

## **PENNON GROUP**

### **Trading Statement**

**28 September 2021**

Pennon Group announces the following trading update ahead of its Capital Markets Day event hosted today at South West Water's flagship Mayflower Water Treatment Works in Plymouth.

Pennon's results for the half year ending 30 September 2021 will be announced on 30 November 2021.

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

### **Key Highlights**

- Resilient operational performance through record levels of demand for water
- RORE outperformance expected in all three areas of ODIs, totex and financing – continuing to anticipate a doubling of base returns
- Green recovery incremental investment to RCV of £82 million approved
- Ambitious Net Zero 2030 plan launched in July
- The acquisition of Bristol Water is progressing through the Competition and Markets Authority (CMA) review
- £1.5 billion special dividend paid, share consolidation complete and up to c.£400 million share buy-back underway

### **Resilient financial and operational performance**

The COVID-19 pandemic has led to a substantial population increase in the regions we serve. Alongside this, as restrictions have eased businesses have ramped up demand, resulting in increased water usage and an increase in overall revenue.

Given the increased demand and the sustained population increase in the region, pressure on our operational network has remained high. Overall EBITDA remains in line with management expectations as increased costs have been offset by increased revenues.

Our capital investment programme is delivering in line with our profile of K7 investment, with a c.30% increase on the prior year, including our Green Recovery projects.

Our focus remains on delivering the best outcomes for customers and we are further building on our position of c.80% of our business plan commitments being on track or ahead of target. We have continued to make significant progress in delivering our Pollutions Incident Reduction Plan and are on track to deliver a step change in environmental performance.

In late August a third-party utility company, performing work unconnected with South West Water, damaged mains supply pipes at Carland Cross in Cornwall, causing a localised loss of supply. Any impact from this event in terms of ODI mechanism is being evaluated.

### **Inflation environment**

The high current inflationary environment is anticipated to increase certain costs during 2021/22 and whilst finance costs for 2021/22 will increase above 2020/21 levels, Pennon has relatively lower rates of index-linked debt in its debt portfolio.

However, this impact on the Group's operating and finance costs is expected to be outweighed by the increase in Regulated Capital Value (RCV) driving future years revenues.

## **Green recovery**

Following Ofwat's approval in July for an additional £82 million investment to support the green economic recovery, delivery of our Green Recovery plans are now underway. These plans incorporate a number of pilot schemes to improve river quality and protect the environment and will help inform the long-term investment case for PR24 and beyond.

## **Net Zero 2030**

In July we launched our promise to the planet to achieve net zero carbon emissions by 2030 based on three pillars - sustainable living, championing renewables and reversing carbon emissions. We have identified renewable energy generation investment opportunities of c.£60 million over the period to 2030, in addition to c.£20 million associated with projects within the envelope of regulatory allowances. Funding for these commercially compelling opportunities will include consideration of reinvestment of totex outperformance.

## **Acquisition of Bristol Water**

Financial results for Bristol Water remain in line with management expectations and the CMA review is progressing as expected.

## **Recognising shareholder support**

In line with the package of shareholder returns announced in June 2021, a £1.5 billion special dividend was paid to shareholders in July. Following shareholder approval at the General Meeting in June, Pennon's share capital has now been consolidated on a 2 for 3 basis and authority was granted for the proposed share buy-back of up to c.£400 million.

The first phase of the share buy-back programme commenced on 23 July and concluded on 10 September 2021, with c.£60 million deployed. Further phases are expected to commence over the period to 30 September 2022.

The completion of the share buy-back is linked to Pennon's continued review of value creating opportunities in the UK water sector, where we believe there remains significant scope for consolidation.

## **Susan Davy, Group Chief Executive Officer said**

'Pennon Group is on track to deliver resilient financial performance in line with management expectations. At the same time we are delivering a step change in environmental performance, as we focus on our Green Recovery and Net Zero ambitions.

I'm delighted to be hosting our Capital Markets Day at our flagship water treatment works in Plymouth, a result of our pioneering spirit and a great example of how we are pushing boundaries for the long term benefit of customers and communities.'

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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 2021 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.