

**9 February 2017**

**PENNON GROUP PLC**

**2011 Peninsula MB derivative unwind following agreement with Nomura**

Pennon Group Plc ("Pennon" or the "Group") today announces that it has agreed terms with Nomura to unwind a derivative, entered into in 2011, through Peninsula MB Ltd. The derivative had been due to end in 2027, however, following a change in the economic benefit of this derivative outlined in the half year results 2016/17, Pennon is exercising its option to unwind the transaction early.

The process for unwinding the derivative means that Pennon is acquiring a financial asset with a value of £283 million and a financial liability with a value of £239 million from Nomura Structured Holdings plc. The counter-party to both these transactions is Peninsula MB Ltd.

Simultaneously, Pennon will also acquire the remaining 25% of Peninsula MB Ltd's share capital from Nomura Structured Holdings plc with all Peninsula MB Ltd's liabilities now due to Pennon. Pennon is settling these liabilities through inter-company transactions with Peninsula MB Ltd. It is Pennon's intention to cease any future operating activities of Peninsula MB Ltd at this point and liquidate the company in due course.

The net consideration due to Nomura Structured Holdings plc in respect of these transactions is £44 million with an agreed payment date of June 2018. The impact for Pennon is expected to be a net cost of £35 million post-tax. The estimated overall post-tax impact of these transactions has already been reflected through the £39.5 million derivative liability recognised in the half year results 2016/17.

**Peninsula MB Ltd**

Peninsula MB Ltd is a private limited company, incorporated in England and Wales on 5 December 2011 as a subsidiary of Nomura Structured Holdings plc, part of the "Nomura Group". Prior to the transaction announced today, Peninsula MB Ltd's share capital was 75%-owned by Pennon and 25%-owned by Nomura Structured Holdings Plc, who had control of the company for accounting purposes. The principal activity of Peninsula MB Ltd was raising funds through the issuance of debt instruments and third party lending. As of the date of this announcement, Peninsula MB Ltd's only debt instruments and third party lending were as follows:

- I. A £200 million floating interest rate-linked loan from Peninsula MB Ltd to Pennon.
- II. A corresponding fixed rate £200 million loan from Pennon to Peninsula MB Ltd.

In combination, I and II were treated as a derivative targeted at providing a return to Pennon, linked to a Nomura index. It was designed to improve Pennon's overall interest rate performance (c.£8 million p.a. benefit, cash settled). On unwinding this derivative, I and II will offset each other, leaving no balances outstanding and Pennon will no longer receive the c.£8 million p.a. interest rate benefit.

- III. A £200 million floating interest rate-linked loan from Nomura Structured Holdings plc to Peninsula MB Ltd.
- IV. A fixed rate £200 million loan from Peninsula MB Ltd to Nomura Structured Holdings plc.

On Pennon acquiring III and IV from Nomura Structured Holdings plc and the remaining 25% of Peninsula MB Ltd's share capital, III and IV will be settled through inter-company transactions between Pennon and Peninsula MB Ltd, leaving no balances outstanding.

In aggregate the acquisition of Peninsula MB Ltd concerns total gross assets of £201 million and net liabilities of £246 million as at 31<sup>st</sup> March 2016.

**For further information, please contact:**

Pennon: Susan Davy – Chief Financial Officer  
Sarah Heald – Director of Corporate Affairs & Investor Relations  
01392 443 401

Finsbury: James Murgatroyd  
Faeth Birch  
0207 251 3801

Cautionary statement in respect of forward-looking statements

Certain statements in this announcement are forward-looking statements relating to the Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, management. They are subject to a number of risks, uncertainties and other factors that could cause actual results, performance or achievements of the Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements. The Group's principal risks were described in the 2016 Pennon Group Annual Report which can be viewed online at <http://www.pennonannualreport.co.uk/2016/>. Such forward looking statements should therefore be construed in light of such risks, uncertainties and other factors and undue reliance should not be placed on them. They are made only as of the date of this announcement and no representation, assurance, guarantee or warranty is given in relation to them including as to their accuracy, completeness, or the basis on which they are made. No obligation is accepted to publicly revise or update these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required. Nothing in this Statement should be construed as a profit forecast.