

Pennon Group plc 2021 AGM – Summary of Q&A

Simon Pugsley, Pennon's General Counsel and Company Secretary, read out the pre-submitted questions, before addressing questions submitted both in the room and remotely during the meeting. The questions are listed, followed by the response. Where a number of questions regarding Combined Sewer Overflows ("CSOs") and pollution were asked, these have been grouped and answered collectively. Pennon's CEO, Susan Davy, provided responses to the questions, some of which are taken from the transcript.

Questions and responses

A number of questions were asked about CSO's and pollution specifically:

1) Hi, I am a keen and regular surfer and a member of Surfers Against Sewage and as a shareholder I would like to ask what plans do SWW have for monitoring the impact of CSOs on human and environmental health?

2) I am amazed at all the self-congratulatory words that I have just heard. Pollution of our sea and rivers is at an all-time high and SW Water has a worse score of 2.06 on pollution than last year of 3.64. Raw sewage is discharged hundreds of times a year and very few rivers are safe to swim in. You call this permissible discharge. It is disgusting and should stop now. Beaches are not much better. Back beach at Lyme Regis is regularly polluted by the river next to it so the pollution measurement has stopped. Not cleaner just not monitored. When will there be real improvement to pollution and sewage discharge vis real targets in real time? The figures are going the other way currently. You are a monopoly provided. We as customers have no choice but to pay your bills and no way of holding your huge company to account. You have given a huge dividend to shareholders but are spending much less on pollution. When will things change?

3) I am a relatively new Shareholder and live in Devon next to the river Avon. My children and the wider community regularly bathe in the river during periods of hot weather in order to cool themselves down, particularly during this latest period of extreme heat (weather incidents which are likely to become more regular due to the process of global heating). It is my belief that it is our children's right to live in a world where they do not have to take health risks in order to bath in the rivers surrounding their homes - for some children these are affordable ways of learning how to swim. Does the company know which inland waters in the area managed by South West Water are designated bathing waters? And for those which are not can the company explain what commitments and investment they are making to ensure that all the rivers and waters in the region accessible to the public become officially bathing waters within a reasonable timescale and how they will hold themselves accountable?

4) I am a WaterShare+ shareholder and I would like to put the following questions to the Board. I also do a variety of watersports on the rivers and the sea around where I live in Plymouth, and the sewage pollution is a noticeable issue in the area. What are the plans for South West Water to invest in infrastructure to reduce the amount of sewage discharge into rivers and the sea? What are South West Water's plans to improve on its

environmental performance? I was shocked to learn that SWW was recently given a 2-star rating by the Environment Agency and have consistently failed to meet the target for environmental pollution for the last 10 years. I would like this question to be answered at the AGM please.

5) CSOs are legally only permitted to be used in 'extreme weather' can you really say CSO's are only used in these conditions?

6) How many discharges were there last year?

7) The sea and river water quality in the south west is very poor and is declining according to your annual report yet you give about £250m to your shareholders. Why? Water is a public asset and it should be managed for the people who use it not for shareholders. You are a monopoly and we have no choice but to use your service. What are your targets for improvement? Will you publish all the questions that are asked at your AGM with answers?

8) In the week of 12 July, at the height of the holiday season, the lifeguards had to put up the red flags and advise against swimming at Bournemouth beach due to a SW Water sewage discharge. Our customers do not just pay for wastewater to be removed, they pay for it to be treated. What future investment in infrastructure is scheduled to deal with these, and many other unacceptable, breaches of obligations to customers and the wider community?

9) When will the Pennon Group plc stop regularly discharging raw sewerage into our water ways and what are your plans to achieve this. (These plans need to be immediate); so that ecological standards are improved, to the great benefit of wildlife and people?

In response to a number of questions on CSOs and pollution: We have had a few questions specifically in respect of the use of sewer overflows and their impact on the environment and more generally about pollution incidents, and our overall pollutions performance.

I wanted to talk about both of these important topics, starting first with sewer overflows.

We have a network of pipes which are there to take sewage from homes and businesses, transfer it to treatment works to make sure it is treated before it is discharged through our networks back into the environment.

Across the UK our sewerage system was developed over many years, to take not just sewage but also rainwater from roads and fields. In periods of intense and heavy rain, the sewers can become overloaded and so to avoid sewage backing up into your homes and businesses we have a safety release mechanism – or overflow – to make sure we don't flood bathrooms and businesses. There are the combined sewer overflows – or CSOs.

