

20 September 2016

PENNON GROUP PLC

TRADING STATEMENT

Robust performance, driving Group efficiency and effectiveness

Pennon, one of the UK's largest environmental infrastructure groups, is issuing the following update ahead of its results for the half year ended 30 September 2016, which will be announced on 25 November 2016.

Key highlights:

- On track to meet management expectations for 2016/17
- Continued leading efficiency in water, driving an enhanced Return on Regulated Equity
- ERFs on track to deliver targeted c.£100m of EBITDA in 2016/17
- Recycling 'self-help' delivering higher EBITDA year-on-year
- On-going cost reduction plans progressing well and Shared Services Review nearing conclusion
- Well-placed to continue to deliver for customers, communities and shareholders

Chris Loughlin, Pennon Chief Executive said:

"Pennon has made a good start to 2016/17 delivering a strong performance across both water and waste. The portfolio of energy recovery facilities is performing in-line with expectations and remains on track to contribute the targeted c.£100m of EBITDA this year. South West Water continues to significantly outperform its regulatory contract and we anticipate achieving a sector-leading Return on Regulated Equity again this year. Our Shared Services Review, which will result in cost savings, supports our strategy of working more closely as a group. With this clear strategy and our strong balance sheet, Pennon is well-placed to continue to deliver for customers, communities and shareholders."

Financial performance on track to meet expectations, delivering our ERF EBITDA target

Pennon continues to deliver a good underlying financial performance and is on track to meet management expectations for 2016/17.

Group EBITDA expectations for 2016/17 are driven by additional ERF earnings as Peterborough ramps-up and as availability increases at Trident Park in Cardiff and Runcorn II in Greater Manchester. We therefore expect to see an H2 weighting in the ERF results.

South West Water has continued to experience higher customer demand in H1 and is focused on delivering further Total Expenditure (Totex) savings from efficiency initiatives outlined at the 2015/16 full year results.

Robust operational performance

South West Water continues to deliver a strong performance. RoRE for the combined water business is on track for continued outperformance in 2016/17 (11.7% reported for 2015/16), supported by Totex outperformance, cost savings and synergies.

At Viridor, the portfolio of eight operational ERFs continues to perform well. There are three further ERFs under construction.

Construction at Dunbar and Beddington (South London) is progressing as planned and to budget.

As we have previously said, Glasgow's Recycling and Renewable Energy Centre is receiving waste and the Materials Recycling Facility (MRF) is in initial commissioning. The ERF is nearing completion and remains on track to meet our commitment to our client. Viridor is working with its contractor to finish the construction as soon as possible and is in receipt of contractual compensation⁽¹⁾ for delays against original expectations.

The Board will also take a decision this year on whether to proceed with the investment in an additional ERF at Avonmouth, near Bristol.

Landfill volumes continue to decline in-line with expectations. Viridor has so far closed two landfill sites to waste inputs in 2016/17, leaving thirteen open sites (fifteen as at the end of 2015/16) as part of the strategy to reduce the number of open sites to a small number of strategic sites by 2020. Landfill power generation is performing in-line with expectations given that power prices are lower in 2016/17 than in 2015/16.

Self-help measures in recycling are delivering the anticipated increase in EBITDA year-on-year.

Increased cost efficiency targets

Ongoing cost reduction plans announced in 2015/16 are progressing well. These included c.£27 million of net synergies by 2020 from the integration of South West Water and Bournemouth Water and c.£11 million a year of enduring financial benefits by 2017/18 from additional Totex outperformance over and above existing plans at South West Water and reorganisation, restructuring and streamlining of overheads at Viridor.

In addition to those plans announced in 2015/16, the Shared Services Review is expected to deliver net additional efficiencies and an update on this will be provided at the half year results.

Outlook

Pennon expects to deliver a strong 2016/17 performance in-line with management expectations. As expected, capital expenditure across the group is forecast to be higher than 2015/16, reflecting South West Water's investment in the Mayflower water treatment works in North Plymouth, as well as waste water improvements, and the profile of investment in the ERF portfolio.

Half Year Results – 25 November 2016

Pennon intends to announce its half year results for 2016/17 on Friday 25 November 2016. Further information on Pennon, Viridor, South West Water and Bournemouth Water can be found on the Group's website, www.pennon-group.co.uk

(1) Primarily liquidated damages due when construction is completed post the original contractual completion date.

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Cautionary statement in respect of forward-looking statements

Certain statements in this announcement are forward-looking statements relating to the Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, management. They are subject to a number of risks, uncertainties and other factors that could cause actual results, performance or achievements of the Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements. The Group's principal risks were described in the 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.