this document.

The Pennon Board believes that the outcome of the Disposal recognises the strategic value of Viridor's strong, diversified and complementary UK recycling and residual waste management platform and expected growth opportunities. The Disposal achieves an attractive value for Viridor representing an enterprise value/EBITDA multiple of 18.5x based on Viridor's 2018/19 Adjusted EBITDA and accelerates the realisation of value in cash for the Company.

After taking into account debt and debt-like items of approximately £0.5 billion that will remain with Viridor post-Completion, customary costs and certain adjustments, net cash proceeds from the Disposal are expected to be approximately £3.7 billion at Completion (the **Net Cash Proceeds**). There is also the potential for additional consideration of up to £0.2 billion contingent on certain future events, the outcomes of which are uncertain.

Owing to its size, the Disposal constitutes a Class 1 transaction for the purposes of the Listing Rules, and therefore requires the approval of the Company's Shareholders. The General Meeting will be held at 11 a.m. on 28 May 2020 with the minimum number of attendees required for a quorate meeting (the reasons for which are set out in Paragraph 10 below). A notice convening the General Meeting, at which the Disposal Resolution will be proposed, is set out in Part 8 (Notice of General Meeting) of this document.

The Board unanimously considers the Disposal to be in the best interests of Pennon and its Shareholders as a whole and recommends that Shareholders vote in favour of the Disposal Resolution.

The Directors intend to vote in favour of the Resolution in respect of their aggregate shareholdings in the Company representing 0.12 per cent. of the Company's issued share capital as at 6 May 2020 (being the latest practicable date before publication of this document).

The purpose of this document is to provide you with information on the Disposal, including the background to and reasons for the Disposal and the proposed terms. Shareholders should read the whole of this document and not rely on the summary of the Disposal in this letter. Capitalised terms have the meaning ascribed to them in Part 7 (Definitions) of this document.

2. Background to and reasons for the Disposal

Given the strong financial performance and operational progress of the Group, coupled with the start of a new five-year regulatory delivery period in April 2020 for South West Water and the near and medium-term growth opportunities for Viridor, the Pennon Board announced in September 2019 that it was conducting a review of the Group's strategic focus, growth options and capital allocation (the **Strategic Review**).

Over a number of years Pennon has supported the strategic development of Viridor with its operationally diversified and complementary portfolio across the waste hierarchy. Significant investment in the development of its Energy Recovery Facility (**ERF**) portfolio has positioned Viridor as a leader in the recycling and residual waste management sector.

It is from this strengthened position that the Board has, through the Strategic Review, considered a number of options for the Group and has unanimously agreed that the Disposal is in the best interests of Shareholders and other stakeholders for the following reasons:

- it recognises the strategic value of Viridor's strong diversified and complementary UK recycling and residual waste management platform and expected growth opportunities;
- it achieves an attractive value for Viridor, with an enterprise value of £4.2 billion (representing an enterprise value/EBITDA multiple of 18.5x¹); and
- it accelerates the realisation of value in cash for the Company.

3. Principal terms and conditions of the Disposal

The Sale Agreement between Pennon and the Purchaser was entered into on 18 March 2020, pursuant to which the Company has agreed to the sale of Viridor to the Purchaser.

The enterprise value for the Disposal is approximately £4.2 billion on a cash free, debt free basis. The enterprise value represents an EBITDA multiple of 18.5x based on Viridor's Adjusted EBITDA of £225.4 million for the year ended 31 March 2019. After taking into account net debt and debt-like items including lease instruments of approximately £0.3 billion and liabilities including provisions primarily relating to landfill operations of approximately £0.2 billion that will remain with Viridor post-Completion, Net Cash Proceeds from the Disposal are expected to be approximately £3.7 billion² at Completion. Net Cash Proceeds will include a daily ticking fee payable by the Purchaser, which accrues from 31 March 2019 (being the Locked Box Date) to Completion at a rate of 6 per cent. per annum on the equity value of Viridor as at the Locked Box Date. The consideration for the Disposal will be payable to the Company in cash on Completion. There is also potential for additional, deferred consideration of up to £0.2 billion contingent on certain future events, the outcomes of which are uncertain. However, the fair value risk-adjusted quantum of any additional consideration has been assessed and is currently expected to be approximately £54 million. The majority of this amount relates to an expected receivable from Interserve Construction Limited (**Interserve**), which is currently subject to ongoing arbitration proceedings. The fair value of the expected receivable from Interserve is approximately £44 million, which reflects a gross receivable of £72 million adjusted downwards following an assessment of Interserve's credit risk.

The Disposal of the Target Group will be effected by the sale of the entire issued share capital of Viridor Limited and is expected to complete no later than 13 August 2020 (the **Long Stop Date**). Completion is conditional on the satisfaction of certain conditions, being: (i) the approval of the Disposal Resolution by Shareholders at the General Meeting of the Company; (ii) merger control clearance being obtained from the European Commission; and (iii) the release and discharge of the Company from its obligations in respect of: (A) existing bonding commitments in relation to the Viridor landfill business (or cash collateral in respect of such commitments being provided to the Company by the Purchaser); and (B) certain parent company guarantees. These conditions to Completion must be satisfied by the Long Stop Date. Merger control clearance has been obtained from the European Commission.

If any of the conditions described above is not satisfied by the Long Stop Date, either the Company or the Purchaser may elect to terminate the Sale Agreement. However, the Company may at any time, in its sole discretion, waive (either

¹ Based on Viridor's 2018/19 Adjusted EBITDA of £225.4 million.

² Taking into account customary deductions for costs related to the Disposal and assumes a Completion date of 31 May 2020, which has been chosen for illustrative purposes only.

entirely or in part and either conditionally or unconditionally) the Landfill Bond Condition and/or the Finance PCG Condition (each as defined in Part 3 (Principal Terms and Conditions of the Disposal) of this document).

The Company and the Purchaser have agreed in principle to enter into a transitional services agreement upon Completion of the Disposal, under which the Company will provide various services to Viridor for a transitional period of up to 18 months pending the establishment by Viridor of its own standalone operations in respect of such services.

Further details of the Sale Agreement are set out in Part 3 (Principal Terms and Conditions of the Disposal) of this document.

4. Information on the Viridor Business

Viridor is at the forefront of the resource sector in the UK, transforming waste into energy, high-quality recyclates and raw materials. It provides services to around 150 local authorities and major corporate clients as well as around 32,000 customers (by account) across the UK. Viridor has operated in the waste sector since the early 1990s and has developed complementary activities that deliver efficient and sustainable waste solutions with unique competitive advantages. Viridor is a partner of choice for waste management in the UK, with strong brand recognition and a reputation for operational excellence and innovation. Viridor's market-leading position ensures that it is given priority from suppliers across the entire waste value chain.

Viridor has operations across the waste value chain through ERFs that efficiently recover energy from residual waste, recycling, landfill and landfill gas, and a focused collections activity supporting the broader Viridor operations. Viridor operates across England, Wales and Scotland with a workforce of c.3,000 people and is headquartered in Taunton, Somerset.

Summary of financial information of the Viridor Business

£ million	Six months ended 30 September 2019 ³	Financial year ended 31 March 2019	Financial year ended 31 March 2018	Financial year ended 31 March 2017
Underlying Revenue	388.1	852.7	785.7	793.5
Adjusted EBITDA	120.0	225.4	202.9	198.5
Underlying Profit Before Tax	41.5	88.5	70.8	60.4
Gross Assets	2,603.0	2,502.6	2,264.7	2,117.6

5. Information on the Purchaser

The Purchaser is a newly formed private limited company incorporated in England and Wales, established by funds advised by KKR for the purpose of acquiring Viridor.

KKR is a leading global investment firm that manages multiple alternative asset classes, including private equity, energy, infrastructure, real estate and credit, with strategic partners that manage hedge funds. KKR aims to generate attractive investment returns for its fund investors by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation with KKR portfolio companies. KKR invests its own capital alongside the capital it manages for fund investors and provides financing solutions and investment opportunities through its capital markets business. References to KKR's investments may include the activities of its sponsored funds. As at 31 December 2019, KKR had US\$218.4 billion in assets under management.

6. Use of proceeds and financial effects of the Disposal

It is the Company's intention to use the Net Cash Proceeds from the Disposal to reduce Pennon's net company borrowings, reduce Pennon's current pension fund deficit and, at an appropriate time, make a return to Shareholders, whilst retaining some funds for future opportunities.

Reduction in financial indebtedness and contribution to the Group's pension fund

Following the Transaction, the net indebtedness at Pennon company level (before taking into account the Net Cash Proceeds) is expected to be approximately £1 billion. The Board intends to reduce a significant proportion of the Company's financial indebtedness which will ensure the Continuing Group can optimise its cost of debt.

³ Information for the six months ended 30 September 2019 is unaudited.

As at 30 September 2019, the aggregate accounting net deficit in Pennon's pension funds on a pre tax basis was £39 million. The intention is to use a portion of the net cash proceeds to reduce Pennon's current pension fund deficit.

Return to Shareholders and further investment

The remaining element of the Net Cash Proceeds, after deducting the amounts used to reduce net borrowings and reduce the pension fund deficit, will be returned to shareholders subject to other value creating investment opportunities that may arise for the Continuing Group.

In determining the optimal route to return a portion of the proceeds to Shareholders, the Board will consider a number of factors including prevailing market conditions, the balance of shareholder preference and the scale of proceeds to be returned.

Discussions with relevant stakeholders, including pension trustees and other relevant parties, will be conducted. As and when appropriate, it is envisaged that details of the proposed return of proceeds will be made available to Shareholders and, if necessary, a general meeting will be convened to seek shareholder approval.

Financial effects of the Disposal on the Continuing Group

In the financial year ended 31 March 2019, Viridor contributed Adjusted EBITDA of £225.4 million and Underlying Profit Before Tax of £88.5 million to the Pennon Group. Viridor's gross assets at 30 September 2019 were £2,603.0 million.

The financial information in this paragraph 6 has been extracted without material adjustment from the financial information contained in Part 4 (Historical Financial Information relating to the Viridor Business) of this document. The effects of the Disposal upon Pennon's net assets are set out in Part 5 (Unaudited *Pro Forma* Statement of Net Assets of the Continuing Group) of this document.

During the current and following financial years, Pennon may incur restructuring and incremental costs relating to the separation of Viridor from the Continuing Group, but will benefit from cost efficiencies as it transitions over time to a simpler overall structure.

7. Information on the Continuing Group

Following the Disposal, Pennon will focus on its sector-leading water and wastewater businesses – South West Water (incorporating Bournemouth Water) and Pennon Water Services – and the delivery of sustainable shareholder value by providing high-quality environmental infrastructure and customer service. Pennon's strategic priorities will continue to be:

- leadership in UK water;
- leadership in cost efficiency; and
- sustainable growth within the UK water industry.

South West Water provides water and wastewater services to a population of c.1.7 million in Cornwall, Devon and parts of Dorset and Somerset and water only services to c.0.5 million in parts of Dorset, Hampshire and Wiltshire. The business is focused on providing services in the most efficient and sustainable way possible. Innovation, new technologies and a holistic approach underpin its commitment to delivering service improvement and long-term value.

South West Water began its new K7 five-year regulatory period in April 2020 (**K7**) as the only water and wastewater company to have achieved fast-track status for two consecutive price reviews. South West Water is focused on delivering for its customers and communities and continues to be committed to the highest standards of environmental performance. Delivery of the commitments in South West Water's business plan in respect of K7 (the **Business Plan**) is underway, focusing on cost base efficiency, operational performance, customer service and sustainable growth.

For the financial year ended 31 March 2019, South West Water generated revenue of £581.0 million, Underlying EBITDA of £367.1 million and as at 31 March 2019 had a debt to Regulatory Capital Value (**RCV**) ratio of 58.9%, based on an RCV of £3,504.7 million and net borrowings of £2,062.6 million.

Pennon Water Services (an 80:20 joint venture with South Staffordshire Plc) provides retail water, wastewater and value-added services to over 160,000 non-household customer accounts across England and Scotland, and is focused on achieving long-term, sustainable growth.

The Pennon Board continues to progress the wider Strategic Review and will consider value-creating growth opportunities as they arise, in line with the appropriate capital allocation policy of the Group. A further update on the Company's Strategic Review, alongside an update on the ongoing dividend policy for the Continuing Group, will be

provided in the full year results announcement on 4 June 2020. The Company's dividend policy for the financial year ended 31 March 2020 remains unchanged.