These CSOs are licensed and approved by the Environment Agency and are seen as doing a necessary and very important job – protecting homes, roads and businesses from sewage flooding – that was the no 1 priority. The excess diluted stormwater is permitted to discharge to rivers, estuaries and the sea.

As rainfall has become more severe due to climate change, with more people, more buildings, highways, agricultural & industrial practices, our sewers and water pipes are being used to capacity – resulting in an increasing frequency of the use of overflows. This shouldn't be confused with an increase in the pollution of the environment. Any overflow was also carefully designed to limit the resulting impact on the environment.

I do want to reassure you though - If you look at the EA's independent assessment of our river quality in the SW – less than 1% of it is directly attributable to the release of storm overflows.

Our beaches are also some of the best in Europe – with over 98% meeting tough bathing water quality standards, and over 85% being rated as excellent.

However, it's clear that customer and societal expectations of storm overflows are changing, and at a pace and level never seen before.

In part, that's because the pandemic has also helped to open all our eyes, to what's going on around us – as more people spend time outside, exploring new pursuits and healthier habits. Equally we're all learning to appreciate more about how the decisions we make today will impact the environment tomorrow.

Replacing thousands of kilometres of pipes and sewers across our region to eradicate the need for storm overflows would be cost prohibitive for customers and water companies. It would take far too long and in itself risk causing more environmental harm.

That's not to say that we shouldn't invest and it certainly is a priority for us – but we need to do things differently if we want to make a difference.

We need to monitor and investigate issues, considering the potential environmental impacts to make sure we get the right investment into the right places.

Since privatisation, we have spent over £2bn transforming sewage infrastructure and storage across our regions. That's the equivalent of 86 Olympic-sized swimming pools of extra storm water storage.

Our current plans will see us spending another £80 million across the region and recently we have had approval to pilot approaches to achieve river bathing water quality on stretches of the Dart and the Tavy.

Over 60% of known water quality issues are as a direct consequence of current agricultural and rural land management, and mining / quarrying – all important industries that support livelihoods in our region.

How we work together to improve things will be important. Our work in catchments with landowners and users will also improve overall water quality in our region.

So – aside from investigating and investing what more can we do?

It's clear however that there also needs to be "another way" and better data is at the heart of the solution and our strategy.

The data that our customers and the public now get - whether through Beach Live, or SAS's Safer Seas app comes voluntarily from SWW in addition to our own reporting. With our lengthy coastline, we are providing notifications more and more regularly – and that's really important.

In fact, we want to go further and produce more. Currently there are monitors on approx. 70% of our overflows, and we plan to increase this to 100% by 2023 as part of our Green Recovery plans. We are also extending our beach live reporting all year round – not just across the bathing season.

As we get more data and better data – we can all make more informed choices.

Moving on to the second area I wanted to talk about was pollutions – and that is separate from storm overflows.

There are times when things do go wrong across our network, and it does negatively impact the environment.

When that happens, we are fined or have penalties to pay. So let's look at our pollution performance and what we are doing about it.

In terms of impact on the environment we have had none of the most serious category 1 pollution incidents, but we are disappointed with aspects of our performance that do impact the environment and cause pollution and in the year to December 2020 we had a total of 225 "other pollution incidents."

These incidents can occur across our asset base and there are a number of reasons for them occurring – operational – power loss / sewer blockages / pump failures.

We take our guardianship of the environment very seriously and we want to do more.

That's why we have put in place a pollution incident reduction plan to tackle the absolute number of events – and I'm pleased to say that so far in the 6 months of 2021 we have more than halved the number of incidents compared to last year – 60% lower.

We have focused on:

- delivering on our deployment of monitors and controls systems
- analysis of any issues and undertaking root cause analysis
- holding daily pollution meetings which I chair to ensure our plans are on track
- Engaging with customers and the visitors to our region to think a little differently about what goes into the sewerage system

- focusing on an identified 'hot spot' programme – with 210 investments identified and on track to be completed by March 2022.

With the progress we have seen in this current year, we are confident in our plans to move from a 2 star company to a 4 star company over the next couple of years

I hope this has helped to address some of the points raised by shareholders here today and those listening.

