

26 September 2024

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

## PENNON GROUP PLC TRADING STATEMENT

Pennon Group announces the following trading update for the period to 26 September 2024, ahead of announcing the half-year results on 27 November 2024.

### Key highlights

- Clearance received from the CMA in June for our acquisition of Sutton and East Surrey (SES) Group; integration underway with 10% of efficiency target already secured.
- Draft determinations for South West Water and SES received in July; Ofwat recognition of the quality of the plans through an 'outstanding' status, with a 30% floor of RCV growth in K8 coupled with ability to accelerate £75m storm overflow capital expenditure in 2024/25.
- Putting in place the building blocks for K8
  - Reshaping and restructuring the business - transformational programme continues, with a target to achieve c.£86m savings into K8; non-underlying restructuring costs recognised of c.£16m in H1 2024/25
  - Capital expenditure in 2024/25 reflects transitional spend and targeted incident responses; c.£300m for H1 2024/25
  - Strong investment grade credit rating secured - launch of £2.5bn EMTN programme, with inaugural £400m public bond issuance.
- Operational progress
  - Cryptosporidium water quality incident in Devon resolved; non-underlying costs at c.£16m
  - Investment in water resource diversification continues with the completion of the abstraction and new water treatment works at Rialton, supporting the highest resource levels for Cornwall in 12 years
  - Progress being made on WaterFit storm overflow investment, with 71 schemes delivered and one of our best ever bathing beach performances
  - Pennon Power solar renewable investment progressing: Fife in construction and Aberdeenshire signed
  - Supporting customers with c.£110m customer benefit for K7, including innovative tariffs driving water efficiency and affordability.
- Financial results for H1 2024/25 reflect the inclusion of SES. On a like-for-like basis revenue is impacted by lower customer demand, following our 'Water is Precious' water efficiency campaigns. Operating costs are broadly flat with continuing elevated power costs offset by efficiency savings.
- Interest costs are broadly aligned with prior H1 2023/24 with gearing at 65% on a like-for-like basis.
- Total non-underlying costs of c.£32m recognised in the half year.

### Putting in place the building blocks for K8

We continue to drive our previously announced integration and operational transformation programmes. Our integration plans for SES and Bristol are on track, with phase 1 of SES securing 10% of the identified savings, and Bristol entering the final phase and on track to deliver the £20m per annum efficiency savings previously targeted for 2024/25. As part of our transformation programme across operations, procurement, and customer services, we are progressing our group wide restructuring which will support efficient delivery in K8.

Following establishment of our capital delivery alliance 'amplify' in 2023 we confirmed our extended supply chain partners in June, and the alliance has already mobilised to deliver the accelerated £75m of capital expenditure to kick-start our AMP 8 storm overflow programme targeted at 23 beaches, building on our existing WaterFit investments.

### Operational delivery

The cryptosporidium water quality event in Brixham this summer was an incredibly rare event for South West Water and we worked swiftly and diligently to identify the issue, clean the network, and restore full supply to all customers. With support from our colleagues and contractors working 24 hours a day, we delivered a number of interventions including cleaning and flushing the network 27 times, replacing sections of the 30km network, 'ice pigging', and the installation of localised crypto filters and ultra-violet treatment plants on the network.

We continue to deliver on our water resilience programme with Blackpool pit in full operation and our new water abstraction and treatment works at Rialton completed in September which will bring total supplemented capacity to 34% for Cornwall - up from 30%. This has improved our water resources position with storage in Cornwall at the highest level in 12 years.

We have continued to see high rainfall with the third wettest October to August since records began with groundwater levels remaining exceptionally high. As a result there has been an increase in the headline number of storm overflow spills, however our interventions have removed two thirds of our highest spillers from 2023. With our commitment to focus on beach interventions, we have seen a reduction in storm overflow spills during the bathing season, with average spills at one of our lowest levels since 2016.

As previously highlighted, we are targeting a 2 Star EPA rating for 2024. The continued higher than normal rainfall and water table levels in 2024 has impacted the headline number of pollution incidents, alongside the performance of a small number of treatment works. We continue to invest in our infrastructure and to make targeted operational interventions to protect the environment.

Supporting our customers remains one of our four priorities alongside tackling storm overflows, ensuring water resources and water quality, and driving environmental gains, with over 140,000 customers benefiting from our affordability initiatives with a 35% increase in customers on our social tariffs. In addition to our 'Water is Precious' discounted tariffs, we are trialling other innovative schemes targeted to reduce consumption.

### Non-underlying items

Non-underlying costs recognised for half year 2024/25 are:

- c.£16m related to the Brixham water quality incident which includes enhanced customer compensation, provision of bottled water over an 8-week period and extensive interventions to clean and filter the network.
- c.£16m of restructuring costs to support our transformational programmes to reshape the business.

## Financial outlook 2024/25

Looking forward to the full year 2024/25, the outlook for South West Water sees a continuation of lower customer demand, offsetting tariff increases and new customer numbers. Despite continued elevated power costs and the costs of the new digital customer services platform, operating costs in the second half of the year are expected to be lower, benefitting from targeted efficiency savings.

We anticipate Group capital expenditure for the full year to continue at the H1 2024/25 run rate. This reflects early works in preparation for AMP8, including £75m accelerated investment in storm overflows agreed with Ofwat, as well as investment in response to operational incidents such as Exmouth and Brixham, Pennon Power development costs and the full year impact of SES investment.

As previously indicated, financing costs in absolute terms have increased reflective of our accelerated investment programme and the inclusion of SES. Our effective interest rate for the Group is lower than last year on a like-for-like basis.

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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 2024 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.

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