



This document is important and requires your immediate attention. If you are in any doubt about the action you should take, you should immediately consult your stockbroker, solicitor, accountant, or other independent professional adviser who is authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your ordinary shares please send this document as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

Annual General Meeting 2019

The thirtieth Annual General Meeting (AGM) of Pennon Group plc will be held at:

**Sandy Park Conference Centre
Sandy Park Way, Exeter
Devon EX2 7NN**

on Thursday 25 July 2019 at 2.30pm.

How to get to the Pennon Group plc AGM at Sandy Park Conference Centre, adjacent to Sandy Park Stadium, Sandy Park Way, Exeter, Devon EX2 7NN:

By road:

From junction 30 on the M5 take the A379 for Exeter and Dawlish. Sandy Park is the first exit left off the dual carriageway. Free parking will be available.

By rail:

The nearest rail station is Digby and Sowton, which is a 10-minute walk from the venue.

The nearest mainline station is Exeter St David's, which is five miles from the venue. Direct trains from Exeter St David's to Digby and Sowton run every 30 minutes, with a journey time of approximately 10 minutes.

By bus:

The No. 9/9A bus service from Exeter bus station to Sidmouth stops at Sowton Park & Ride, which is a short walk away from the venue.



Dear Shareholder



Annual General Meeting 2019

Please find attached to this letter the Notice of our 2019 AGM, together with notes explaining the business of the meeting. The AGM will be held on Thursday 25 July 2019, starting at 2.30pm at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN. Details of how to reach this venue are set out on the opposite page.

If you are unable to attend the AGM, please register your vote with us electronically via www.signalshares.com. Registering your vote electronically is entirely secure and ensures the privacy of your personal information. Alternatively, please complete and return your proxy form by post. More details can be found in the notes on page 6. The deadline for the receipt by our registrar, Link Asset Services, of all proxy appointments is 2.30pm on 23 July 2019.

As set out in the Notice of AGM, we will be asking shareholders to approve a number of standard resolutions that UK listed companies typically propose annually, including resolutions to elect and re-elect our Directors, details of whose skills, experience and contribution can be found on pages 12 and 13.

This year we are also seeking shareholder approval for the introduction of our WaterShare+ share scheme. As you are no doubt aware, WaterShare has been central to our engagement with South West Water customers since 2015, giving reassurance about the transparency and openness of our business, with our performance being reported to customers through the WaterShare scorecard and framework.

In our 2020-25 business plan we evolved our pioneering WaterShare mechanism, creating WaterShare+, a scheme that offers customers the opportunity to share in South West Water's regulatory outperformance in the form of Pennon Group plc shares, along with an alternative option of cash rebate or bill reduction. The Board believes that this is a positive step for the Company as the interests of customers and shareholders will be more aligned. The purpose of our business model

is to create value for all our stakeholders and WaterShare+ is an innovative way through which our customers can participate in our success.

In order to implement the WaterShare+ scheme, we need to amend the Company's Articles of Association, to create the rights to be attached to a new share, which we have called the 'WaterShare+ Share', via a special resolution and then pass an ordinary resolution to allow the Directors to issue the WaterShare+ Share. The Company will then pay a dividend on the WaterShare+ Share (subject to shareholder approval at the 2020 AGM authorising the Directors to do so) enabling the acquisition of ordinary shares of the Company in the market, which will be held on behalf of participating customers. Further details of the individual resolutions are contained in the explanatory notes on pages 10 and 11. Further details of the WaterShare+ scheme are contained in the appendix to the explanatory notes, and also in an investor summary, which can be found at www.pennon-group.co.uk/investor-information.

Recommendation

Your Directors consider that all the proposals to be considered at the AGM are in the best interests of the Company and its shareholders as a whole and recommend shareholders vote in favour of the resolutions, as they intend to do in respect of their own shareholdings.

Questions

If you would like to ask a question of the Board at the AGM, you are welcome to send it to us in advance. Please email our investor relations team at IR@pennon-group.co.uk.

Electronic communications

The Company's policy is to provide all shareholder documents electronically whenever possible. As a consequence, you will receive copies of the annual report and certain other shareholder communications by post only if you have specifically opted to do so or if you became a shareholder on the register after 29 April 2016.

For those of you who have not requested to receive shareholder communications by post you can now view a copy of the Company's annual report on the Company's website www.pennon-group.co.uk/investor-information.