8. Current trading, trends and future prospects

On 30 March 2020, the Company issued a trading statement ahead of its results for the year ended 31 March 2020, which will be announced on 4 June 2020. In that statement, it was noted that:

- in response to the Coronavirus (COVID-19) pandemic, the Company has introduced strict precautions at its sites, including additional hygiene facilities and enhanced cleaning operations in line with guidance from the UK Government and relevant Public Health bodies to help prevent the spread of the virus;
- the Company continues to focus on the health and safety and wellbeing of its employees and customers as its top priority, with increased support for those on its priority services register, and the Company will continue to monitor the situation as it develops;
- the Group is well positioned to weather the current uncertainty arising from the COVID-19 situation, with a strong funding and liquidity position. £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; and
- on completion of the Disposal, 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; South West Water accepted Ofwat's final determination in respect of the Business Plan. Whilst revenues in K7 have reduced, reflecting the re-based cost of capital allowance across the industry, the Pennon Group is focused on delivering for customers and communities. Work is already underway to deliver the Business Plan, with capital investment being advanced to support delivery of certain performance criteria on leakage, supply interruptions and pollution incidents.

There has been no significant change to the current financial performance of the Group since the statement was made. A further update on current trading and prospects of the Group will be provided when results for the year ended 31 March 2020 are published on 4 June 2020.

9. Risk factors

For a discussion of the risks and uncertainties which you should take into account when considering whether to vote in favour of the Disposal Resolution, please refer to Part 2 (Risk factors) of this document.

10. Coronavirus (COVID-19) and impact on the General Meeting

The Company is closely monitoring developments relating to the COVID-19 pandemic, including the related public health legislation and guidance introduced by the UK Government.

At the time of publication of this document, the UK Government has prohibited public gatherings of more than two people and non-essential travel, save in exceptional circumstances.

In view of these measures, the Company has made arrangements for the General Meeting, at which the Disposal Resolution will be proposed, to be convened with the minimum number of attendees to satisfy the requirements for a quorate meeting. Shareholders will not be able to attend the meeting in person and, in the interests of safety, anyone attempting to attend the meeting will be refused entry. The format of the meeting will be purely functional. The full text of the Disposal Resolution is included in the Notice of General Meeting, which is set out in Part 8 (Notice of General Meeting) of this document.

Although Shareholders will not be permitted to attend the General Meeting in person, the Disposal Resolution will be voted on in accordance with the proxy votes received from Shareholders. Shareholders are therefore strongly encouraged to submit a proxy vote electronically in advance of the meeting. Details on how to submit your proxy vote by post, online, through CREST or Proxymity are set out below and in the notes to the Notice of General Meeting. Given the current restrictions on attendance, Shareholders are urged to appoint the Chair of the meeting as their proxy to ensure their vote will be counted (rather than a named person who will not be permitted to attend the meeting).

Shareholders are encouraged to submit questions for the Board to consider to IR@pennon-group.co.uk in advance of the General Meeting. Questions submitted prior to the General Meeting by the specified deadline will be answered during the meeting and a summary of responses will be published at www.pennon-group.co.uk/investor-information/viridor-disposal as soon as practicable after the General Meeting.

An online/telephone facility will be made available for Shareholders who wish to listen to the business of the meeting. Shareholders dialling in will not be counted as being present at the meeting and, therefore, will not be able to speak or ask questions during the meeting. Further details of how to access the online/telephone facility will be provided at www.pennon-group.co.uk/investor-information/viridor-disposal in due course.

The current situation is constantly evolving, and the UK Government may change current restrictions or implement further measures relating to the holding of general meetings during the affected period. If it becomes necessary or appropriate to modify the General Meeting arrangements, this will be communicated to Shareholders before the meeting through the Company's website at www.pennon-group.co.uk/investor-information/viridor-disposal and, where appropriate, by RIS announcement.

11. Action to be taken

At the General Meeting the Disposal Resolution will be proposed which, if passed, will approve the Disposal substantially on the terms and subject to the conditions summarised in Part 3 (Principal Terms and Conditions of the Disposal) of this document and will authorise the Directors to give effect to the Disposal.

You will find enclosed with this document a Form of Proxy for use in respect of the Disposal Resolution to be proposed at the General Meeting. **You are requested to complete the Form of Proxy in accordance with the instructions printed on it, and return it as soon as possible, but in any event so as to be received by Link Market Services, by hand or by post, at The Registry, 34 Beckenham Road, Beckenham, Kent, United Kingdom, BR3 4TU, not later than 11 a.m. on 26 May 2020.**

Shareholders wishing to appoint a proxy online should visit www.signalshares.com and follow the instructions. To use this service, you will need your personal details and Investor Code which can be found on recent communications such as your dividend confirmation or your share certificate.

If you hold your Ordinary Shares in CREST, and you wish to appoint a proxy or proxies through the CREST electronic proxy appointment service, you may do so by using the procedures described in the CREST Manual (available via www.euroclear.com). In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST Proxy Instruction must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Link Market Services, ID RA10, not later than 11 a.m. on 26 May 2020.

If you are an institutional investor you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by Link Market Services. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 11 a.m. on 26 May 2020 in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.

12. Additional information

Your attention is drawn to the additional information set out in Part 6 (Additional Information) of this document. You are advised to read the whole of this document and not just rely on the key summarised information in this letter.

13. Financial advice

The Board has received financial advice from Barclays and Morgan Stanley (as joint sponsors and financial advisers) in relation to the Disposal. In providing their financial advice to the Board, Barclays and Morgan Stanley have relied upon the Board's commercial assessment of the Disposal.

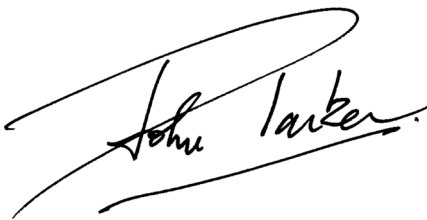
14. Recommendation to Shareholders

The Board considers the Disposal and the passing of the Disposal Resolution are in the best interests of the Company and its Shareholders taken as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Disposal Resolution to be proposed at the General Meeting.

The Directors intend to vote in favour of the Disposal Resolution at the General Meeting in respect of their aggregate shareholdings in the Company (representing approximately 0.12 per cent. of the total issued share capital of Pennon as at 6 May 2020 (being the last practicable date before publication of this document)).

Yours faithfully,

For and on behalf of Pennon Group plc

A handwritten signature in black ink, appearing to read "John Parker". The signature is written in a cursive style with a large, sweeping initial "J" and a long horizontal stroke at the end.

Sir John Parker
Chairman

PART 2

Risk Factors

This section describes the risk factors which are considered by the Pennon Directors to be material in relation to the Disposal, the new material risks to the Continuing Group as a result of the Disposal and the existing material risks which may be affected by the Disposal, as well as the material risks to the Pennon Group if the Disposal were not to proceed. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties not presently known to the Directors, that the Board considers immaterial, or that the Board considers material to the Continuing Group but will not be affected by the Disposal, may also adversely affect the Continuing Group's business, results of operations or financial condition. If any or a combination of the following risks materialise, the Continuing Group's business, financial condition, operational performance, future performance and share price could be materially adversely affected. In such circumstances, the market price of the Company's Ordinary Shares could decline and you may lose all or part of your investment. The information given is as of the date of this document and will not be updated, except as required by the FCA, the London Stock Exchange, the Listing Rules, the Prospectus Regulation Rules, the Disclosure Guidance and Transparency Rules or any other applicable law or regulation.

You should consider carefully the risks and uncertainties described below, together with all other information contained in this document and the information incorporated by reference herein, before deciding whether to vote in favour of the Disposal Resolution.

1. Risks relating to the Disposal

The Disposal may not proceed to Completion

Completion of the Disposal is conditional upon the satisfaction (or waiver, if applicable) of certain conditions including: (i) the approval of the Disposal Resolution by Shareholders at the General Meeting of the Company; (ii) merger control clearance being obtained from the European Commission; and (iii) the release and discharge of the Company from its obligations in respect of: (A) existing bonding commitments in relation to the Viridor landfill business (or cash collateral in respect of such commitments being provided to the Company by the Purchaser); and (B) certain parent company guarantees. Certain termination rights under the Sale Agreement may be exercised if the Conditions are not satisfied. The Purchaser may terminate the Sale Agreement in circumstances: (X) where a general meeting of the Shareholders is held at which the Disposal Resolution was proposed but not passed; or (Y) where the Shareholder Approval Condition has not been fulfilled (or waived) by the Long Stop Date. Furthermore, the Company or the Purchaser may terminate the Sale Agreement if the Conditions set out in (iii) above have not been satisfied or waived by the Long Stop Date. Merger control clearance, as described in (ii) above, has been obtained from the European Commission.

There can be no assurance that all conditions will be satisfied or that the Sale Agreement will not be terminated in accordance with its terms and, consequently, that Completion will take place.

Potential for third party interference with the Disposal

As a listed company, the Company could receive approaches from third parties seeking to instigate a public takeover of the Company which might delay or prevent execution of the Disposal. Although the Sale Agreement is binding on the Company, in the event of an attractive takeover offer which was predicated on the termination of the Sale Agreement, the Pennon Directors would be obliged to consider that offer in accordance with their fiduciary duties.

The Company is prohibited by the terms of the Sale Agreement from making any attempts to solicit, initiate, encourage or procure any third party to make a competing proposal for the purchase of the Viridor Business. Notwithstanding that the Sale Agreement is binding on the Company, if the Company receives an attractive competing offer for the Viridor Business which was predicated on the termination of the Sale Agreement, the Pennon Directors would also be obliged to consider that offer in accordance with their fiduciary duties.

Exposure to liability under the Sale Agreement

The Sale Agreement contains customary warranties and indemnities given by Pennon in favour of the Purchaser. If Pennon should incur liabilities under any of these warranties and indemnities, the costs of such liabilities could have an adverse effect on its business, financial condition and results. Pennon's liability in respect of the warranties and indemnities under the Sale Agreement is subject to customary limitations, including *de minimis* and aggregate claims thresholds, an overall financial liability cap and time limits for bringing a claim, except in respect of claims relating to

certain tax liabilities which have no financial cap. A financial liability cap of £1 applies to warranty claims under the Sale Agreement in respect of the business warranties given by the Company (which excludes the Fundamental Warranties), with the Purchaser having put in place a warranty and indemnity insurance policy in respect of such warranties (the **Purchaser W&I Policy**). Pennon has nonetheless carried out a disclosure process against the warranties to minimise the risk of liability under these warranties. The maximum aggregate liability of the Company for all claims, other than in respect of certain tax liabilities under the Sale Agreement, is capped at the Consideration.

2. Risks relating to the Disposal not proceeding

If the Disposal does not proceed, the following risks and uncertainties may affect the Company's business and results of operations:

Inability to realise value if the Disposal does not complete

The Board believes that the Disposal is in the best interests of Shareholders taken as a whole and that the Disposal currently provides the best opportunity to realise an attractive and certain value for the Viridor Business. If the Disposal does not complete, the value of the Viridor Business to the Pennon Group may be lower than can be realised by way of the Disposal. This could result in the financial position of the Pennon Group being materially different to the position it would be in if the Disposal completed and the Company's ability to deliver value to Shareholders may be delayed or prejudiced, in particular the Company will not be able to return any proceeds of the Disposal to its Shareholders.

There can be no assurance of a future sale or other transaction involving the Viridor Business if the Disposal does not proceed

The Board has determined that the Disposal will achieve attractive value for Shareholders. If the Disposal does not proceed, there is no assurance that the Company would be able to dispose of the Viridor Business at a later date, in favourable or equivalent market circumstances. There is a risk that the value of the Viridor Business may erode over time if the Group is unable to invest the resources necessary to drive and to deliver the growth potential of the Viridor Business. Accordingly, there is no guarantee that the valuation under the Sale Agreement would be available in any future attempted transaction involving the Viridor Business.

There may be an adverse impact on the Pennon Group's reputation and share price

If the Disposal does not proceed, there may be an adverse impact on the reputation of the Pennon Group due to amplified media scrutiny arising in connection with the attempted Disposal. Any such reputational risk could adversely affect the Pennon Group's business, financial condition and results of operations.

