

23 March 2015

## **PENNON GROUP PLC**

### **PRE-CLOSE TRADING STATEMENT AND GROUP DIVIDEND POLICY 2015 - 2020**

#### **Pennon Group**

- Pennon is pleased to announce a continuation of its current dividend policy of year-on-year growth of 4% above RPI inflation to 2019/20
- Overall financial performance of Pennon Group since 30 September 2014 remains in line with previous guidance
- Strong liquidity and funding position
- Group businesses well positioned for the future

Pennon is well positioned to continue to generate increasing operating cashflows and shareholder value over the K6 (2015-2020) regulatory period.

Building on the success of its enhanced status and track record of efficiency and outperformance, South West Water is well placed to deliver the 2015-2020 regulatory contract and will have an opportunity to generate returns for shareholders ahead of the assumed returns on equity.

Viridor has made excellent progress in establishing its ERF<sup>(1)</sup> business this year, which will contribute meaningfully to growth in profits and cashflow.

As a result, the Pennon Board is pleased to announce its intention to continue the current dividend policy of year-on-year growth of 4% above RPI inflation to 2019/20 meaning a policy for ten consecutive years (2010-2020) of 4% real dividend growth to shareholders.

#### **South West Water**

- Successful conclusion of the 2010-2015 regulatory contract - outperforming targets for customers and shareholders
- Robust operational performance - with improving standards of service
- Previously announced tariff freeze in 2014/15 to be recovered over 2015-2020 on an NPV neutral basis
- Acceptance of Ofwat's Final Determination in December, following confirmation of enhanced status

South West Water continues its track record of efficiency and outperformance with robust operational delivery, high standards of customer service and strong financial performance. The company is finalising the successful delivery of the K5 (2010-2015) regulatory contract.

As previously announced, the 2014/15 tariff freeze, and the allowed revenue foregone, will impact profits for 2014/15. However, these revenues have been taken into account in the Final Determination for K6 (2015-2020) on an NPV neutral basis.

Acceptance of the Final Determination in December 2014 brought to a close a successful price review process for South West Water and represents an excellent outcome for investors and for customers. The award of enhanced status to South West Water's Business Plan will translate into a tangible financial benefit for Pennon, as well as enabling a swift and smooth transition into the next regulatory period. Delivery of key projects – including those which improve the region's bathing waters and water quality – have been advanced into

2014/15 delivering benefits for customers and investors alike. Accelerating projects will also assist in delivering outcomes and cost efficiencies in a timely fashion.

## **Viridor**

- Viridor is at a point of inflexion in the strategic re-orientation of the business around its 'Energy' and 'Recycling & Resources' divisions
- Strong progress in the development of ERF asset base: four new ERFs already on stream in 2014/15 with a fifth due shortly, adding to the existing Lakeside and Bolton operational ERF assets. Two thirds of the portfolio capacity now in operation
- Full year EBITDA<sup>(2)</sup> for 2014/15 expected to exceed the prior year

Viridor's strategy remains focused on transforming waste by adding substantial value through renewable energy generation and recycling. In 2014/15 Viridor reached a point of inflexion in its ongoing transformation from being predominantly a landfill business to becoming a leading renewable energy and recycling provider.

Overall, 2014/15 EBITDA for Viridor is expected to exceed last year. Earnings from operational ERFs are expected to more than offset declines in landfill and recycling. As previously flagged, the downturn in the financial performance of landfill is a result of the prescribed increase in landfill tax, which led to Viridor's strategy of focusing on selected strategic landfill sites. Viridor has previously noted that it is not immune to external market factors. Recycling revenues are being adversely affected by current market conditions with lower recycling EBITDA in 2014/15 than expected. The recent fall in commodity prices has led to a decline in recyclate prices and UK power prices, which could impact profitability next year should these market conditions continue.

Viridor underlying EBITDA<sup>(3)</sup> is also expected to exceed last year reflecting the increase in EBITDA noted above and a higher contribution from joint venture EBITDA and IFRIC 12 interest.

Viridor routinely reviews its assets for indications of impairment as well as the carrying values of its environmental provisions. Any impairment or additional charges, resulting from this review, would be non-cash items. We expect any impact for 2014/15 to be lower than in previous years.

The company is continuing to make excellent progress with the construction and delivery of its growing Public Private Partnership (PPP) / ERF asset base. Operations have commenced at four new ERFs during the year with plants at Trident Park (Cardiff) and Runcorn I coming on stream since the half year results and Runcorn II due shortly. Together with the continuing strong performance from the Lakeside ERF joint venture, income from these plants is expected to substantially boost underlying EBITDA in H2 2014/15 and beyond. Construction has commenced at Dunbar and the plants at Peterborough and Glasgow are both more than 60% complete. The company has made excellent progress in establishing its ERF business. They contribute to Viridor's bottom line, reflecting the realisation of a strategy which is expected to contribute circa £100m to Viridor's EBITDA in 2016/17.

Progress on delivery of the new ERF asset base can be summarised as:

- Exeter ERF – Takeover completed in July 2014 meeting capital budget. Plant is reliably outperforming specification
- Ardley (Oxford) ERF –Takeover completed in November 2014, below

capital budget. Reliably outperforming specification and protected by contractual compensation<sup>(4)</sup>

- Trident Park (Cardiff) ERF – Takeover completed in January, meeting capital budget. Plant fully operational and meeting all performance specification requirements
- Runcorn Phase I – Takeover completed in January and protected by contractual compensation<sup>(4)</sup>. Plant fully operational and meeting all performance specification requirements
- Runcorn Phase II - In final stages of commissioning and protected by contractual compensation<sup>(4)</sup>
- Peterborough ERF – Progressing well, to schedule and to capital budget
- Glasgow Recycling and Renewable Energy Centre – Construction progressing well and on schedule for completion in 2016 as planned
- Beddington (South London) ERF – Judicial review challenge strongly dismissed. Well prepared for project commencement
- Dunbar ERF – Construction commenced
- Overall programme is being delivered at world class safety levels and to good quality standards.

<sup>(1)</sup> Energy Recovery Facility. Previously referred to as an Energy from Waste (EfW) facility.

<sup>(2)</sup> EBITDA: Earnings before interest, tax, depreciation, amortisation and exceptional items.

<sup>(3)</sup> EBITDA plus share of joint venture EBITDA and IFRIC12 interest receivable.

<sup>(4)</sup> Primarily liquidated damages received/receivable when construction completed post original contractual completion date.

## **Preliminary Results**

Pennon Group intends to announce its Preliminary Results for 2014/15 on Wednesday 20 May 2015.

Further information on Pennon, South West Water and Viridor can be found on the Group's website, [www.pennon-group.co.uk](http://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. 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.