10) As a Teignmouth sea swimmer, resident and landlord I wish to comment on the disgusting state of our river and sea water recently, (NB we are supposed to have blue flag status) and ask that SWW urgently addresses the thoughtless use of CSOs around Teignmouth and the River Teign and indeed, their existence in the first place.

Many of the beaches in and around Teignmouth meet the excellent standard for bathing water (6 out of the 7). This assessment is carried out independently by the Environment Agency routinely during the bathing season so users can and should feel confident in the water quality in your area. The last published Bathing Water data for Teignmouth, Holcombe and Shaldon in 2019 classifies all three bathing waters as Excellent.

Blue flag status is granted when other facilities are provided alongside the Excellent status. These other facilities are associated with the beach manager not South West Water.

Discharges at key overflows are within design standards.

Our EDM performance data for the storm overflows in Teignmouth, Newton Abbot and Kingsteignton show that the majority of these CSOs operate with a low frequency of operation.

There are a couple we are investigating – specifically at Lemon Road and Homers Lane – which we expect to complete by March 2022. Once our investigations are complete, we will prioritise any change required.

11) In response to the AGM Notice and invitation to submit questions, I would like the Board to answer the following: Last year the Guardian Newspaper revealed that in 2019 South West Water was responsible for 7,850 incidents of untreated sewage release into the region's rivers and in 2020, 36,150 hours' worth of raw sewage release. Can the Board take this opportunity to go on record and to tell the people of the South West when the Company intends to clean up its act and prioritise the region's river ecosystems over company profits by putting an end to the irresponsible and disgusting practice of raw sewage release?

Thank you for your question regarding the region's river ecosystems and the impact caused by stormwater overflow discharges.

Since becoming Chief Executive in August 2020, I have made the environment a strategic priority for the business. My goal is to improve river and coastal quality, seeing it as part of our unique role supporting the lives of people and the places they love for generations to come.

We are committed to protecting rivers and the sea from pollution. This has included extensive upgrades to wastewater treatment works and removing the raw sewage discharges that used to go into the sea around the South West coast.

In the past five years we have met our regulatory obligations on river water quality within the National Environment Programme, resulting in improvements to 659km of rivers. To safeguard water quality, we aim to ensure the wastewater that we return to the environment is treated to the required standards.

It is important to distinguish between storm overflows (used to manage high rainfall flows) and pollution events (where something has gone wrong). Improving pollutions performance and reducing the numbers of pollutions month on month remains the highest priority for our business.

What are stormwater overflows? - During heavy rain, stormwater overflows act as legal safety valves to prevent homes, roads and businesses being flooded with sewage. Under these conditions, of high rainfall and excess stormwater, overflow discharges can occur to rivers, estuaries and the sea. Correctly operating storm overflows should not have an adverse impact on the environment. We have rectified any that were causing problems, by providing additional storage or reducing storm flow that reaches the sewers.

Moving forward, we have had approval for acceleration plans to our Green Recovery Initiative from the water regulator Ofwat, to reduce storm overflows. For more information see www.southwestwater.co.uk/greenrecovery

There is also a useful document on our website that explains further why we have storm overflows and sets out our plans for the future. It is called Event and Duration Monitoring 2020 and you can find it at www.southwestwater.co.uk/waterfuture/business-plan-2020-2025/

Among other things, those plans include £3.5m of investment to investigate improvements on inland discharges to rivers and streams; reducing sewer flooding risk and storm overflow discharges through sustainable drainage schemes and wider landscape management; and enhanced performance monitoring to review overflow event numbers and to quickly identify potential issues.

Unfortunately, there is no obvious alternative to storm overflows without huge infrastructure investment and disruption to remove rainwater from the combined sewer system – which would likely require a significant increase in bills along with disruption caused by the dig up of large sewers mainly located under roads.

However, considering the changing climate and increased rainfall, we are pursuing catchment level solutions to keep clean rainwater out of the combined sewer system and minimise the need for stormwater overflows to operate.

12) My question is about Resolution 1: considering the number of sewage spills on Cornish beaches so far this year, why are you paying a dividend to shareholders instead of investing the money to improve infrastructure? £1.5bn could go a long way in supporting upgrades to a system that clearly struggles.