Disposal costs

The Company will be required to pay to the Purchaser an amount of £42 million (including VAT) as compensation for loss of opportunity, time and expense incurred in connection with the Disposal if: (i) before the Shareholder Approval Condition is met, the Board withdraws, or modifies, qualifies or amends its recommendation to the Shareholders to approve the Disposal; and (ii) subsequently the Purchaser terminates the Sale Agreement upon either: (a) the Disposal Resolution having been proposed but not passed at the General Meeting; or (b) the Shareholder Approval Condition not having been met by the Long Stop Date.

If the Disposal does not complete, the Company will be required to meet its accrued costs in respect of the aborted disposal, will not receive the proceeds from the Disposal and will forgo the other benefits of the Disposal. The Company has incurred transaction costs in relation to the negotiation of the Disposal and preparation for the separation of the Viridor Business from the Continuing Group and these will be incurred, irrespective of whether or not the Disposal proceeds.

Potentially disruptive effect on the Pennon Group

If the Disposal does not proceed, this may lead to management and employee distraction for the Viridor Business and concern due to the level of perceived uncertainty regarding the future ownership of the Viridor Business, which may adversely affect the Group's ability to retain or recruit managers or other employees. Customer sentiment may also be negatively affected, which may have an adverse effect on the performance of the Viridor Business under the Company's ownership. To maintain Shareholder value, the Board may be required to allocate additional time and cost to the ongoing supervision and development of the Viridor Business. This may adversely affect the Pennon Group's business, financial condition and results of operations.

3. Risks relating to the Continuing Group

If the Disposal is completed, the following risks and uncertainties may be affected or result as a consequence:

3.1 New risks to the Continuing Group as a result of the Disposal

The Continuing Group's operations after the Disposal will be less diversified

Following Completion, the Continuing Group's business will be smaller and less diversified. As a result, the Continuing Group may be more susceptible to adverse developments in the remaining business and markets in which it operates. In particular, following Completion, the Continuing Group will have greater relative exposure to the UK water and wastewater markets and the risks associated with those markets, including changes to legislation and the regulatory environment. The Continuing Group will no longer benefit from exposure to the growth opportunities in the recycling and residual waste markets.

The Company's South West Water and Pennon Water Services businesses and the Viridor Business operate in different market segments and, notwithstanding global economic factors, the financial performance and prospects of the water and residual waste businesses are often impacted by different and unrelated factors that provide a benefit of diversification, which will cease following Completion.

The Viridor Business will no longer contribute to the Continuing Group's operating profit

Following Completion, the Continuing Group will no longer receive any contribution that the Viridor Business currently makes to the consolidated trading profit of the Pennon Group. In the year ended 31 March 2019, the Pennon Group reported profit before tax of £260.3 million and the Viridor Business reported operating profit before non-underlying items of £100.9 million. As a result of the Disposal, the aggregate profits of the Continuing Group will be reduced until such time as the Continuing Group may grow profits from its continuing operations and/or may invest in or acquire additional profit generating assets. At this point in time there can be no certainty as to the timeframe to offset the reduction in aggregate profits, if any offset is achieved at all. Any material reduction in earnings could have an adverse effect on the financial condition of the Continuing Group and its results of operations.

Inability to realise Shareholder value from the use of proceeds of the Disposal

The Board believes that the Disposal is in the best interests of Shareholders taken as a whole and that the Disposal currently provides the best opportunity to realise an attractive valuation for the Viridor Business. The Board intends to use the proceeds of the Disposal in part to reduce Pennon's net company borrowings and current pension fund deficit and, at an appropriate time, make a return to Shareholders. In determining the return of proceeds to Shareholders, the Board will consider a number of factors including prevailing market conditions, the balance of Shareholder preference, the scale of proceeds to be returned and other value creating investment opportunities for the Continuing Group. Notwithstanding that the Board is rigorous in its approach to financial discipline, such uses may not arise or be available and, in any event, the success of any such uses will depend on a number of factors, including external market factors. It is therefore possible that any such uses of the Disposal proceeds by Pennon will not result in the creation of value for Shareholders.

The separation of the Viridor Business from the Continuing Group may be complex and could cause the Continuing Group to incur unexpected costs and disruption to the business of the Continuing Group

The process of separating the Viridor Business from the Continuing Group will involve the separation of a number of business systems and support services. At Completion of the Disposal, the Company will enter into a transitional services agreement pursuant to which it will provide certain services to the Viridor Business for a period of up to 18 months following Completion of the Disposal while the separation is taking place (the **TSA**).

The Continuing Group could incur unexpected additional costs and/or adverse impacts on the functioning of its business as a result of its obligations under the proposed transitional services arrangements, which could adversely affect its financial condition and results of operations. The Company's management will be required to allocate time and resources to these separation processes and to ensuring that the Continuing Group's obligations under the TSA are fulfilled. This may limit the management and financial resources available to the Continuing Group, potentially to the detriment of the Continuing Group's overall operational and financial performance.

3.2 Existing risks related to the Continuing Group

Commodity risks

Following the Disposal, the Continuing Group will have an increased exposure to power prices due to the loss of the natural hedge currently provided by Viridor's energy generating assets.

PART 3

Principal Terms and Conditions of the Disposal

1. The Sale Agreement

1.1. Parties and structure

The Sale Agreement was entered into on 18 March 2020 between the Company and the Purchaser. Pursuant to the terms of the Sale Agreement, the Company has agreed to sell the entire issued share capital of Viridor Limited to the Purchaser.

1.2. Conditions precedent to Completion

Completion of the Disposal is conditional on the following conditions:

- (a) approval of the Disposal being obtained from Shareholders by way of the Disposal Resolution (the **Shareholder Approval Condition**);
- (b) obtaining merger control clearance either by: (i) the European Commission issuing a decision under the EU Merger Regulation declaring the Disposal compatible with the internal market; or (ii) the European Commission referring the Disposal, either partially or in its entirety, to the UK Competition and Markets Authority and, where it has made a partial referral and retains jurisdiction of any part of the Disposal, also declaring that such part of the Disposal is compatible with the internal market in accordance with the EU Merger Regulation (the **Regulatory Condition**);
- (c) full release by Completion of the Continuing Group's obligations under existing bonding commitments in respect of the Viridor landfill business and associated counter-indemnities (the **Bonding Commitments**) or, if not fully released by Completion: (i) either cash collateral or certain bank guarantees of a sufficient amount being provided in favour of the Company to cover any potential liability of the Continuing Group in connection with the Bonding Commitments at Completion; or (ii) cash collateral being provided by the Purchaser in favour of any financial institution or insurer which has provided the Bonding Commitments so long as the provision of such cash collateral results in the relevant Bonding Commitments being fully and unconditionally released (the **Landfill Bond Condition**); and
- (d) termination of, and the Company being fully released from, existing parent company guarantees given by the Company in favour of certain members of the Target Group in respect of certain finance lease arrangements (the **Finance PCGs**) (the **Finance PCG Condition** and together with the conditions described in (a), (b) and (c) above, the **Conditions**).

Subject to the below, the Conditions must be satisfied by the Long Stop Date. If one or more of the Conditions has not been satisfied (or in the case of the Conditions at (c) and (d) above, waived by the Company) by the Long Stop Date, either the Company or the Purchaser may unilaterally elect to terminate the Sale Agreement with immediate effect.

The Purchaser agreed to use its best endeavours, and to take all steps necessary (subject to certain limitations on its obligations to undertake remedial requirements), to achieve the satisfaction of the Regulatory Condition as soon as possible and, in any event, before the Long Stop Date. Merger control clearance has been obtained from the European Commission.

The Purchaser has also agreed to use its best endeavours to procure the full and unconditional release of the Bonding Commitments with effect from Completion. To the extent any Bonding Commitments have not been so released, the Purchaser has agreed to use its best endeavours to satisfy the Landfill Bond Condition and is obliged to continue to use best endeavours to obtain the release of the Bonding Commitments until all of the Bonding Commitments are released. However, the Company may at any time, in its sole discretion, waive (either entirely or in part, conditionally or unconditionally) the Landfill Bond Condition and/or the Finance PCG Condition. If the Company waives the Landfill Bond Condition and/or the Finance PCG Condition, the Purchaser has agreed to indemnify the Company and each member of the Continuing Group for any loss or damage suffered or incurred from Completion arising from the Bonding Commitments and/or the Finance PCGs (as further described at paragraph 1.5 (Indemnities) below).

The Company has agreed to use its reasonable endeavours to satisfy the Shareholder Approval Condition as soon as reasonably practicable and, in any event, before the Long Stop Date. The Company has also agreed not to take any action which would result in the Disposal Resolution, once passed, being revoked or amended other than if required by the Shareholders to do so.

Completion under the Sale Agreement will take place either: (i) 15 business days after the date on which the last of the Conditions has been satisfied or (if waivable) waived; or (ii) such other date as may be agreed between the Company and the Purchaser in writing.

1.3. Consideration and intercompany debt

The consideration is determined by using a locked box mechanism supported by the locked box accounts for the Target Group (**Locked Box Accounts**) dated 31 March 2019 (being the Locked Box Date) and is subject to customary adjustments for any leakage (excluding permitted leakage) from the Target Group to the Continuing Group during the period from the Locked Box Date until Completion (the **Consideration**).

The Consideration and the amounts required to repay the intra-group loans owed by the Target Group to the Continuing Group are payable by the Purchaser in cash on Completion. The Consideration will include a daily ticking fee payable by the Purchaser, which accrues from 31 March 2019 to Completion at a rate of 6 per cent. per annum on the equity value of Viridor at the Locked Box Date.

The Company may also receive additional, deferred consideration of up to £0.2 billion which is dependent on certain future events, the outcomes of which are uncertain, and the Company's entitlement to receive any deferred consideration expires on the sixth anniversary of Completion. However, the fair value risk-adjusted quantum of any additional consideration has been assessed and is expected to be approximately £54 million. The majority of this amount relates to an expected receivable from Interserve, which is currently subject to ongoing arbitration proceedings. The fair value of the expected receivable from Interserve is approximately £44 million, which reflects a gross receivable of £72 million adjusted downwards following an assessment of Interserve's credit risk.

Net Cash Proceeds from the Disposal at Completion are expected to be approximately £3.7 billion⁴.

1.4. Warranties

The Company has given warranties to the Purchaser that are customary for a transaction of this nature. The warranties given include:

- (a) Certain fundamental warranties in relation to the Company's title to the shares in Viridor, its capacity and authority to enter into and perform its obligations under the Sale Agreement and other transaction documents (the **Fundamental Warranties**); and
- (b) Warranties in respect of the business and assets of the Viridor Business including material contracts, information technology systems, intellectual property, environmental matters, Target Group indebtedness, insurance, employees, pensions and incentive schemes, real estate, litigation, solvency, tax and compliance with laws.

The warranties (other than the majority of the Fundamental Warranties) are subject to disclosures made by the Company under a disclosure letter to the Purchaser dated the same date as the Sale Agreement.

1.5. Indemnities

The Company has agreed to indemnify the Purchaser for certain tax liabilities, as further described at paragraph 1.9 (Tax covenant) below.

The Company and the Purchaser have agreed to indemnify each other (and each other's group members) in respect of the transfer of the Transferring Employees (as further described at paragraph 1.10 (Employees) below).

The Company has agreed to indemnify the Purchaser (and its group members) in respect of certain defined benefit pension liabilities of the Target Group (as further described at paragraph 1.11 (Pensions) below).

The Purchaser has also agreed to indemnify the Company and each member of the Continuing Group for any loss or damage suffered or incurred from Completion arising from:

- (a) the Finance PCGs, if the Company waives the Finance PCG Condition, to the extent the Finance PCGs have not been fully released and terminated as at Completion;
- (b) the Bonding Commitments, if the Company waives the Landfill Bond Condition, to the extent that the Bonding Commitments have not been fully released and terminated as at Completion; and
- (c) for certain tax liabilities (as further described at paragraph 1.9 (Tax covenant) below).

1.6. Limitations of liability

The Sale Agreement contains customary financial thresholds, time limitations, and other limitations and exclusions in relation to the Company's liability under the warranties given to the Purchaser and in respect of other claims made under the Sale Agreement, including:

⁴ Taking into account customary deductions for costs related to the Disposal and assumes a Completion date of 31 May 2020, which has been chosen for illustrative purposes only.

