

25 March 2019

PENNON GROUP PLC

Trading Statement

Pennon, one of the UK's largest environmental infrastructure groups, is issuing the following update ahead of its results for the year ended 31 March 2019, which will be announced on 30 May 2019.

Group underlying financial performance in line with expectations for 2018/19

Key highlights

- South West Water business plan for the period 2020-2025 'fast tracked' by Ofwat
- Momentum continuing in South West Water, with sector leading customer service and an enhanced Return on Regulated Equity (RORE)
- Operational ramp up for Glasgow, Dunbar and Beddington Energy Recovery Facilities (ERFs) progressing well, construction of Avonmouth well advanced
- Viridor's strategic focus on recycling and residual waste aligned with Government's Resources and Waste Strategy
- Strong liquidity and funding position - £680 million of financing secured so far this year, of which £450 million is under Pennon's sustainable financing framework.

South West Water momentum continuing, business plan 'fast tracked' by Ofwat

South West Water continues to deliver strong operational and financial performance, with a focus on efficiency and customer service. RORE is on track for consistent continued outperformance for 2018/19 with an expected cumulative rate of 11.8%.

Continuing its strong customer service performance this year, South West Water was ranked first in the Ofwat industry customer experience survey for the third quarter and is expected to see a further increase in its overall customer service score for 2018/19. Despite unprecedented demand due to the prolonged dry weather over the summer, operationally our infrastructure has performed well this year with no water restrictions for the 22nd year in a row. Operations are focused on replenishing water resources in H2 2018/19. Revenue from increased customer demand over the summer is expected to broadly offset the operational cost of delivery.

Momentum is being maintained in respect of achieving both the £300 million target for Total Expenditure (Totex) outperformance and delivery of further net Outcome Delivery Incentive (ODI) rewards.

South West Water's business plan for 2020-2025 has qualified for a 'fast track' process, the only water company to have achieved this status for two consecutive price reviews.

Viridor's ERF delivery driving underlying EBITDA growth

The three new ERFs at Glasgow, Beddington and Dunbar have all progressed through commissioning to service commencement ahead of full operation. Optimisation is ongoing and operations will continue to ramp up over the next 18 months in line with the pattern experienced already in our existing portfolio.

In line with management expectations, the existing assets in our ERF portfolio have continued to perform ahead of our base case scenario, underpinning the full year results forecast.

Work at the Avonmouth ERF has progressed as expected this year with all major process equipment parts and steelwork for the building in place.

We remain confident that the recycling business is on track for full year results in line with our expectations. Recyclate prices have remained largely stable over the period albeit with increasing customer quality requirements in line with recent trends. Viridor has continued with targeted investment in its recycling assets in order to improve output quality, including a focus on reliability centred maintenance and working with its customers to improve the quality of input materials.

We continue to see a positive future for the recycling business, with the announcement of the Government's Resources and Waste Strategy aligning with Viridor's strategy and key priorities and with opportunities for contract backed asset investment.

Strong liquidity and funding position

Since 31 March 2018, Pennon has secured £680 million of financing so far this year, £450 million of which has been through the use of its sustainable financing framework.

Receivable due from Interserve for Glasgow Recycling Renewable Energy Centre (GRREC)

Pennon's half year results recognised a gross receivable of £72 million due from Interserve Construction Limited.

As the amounts recoverable from Interserve Construction Limited related to rectification and completion costs, under accounting standards (IFRIC12), the difference between the gross contractual receivable of £72 million and the expected recovery will be taken directly to the income statement.

At H1 2018/19, taking into account an assessment of market indicators of credit risk, a provision of £8 million was recognised against the receivable. We have continued to monitor Interserve's financial condition and currently we are recognising a provision of £16 million. The £16 million non cash provision recognised to date will be reported as a non underlying item.

Given the recent announcements regarding Interserve plc entering into administration we are seeking further clarification regarding the financial position of Interserve Construction Limited the ongoing operating company with whom we contracted, which may change the level of provision to be announced with the full year 2018/19 results on 30 May 2019.

We will continue to pursue recovery of all amounts due from the operating subsidiary Interserve Construction Limited and will take all the necessary legal and procedural steps to achieve this.

Outlook

In September 2018, South West Water submitted its Business Plan to Ofwat for the next five year period 2020-2025. Given our 'fast track' status, a Draft Determination is expected on 11 April 2019, with the Final Determination in December. We are well positioned to deliver outstanding services to customers through K7 (2020-2025).

We remain confident in the UK residual waste sector fundamentals, with further capacity essential to meet longer term demand.

With our clear strategy of focusing on the UK water and waste market, supported by a strong balance sheet, Pennon is well-placed to continue to deliver for customers, communities and shareholders.

Full Year Results – 30 May 2019

Pennon intends to announce its full year results for 2018/19 on Thursday 30 May 2019. Further information on Pennon, Viridor and South West Water can be found on the Group's website, www.pennon-group.co.uk.

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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 2018 Pennon Group Annual Report which can be viewed online at <http://annualreport.pennon-group.co.uk/> 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.