11 February 2016

PENNON GROUP PLC

TRADING STATEMENT

Delivering a strong 2015/16 performance across the Group

Pennon Group is issuing the following update ahead of its full year results for the year ended 31 March 2016, which will be announced on 25 May 2016.

Key highlights:

- On track to meet management expectations for 2015/16
- Chris Loughlin appointed Pennon Group CEO
- Return on Regulated Equity (RoRE) on track to remain at c.11.5% for full year 2015/16
- Integration of Bournemouth Water proceeding well, net synergies of c.£27m targeted over K6
- Energy Recovery Facilities (ERFs) on track to deliver targeted c.£100m of EBITDA in 2016/17, despite pressure on power prices and the removal of Levy Exemption Certificates (LECs)
- New Group initiatives underway, expected to deliver future annualised cost savings of c.£11m

Chris Loughlin, Pennon Group Chief Executive commented:

“Viridor, South West Water and Bournemouth Water are all performing well and results for the full year 2015/16 are on course to meet management expectations. We see further opportunity to deliver improved efficiency and effectiveness driven by management changes which support our strategy of working more closely together across the Group. We will employ the wide range of skills we have across Pennon to share best practice and deliver cost savings and growth opportunities. As we move towards a more consistent risk profile across Pennon, we are increasingly well-positioned to drive sustainable profit and dividend growth. We remain committed to growing dividends at +4% above RPI inflation through to 2020.”

Financial performance on track to meet management expectations

Pennon Group continues to deliver a good underlying financial performance and is on track to meet management expectations for 2015/16, with an expected H1 weighting.

Higher Group EBITDA expectations for 2015/16 are driven by the full year effect of the five new ERFs brought on-stream in 2014/15 and the contribution from Bournemouth Water. South West Water’s revenue reset for K6 (2015-2020) has been mitigated by higher than expected customer demand in H1 and its ability to achieve outperformance on K6 Total Expenditure (Totex) commitments, as a result of efficiency initiatives.

Operational performance strong

South West Water and Bournemouth Water continue to perform well. RoRE for the combined water business is on track to remain at c.11.5% for the full year 2015/16, supported by Totex outperformance and the accelerated delivery of the K6 programme.

At Viridor, the portfolio of operational ERFs continues to perform well, with the five brought on-stream in 2014/15 ramping-up as Viridor optimises each plant. Takeover of Peterborough is now complete, with the plant delivered on time and below budget, bringing the total number of operational ERFs to eight. Construction of Glasgow, Dunbar and Beddington (South London) is progressing well.

As anticipated landfill volumes continue to decline in H2. Viridor has so far closed one landfill site to waste inputs in 2015/16 as part of the strategy to reduce the number of open sites to 3 strategic sites by 2020. Landfill power generation is on track with performance in H2 expected to be broadly in-line with H1.

The integration of Bournemouth Water into South West Water is ongoing and will be substantially complete by the end of 2015/16. South West Water is targeting synergies of c.£27m over K6 from the integration (net of c.£2m restructuring costs).

In addition to the significant cost efficiency already within our business plan, we are progressing a number of further initiatives that will deliver greater Totex outperformance at South West Water and a more efficient cost base and more profitable recycling activities at Viridor. While there will be an associated one-off estimated restructuring cost of c.£8m, we expect enduring financial benefits building over two years to c.£11m per annum.

The c.£2m of restructuring costs associated with the Bournemouth Water integration and the c.£8m of restructuring costs at South West Water and Viridor will be recognised in the results for 2015/16 as an estimated c.£10m exceptional item.

Within Viridor we have also conducted a review relating to the carrying value of assets and whilst there are expected changes to asset allocations across activities, any associated net financial impact to the overall carrying value would be non-cash and is not expected to be material.

Streamlined governance - preparing Pennon for the future

Chris Loughlin became Pennon Group Chief Executive Officer on 1 January 2016, with Dr Stephen Bird promoted to Managing Director of South West Water.

These changes represent an important step forward for Pennon Group as it looks towards the future. In his role as Group Chief Executive, Chris Loughlin will oversee the delivery and development of Pennon's strategy whilst driving greater synergies and looking at opportunities across the Group.

As previously stated, part of the streamlining process also involves simplifying Pennon's subsidiary boards structure to achieve more efficient and effective governance. This is being conducted in a way that preserves the regulatory ring-fence around the water business.

Group financial position

Pennon Group continues to have a strong liquidity and funding position, with funding in place for the build out of Viridor's committed ERF pipeline and for South West Water to March 2018.

Outlook

Performance across Pennon is on track to meet management expectations for 2015/16 (with an expected H1 weighting).

Both South West Water and Bournemouth Water have made a strong start to K6 and are already delivering and outperforming their Business Plans for the benefit of customers, the environment and shareholders and are confident in continuing this strong performance throughout K6. The integration of the two businesses is progressing as anticipated.

For Viridor, we expect demand for ERFs to continue to exceed capacity into the long term, with c.80% of the total ERF portfolio volumes (operational and under construction) contracted for the life of the plants. Viridor continues to target new long and medium-term Commercial & Industrial contracts. Nine out of the eleven plants in the committed ERF portfolio are expected to be operational by the end of 2016/17. This underpins delivery of the c.£100m of EBITDA target set for 2016/17 which was set back in 2012, recognising the additional hurdles of downward pressure on commodity prices and the removal of the LECs since that time. Viridor remains cautious about future recyclate price growth, but is targeting margin enhancements through improvements to source material quality, restructuring and asset efficiency, productivity yield and quality of outputs.

Pennon is well-positioned to drive sustainable profit and dividend growth.

Capital Markets Event – 24 February 2016

Pennon Group is holding a capital markets event on Wednesday 24 February 2016 that will focus on an overview of Group strategy.

Full Year Results – 25 May 2016

Pennon Group intends to announce its full year results for 2015/16 on Wednesday 25 May 2016. Further information on Pennon, Viridor, South West Water and Bournemouth Water be found on the Group's website, www.pennon-group.co.uk

For further information, please contact:

Pennon:	Susan Davy – Group Director of Finance Sarah Heald – Head of Investor Relations 01392 443 401
Finsbury:	James Murgatroyd Faeth Birch 0207 251 3801

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 2015 Pennon Group Annual Report which can be viewed online at http://www.pennonannualreport.co.uk/2015 and were updated in Pennon Group's Half Year Results Announcement published on 27 November 2015 (pages 28 and 29) which can be viewed online at www.pennon-group.co.uk/system/files/press/Pennon-hy-results-2015-16.pdf. 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.