- (a) a *de minimis* on all claims under the Sale Agreement (other than claims in respect of tax or leakage) of £4 million (meaning that any claims below £4 million will be disregarded);
- (b) a threshold on all claims under the Sale Agreement (other than claims in respect of tax or leakage) of £40 million (meaning that the Company shall not be liable for any such claims (other than for breach in relation to matters regarding tax or leakage) unless the amount of damages resulting from all such claims exceeds £40 million in aggregate). Once this threshold is reached, the Purchaser is entitled to claim amounts resulting from such claims in excess of the threshold;
- (c) a cap of £1 on the liability of the Company of in respect of any warranty claims under the Sale Agreement (other than claims in respect of Fundamental Warranties) and any tax covenant claims (other than the claims referred to in (d) below and certain secondary tax liability claims);
- (d) a maximum aggregate liability cap of £40 million on claims made in respect of tax liabilities arising as a result of a reduction in or disallowance of certain tax reliefs and £10 million on claims made in respect of any tax liabilities arising in connection with the national minimum wage enquiry being conducted by HM Revenue and Customs; and
- (e) a maximum aggregate liability cap of an amount equal to the Consideration in respect of all claims under the Sale Agreement (including claims in respect of Fundamental Warranties and certain payment covenants in relation to tax matters but excluding leakage claims and certain secondary tax liability claims) and any other transaction documents.

The Purchaser must give notice of any warranty claim under the Sale Agreement (other than a tax warranty claim or claim for breach of a Fundamental Warranty) within two years from Completion. Claims for breach of Fundamental Warranties or claims in respect of tax matters must be notified by the Purchaser to the Company within six years from Completion.

1.7. Pre-completion covenants

The Company has given customary covenants to the Purchaser in relation to the conduct of the Viridor Business during the period between signing of the Sale Agreement and Completion. Such obligations include conducting the Viridor Business in the ordinary and usual course in all material respects and not undertaking certain actions in respect of the members of the Target Group.

However, these provisions do not apply where the Purchaser has given its prior written consent to any matter nor do they apply to any action taken at the Purchaser's request or any matter reasonably undertaken by any member of the Target Group in an emergency situation with the intention of minimising any adverse effects of that situation or any action taken pursuant to existing legal obligations or where required to comply with applicable laws.

The Company has also agreed to co-operate with the Purchaser and to provide assistance as may be reasonably requested by the Purchaser including securing the release and replacement of existing pension bonds and in relation to existing financing leases by way of seeking change of control waivers from the relevant counterparties and facilitating the release of associated parent company guarantees.

1.8. Restrictive covenants

The Company, on behalf of itself and the Continuing Group, has provided an undertaking to the Purchaser that it will not engage in any business carried on in competition with the Viridor Business for a period of 12 months after Completion. The Company, on behalf of itself and the Continuing Group, has also provided customary non-solicitation undertakings in respect of customers of the Target Group and key individuals within the Viridor Business. The non-solicitation undertakings are subject to customary carve-outs.

Under the Sale Agreement, from the date of the Sale Agreement and continuing until the date of Completion, (a) the Company and any person acting on behalf of the Company is prohibited from taking any action to solicit, initiate, encourage or procure any person or their professional advisers or agents to make, or consider making, any proposal, offer, arrangement or transaction relating to any of the material businesses and/or material assets which make up the Disposal (unless, on its terms, the offer would be conditional upon Completion or lapse of the Disposal, other than where the lapse of the Disposal is as a result of a breach by the Company of the terms of the Sale Agreement) and (b) to the extent not restricted by applicable laws or regulations, the Company is obliged to notify the Purchaser of any bona fide, substantive approach that is made to the Company in relation to such a proposal, offer, arrangement or transaction and provide to the Purchaser such information as is reasonable in respect of it (including price). The Company also undertakes that it will not solicit, initiate, encourage or procure any person to make, or consider making, any proposal, offer, arrangement or transaction relating to the securities of the Company but excluding any proposal, offer, arrangement or transaction which is conditional on completion or lapse of the Disposal (other than where the lapse of the Disposal is as a result of a breach by the Company of the terms of the Sale Agreement). However, the Company is free to engage with, pursue or implement any proposal, offer, arrangement or transaction relating to the securities of the Company which the Company has not solicited, initiated, encouraged or procured.

1.9. Tax covenant

The Sale Agreement contains a tax covenant pursuant to which, in broad terms, the Company will agree, subject to certain exceptions, to pay amounts to the Purchaser compensating the Purchaser for any unexpected tax liabilities of each member of the Target Group in respect of events or periods occurring on or before Completion as well as tax liabilities arising from a pre-Completion restructuring transaction, as a result of a reduction in or disallowance of certain tax reliefs, tax liabilities arising in connection with the national minimum wage enquiry being conducted by HM Revenue and Customs and certain secondary tax liabilities which arise as a result of the Continuing Group failing to pay the whole of any amount of tax for which it is liable.

There are a number of customary exclusions from the covenant to pay described above, including (amongst other things): (i) any tax liability for which provision is made or taken into account in the Locked Box Accounts; (ii) any tax liability arising in the ordinary course of business between the Locked Box Date and Completion; (iii) subject to certain restrictions, a tax liability of a Target Group company which would not have arisen but for a voluntary act of the Purchaser or such company after Completion; and (iv) a tax liability that arises from a relevant change in law or a relevant accounting change.

The Company's liability under the tax covenant is subject to certain financial and other limitations, as set out in paragraph 1.6 (Limitations of liability) of this Part 3 including a cap of £1 on the Company's liability in respect of certain tax covenant claims.

In certain circumstances, the Purchaser is required to pay to the Company an amount equal to any tax liability of any member of the Continuing Group which arises as a result of a failure of a Target Group company to pay the whole of any amount of tax for which it is liable.

The Purchaser shall be responsible for the conduct of all post-Completion tax affairs of the Target Group (other than certain ongoing matters such as the landfill tax refund claim, the national minimum wage enquiry and the ERF fleet enquiry which the Company will retain conduct of) subject to the Company having certain oversight rights where the conduct could continue to affect the tax position of the Continuing Group.

If the Purchaser or any member of the Target Group becomes aware of any tax assessment or any other matter which could result in a claim against the Company under the tax covenant or for breach of any of the tax warranties, then the Purchaser is required to give notice of such assessment or matter to the Company and the Company will then have certain oversight rights over the claim.

1.10. Employees

Certain employees of the Continuing Group will transfer to the Target Group on Completion or, in some cases, on termination of the TSA (as defined in paragraph 1.12 below) (the **Transferring Employees**). Pennon and the Purchaser have acknowledged that the transfer of such employees will be part of a relevant transfer for the purposes of the UK Transfer of Undertakings (Protection of Employment) Regulations 2006 (**TUPE**). The contracts of employment of the Transferring Employees will transfer to the relevant Target Group company pursuant to TUPE at the applicable time. Pennon and the Purchaser have agreed to indemnify each other (and each other's group members) in respect of certain liabilities in connection with the Transferring Employees which arise before and after Completion.

1.11. Pensions

Under the terms of the Sale Agreement, (A) Pennon has agreed with the Purchaser to assume responsibility for all liabilities and obligations of the Target Group in respect of the Group's defined benefits pension schemes as at Completion (other than any liabilities and obligations in respect of a limited number of active members of certain of those pension schemes), and to release the Target Group from all such liabilities and obligations, by (amongst other things) entering into flexible apportionment arrangements with the trustees of those pensions schemes and (B) Pennon will indemnify the Purchaser (and its group members) for any amounts that the Purchaser or the Target Group becomes liable to pay to, or in respect of, the Group's defined benefits pension schemes in respect of any such liabilities and obligations that Pennon has agreed to assume.

1.12. Separation and transitional services arrangements

Under the terms of the Sale Agreement, the Company has agreed to enter into the TSA to govern the transitional support to be provided by the Company to the Target Group following Completion in order to ensure the successful separation of the Target Group from the Continuing Group in accordance with an agreed separation plan (the **Separation Plan**). The transitional services to be provided by the Continuing Group shall consist of financial transactional services, group finance, treasury and taxation and information technology services (the **Transitional Services**).

The Company and the Purchaser have agreed to agree and finalise the TSA promptly in accordance with certain agreed principles which include the following:

- the Transitional Services shall be provided to substantially the same standard that the Continuing Group has provided equivalent services to the Target Group in the 12 months prior to the date of the Sale Agreement;
- charges for the Transitional Services shall continue to be charged by the Continuing Group and paid for by the Purchaser or the Target Group using a charging model equivalent to the charging model used for charges by the Target Group for equivalent services in the 12 months immediately preceding the date of the Sale Agreement and be consistent with the budgeted amount as agreed between the Company and the Purchaser pursuant to the terms of the Sale Agreement;
- the final TSA shall be based on terms and conditions materially equivalent to terms and conditions for transitional services agreements typically used for transactions similar to the Disposal; and
- the final TSA and Separation Plan shall be consistent in all material respects with the separation principles and assumptions set out in a separation blueprint prepared by the Company and agreed with the Purchaser prior to the signing of the Sale Agreement.

1.13. Termination

The Purchaser may terminate the Sale Agreement with immediate effect at any time: (i) after a general meeting of the Shareholders is held at which the Disposal Resolution was proposed but not passed; or (ii) where the Shareholder Approval Condition has not been fulfilled by the Long Stop Date. The Company will pay to the Purchaser an amount of £42 million (including VAT) as compensation for loss of opportunity, time and expense incurred in connection with the Disposal if: (a) the Company withdraws, modifies, qualifies or amends its recommendation to the Shareholders to approve the Disposal; and (b) subsequently the Purchaser terminates the Sale Agreement upon either: (X) the Disposal Resolution having been proposed but not passed at the General Meeting; or (Y) the Shareholder Approval Condition not having been met by the Long Stop Date.

Either the Company or the Purchaser may terminate the Sale Agreement if any one or more of the Conditions has not been satisfied by the Long Stop Date provided that this right to terminate may not be exercised by any party whose failure to carry out its obligations under the Sale Agreement has materially contributed to, or resulted in, the relevant Condition not being satisfied.

The Sale Agreement also contains customary termination rights which give the Company and the Purchaser the ability to terminate the Sale Agreement if obligations in relation to the provision of certain deliverables at Completion are not complied with.

1.14. Governing law

The Sale Agreement is governed by the laws of England. The English courts have exclusive jurisdiction in relation to all disputes arising out of or in connection with the Sale Agreement.

PART 4

Historical Financial Information relating to the Viridor Business

1. Nature of financial information

The following historical financial information relating to the Viridor Business has been extracted without material adjustment from the consolidation schedules that underlie Pennon Group's unaudited consolidated interim financial information for the six-month period ended 30 September 2019 and the audited consolidated financial statements for the financial years ended 31 March 2019, 31 March 2018 and 31 March 2017.

The historical financial information in this Part 4 for the six-month period ended 30 September 2019 and the financial years ended 31 March 2019, 31 March 2018 and 31 March 2017 and has been prepared applying the IFRS accounting principles used to prepare Pennon Group's latest consolidated financial statements for the year ended 31 March 2019, save that Pennon Group:

- adopted IFRS 9 effective 1 April 2018 and, as permitted under this standard, applied this prospectively. Application of this standard did not alter the Group's classification of financial assets or have a material effect on the Pennon Group's reported financial assets after the evaluation of expected credit losses;
- adopted IFRS 15 effective 1 April 2018 and, as permitted under this standard, applied this standard retrospectively. As the impact of the new standard did not have a material effect on the Pennon Group's reported revenues, net assets or any specific financial statement line, there was no restatement of prior year figures; and
- adopted IFRS 16 effective 1 April 2019 and, as permitted under the standard, applied the standard by recognising the cumulative effects of initial application as adjustments to the opening balance of equity as of 1 April 2019.

The adoption of these standards did not necessitate the restatement of comparative periods.

The financial information contained in this Part 4 does not constitute statutory accounts within the meaning of section 434 of the Companies Act.

The audited consolidated statutory financial statements of Pennon Group in respect of the years ended 31 March 2019, 31 March 2018 and 31 March 2017 have been delivered to the Registrar of Companies. The auditors' reports in respect of those statutory accounts for the three financial years ended 31 March 2019 were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act. Ernst & Young LLP were the auditors of Pennon Group plc in respect of each of the three financial years to 31 March 2019.

Shareholders should read the whole of this document and not rely solely on the summarised financial information set out in this Part 4.