Using our website allows us to offer you greater choice on how you receive your shareholder communications. Electronic communications are not only secure, but they are also quicker, more cost effective, and are in line with the Company's sustainability objectives as less resources are required compared with traditional printing and distribution methods.

If you previously elected to receive a printed copy of the annual report, this is enclosed. If you have not elected to receive a printed copy and now wish to receive one, please contact Link Asset Services by telephoning 0371 664 9234 (lines are open 8.30am to 5.30pm Monday to Friday excluding public holidays in England and Wales) or +44 371 664 9234 (from outside the UK) and quoting your Investor Code which can be found on your share certificate or dividend confirmation.

If you have not already done so and now wish to sign up to receive future shareholder communications electronically, you can do so via the share portal service provided by our registrar. To register simply go to www.signalshares.com and select 'Account Registration' and then follow the on-screen instructions by inputting your surname and your Investor Code. You will also need to input your postcode and your email address.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sir John Parker'.

Sir John Parker
Chairman
Pennon Group plc

17 June 2019

Notice of Annual General Meeting 2019

Notice is hereby given that the thirtieth AGM of Pennon Group plc will be held at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN on Thursday 25 July 2019 at 2.30pm for the transaction of the following business.

The following resolutions will be proposed as ordinary resolutions:

Reports and accounts

Resolution 1

That the annual accounts and reports for the year ended 31 March 2019 be received and adopted.

Dividend

Resolution 2

That a final dividend of 28.22 pence per ordinary share recommended by the Directors for the financial year ended 31 March 2019 be declared for payment on 3 September 2019.

Directors' remuneration report

Resolution 3

That the Directors' remuneration report for the financial year ended 31 March 2019, as set out on pages 92 to 105 of the Company's annual report 2019 be approved.

Directors

Resolution 4

To re-elect Sir John Parker as a Director.

 [Read biography on page 12](#)

Resolution 5

To re-elect Neil Cooper as a Director.

 [Read biography on page 13](#)

Resolution 6

To re-elect Susan Davy as a Director.

 [Read biography on page 12](#)

Resolution 7

To elect Iain Evans as a Director.

 [Read biography on page 13](#)

Resolution 8

To re-elect Christopher Loughlin as a Director.

 [Read biography on page 12](#)

Resolution 9

To re-elect Gill Rider as a Director.

 [Read biography on page 13](#)

Reappointment of auditor

Resolution 10

That Ernst & Young LLP be reappointed auditor of the Company to hold office until the conclusion of the next AGM at which accounts are laid before the Company.

Auditor's remuneration

Resolution 11

That the Audit Committee be authorised to determine the remuneration of the auditor on behalf of the Board.

Political donations

Resolution 12

That in accordance with Section 366 of the Companies Act 2006 the Company, and all companies that are subsidiaries of the Company at any time during the period for which the resolution has effect, be generally and unconditionally authorised to:

- (a) make political donations to political parties and/or independent election candidates not exceeding £75,000 in total;
- (b) make political donations to political organisations other than political parties not exceeding £75,000 in total; and
- (c) incur political expenditure not exceeding £75,000 in total,

during the period from the date of this resolution to the date of the next AGM of the Company in 2020, or if earlier at the close of business on 1 October 2020, provided that the aggregate amount of any such donations and expenditure shall not exceed £75,000 and that for the purpose of this resolution the terms 'political donations', 'political parties', 'independent election candidates', 'political organisations' and 'political expenditure' have the meanings set out in Sections 363 to 365 of the Companies Act 2006.

Authority to allot shares

Resolution 13

That:

- (a) the Directors be generally and unconditionally authorised, in accordance with Section 551 of the Companies Act 2006, to exercise all powers of the Company to allot shares in the Company and grant rights to subscribe for, or convert any security into, shares in the Company:
 - (i) up to a maximum nominal amount of £57,049,557 (such amount to be reduced by the nominal amount of any equity securities (as defined in Section 560 of the Companies Act 2006) allotted under paragraph (ii) below in excess of £57,049,557); and
 - (ii) comprising equity securities (as defined in Section 560 of the Companies Act 2006) up to a maximum nominal amount of £114,099,113 (such amount to be reduced by any shares allotted or rights granted under paragraph (i) above) in connection with an offer by way of a rights issue:
 - (A) to holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and

- (B) to holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;

and so that the Directors may make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter;

- (b) this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2020;
- (c) the Company may, before this authority expires, make an offer or enter into an agreement which would or might require shares to be allotted or rights to be granted after it expires and the Directors may allot shares or grant rights in pursuance of such offer or agreement as if this authority had not expired;
- (d) this authority is in addition to any authority granted by Resolution 19 (Issue of WaterShare+ Share); and
- (e) all previous unutilised authorities under Section 551 of the Companies Act 2006 shall cease to have effect (save to the extent that the same are exercisable pursuant to Section 551(7) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted or rights to be granted on or after that date).

