

PENNON GROUP

Trading Statement

30 March 2021

Pennon Group, one of the leading water groups in the UK is issuing the following update ahead of its results for the full year ended 31 March 2021, which will be announced on 3 June 2021.

Pennon is on track to deliver resilient financial results in line with management expectations.

Key Highlights

Disciplined management of the £3.7 billion net cash proceeds from the Viridor sale

- Established a sustainable capital structure – c.£1 billion utilised to efficiently de-gear, leaving a sustainable position of c.£200 million gross debt at the Pennon company level
- Responsible pension contributions, with £36 million paid during 2020/21
- Continuing focused and disciplined review of potential value accretive growth opportunities; benchmarked against a return of capital to shareholders.

Investment, totex and financing plans all delivering

- Resilient delivery of critical services across the Group during the pandemic, COVID-19 financial impact in line with expectations
- South West Water is on track to deliver strong totex and financing outperformance – anticipating a doubling of base returns on regulated equity (RORE) of 3.9%
- Capital investment programme delivering improvements in the areas that matter most for customers whilst supporting the regional economy, with c.80% of Outcome Delivery Incentives (ODIs) on or ahead of target
- Pennon Water Services, our business to business water retailer, continues to win new contracts.

Re-shaping the Group

The Group remains in a strong financial position with expected cash and committed facilities well in excess of £3 billion at 31 March 2021.

Pennon believes there is significant value potential from the reinvestment of the Viridor sale proceeds in the UK water sector and continues to narrow down its review of potential growth opportunities. In the event a major value accretive investment opportunity is not available, Pennon expects to make a substantial return of capital to shareholders.

The Group expects to provide clarity on this position by the time of its full year results on 3 June 2021.

Strong operational and financial performance

South West Water continues to deliver strong operational performance in the areas that matter most to customers. In water, we are achieving our committed target for supply interruptions two years ahead of plan, and in waste, we are ahead of our target for both internal and external sewer flooding. Our leadership in working with local nature partnerships continues to deliver biodiversity benefits with c.20,000 hectares improved during 2020/21, ahead of our planned commitment.

We continue to target improvements to support the delivery of our most stretching Outcome Delivery Incentives. Our targeted pollution incident reduction plan continues to build momentum, delivering significant improvements since its launch in July 2020. Whilst we anticipate a net ODI penalty position for 2020/21 based largely on performance in this area, we are encouraged by the impact of the plan to date, and our focus remains on ensuring this positive trend continues into 2021/22.

During the second half of 2020/21 we have seen a net increase in demand and associated revenues as increased household demand has more than offset a decline in non-household demand driven by COVID-19 related restrictions. Operational costs have increased in line with these higher levels of

demand, and we have worked to maximise the safety and wellbeing of our customers and our employees, whilst delivering improvements to services.

Pennon Water Services continue to focus on growing their high quality, sustainable customer base, with c.£20 million annualised new contract wins during the year partially offsetting reduced demand.

Cash collections have remained robust throughout the year and our expected credit loss assumptions, made at the outset of the COVID-19 pandemic, remain largely intact.

Sustainable future

We continue to raise funds for South West Water through our pioneering Sustainable Financing Framework, with a further £90 million raised in 2020/21, which includes South West Water's first ever green private placement for £60 million. This brings the total raised since its introduction to more than £900 million.

South West Water's Green Recovery Initiative could see investment to 2025 increasing by £92 million – a c.10% increase to its existing £1 billion investment programme, with six projects focused on improving public health, protecting the environment, and addressing climate change. This investment would result in a c.3% RCV increase, supporting a sustainable future for the Group and the creation of up to 500 additional jobs across the region.

We are passionate about championing diversity and are pleased to have been recognised again within the top quartile in the Hampton-Alexander review for 2020. Alongside this, for the second year running, Pennon has been named in the Bloomberg Gender-Equality Index (GEI) – recognising our commitment to supporting gender equality through policy development, representation and transparency.

We are also pleased that Pennon has been recognised as the winner in Britain's Most Admired Companies (Utilities) – the longest-running annual survey of corporate reputation in the UK. This award demonstrates our commitment to engaging employees in our strategy and the important role they play in delivering it.

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Cautionary statement

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 2020 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.