2. **Unaudited income statements of the Viridor Business for the six-month period ended 30 September 2019 and the financial years ended 31 March 2019, 31 March 2018 and 31 March 2017**

	6 months ended 30 Sep 2019 £m	Year ended 31 Mar 2019 £m	Year ended 31 Mar 2018 £m	Year ended 31 Mar 2017 £m
Revenue	388.1	852.7	788.9	793.5
Operating costs				
Manpower costs	(67.0)	(139.5)	(130.8)	(121.0)
Raw materials and consumables used	(49.1)	(94.3)	(91.9)	(96.5)
Other operating expenses	(177.4)	(469.6)	(412.8)	(447.9)
Earnings before interest, tax, depreciation and amortisation	94.6	149.3	153.4	128.1
Earnings before interest, tax, depreciation, amortisation and non-underlying items	92.4	178.9	150.2	138.3
<i>Non-underlying items</i>	2.2	(29.6)	3.2	(10.2)
Earnings before interest, tax, depreciation and amortisation	94.6	149.3	153.4	128.1
Depreciation	(41.4)	(73.5)	(68.7)	(64.6)
Amortisation	(2.3)	(4.5)	(3.0)	(2.7)
Operating Profit	50.9	71.3	81.7	60.8
Finance Income	18.2	26.2	27.1	32.5
Finance Costs	(32.7)	(51.0)	(63.4)	(47.3)
Share of post-tax profit from joint ventures	7.3	12.4	31.9	4.2
Profit Before Tax	43.7	58.9	77.3	50.2
Profit Before Tax before non-underlying items	41.5	88.5	70.8	60.4
<i>Non-underlying items</i>	2.2	(29.6)	6.5	(10.2)
Profit Before Tax	43.7	58.9	77.3	50.2
Taxation	(4.1)	(4.9)	(37.4)	(1.9)
Profit After Tax	39.6	54.0	39.9	48.3

Notes:

- (1) Intercompany transactions between entities within the Viridor Business have been eliminated in the income statements.
- (2) Revenue earned from and costs incurred from transactions between the Viridor Business and other entities within the Pennon Group have not been eliminated in the income statements, as they reflect trading between the Viridor Business and these other entities within the Pennon Group:
 - Revenues total £0.1 million, £0.3 million, £0.1 million and £nil;
 - Operating costs total (£7.8 million), (£16.7 million), (£7.8 million) and (£7.1 million); and
 - Finance costs total £21.4 million, £41.8 million, £38.7 million and £38.9 million, for each of the six-month period ended 30 September 2019, and the financial years ended 31 March 2019, 31 March 2018 and 31 March 2017, respectively.
- (3) The income statements do not reflect the allocation of certain central Pennon Group costs to the Viridor Business, other than such costs that have been historically recharged to the Viridor Business to reflect services provided by Pennon Group. The results of the Viridor Business may have been different had the Viridor Business operated as a separate group during the periods presented.

3. Unaudited net asset statements of the Viridor Business as at 30 September 2019 and 31 March 2019

	As at 30 September 2019 £m	As at 31 March 2019 £m
Assets		
Non-current assets		
Goodwill	328.4	330.4
Other intangible assets	88.6	90.9
Property, plant and equipment	1,521.7	1,412.5
Other non-current assets	263.8	256.3
Derivative financial instruments	0.1	–
Investments in joint ventures	58.2	51.1
	2,260.8	2,141.2
Current assets		
Inventories	25.8	23.9
Trade and other receivables	291.8	300.7
Derivative financial instruments	0.6	0.2
Current tax assets	–	0.5
Cash and cash deposits	24.0	36.1
	342.2	361.4
Total assets	2,603.0	2,502.6
Liabilities		
Current liabilities		
Borrowings	(114.8)	(102.5)
Trade and other payables	(171.1)	(177.4)
Current tax liabilities	(1.0)	–
Provisions	(26.4)	(27.7)
	(313.3)	(307.6)
Net current assets/(liabilities)		
Non-current liabilities		
Borrowings	(1,267.4)	(1,165.2)
Other non-current liabilities	(27.0)	(32.0)
Retirement benefit obligations	(24.4)	(34.7)
Deferred tax liabilities	(70.6)	(64.7)
Provisions	(198.0)	(203.1)
	(1,587.4)	(1,499.7)
Total liabilities	(1,900.7)	(1,807.3)
Net assets	702.3	695.3

Notes:

- (1) Intercompany transactions between entities within the Viridor Business have been eliminated in the income statements.
- (2) Intercompany receivables, payables and borrowings balances between the Viridor Business and other entities within the Pennon Group are included above as at 30 September 2019 and 31 March 2019. Intercompany receivables total £0.9 million and £0.6 million, intercompany payables total £15.6 million and £12.2 million, and Intercompany borrowings total £1,055 million and £1,018 million respectively as at 30 September 2019 and 31 March 2019.
- (3) The net asset statements presented above do not include goodwill in relation to a non-controlling interest in Viridor Waste Management Limited, which is a subsidiary within the Viridor Business, and which results from consolidation at the Pennon Group level. This goodwill will be derecognised upon deconsolidation of the Viridor Business from the Pennon Group and is presented as a *pro forma* adjustment in Part 5 (Unaudited *Pro Forma* Statement of Net Assets of the Continuing Group) of this document.

PART 5

Unaudited *Pro Forma* Statement of Net Assets of the Continuing Group

SECTION A

Accountants' Report on the Unaudited *Pro Forma* Statement of Net Assets of the Continuing Group

The Directors
Pennon Group plc
Peninsula House, Rydon Lane
Exeter
EX2 7HR

7 May 2020

Dear Sirs

We report on the *pro forma* financial information (the "*Pro Forma* Financial Information") set out in Section B of Part 5 of the circular dated 7 May 2020, which has been prepared on the basis described in the *Pro Forma* Financial Information, for illustrative purposes only, to provide information about how the disposal of Viridor Limited might have affected the financial information presented on the basis of the accounting policies to be adopted by Pennon Group plc in preparing the financial statements for the period ended 31 March 2020. This report is required by Listing Rule 13.3.3R and is given for the purpose of complying with that rule and for no other purpose.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the circular.

Responsibilities

It is the responsibility of the directors of Pennon Group plc to prepare the *Pro Forma* Financial Information in accordance with Listing Rule 13.3.3R.

It is our responsibility to form an opinion, as required by Listing Rule 13.3.3R, as to the proper compilation of the *Pro Forma* Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the *Pro Forma* Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *Pro Forma* Financial Information with the directors of Pennon Group plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the *Pro Forma* Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Pennon Group plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the *Pro Forma* Financial Information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of Pennon Group plc.

Yours faithfully

Ernst & Young LLP

SECTION B
**Unaudited *Pro Forma* Statement of
Net Assets of the Continuing Group**

The unaudited *pro forma* financial information of the Continuing Group has been prepared to illustrate the effect of the Disposal of the Viridor Business on the consolidated net assets of the Pennon Group as at 30 September 2019 as if the Disposal had taken place on that date.

The unaudited *pro forma* statement of net assets has been prepared for illustrative purposes only. The hypothetical financial position or results included in the *pro forma* financial information may differ from the Pennon Group's actual financial position or results.

The unaudited *pro forma* statement of net assets has been prepared on the basis set out in the notes below and has been prepared in a manner consistent with the accounting policies that will be applied by the Pennon Group for the year ended 31 March 2020 and in accordance with the requirements of sections 1 and 2 of Annex 20 of Commission Delegated Regulation (EU) 2019/980.

The unaudited *pro forma* financial information does not constitute financial statements within the meaning of section 434 of the Companies Act. Ernst and Young LLP's accountant's report on the unaudited *pro forma* statement of net assets is set out in Section A of this Part 5 (Accountants' Report on the Unaudited *Pro Forma* Statement of Net Assets of the Continuing Group).

Unaudited *Pro Forma* Statement of Net Assets of the Continuing Group as at 30 September 2019

	Adjustments					Unaudited <i>pro forma</i> Continuing Group as at 30 September 2019 £m (Note 6)
	Pennon Group net assets as at 30 September 2019 £m (Note 1)	Disposal of the Viridor Business £m (Note 2)	Net proceeds £m (Note 3)	Goodwill £m (Note 4)	Pension £m (Note 5)	
Non-current assets						
Goodwill	383.1	(328.4)		(12.3)		42.4
Other intangible assets	89.6	(88.6)				1.0
Property, plant and equipment	4,673.0	(1,521.7)				3,151.3
Other non-current assets	263.8	(263.8)				–
Derivative financial instruments	3.9	(0.1)				3.8
Investments in joint ventures	58.2	(58.2)				–
	5,471.6	(2,260.8)	–	(12.3)	–	3,198.5
Current assets						
Inventories	30.7	(25.8)				4.9
Trade and other receivables	497.7	(291.8)	54.0			259.9
Derivative financial instruments	2.0	(0.6)				1.4
Cash and cash deposits	528.0	(24.0)	3,669.2			4,173.2
	1,058.4	(342.2)	3,723.2	–	–	4,439.4
Total assets	6,530.0	(2,603.0)	3,723.2	(12.3)	–	7,637.9

Liabilities

Current liabilities

Borrowings	(124.9)	114.8	(99.0)			(109.1)
Financial liabilities at fair value through profit	(2.6)	–				(2.6)
Derivative financial instruments	(3.0)	–				(3.0)
Trade and other payables	(284.3)	171.1	(15.6)			(128.8)
Current tax liabilities	(15.8)	1.0				(14.8)
Provisions	(27.2)	26.4				(0.8)
	(457.8)	313.3	(114.6)	–	–	(259.1)

Non-current liabilities

Borrowings	(3,699.1)	1,267.4	(1,054.9)			(3,486.6)
Other non-current liabilities	(146.6)	27.0				(119.6)
Financial liabilities at fair value through profit	(42.0)	–				(42.0)
Derivative financial instruments	(35.8)	–				(35.8)
Retirement benefit obligations	(38.5)	24.4		(24.4)		(38.5)
Deferred tax liabilities	(303.4)	70.6		4.2		(228.6)
Provisions	(198.0)	198.0				–
	(4,463.4)	1,587.4	(1,054.9)	–	(20.2)	(3,951.1)
Total liabilities	(4,921.2)	1,900.7	(1,169.5)	–	(20.2)	(4,210.2)
Net assets	1,608.8	(702.3)	2,553.7	(12.3)	(20.2)	3,427.7

Notes:

- (1) The net assets of the Pennon Group have been extracted without material adjustment from the unaudited consolidated interim financial statements of the Group as at 30 September 2019, which were prepared in accordance with International Financial Reporting Standards, and which has been reviewed in accordance with International Standard on Review Engagements (UK and Ireland) 2410. The interim financial statements were included in Pennon Group's interim results announcement, published on 26 November 2019.
- (2) The net assets of the Viridor Business have been extracted without material adjustment from the unaudited financial information table of the Viridor Business as at 30 September 2019 contained in Part 4 (Historical Financial Information relating to the Viridor Business) of this document.
- (3) The net proceeds adjustment reflects the following components:

	£m
Disposal proceeds ⁽ⁱ⁾	2,561.1
Amounts to settle intercompany balances (at 30 September 2019) ⁽ⁱⁱ⁾	1,169.5
Gross cash proceeds	3,730.6
Deferred consideration ⁽ⁱⁱⁱ⁾	54.0
Total consideration	3,784.6
Gross cash proceeds	3,730.6
Transaction costs	(61.4)
Net cash proceeds^(iv)	3,669.2

- (i) The disposal proceeds include a component based on a daily ticking fee payable by the Purchaser, which accrues from 31 March 2019. For the purposes of the pro forma statement of net assets it has been assumed that the Completion date is 31 May 2020. Adjustments for permitted leakage items, which form part of the basis of the calculation for disposal proceeds under the Sale Agreement, are reflected based on historical amounts as at 30 September 2019.
- (ii) Adjustments are shown to current trade and other payables, of £15.6 million, and non-current borrowings, of £1,054.9 million to reflect the derecognition of intercompany receivables, present within Pennon Group's net assets, due to Pennon Group by the Viridor Business that are to be settled as part of the Sale Agreement, and a £99.0 million reclassification between cash and cash deposits and current borrowings to reflect the reversal of Group overdraft offsetting arrangements as a result of the Disposal.
- (iii) Deferred consideration may be receivable in future under the terms of the Sale Agreement.

The Company considers that the amount of deferred consideration could be up to £0.2 billion, dependent upon future actions and the outcome of underlying events. As required under IFRS and the Company's accounting policies, the Company has estimated the fair value of this amount to be £54.0 million, reflecting the Company's current expectations about future actions and the outcomes of the underlying events.