The following resolutions will be proposed as special resolutions:

General authority to disapply pre-emption rights

Resolution 14

That:

- (a) the Directors be given power:
 - (i) subject to the passing of Resolution 13 above, to allot equity securities (as defined in Section 560 of the Companies Act 2006) for cash pursuant to the authority conferred on them by that resolution under Section 551 of that Act; and
 - (ii) to allot equity securities as defined in Section 560(3) of that Act (sale of treasury shares) for cash,

in either case as if Section 561 of that Act did not apply to the allotment or sale, but this power shall be limited:

- (A) to the allotment of equity securities in connection with an offer or issue of equity securities (but in the case of the authority granted under Resolution 13(a)(ii), by way of a rights issue only) to or in favour of:
 - (I) holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and
 - (II) holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;

and so that the Directors may make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter; and
- (B) to the allotment of equity securities pursuant to the authority granted under Resolution 13(a)(i) and/or by virtue of Section 560(3) of the Companies Act 2006 (in each case otherwise than under paragraph (A) above) up to a maximum nominal amount of £8,557,433;

- (b) this power shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2020; and
- (c) the Company may, before this power expires, make an offer or enter into an agreement, which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

Authority to disapply pre-emption rights in connection with an acquisition or specified capital investment

Resolution 15

That:

- (a) the Directors, in addition to any authority granted under Resolution 14 above, be given power:
 - (i) subject to the passing of Resolution 13, to allot equity securities (as defined in Section 560 of the Companies Act 2006) for cash pursuant to the authority conferred on them by that resolution under Section 551 of that Act; and
 - (ii) to allot equity securities as defined in Section 560(3) of that Act (sale of treasury shares) for cash, in either case as if Section 561 of that Act did not apply to the allotment or sale, but this power shall be:
 - (A) limited to the allotment of equity securities up to a maximum nominal amount of £8,557,433; and
 - (B) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice;
- (b) this power shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2020; and
- (c) the Company may, before this power expires, make an offer or enter into an agreement, which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.



Notice of Annual General Meeting 2019

continued

Authority to purchase own shares

Resolution 16

That in accordance with the Companies Act 2006, the Company is generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of ordinary shares of 40.7p each in the capital of the Company on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:

- (a) the maximum number of ordinary shares that may be purchased under this authority is 42,051,270 (being no more than 10% of the issued share capital exclusive of treasury shares of the Company as at 17 June 2019);
- (b) the minimum price which may be paid for each ordinary share is 40.7p (exclusive of expenses payable by the Company in connection with the purchase);
- (c) the maximum price which may be paid for each ordinary share purchased under this authority (exclusive of expenses payable by the Company in connection with the purchase) shall not be more than the higher of (i) an amount equal to 105% of the average of the middle market quotations for such ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased; and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System;
- (d) this authority will, unless previously varied, revoked or renewed, expire at the conclusion of the next AGM of the Company or, if earlier, on 1 October 2020, but the Company may make a contract or contracts to purchase ordinary shares under this authority before its expiry which will or may be executed wholly or partly after the expiry of this authority and may make purchases of ordinary shares pursuant to any such contract; and
- (e) all existing authorities for the Company to make market purchases of ordinary shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

Notice of general meetings

Resolution 17

That a general meeting, other than an AGM, may be called on not less than 14 clear days' notice.

WaterShare+ business

Amendment to Articles of Association

The following resolution will be proposed as a special resolution:

Resolution 18

That the Articles of Association of the Company be and are hereby amended by the insertion of the following as a new Article 5A after existing Article 5:

"5A. Rights and restrictions attached to the WaterShare+ Share

Notwithstanding the provisions in these articles which relate to shares, the following paragraphs (1) to (6) comprise all the rights and restrictions relating to the non-cumulative redeemable preference share of 1 penny nominal value in the capital of the Company (the **WaterShare+ Share**).

