

26 March 2018

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 2018, which will be announced on 25 May 2018.

Group underlying financial performance in-line with expectations

Key highlights

- Robust underlying financial performance, on track to meet management expectations
- South West Water achieved a sector-leading customer experience score (SIM), continuing sector-leading Return on Regulated Equity (RORE) performance with an anticipated cumulative rate of 11.8%
- Viridor's operating Energy Recovery Facilities (ERFs) are performing well, with availability in excess of 90%, above base case expectations
- Three ERFs are in commissioning, with one ERF in the early stages of construction
- Capital expenditure is expected to peak in 2017/18 reflecting investment profiles on Viridor's ERFs

South West Water delivering for customers and shareholders

South West Water continues to perform well. In the third quarter, South West Water delivered a sector-leading customer experience quality score (SIM). We are also working to achieve the Institute of Customer Service ServiceMark and we anticipate receiving full accreditation in April this year. Overall performance as measured through the Return on Regulated Equity (RORE) is anticipated to continue at the sector-leading cumulative rate of 11.8%.

In December 2017, Ofwat announced its PR19 Final Methodology. As anticipated, Ofwat signalled reduced allowed returns, but with strong operational and customer service incentives for companies that perform well.

Given South West Water's strong operational and financial delivery in K6, we are well-positioned to respond and deliver outstanding services to customers through K7 (2020-2025) and achieve continued outperformance.

Our multi-channel customer engagement campaign, 'Get into Water' is well-underway and we launched our customer consultation on 1 March. We have reached out to almost half of our customer base, across a range of communications channels to help inform our PR19 plans.

Viridor performing well and delivering growth

We continue to expect UK residual waste market dynamics to be favourable with demand for Energy Recovery Facilities exceeding capacity into the long term. We continue to assess opportunities for future value-enhancing growth in energy recovery.

At Viridor, our portfolio of operational ERFs continues to perform well, above base case expectations, with an anticipated availability in excess of 90% for the year. As noted at the half year, we expect an H2 weighting in ERF EBITDA.

The Glasgow ERF is in final commissioning. Completion of the construction has required a somewhat higher level of remediation than previously anticipated following the need for contractor change. Overall expenditure is expected to be £95 million higher than the original £155 million target. Viridor is contractually entitled to recover incremental costs from the original principal

contractor, Interserve, under certain circumstances. Discussions with Interserve are ongoing with regard to the contractual settlement. Dependent upon the conclusion of those discussions, margins over the life of the project to 2043 could potentially be lower than originally expected, although we do not believe there is any immediate impact on earnings.

Final commissioning is underway at Beddington (South London) and commissioning is underway at Dunbar (Scotland). Construction is underway at Avonmouth (Bristol) where the lead contractor is CNIM Group.

In recycling, Viridor is focused on mitigating the impacts of China's changes in recyclate import regulations, through developing new markets, continued contract optimisation and innovation. As such, Viridor anticipates lower H2 EBITDA from recycling although this is not expected to have a material impact on Pennon's overall financial performance.

Pennon Water Services growing market share and focused on service

Pennon Water Services (PWS) has been recognised as one of the top four 'champion' performers in the new market by independent consultant, Brodick, based on size and growth. The dual service strategy continues to perform well both in and out of area and PWS has also won a number of major national contracts in recent months including Rolls Royce, BMI Healthcare, Unite Students and Kerry Foods.

Outlook

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 – 25 May 2018

Pennon intends to announce its full year results for 2017/18 on Friday 25 May 2018. Further information on Pennon, Viridor and South West Water can be found on the Group's website www.pennon-group.co.uk/investor-information

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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 2017 Pennon Group Annual Report which can be viewed online at www.pennon-group.co.uk/AR2017 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

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