- (iv) The adjustment to cash and cash deposits reflects the net disposal proceeds of £3,669.2 million, including amounts to settle intercompany balances between the Viridor Business and the remaining Pennon Group, comprising gross disposal proceeds of £3,730.6 million net of £61.4 million of transaction costs (inclusive of irrecoverable VAT where applicable).
- (4) As at 30 September 2019 Pennon Group owned an eight per cent. non-controlling interest in Viridor Waste Management Limited, a subsidiary of the Viridor Business. The adjustment of £12.3 million to Goodwill relates to the goodwill arising at the Pennon Group consolidation level in relation to Viridor Waste Management Limited. The non-controlling interest is part of the Disposal.
- (5) Under the share purchase agreement dated 18 March 2020 between Pennon and the Purchaser, Pennon Group will assume responsibility for substantially all of the accrued defined benefit scheme net liabilities within the Viridor Business, and hence adjustments are shown to take into account the assumption of the Viridor Business pension net liabilities and associated deferred tax asset (net against deferred tax liabilities). Pennon intends to use a portion of the net cash proceeds to reduce the current pension fund deficit, however as at the date of this document the amount has not been determined and hence is not shown as an adjustment in the pro forma statement of net assets.
- (6) No adjustment has been made to reflect the changes in financial position or results of Pennon Group or the Viridor Business since 30 September 2019.

PART 6

Additional Information

1. Responsibility

The Company and the Directors, whose names appear in paragraph 4 of this Part 6 (Additional Information) of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and registered office

The Company was incorporated on 1 April 1989 and is domiciled in the United Kingdom. It is a public limited company incorporated under the laws of England and Wales with registered number 02366640. Its registered office is Peninsula House, Rydon Lane, Exeter, United Kingdom, EX2 7HR and the Company's main telephone number is 01392 446677.

The principal legislation under which the Company operates is the Companies Act and the regulations made under it.

3. Major Shareholders

As at the Latest Practicable Date, insofar as it is known to the Company by virtue of notifications made to it pursuant to Chapter 5 of the Disclosure Guidance and Transparency Rules, the following persons are interested directly or indirectly in voting rights representing three per cent. or more of the total voting rights in respect of the issued Ordinary Share capital of the Company:

Name of Shareholder	Number of Ordinary Shares	Percentage of issued Ordinary Share capital
Lazard Asset Management LLC	41,575,771	9.875
Norges Bank	12,857,235	3.054

Save as set out in this paragraph 3, the Company is not aware of any notifiable interest (within the meaning of the Disclosure Guidance and Transparency Rules) which will represent three per cent. or more of the voting rights in the Company following Completion of the Disposal.

4. Directors

The Directors of the Company and their positions as at the date of this document are as follows:

Name of Director	Position
Sir John Parker	Chairman
Chris Loughlin	Chief Executive Officer
Susan Davy	Chief Financial Officer
Gill Rider	Senior Independent Non-Executive Director
Neil Cooper	Independent Non-Executive Director
Iain Evans	Independent Non-Executive Director
Claire Ighodaro	Independent Non-Executive Director

5. Directors' interests in the Company

5.1. Interests in Ordinary Shares

As at the Latest Practicable Date, the following Directors had the following interests in Ordinary Shares:

Name of Director	Number of Ordinary Shares	Percentage of issued Ordinary Share capital
Chris Loughlin	400,365	0.1%
Susan Davy	78,891	0.02%
Sir John Parker	27,027	Less than 0.01%
Gill Rider	2,500	Less than 0.01%

5.2. Interests in shares under share schemes

As at the Latest Practicable Date, the following Directors had the following interests in shares under the Company's share schemes:

Sharesave Scheme

Name of Director	Date of grant	Options held	Exercise price (p)	Exercise period
Chris Loughlin	24 June 2015	2,196	683.00	1 September 2020 – 28 February 2021
Susan Davy	3 July 2018	2,834	635.00	1 September 2021 – 28 February 2022

Long-term Incentive Plan ⁽¹⁾

Name of Director	Date of grant	No. of Ordinary Shares in respect of which awards were made	Vested awards ⁽²⁾	Lapsed awards	Vesting date	Expected date of release from holding period
Chris Loughlin	1 July 2016	55,434	20,343	37,696	30 June 2019	30 June 2021
	25 August 2017	96,733	–	–	24 August 2020	24 August 2022
	2 July 2018	100,239	–	–	1 July 2021	1 July 2023
	4 July 2019	107,321	–	–	3 July 2022	3 July 2024
Susan Davy	1 July 2016	42,391	15,557	28,826	30 June 2019	30 June 2021
	25 August 2017	73,972	–	–	24 August 2020	24 August 2022
	2 July 2018	76,653	–	–	1 July 2021	1 July 2023
	4 July 2019	82,062	–	–	3 July 2022	3 July 2024

Notes:

- (1) Awards granted under the Long-term Incentive Plan are conditional and vest subject to the achievement of certain performance conditions.
- (2) Awards that vested on the Vesting Date in accordance with performance conditions and are subject to a two-year holding period. The vested award includes shares equivalent to dividends payable during the three-year performance period. Dividends continue to accrue during the holding period and will be paid in the form of shares upon release of the award.

Annual Incentive Bonus Plan – deferred bonus shares ⁽¹⁾

Name of Director	Date of grant	No. of Ordinary Shares	Normal date of release
Chris Loughlin	30 August 2017	26,504	29 August 2020
	25 July 2018	29,575	24 July 2021
	24 July 2019	31,797	23 July 2022
Susan Davy	30 August 2017	20,503	29 August 2020
	25 July 2018	22,746	24 July 2021
	24 July 2019	24,449	23 July 2022

Notes:

(1) Awards granted under the Annual Incentive Bonus Plan are restricted share awards and are normally released three years after the date of award.

6. Directors' service contracts and benefits upon termination

6.1. Executive Directors

The Company has entered into service contracts with both of the Executive Directors, the particulars of which as at the Latest Practicable Date are:

Name of Director	Date of initial appointment	Base salary 2020/21 (£)	Notice period
Chris Loughlin	1 August 2006	£546,625	12 months
Susan Davy	1 February 2015	£417,975	12 months

Each of the Executive Directors' service contracts is subject to 12 months' notice on either side. The contract has a normal retirement age of 67, except where otherwise agreed by both the Executive Director and the Company.

There are no liquidated damages provisions for compensation on termination within the Executive Directors' service contracts. Taking into account the circumstances of any termination, the Remuneration Committee may determine that a payment in lieu of notice should be made. Any such payments would be restricted to salary and benefits. In these circumstances, consideration would be given to phasing of payments and an individual's duty and opportunity to mitigate losses.

In certain circumstances (for example, serious or persistent breach by the Director of his or her obligations under the contract), the Company may terminate the contract with immediate effect whereupon the Director would have no claim against the Company for damages or otherwise by reason of such termination.

The Company's Remuneration Committee reserves the right to make other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such obligation) or by way of compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

The Company may meet ancillary costs, such as outplacement consultancy and/or reasonable legal costs if the Company terminates the Executive Director's service contract.

Any compensation payable on termination of the service contract will be determined by reference to the terms of the service contract between the Company and the employee, as well as the rules of the various incentive plans.

There are no agreements between the Company and its Directors providing for compensation for loss of office or employment occurring as a result of a takeover bid.

6.2. Non-Executive Directors

The Non-Executive Directors do not have service contracts but have letters of appointment for an initial period of three years. Each letter of appointment can be renewed by agreement between the Company and the relevant Non-Executive Director. A Non-Executive Director's appointment can be terminated early: (i) in accordance with the Company's articles of association; (ii) with immediate effect if the relevant director is not re-elected at an Annual General Meeting of the Company; or (iii) upon three months' notice by either the Company or the relevant Non-Executive Director. No compensation is payable to a Non-Executive Director upon termination of their appointment; the Non-Executive Director will be entitled only to such fees as may have accrued as of the date that the appointment ceases.

Name of Director	Date of initial letter of appointment	Appointment date	Date of expiry of current appointment period
Sir John Parker	19 March 2015	1 April 2015	31 March 2021
Gill Rider	22 June 2012	1 September 2012	31 August 2021
Neil Cooper	17 July 2014	1 September 2014	31 August 2020
Iain Evans	16 June 2018	1 September 2018	31 August 2021
Claire Ighodaro	28 May 2019	1 September 2019	31 August 2022

Set out below are the annual fees currently payable to the Non-Executive Directors:

Role	Annual fee (£)
Chairman	£279,850
Non-executive Director	£49,850
Senior Independent Director	£7,400
Chairmanship of Audit Committee	£15,000
Chairmanship of Remuneration Committee or Sustainability Committee	£10,725
Membership of Committee	£5,350

6.3. Summary of Directors' remuneration

Directors' remuneration for the year ended 31 March 2019 was as follows:

Name of Director	Salary/fees (£000)	Benefits (£000)	Bonus ⁽¹⁾ (£000)	Pension (£000)	Long-term incentives ⁽³⁾ (£000)	Total (£000)
Chris Loughlin	528	34	480	158	151	1,351
Susan Davy	404	29	369	115	115	1,032
Sir John Parker	270	–	–	–	–	270
Gill Rider	77	–	–	–	–	77
Neil Cooper	69	–	–	–	–	69
Iain Evans ⁽²⁾	40	–	–	–	–	40

Notes:

(1) Short-term incentives comprising cash bonus and deferred shares.

(2) Iain Evans was appointed to the Board on 1 September 2018.

(3) Actual vesting level 32%. Includes dividend equivalents, which accrued during the performance period.

7. Details of key individuals important to the Viridor Business

Name of key individual	Position
Phillip Piddington	Managing Director
Paul Ringham	Commercial Director
Elliot Rees	Finance Director
Richard Pennells	Managing Director of Energy and Landfill
Simon Hicks	Managing Director of Recycling
Paul Brown	Managing Director of Capital Projects
Tim Rotheray	Director of Innovation and Regulations
Keith Trower	Managing Director of Viridor Resource Management
Derek Edwards	Managing Director of Collections, Fleet and Logistics
Mark Knights	Director of Power Portfolio Management

8. Related party transactions

Details of related party transactions (which for these purposes are those set out in the standards adopted according to Regulation (EC) No 1606/2002) that the Company has entered into are set out below:

- during the financial year ended 31 March 2017, such transactions are disclosed in note 44 on page 171 of the Company's 2017 Annual Report and Accounts which is hereby incorporated by reference into this document;
- during the financial year ended 31 March 2018, such transactions are disclosed in note 45 on page 167 of the Company's 2018 Annual Report and Accounts which is hereby incorporated by reference into this document; and
- during the financial year ended 31 March 2019, such transactions are disclosed in note 44 on page 172 of the Company's 2019 Annual Report and Accounts which is hereby incorporated by reference into this document.

Pennon Group

During the period from 31 March 2019 to the date of this document, Pennon Group companies entered into the following transactions with joint venture companies which are not members of the Pennon Group:

	2020 £m ⁽¹⁾
Sales of goods and services	
INEOS Runcorn (TPS) Limited	19.2
Purchase of goods and services	
Lakeside Energy from Waste Limited	13.8
INEOS Runcorn (TPS) Limited	8.9
Dividends received	
Lakeside Energy from Waste Holdings Limited	6.0

Notes:

- (1) All numbers stated for the period from 31 March 2019 to the date of this document are unaudited.

	2020 £m ⁽¹⁾
Receivables due from related parties	
Lakeside Energy from Waste Limited (loan balance)	7.2
INEOS Runcorn (TPS) Limited (loan balance)	56.2
	63.4⁽²⁾
Lakeside Energy from Waste Limited (trading balance)	1.0
INEOS Runcorn (TPS) Limited (trading balance)	2.3
	3.3
Payables due to related parties	
Lakeside Energy from Waste Limited (trading balance)	1.2
INEOS Runcorn (TPS) Limited (trading balance)	1.0
	2.2

Notes:

- (1) All numbers stated for the period from 31 March 2019 to the date of this document are unaudited.
- (2) The £63.4 million receivable relates to loans made to related parties included within receivables and due for repayment in instalments between 2018 and 2033. Interest is charged at an average rate of 13.0%.

The Company

During the period from 31 March 2019 to the date of this document, the Company entered into the following transactions with subsidiary undertakings:

	2020 £m ⁽¹⁾
Sales of goods and services (management fees) ⁽²⁾	19.7
Purchases of goods and services (support services) ⁽²⁾	0.6
Interest receivable	44.7
Interest payable	0.1
Dividends received	335.6

Notes:

- (1) All numbers stated for the period from 31 March 2019 to the date of this document are unaudited.
- (2) Sales of goods and services to subsidiary undertakings are at cost. Purchases of goods and services from subsidiary undertakings are under normal commercial terms and conditions, which would also be available to unrelated third parties.

