



FOR IMMEDIATE RELEASE

8 July 2020

PENNON GROUP PLC

Completion of Viridor Sale, Board Changes and Notice of AGM

Completion of Viridor Sale

Pennon Group plc ("Pennon") is pleased to announce that it has completed the sale of Viridor to funds advised by Kohlberg Kravis Roberts & Co. L.P. for an enterprise value of £4.2 billion. As anticipated, the cash proceeds received by Pennon were £3.7 billion, after taking into account debt and debt-like items that remained with Viridor and customary transaction costs.

With the disposal of Viridor, significant strategic value has been realised and Pennon will now focus on its sector leading water and wastewater businesses, whilst considering further growth opportunities that create value for customers, employees and shareholders.

As previously announced, Pennon will consider the best use of net cash proceeds in terms of reducing Pennon's company borrowings and pension obligations, retaining funds for opportunities and making returns to shareholders.

Of the current £1.2 billion Pennon company borrowings, up to £900 million will be retired in the months following completion. £36 million will be injected into the Pennon Group pension scheme, which will move the scheme closer to being fully funded on a technical provisions basis.

Pennon will now review the most efficient and effective method of returning value to shareholders, alongside considering earnings accretive market opportunities. Any potential investment will be assessed in terms of value creation and the impact on shareholder returns, income and growth, as well as the impact on customers and other stakeholders. Any use of capital to pursue an investment opportunity will be compared with the alternative of returning that capital to shareholders, maintaining our strong focus on financial discipline. We aim to update shareholders on this review at Pennon's half year results announcement in November 2020.

Board Changes

The success of the strategic review significantly changes the structure of the Group. This impacts current leadership roles and is also a natural point in time to enact the Board's internal succession plan. Accordingly, Chris Loughlin, Group Chief Executive Officer and the Chairman, Sir John Parker will not seek re-election at the Annual General Meeting (AGM) on 31 July 2020. Sir John Parker has been Chairman for five years, during which time he has overseen the strategy to identify and create value for our shareholders and improve service to our customers. Chris Loughlin joined the Board in 2006 as Chief Executive of South West Water and became Group Chief Executive Officer in 2016. The organisation has been transformed under his leadership, marked by the delivery of Pennon's strategy and the completion of the sale of Viridor. He has led the establishment of South West Water as the leading regulated water company, consistently delivering by some considerable margin, sector leading performance. This outstanding transformation has been recognised by the company being awarded fast track approval, uniquely, in two consecutive price reviews.

The Pennon Board is pleased to announce the following appointments:

- At the close of the AGM on 31 July 2020, Sir John Parker will stand down from the Board and Gill Rider will take over as Chair. With extensive boardroom service and a wealth of experience across several companies, Gill joined the Board in September 2012 and is currently Senior Independent Director and Chair of the Remuneration Committee. She was formerly Head of the Civil Service Capability Group in the Cabinet Office, and prior to that held a number of senior positions with Accenture LLP, culminating in the post of Chief Leadership Officer for the global firm. Gill has a wealth of experience in leadership and governance across a broad range of sectors including professional services, education and government.
- Susan Davy becomes Chief Executive Officer of Pennon Group plc. Susan was appointed to the Board as Chief Financial Officer in February 2015, having joined the Group as Finance Director of South West Water in 2007. Her knowledge of the industry, coupled with her financial and regulatory expertise, has underpinned the development of Pennon's strategy, which has included the value creating acquisition of Bournemouth Water in 2015 and the successful Viridor disposal process, both of which she led. In her 25 years experience in the utility sector, Susan has also held a number of other senior roles in the water sector, including at Yorkshire Water.
- Paul Boote has been appointed to the Board as Group Finance Director. Paul joined Pennon in 2010 and has held a range of senior finance positions within the Group, most recently responsible for Pennon's Group finance functions of treasury, tax, accounting and pensions. In his 20 years in finance, Paul has accumulated a wealth of experience, having worked across a range of sectors including sport, construction and environmental infrastructure.
- Jon Butterworth has been appointed to the Board as a Non-Executive Director. Jon joined the Board of Pennon's subsidiary South West Water in 2017. He has a distinguished track record within the utility industry that spans over 40 years and is currently Chief Executive Officer of National Grid Ventures and a member of the National Grid Plc Executive Committee.

The appointments of all Directors will be subject to election by shareholders at the Company's AGM on 31 July 2020.

Sir John Parker commented:

"Given the changing structure of the Group, following the successful disposal of Viridor, it is an appropriate time to refresh the Board. I would like to thank Chris Loughlin for his dedicated service, firstly as CEO of South West Water and more recently as the Group CEO of Pennon. As a Board, we acknowledge his significant commitment, long service, and contribution to the success of the Group. We wish him well for his future endeavours. I am confident that the appointments of Gill Rider, as the new Chair and Susan Davy, as the new Chief Executive Officer, together with the rest of the Board, will serve Pennon well for the future. It has been an honour to have served as the Chairman of such a great company, with a talented Board, that has delivered such significant shareholder value."

Gill Rider added:

"The sale of Viridor is the culmination of the transformation of the business that Sir John has overseen in just 5 years at Pennon. He has seen the company into the FTSE100 and leaves behind a strong and focused Board team. I would like to thank Sir John for his support and leadership of the Board and it's been a privilege to have worked alongside him during his Chairmanship of Pennon. We now have a diverse and talented Board, thanks to his commitment, and I am extremely proud to succeed him, and to work alongside Susan Davy, Pennon's first female Chief Executive Officer, who has impressed the Board, not just for her role as Chief Financial Officer but for her leadership across

a number of strategic projects and in her dealings with shareholders, stakeholders and regulators. I'm looking forward to ensuring Pennon continues to deliver the best outcomes for our customers, employees and shareholders."

