

5 November 2015

CMA clears Bournemouth Water acquisition and subsequent merger with South West Water

Following the Competition and Markets Authority (CMA) provisional findings published on 30 September 2015, Pennon is pleased to note that the CMA has today unconditionally cleared the acquisition of Bournemouth Water by Pennon and the subsequent merger of Bournemouth Water with South West Water.

This efficient, combined water business will deliver tangible long-term benefits to both customers and shareholders as the water industry works towards market liberalisation in 2017. Based on our analysis, there is a 94% probability that the combined company will set the efficiency frontier at PR19⁽¹⁾. The combined water business will achieve efficiencies and service improvements through:

- merging wholesale and retail operations
- combining central support functions
- creating common systems and processes
- driving supply chain efficiencies
- delivering even better customer service
- working to bring together best practice from both businesses

Pennon will retain the valuable Bournemouth Water brand and will continue separate regulatory reporting for Bournemouth Water until at least 2020 to aid Ofwat with comparisons between companies.

South West Water aims to merge the two businesses by the end of 2015/16 and in doing so will adopt a new licence for the combined entity. The operational integration of the two businesses will be complete by the end of 2016/17.

The CMA's press release can be viewed here:

www.gov.uk/cma-cases/pennon-group-semcorp-bournemouth-water-investments-merger-inquiry

Chris Loughlin, Executive Director of Pennon & Chief Executive of South West Water, said:

"We are pleased to note the CMA has cleared the Bournemouth Water acquisition. We will now set about merging Bournemouth Water with South West Water to deliver service improvements and efficiencies for customers and shareholders."

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⁽¹⁾ This estimate provides the probability of the merged company, with synergy savings, being within the UQ (the efficiency benchmark as used by Ofwat in PR14) at PR19.