Receivables due from subsidiary undertakings

Loans	1,225.6 ⁽²⁾
Trading balances	17.1

Payables due to subsidiary undertakings

Loans	284.4 ⁽³⁾
Trading balances	9.1

Notes:

- (1) All numbers stated at the date of this document are unaudited numbers.
- (2) Interest on £591.8 million of the loans has been charged at fixed rates during the year with an effective rate of 4%, and on £591.8 million at 3-month LIBOR plus 2.6%. Interest on £16.0 million of the loans has been charged at a fixed rate of 6.0%. These loans are due for repayment in instalments during the period 2021 to 2045. However, £1,199.5 million of the loans receivable are due from companies within the Target Group, which will be repaid on Completion.
- (3) Interest on £13.0 million of the loans has been charged at a fixed rate of 5.0%. Interest on £13.0 million of the loans has been charged at 12 month LIBOR plus 3.0%. These loans are due for repayment in instalments over a five-year period following receipt of a request to repay.
- (4) No material expected credit loss provision has been recognised in respect of loans to subsidiaries.
- (5) The loans from subsidiary undertakings are unsecured and interest-free without any terms for repayment.

9. Material contracts**9.1. Continuing Group**

No contracts have been entered into (other than contracts entered into in the ordinary course of business) by any member of the Continuing Group either: (i) within the period of two years immediately preceding the date of this document which are or may be material to the Continuing Group; or (ii) which contain any provisions under which any member of the Continuing Group has any obligation or entitlement which is, or may be, material to the Continuing Group as at the date of this document, save as disclosed below:

Sale Agreement

Your attention is drawn to Part 3 (Principal Terms and Conditions of the Disposal) of this document which contains a summary of the Sale Agreement.

Sponsors' Agreement

The Company entered into a sponsors' agreement dated 7 May 2020 pursuant to which Barclays and Morgan Stanley each agreed to act as joint sponsors to the Company in connection with the Disposal and the Circular (the **Sponsors' Agreement**). Under the terms of the Sponsors' Agreement, the Company has agreed to provide Barclays and Morgan Stanley with certain customary indemnities, undertakings and warranties. The indemnities provided by the Company indemnify Barclays and Morgan Stanley and certain of their respective affiliates against claims made against them or losses incurred by them, subject to certain exceptions. The Sponsors' Agreement gives Barclays and Morgan Stanley the right to terminate in certain circumstances, which is usual for a sponsor agreement of this kind.

Revolving Credit Facility

The Company is party to a revolving credit facility agreement dated 26 September 2019 (the **Revolving Credit Facility Agreement**) with Barclays Bank PLC and Morgan Stanley Bank, N.A. as lenders and Barclays Bank PLC as agent. The amount of the revolving credit facility (**RCF**) under the Revolving Credit Facility Agreement is £500,000,000, capable of drawing in pounds sterling. As at the date of this document, £200,000,000 of the RCF was drawn under the Revolving Credit Facility Agreement.

The term of the Revolving Credit Facility Agreement is 12 months from the signing date as above, subject to an extension option, capable of being exercised by the Company to extend the termination date by two six-month increments (up to a maximum term of two years from the signing date as above). The margin is subject to a ratchet, increasing at regular

intervals throughout the term of the Revolving Credit Facility Agreement. A commitment fee of 30 per cent. of the applicable margin is payable on the undrawn amount of the RCF. Agency fees are also payable.

The Revolving Credit Facility Agreement is unsecured and contains financial covenants, as well as customary representations, covenants and events of default. The Revolving Credit Facility Agreement requires mandatory prepayment upon a change of control of the Company, the occurrence of specified disposals and receipt of proceeds from capital markets issuances set out in more detail therein. There are, however, no automatic mandatory prepayment obligations which arise as a result of the Disposal. The Company is obliged to consult with Barclays Bank PLC and Morgan Stanley Bank, N.A. for a period of 45 days; if no agreement regarding the continuation of the RCF has been reached during that period, the RCF must be repaid.

Bonds issued by Pennon Group plc

Perpetual Capital Securities

On 22 September 2017, the Company issued £300,000,000 Perpetual Capital Securities (the **Capital Securities**). The Capital Securities, which are governed by English law, are subordinated obligations of the Company and rank in priority only to the Company's ordinary share capital.

Periodic returns accrue on the Capital Securities at a fixed rate of 2.875 per cent. per annum, payable annually in arrear, until 22 May 2020 (the **First Call Date**). Unless the Capital Securities are redeemed on the First Call Date (in which regard, see below), from and including such date periodic returns shall accrue thereon at a floating rate of return equal to three-month LIBOR plus a margin of 7.018 per cent. per annum. If there is a change of control of the Company coupled with certain ratings consequences or if South West Water Limited ceases to be a subsidiary of the Company, there would be a 5 per cent. increase in the rate of returns for each such event.

All payments of periodic returns are subject to deferral at the option of the Company, unless in the 12 months preceding the relevant payment date the Company has elected, in its discretion, to pay a dividend or distribution on, or to repay or purchase, any parity securities or ordinary share capital. Periodic returns accrue on deferred returns until the same are paid in accordance with the terms and conditions of the Capital Securities.

The Capital Securities have no final maturity and are only redeemable at the option of the Company: (i) at their principal amount on 22 May 2020 or any returns payment date thereafter; or, prior to the First Call Date; (ii) at their principal amount if the Capital Securities become subject to withholding tax and the Company is required to gross-up payments on the Capital Securities; and (iii) at 101 per cent. of their principal amount following certain changes to the accounting treatment of the proceeds of issue of the Capital Securities. Alternatively, in such circumstances, the Company may elect to substitute, or vary the terms of, the Capital Securities to address such tax or accounting consequences, subject to certain restrictions. Further, the Company may elect to redeem all (but not some only) of the Capital Securities at any time at: (a) 101 per cent. of their principal amount if there is a change of control of the Company coupled with certain ratings consequences or if South West Water Limited ceases to be a subsidiary of the Company; and (b) at their principal amount if at any time the Company and its Group have purchased 80 per cent. or more of the Capital Securities originally issued. If South West Water Limited ceases to be a subsidiary of the Company, the Company is also subject to restrictions on making discretionary payments on or in respect of parity securities or ordinary share capital until it redeems the Capital Securities.

The events of default in respect of the Capital Securities are limited to: (a) non-payment of any amount of periodic returns or principal when due (subject to a specified grace period); and (b) a winding-up, liquidation or dissolution of the Issuer (except an approved winding-up).

On 6 May 2020, the Company issued an irrevocable notice to holders of the Capital Securities exercising its right to redeem the Capital Securities on 22 May 2020 in accordance with the terms and conditions of the Capital Securities. Consequently, the Capital Securities are due to be redeemed at their principal amount, together with accrued and unpaid returns thereon, on 22 May 2020.

9.2. Viridor Business

No contracts have been entered into (other than contracts entered into in the ordinary course of business) by any member of the Viridor Business either: (i) within the period of two years immediately preceding the date of this document which are or may be material to the Viridor Business; or (ii) which contain any provisions under which any member of the Viridor Business has any obligation or entitlement which is, or may be, material to the Viridor Business as at the date of this document, save as disclosed below:

Sale and Purchase Agreement – Acquisition of interests in Ineos Runcorn (TPS) Holdings Limited

In December 2018, Viridor Waste Management Limited (**VWML**) acquired a further 37.5 per cent stake in the joint venture at Runcorn I ERF for a total cash consideration of £54.8 million. Pursuant to the acquisition, VWML's total economic interest increased from 37.5 per cent to 75 per cent and its associated voting rights increased from 20 per cent to 40 per cent. Under a sale agreement dated 7 December 2018, VWML acquired shares in Ineos Runcorn (TPS) Holdings Limited and loan notes issued by Ineos Runcorn (TPS) Holdings Limited (in relation to the Runcorn JV) from John Laing Investments Limited. John Laing Investments Limited provided certain customary warranties to VWML under the agreement. The limitation period for the warranties expired on 21 December 2019 with no claims being made by VWML during the warranty period.

10. Litigation

10.1 Continuing Group

There are no, nor have there been any, governmental, legal or arbitration proceedings (nor is Pennon aware of any such proceedings which are pending or threatened) which may have, or during the last 12 months before the date of this document have had, a significant effect on the Company and/or the Continuing Group's financial position or profitability.

10.2 Viridor Business

There are no, nor have there been any, governmental, legal or arbitration proceedings (nor is the Company aware of any such proceedings which are pending or threatened) which may have, or during the last 12 months before the date of this document have had, a significant effect on the Viridor Business's financial position or profitability.

11. Working Capital

The Company is of the opinion that, taking into account the bank and other facilities available to the Continuing Group and the net proceeds of the Disposal, the Continuing Group has sufficient working capital available for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

12. No significant change

12.1 Continuing Group

There has been no significant change in the financial position or financial performance of the Continuing Group since 30 September 2019, being the end of the last financial period for which unaudited interim financial information on the Group was published.

12.2 Viridor Business

There has been no significant change in the financial position or financial performance of the Viridor Business since 30 September 2019, being the end of the last financial period to which the unaudited historical financial information relating to the Viridor Business included in Part 4 (Historical Financial Information relating to the Viridor Business) of this document was prepared.

13. Consents

13.1. Ernst & Young LLP has given, and not withdrawn, its written consent to the inclusion of its report on the unaudited *pro forma* statement of net assets of the Continuing Group set out in Section A of Part 5 (Accountants' Report on the Unaudited *Pro Forma* Statement of Net Assets of the Continuing Group) of this document in the form and context in which it appears.

13.2. Barclays has given, and not withdrawn, its written consent to the issue of this document with references to its name being included in the form and context in which they appear.

13.3. Morgan Stanley has given, and not withdrawn, its written consent to the issue of this document with references to its name being included in the form and context in which they appear.

14. Incorporation by reference

Information from the following documents has been incorporated into this document by reference:

Information incorporated by reference	Section of this document which refers to the information incorporated by reference	Where the information can be accessed by Shareholders
Related party transactions which Pennon has entered into during the financial year ended 31 March 2017	Part 6 (Additional Information), section 8 (related party transactions), paragraph (a).	https://www.pennon-group.co.uk/investor-information/financial-reports-and-presentations
Related party transactions which Pennon has entered into during the financial year ended 31 March 2018	Part 6 (Additional Information), section 8 (related party transactions), paragraph (b).	https://www.pennon-group.co.uk/investor-information/financial-reports-and-presentations
Related party transactions which Pennon has entered into during the financial year ended 31 March 2019	Part 6 (Additional Information), section 8 (related party transactions), paragraph (c).	https://www.pennon-group.co.uk/investor-information/financial-reports-and-presentations

Information itself incorporated by reference in the above documents is not incorporated by reference into this document. Where only parts of a document are being incorporated by reference in this document, the parts of the document which are not being incorporated by reference are either not relevant for the investor or are covered elsewhere in this document.

15. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at: (i) the offices of Allen & Overy LLP at One Bishops Square, London E1 6AD; and (ii) the Company's registered office address at Peninsula House, Rydon Lane, Exeter, Devon, United Kingdom EX2 7HR and (with the exception of the Sale Agreement) on the Company's website (www.pennon-group.co.uk/investor-information/viridor-disposal) where Shareholders can follow instructions on how to access such documents, from the date of this document up to and including the date of the General Meeting and for the duration of the General Meeting:

- the Company's articles of association;
- the audited financial statements of the Company for each of the financial years ended 31 March 2017, 31 March 2018 and 31 March 2019;
- the reporting accountants' report on the *pro forma* financial information contained in Part 5 (Unaudited *Pro Forma* Statement of Net Assets of the Continuing Group) of this document;
- the written consents referred to in paragraph 13 of this Part 6 (Additional Information) of this document;
- this document and the Form of Proxy; and
- the Sale Agreement.