In terms of the investment since privatisation, we've invested over £7 billion into improving the infrastructure of the region that we serve. It is important that we retain those investors, as we know we've got more to invest in the future. And I've talked about some of the plans we've got for further investment in this area, and therefore we obviously need to make sure that there is a due return given to the financing bodies, through the shareholders' equity that's been invested. Now just to give some reassurance to those shareholders that are listening, our plans for our water business investment and how that is financed, and indeed, how recognised shareholders are, is all reviewed and considered by our water regulator Ofwat, as part of any review that we go through. And they obviously sign off on the positioning that we take for returns to shareholders. And our policy that we have for dividends is developed to ensure that we make sure we still have a strong balance sheet and robust financing in place to ensure we can continue to invest.

13) Please put the following questions to the board re the latest Annual Report:

- a) p28 what is meant by "water use within our operations"? Is this source to and including customers?**

This comment in Pennon's Annual Report relates to water usage in South West Water on our treatment works - both water and wastewater sites which includes, for example flushing and cleaning of equipment and pipes. In addition, we consume water within our network operation. This comment in Pennon's Annual Report does not relate to customer usage.

- b) p51/52 fails to state the facts. What is the water loss (inc leakage) between source and customer (not including customer) stated as: % total delivery to customers or leakage l/km and what are the targets (which have been missed according to the report.)**

Ofwat now measure our leakage on a 3-year rolling average based on mega litres per day. This reflects all leakage including leaks attributable to customer-owned pipework (which accounts for around a third of leakage). Based on a 3-year rolling average our leakage increased 2.1% in 2020/21 to 126.8ML/day (compared to 124.2ML/day in 2019/20 and a target of 120.5 ML/day). Further detailed information on South West Water's operational performance can be found on our website and included in our annual performance report which was published on 15 July. This can be found at:

<https://www.southwestwater.co.uk/siteassets/document-repository/annual-reports/sww-2020-21-apr.pdf>

- c) The Board is top-heavy in accountants. How is the operations/engineering perspective represented at this level?**

The Pennon Board performs an annual effectiveness review as outlined on page 105 of the Annual Report and accounts. The outcome of this year's review concluded that "The Board, its Committees and individual Directors continue to demonstrate a high degree of effectiveness and collaboration and that the Board had a good understanding for growth and risks facing the business". The two Executive Directors are qualified chartered accountants but have extensive experience in the Water Industry and the South West Water

business specifically. They are supported by an experienced executive management team within South West Water and Pennon Water Services providing an appropriate mix of requisite operational and engineering experience.

14) Are any of your executive salaries linked to targets for improvements?

Yes, they are. In respect of executive remuneration for 2020/21, payments were not made for performance in this area because it was not where we needed to be.

15) What is your response to the latest Environmental Performance assessment which gave South West Water a rank of 2 stars for Environmental Performance and criticized South West Water for underperforming on pollution targets for the 10th year in a row?

We were two-star given the pollution events in the year to December 2020, whilst based on our performance for the period so far in 2021 we have had half the pollutions.

So, we are absolutely focused on becoming a four-star company, but that will take some time, but we are really clear that we need to improve our pollution performance and are focused on doing that.

I think we've touched on the fact that we are not happy with where we are in terms of pollution performance. We are obviously on track to improve in that area, but just again, to reiterate in terms of storm overflows we know what the public can obviously see and the acceptance of the use of those going forward is something we all need to consider, but just to try and reassure shareholders again and customers, that those storm overflows and the way they operate has been carefully designed to limit any impact on the environment.

So that is different to actual pollutions that occur. But I do take the points on board and as a company, we are focused on improving our performance around pollution.

16) I used for many years to be the public analyst for Devon, Cornwall, and the Isles of Scilly. Many of the complaints that have been made by way of the questions are asked, relate to what are stated to be regular incidents. I believe it is important that the nature of the incidents is described as infrequent. It is when they become frequent, that there is a major problem. If they are not regular, but infrequent that I think it is important to emphasise that because otherwise people will increasingly believe that every Monday morning at 10 o'clock something untoward is going to appear discharging from a sewer into a beach. That is not what happens. I wonder if perhaps Ms. Davy can confirm that it is important to emphasise that these events are infrequent, and this is when they become frequent or increasingly frequent. That major action is taken by Pennon. Thank you.

In terms of the use of storm overflows, as the name suggests, it is infrequent use, given the nature of what they're designed to do. However, when there is frequent use of those, that's when we investigate to understand what is happening and the impact that is being had on the environment and where we need to invest to change things, and that's what we're on track with.

End