

27 September 2019

PENNON GROUP PLC

Trading Statement

Pennon, one of the UK's largest environmental infrastructure groups, is issuing the following update ahead of its results for the half year ended 30 September 2019, which will be announced on 26 November 2019.

Key highlights

- On track to meet management expectations for 2019/20
- Strong funding and liquidity position
- Viridor's ten operating Energy Recovery Facilities (ERFs) performing well, with Avonmouth, the final ERF in the current portfolio on track for commissioning during H2 2019/20 with operational ramp-up from 2020/21
- Joint venture with Grundon Waste Management Limited to build a new ERF in West Sussex
- Construction at Viridor's recently announced £65 million plastics reprocessing facility is underway. The plant is set to contribute to earnings from 2020/21 with c.85% of inputs and c.75% of offtake now contracted
- South West Water remains on track to deliver continued outperformance and enhanced Return on Regulated Equity (RORE) of c.11.8% for K6 (2015-2020) whilst focusing on the early implementation of the fast-track K7 (2020-25) Business Plan
- Reviewing strategic focus, growth options and capital allocation policy for the Group.

Viridor investing for growth

Construction at Avonmouth Energy Recovery Facility (ERF) continues to progress with the facility on track for commissioning during H2 2019/20 and operational ramp up expected from 2021. Viridor's portfolio of ten operating ERFs are performing well with optimisation and operational ramp-up for the Glasgow, Beddington and Dunbar ERFs commissioned in 2018/19 underway.

As outlined at our Capital Markets Day earlier in 2019, we remain confident in the UK residual waste sector fundamentals, with further capacity required to meet longer term demand. We continue to develop options for up to three new ERFs, and as a first step towards one of the three new ERFs we have now signed Heads of Terms with Grundon Waste Management Limited for a new joint venture in Ford, West Sussex. A site with outline planning permission has been identified which is neighbouring one of our existing Materials Recycling Facilities and Grundon Waste Management Limited's waste transfer station, giving rise to potential Energy Park benefits.

We see plastics reprocessing as an exciting area of growth and see opportunities to increase our market share in this area. Viridor's £65 million plastics reprocessing facility, co-located with Avonmouth ERF, remains on track for contribution to earnings in 2020/21. Viridor has now secured c.85% of inputs and c.75% of offtake contracts, creating a viable and sustainable alternative to virgin plastic. We see strong market fundamentals in plastics recycling and reprocessing and we are exploring investment opportunities for two further reprocessing facilities co-located with our ERFs in Ardley, Oxfordshire and Dunbar, near Edinburgh.

South West Water delivering for customers and shareholders

South West Water continues to deliver strong operational and financial performance, with a focus on efficiency and improving customer service.

South West Water continues to deliver resilient operational performance with no water restrictions for the 23rd consecutive year. The exceptionally hot, dry summer last year resulted in higher

revenue which has not been repeated this year, and as a consequence revenue for H1 2019/20 has reduced to a more normal level compared with H1 2018/19, in line with revenue control expectations.

Cost saving momentum is being maintained, leading to ongoing Total Expenditure (Totex) outperformance remaining on target to deliver c.£300 million savings for K6.

We continue to deliver sector-leading Return on Regulated Equity (RORE) performance, remaining on track for continued outperformance for 2019/20, estimated at c.11.8% for K6.

Aligned with the 2019 Price Review process, South West Water has made representations to Ofwat following both the fast-track and slow-track Draft Determinations. Having secured fast-track status South West Water is comparatively well placed for K7. In opting into the Early Certainty Principle in January 2019, protection has been provided in a number of areas, including Outcome Delivery Incentive (ODI) performance commitments.

Strong operational and financial delivery continues to underpin an early start to the delivery of South West Water's K7 Business Plan, ensuring we are well placed to deliver outstanding services to customers through 2020-2025.

Brexit

The Group continues to actively monitor and evaluate the potential risks and opportunities arising from any potential Brexit scenario and has plans in place to mitigate key risk areas.

Outlook

Given the strong financial performance and operational progress of Viridor and South West Water, coupled with the imminent start of the new K7 regulatory delivery period for South West Water and the near and medium-term growth opportunities at Viridor, the Pennon Board has concluded that it is an appropriate time to conduct a full review of the strategic focus, growth options and capital allocation policy for the Group.

Pennon Half Year Results – 26 November 2019

Pennon intends to announce its half year results for 2019/20 on Tuesday 26 November 2019. Further information on Pennon, Viridor and South West Water can be found on the Group's website, 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. The Group's principal risks were described in the 2019 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.