PART 7

Definitions

The following definitions apply throughout this document, unless the context otherwise requires:

Adjusted EBITDA	EBITDA plus the add-back of non-underlying items, IFRIC12 Interest Receivable, share of Joint Venture EBITDA and share of Joint Venture IFRIC12 Interest Receivable
Barclays	Barclays Bank PLC, acting through its Investment Bank
Board	the Board of Directors of the Company
Bonding Commitments	has the meaning given to it in paragraph 1.2(c) of Part 3 (Principal Terms and Conditions of the Disposal) of this document
Business Plan	has the meaning given to it in paragraph 7 of Part 1 (Letter from the Chairman of Pennon) of this document
Circular	this document
Company or Pennon	Pennon Group plc, a public limited company incorporated in England and Wales with registered number 02366640, having its registered office and head office at Peninsula House, Rydon Lane, Exeter, United Kingdom, EX2 7HR
Companies Act	the Companies Act 2006, as amended from time to time
Completion	completion of the Disposal in accordance with the terms of the Sale Agreement
Consideration	has the meaning given to it in paragraph 1.3 of Part 3 (Principal Terms and Conditions of the Disposal) of this document
Continuing Group	the Company and its subsidiary undertakings from Completion
CREST	the electronic transfer and settlement system for the paperless settlement of trades in listed securities operated by Euroclear
CREST Manual	the manual, as amended from time to time, produced by Euroclear describing the CREST system and supplied by Euroclear to users and participants thereof
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
Directors or Pennon Directors	the Directors of the Company whose names appear on page 8 of this document
Disclosure Guidance and Transparency Rules	the disclosure and transparency rules made by the FCA under section 73A of FSMA, as amended from time to time
Disposal	has the meaning given to it in paragraph 1 of Part 1 (Letter from the Chairman of Pennon) of this document
Disposal Resolution	the ordinary resolution to be proposed and considered at the General Meeting to approve the Disposal, as set out in the Notice of General Meeting forming part of this document
EBITDA	earnings before interest, tax, depreciation and amortisation
ERF	has the meaning given to it in paragraph 2 of Part 1 (Letter from the Chairman of Pennon) of this document
EU Merger Regulation	Council Regulation (EC) No. 139/2004
Euroclear	Euroclear UK & Ireland Limited, the operator of CREST (as defined in the CREST Regulations)

European Commission	the executive branch of the European Union
Ernst & Young	Ernst & Young LLP, the Company's auditor and reporting accountants
FCA or Financial Conduct Authority	the UK Financial Conduct Authority
Finance PCGs	has the meaning given to it in paragraph 1.2(d) of Part 3 (Principal Terms and Conditions of the Disposal) of this document
Finance PCG Condition	has the meaning given to it in paragraph 1.2(d) of Part 3 (Principal Terms and Conditions of the Disposal) of this document
Form of Proxy	the personalised Form of Proxy accompanying this document
FSMA	the Financial Services and Markets Act 2000, as amended from time to time
Fundamental Warranties	has the meaning given to it in paragraph 1.4 of Part 3 (Principal Terms and Conditions of the Disposal) of this document
General Meeting	the general meeting of the Company to be convened in connection with the Disposal, notice of which accompanies this document, including any adjournment of it
IFRIC12	International Financial Reporting Interpretations Committee interpretation in respect of service concession arrangements, as approved by the International Accounting Standards Board
IFRIC12 Interest Receivable	interest receivable on service concession arrangements under IFRIC12
IFRS	International Financial Reporting Standards
Interserve	has the meaning given to it in paragraph 1.3 of Part 1 (Letter from the Chairman of Pennon) of this document
Joint Venture EBITDA	Viridor's share of EBITDA attributable to Viridor's joint ventures
KKR	has the meaning given to it in paragraph 1 of Part 1 (Letter from the Chairman of Pennon) of this document
Landfill Bond Condition	has the meaning given to it in paragraph 1.2(c) of Part 3 (Principal Terms and Conditions of the Disposal) of this document
Latest Practicable Date	6 May 2020 (being the last practicable date before publication of this document)
Link Market Services	Link Market Services, the Company's Registrar
Listing Rules	the listing rules made by the FCA under section 73A of FSMA (as amended from time to time)
Locked Box Accounts	has the meaning given to it in paragraph 1.3 of Part 3 (Principal Terms and Conditions of the Disposal) of this document
Locked Box Date	31 March 2019
Long Stop Date	has the meaning given to it in paragraph 3 of Part 1 (Letter from the Chairman of Pennon) of this document
Morgan Stanley	Morgan Stanley & Co. International plc
Net Cash Proceeds	has the meaning given to it in paragraph 1 of Part 1 (Letter from the Chairman of Pennon) of this document
Notice of General Meeting	the notice of General Meeting contained in Part 8 of this document
Ordinary Shares	the Ordinary Shares of £0.407 each in the share capital of the Company

Pennon Group or the Group	the Company and its subsidiary undertakings immediately before Completion
Prospectus Regulation Rules	the Prospectus Regulation rules made by the FCA under Part 6 of FSMA
Proximity	a digital end-to-end proxy voting and shareholder disclosure platform that facilitates direct voting by institutional investors
Purchaser	has the meaning given to it in paragraph 1 of Part 1 (Letter from the Chairman of Pennon) of this document
Registrar	Link Market Services
Regulatory Condition	has the meaning given to it in paragraph 1.2(b) of Part 3 (Principal Terms and Conditions of the Disposal) of this document
Sale Agreement	sale and purchase agreement dated 18 March 2020 between the Company and the Purchaser setting out the terms and conditions of the Disposal, further details of which are set out in Part 3 (Principal Terms and Conditions of the Disposal) of this document
Separation Plan	has the meaning given to it in paragraph 1.12 of Part 3 (Principal Terms and Conditions of the Disposal) of this document
Shareholder	a holder of Ordinary Shares from time to time
Shareholder Approval Condition	has the meaning given to it in paragraph 1.2(a) of Part 3 (Principal Terms and Conditions of the Disposal) of this document
Sponsors	Barclays and Morgan Stanley
Sterling, £ or GBP	the lawful tender for the time being and from time to time of the United Kingdom
Strategic Review	has the meaning given to it in paragraph 2 of Part 1 (Letter from the Chairman of Pennon) of this document
Target Group	Viridor and each of its subsidiary undertakings
Transferring Employees	has the meaning given to it in paragraph 1.10 of Part 3 (Principal Terms and Conditions of the Disposal) of this document
Transitional Services	has the meaning given to it in paragraph 1.12 of Part 3 (Principal Terms and Conditions of the Disposal) of this document
TSA	has the meaning given to it in paragraph 3.1 of Part 2 (Risk Factors) of this document
TUPE	has the meaning given to it in paragraph 1.10 of Part 3 (Principal Terms and Conditions of the Disposal) of this document
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
Underlying EBITDA	EBITDA excluding non-underlying items
Underlying Profit Before Tax	excludes non-underlying items from statutory profit before tax
Underlying Revenue	has the meaning given set out on page 3 of this document
Viridor	Viridor Limited, a private limited company incorporated in England and Wales with registered number 02456473, having its registered office at Peninsula House, Rydon Lane, Exeter, United Kingdom, EX2 7HR
Viridor Business	the business undertaken by Pennon through the Target Group in relation to waste management

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension of it.

For the purpose of this document, “subsidiary” and “subsidiary undertaking” have the meanings given by the Companies Act 2006 of England & Wales.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

PART 8

Notice of General Meeting



Pennon Group plc

(Incorporated in England and Wales with registered number 02366640)

Notice is given that a general meeting of Pennon Group plc (the **Company**) will be held at Peninsula House, Rydon Lane, Exeter, Devon, United Kingdom EX2 7HR on 28 May 2020 at 11 a.m. (the **General Meeting**) to consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

Ordinary resolution

THAT

- (a) the proposed disposal by the Company of the Viridor business (the **Disposal**) 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 (the **Sale Agreement**), as described in the circular to the Company's Shareholders dated 7 May 2020 (the **Circular**) and all other agreements and ancillary documents contemplated by the Sale Agreement, be and are approved, with any changes as are permitted in accordance with resolution (b) below; and
- (b) the directors of the Company (the **Directors**) (or any duly authorised committee of the Directors) be and are authorised:
 - (i) to do or procure to be done all such acts and things on behalf of the Company and any of its subsidiaries as the Directors (or any duly authorised committee of the Directors) consider necessary, expedient or desirable in connection with, and to implement, the Disposal; and
 - (ii) to agree such modifications, variations, revisions, waivers, extensions, additions or amendments (not being modifications, variations, revisions, waivers, extensions, additions or amendments of a material nature) as the Directors (or any duly authorised committee of the Directors) may in their absolute discretion deem necessary, expedient or desirable in connection with the Disposal.

By order of the Board

Simon Pugsley

Group General Counsel and Company Secretary

7 May 2020

Registered office: Peninsula House, Rydon Lane, Exeter, United Kingdom, EX2 7HR.

Notes:

- (1) In view of the current restrictions introduced by the UK Government in response to the COVID-19 pandemic, the Company has made arrangements for the General Meeting to be held with the minimum number of attendees to satisfy the requirements for a quorate meeting. Shareholders are asked not to attend the meeting and, in the interests of safety, any attempted entry to the meeting will be refused. Instead, shareholders are encouraged to vote by proxy.
- (2) Pennon continues to monitor the situation and notes that the UK Government may change current restrictions or implement further measures relating to the holding of general meetings during the affected period. If it becomes necessary or appropriate to modify the General Meeting arrangements, this will be communicated to Shareholders before the meeting through Pennon's website at www.pennon-group.co.uk/investor-information/viridor-disposal and, where appropriate, by RIS announcement
- (3) Only Shareholders whose names appear on the register of members of the Company as at close of business on 26 May 2020 shall be entitled to vote at the General Meeting in respect of the number of shares registered in their name at that time.
- (4) A Shareholder is entitled to appoint one or more proxies to exercise all or any of his or her rights to attend, speak and vote provided that each proxy is appointed to vote in respect of a different share or shares. A proxy need not be a Shareholder of the Company but must attend the General Meeting for the Shareholder's vote to be counted. As explained in the Chairman's letter on page 12 of this document, **in view of the restrictions in relation to the attendance at the General Meeting, Shareholders are urged to appoint the chairman of the meeting as their proxy and provide voting instructions to the proxy in advance of the General Meeting.**
- (5) Shareholders are encouraged to submit questions about the proposed disposal by email to IR@pennon-group.co.uk. Questions submitted prior to the General Meeting by the specified deadline will be answered during the meeting and a summary of responses will be published at www.pennon-group.co.uk/investor-information/viridor-disposal as soon as practicable after the General Meeting.
- (6) An online/telephone conference facility will be available for shareholders who wish to listen to the proceedings of the General Meeting. Shareholders dialling in will not be counted as being present at the meeting and, therefore, will not be able to speak or ask questions during the meeting. Further details will be provided at www.pennon-group.co.uk/investor-information/viridor-disposal in due course.
- (7) To be valid, the Form of Proxy for use at the meeting and power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy of such power of authority, must be received by the Company's Registrar, Link Market Services, The Registry, 34 Beckenham Road, Beckenham, Kent, United Kingdom, BR3 4TU not less than 48 hours before the time appointed for holding the meeting.
- (8) As an alternative to completing and returning the printed Form of Proxy, you may register a proxy appointment electronically by visiting www.signalshares.com. For security purposes you will need to log on with your personal details and Investor Code, which can be found on recent communications such as your dividend confirmation or your share certificate. Full instructions are given on the website.
- (9) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, whether it constitutes the appointment of the proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Registrar, Link Market Services ID RA10, by no later than 48 hours before the time appointed for the General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST application's host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instruction to proxies appointed through CREST should be communicated to the appointees through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timing and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed

a voting service provider(s) to procure that their CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

- (10) If you are an institutional investor you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by Link Market Services. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 11 a.m. on 26 May 2020 in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.
- (11) A person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a **Nominated Person**) may, under an agreement between him or her and the Shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights. The statements of the rights of Shareholders in relation to the appointment of proxies in paragraphs 4, 5, 6 and 7 above do not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by Shareholders of the Company.
- (12) As at 6 May 2020 (being the last practicable business day prior to publication of this Notice) the Company's issued share capital consists of 421,038,215 Ordinary Shares carrying one vote each of which 8,443 shares are held in treasury. Therefore, the total voting rights in the Company as at 6 May 2020 are 421,029,772.
- (13) The documents listed in paragraph 15 of Part 6 (Additional Information) of the Circular will be available for inspection at: (i) the offices of Allen & Overy LLP at One Bishops Square, London E1 6AD; and (ii) the Company's registered office address at Peninsula House, Rydon Lane, Exeter, Devon, United Kingdom EX2 7HR, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) and (with the exception of the Sale Agreement) on the Company's website (www.pennon-group.co.uk/investor-information/viridor-disposal) where Shareholders can follow instructions on how to access such documents, from the date of this Notice until the day of the General Meeting.