Chris Loughlin commented:

"Given the sale of Viridor and the start of the new five-year regulatory cycle, it is the appropriate time to step down as the Group Chief Executive of Pennon. It has been an honour and a privilege to have led the organisation for so many years. During this time the organisation has been transformed through the focus on delivering true value to all our stakeholders, including our shareholders and of course the customers and communities we serve.

I would like to thank all the friends and colleagues within the group who, like me, should be incredibly proud of our many achievements. I am very confident that Pennon will have a prosperous future focussing on the water sector and am delighted to hand over to Susan, who I have worked with for so many years. I am certain she will be a great success."

Susan Davy added:

"I am honoured to be taking on the role of Chief Executive Officer, following the success of Pennon under Chris' and Sir John's leadership, and am excited by the appointment of Gill as Group Chair. With our renewed focus on excellence in the water and wastewater sector it is an incredibly exciting time for the Group as we forge ahead with our 'New Deal' plans for the 2020-25 period. We've set ourselves ambitious targets, but I am confident we can build on past progress and can deliver for our customers and stakeholders, further cementing our leadership within the UK water sector while working in ever more innovative and sustainable ways."

Board Changes

- Sir John Parker, Chairman, will step down from Pennon Group plc and not seek re-election at the AGM on 31 July 2020
- Chris Loughlin, Group Chief Executive Officer, will step down from Pennon Group plc and not seek re-election at the AGM on 31 July 2020

Non-Executive

- Gill Rider, Senior Independent Director, Pennon Group plc, will succeed Sir John Parker as the new Chair of Pennon Group plc
- Neil Cooper, Independent Non-Executive Director, Pennon Group plc, will become Senior Independent Director and will remain as Chair of the Audit Committee
- Iain Evans, Independent Non-Executive Director, Pennon Group plc, will remain as Chair of the Sustainability Committee
- Claire Ighodaro, Independent Non-Executive Director, Pennon Group plc, will become Remuneration Chair and seek election at the Pennon AGM on 31 July 2020
- Jon Butterworth, currently Independent Non-Executive Director, South West Water, has been appointed to the Board and will seek election as an Independent Non-Executive Director at the Pennon AGM on 31 July 2020

Executive

- Susan Davy, Chief Financial Officer, Pennon Group plc, will succeed Chris Loughlin as the new Chief Executive Officer of Pennon Group plc
- Paul Boote, Director of Treasury, Tax and Group Finance, Pennon Group plc, has been appointed to the Board and will take up his role as Group Finance Director of Pennon Group plc on 31 July 2020. He will seek election at the Pennon AGM on 31 July 2020.

It is confirmed that there are no details to be disclosed under Listing Rule 9.6.13 R.

A copy of this announcement has been posted on the Company's website at www.pennon-group.co.uk/investor-information/.

The Notice of the AGM is being dispatched to shareholders today and is available on the Company's website. In compliance with Listing Rule 9.6.1, the Notice of AGM has also been submitted to the Financial Conduct Authority electronically via the National Storage Mechanism and will shortly be available for inspection at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>.

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Important information relating to the joint financial advisers and joint sponsors

Barclays Bank PLC, acting through its Investment Bank ("Barclays"), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for Pennon and no one else in connection with the Transaction and will not be responsible to anyone other than Pennon for providing the protections afforded to clients of Barclays nor for providing advice in relation to the Transaction or any other matter referred to in this announcement.

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Cautionary statement

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 are described in the 2020 Pennon Group plc 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

ADDITIONAL INFORMATION

Remuneration Disclosure

Remuneration arrangements for Susan Davy and Paul Boote will be consistent with the Remuneration Policy to be presented to shareholders for approval at the 2020 AGM.

On appointment as Chief Executive Officer, Susan Davy will receive a base salary of £475,000 per annum. Paul Boote will receive a base salary of £300,000 per annum. Following appointment to their new roles, both Executive Directors will be entitled to a pension contribution of 10% of salary. Executive Directors will participate in the annual bonus scheme and Long-Term Incentive Plan subject to the limits set out in the Remuneration Policy.

In line with the shareholder approved Remuneration Policy, the Remuneration Committee has approved good leaver status for Chris Loughlin. Chris will step down from the Board following the AGM. In line with his contractual terms, Chris will be entitled to a payment in lieu of salary and benefits for the balance of his 12-month notice period from 8 July. All share awards will be treated in accordance with the plan rules. Annual bonuses for 2020/21 and unvested awards under the Long-Term Incentive Plan will be subject to time pro-rating, with performance outcomes assessed at the end of the normal performance period. Chris will also be expected to retain sufficient interest in shares for two years following departure in order to meet the requirements of the new post-employment shareholding guideline.

Gill Rider will receive an annual fee of £225,000 as Chair. Sir John Parker will step down from the Board at the AGM and waives his contractual right to payment of a six-month period of notice.

Pennon Company Debt

At 31 March 2020, Pennon company net debt was £0.8 billion and has since increased to around £1.1 billion (gross debt of £1.2 billion, less cash of £0.1 billion) following the repayment of the £0.3 billion perpetual capital securities in May 2020. To efficiently manage the finance costs of Pennon and optimise the company's capital structure following the sale of Viridor the Group plans to retire and repay up to £900 million of these debt facilities over the coming months. Following these repayments, Pennon's company debt would be around £300 million, of which a fixed rate bond of £100 million will mature during 2021/22 resulting in a sustainable Pennon company debt level of around £200 million for the Continuing Group.