(1) Income

- (a) Out of the profits available for distribution, the WaterShare+ Share will carry a right to:
 - (i) a single dividend of up to £25 million in priority to any payment to the holders of ordinary shares and in priority to or *pari passu* with the holders of any other class of preference shares (if any), for the sole purpose of the holder (or its Affiliate) acquiring existing ordinary shares in the capital of the Company at market value through the London Stock Exchange and holding such ordinary shares (or procuring that such ordinary shares are held by its Affiliate) as nominee on behalf of such eligible customers of South West Water Limited (**SWW**), a wholly-owned subsidiary of the Company, who elect to receive ordinary shares in the capital of the Company pursuant to SWW's WaterShare+ scheme (as described on page 70 of the Company's annual report and accounts for the year ended 31 March 2019) as well as covering the costs of the holder of the WaterShare+ Share and its Affiliates in setting up the WaterShare+ scheme and acquiring the ordinary shares

on behalf of eligible customers; provided that such dividend will be subject to the board being further authorised by the members of the Company (by way of a special resolution) to resolve to pay such dividend, up to the limit (not exceeding £25 million) specified in such special resolution; and

- (ii) subject to the board being authorised by the members of the Company (by way of a special resolution) to resolve to pay the dividend in (i) above, a non-cumulative dividend of up to £1 million (with the final amount, up to such specified limit, being determined by the board in each year) payable in the calendar year following the year in which the WaterShare+ Share is issued and in each calendar year thereafter in priority to any payment to the holders of ordinary shares and in priority to or *pari passu* with the holders of any other class of preference shares, for the purpose of covering the costs of the holder of the WaterShare+ Share and its Affiliates in operating the WaterShare+ scheme pursuant to the corporate sponsored nominee service agreement between the Company and the holder of the WaterShare+ Share, and/or its Affiliate, including dealing costs and the costs of the services to be provided by the holder of the WaterShare+ Share and its Affiliates.
 - (iii) For the purposes of the above, **Affiliate** means any subsidiary or holding company of the holder of the WaterShare+ Share, and any subsidiary of a holding company of the holder, with the terms **subsidiary** and **holding company** having the meanings given to such terms in section 1159 of the Companies Act 2006.
- (b) The holder of the WaterShare+ Share shall not be entitled to any further right of participation in the profits of the Company, other than as set out in paragraph (a) above.

(c) In the absence of fraud or wilful default, neither the Company nor any of its directors, officers or employees shall have any liability to any person for any loss or damage arising as a result of the timing or amount of the payment of any dividend on the WaterShare+ Share.

(2) Capital

On a return of capital on a winding-up (excluding any intra-group reorganisation on a solvent basis) there shall be paid to the holder of the WaterShare+ Share the nominal value paid up or credited as paid up on the WaterShare+ Share in priority to any payment to the holders of ordinary shares of the nominal capital paid up or credited as paid up on the ordinary shares held by them respectively.

The holder of the WaterShare+ Share shall not be entitled to any further right of participation in the assets of the Company.

(3) Redemption

Subject to the Statutes and to the provisions of these articles, the Company may, at any time, without prior written notice, redeem the WaterShare+ Share for a sum equal to the nominal value paid up or credited as paid up on the WaterShare+ Share. The WaterShare+ Share shall, upon redemption, immediately and automatically be cancelled and the Company shall not be entitled to reissue it. The method of payment in respect of the redemption of the WaterShare+ Share shall be determined by the board.

(4) Attendance and voting at general meetings

The WaterShare+ Share shall not carry any right to receive notice of any general meeting of the Company or to attend, speak or vote at any such meeting.

(5) Form and transferability

The WaterShare+ Share shall not be listed or traded on any stock exchange, nor shall any share certificate be issued in respect of such share. The WaterShare+ Share shall not be renounceable. The WaterShare+ Share shall not be transferable otherwise than with the prior written consent of the board.

(6) Class rights

- (a) The Company may, at any time, create, allot and issue further shares, whether ranking *pari passu* with or in priority to the WaterShare+ Share, and, on such creation, allotment or issue, any such further shares (whether or not ranking in any respect in priority to the WaterShare+ Share) shall be treated as being in accordance with the rights attaching to the WaterShare+ Share and shall not involve a variation of such rights for any purpose or require the consent of the holder of the WaterShare+ Share.
- (b) A reduction by the Company of the capital paid up or credited as paid up on the WaterShare+ Share and the cancellation of such share shall be treated as being in accordance with the rights attaching to the WaterShare+ Share and shall not involve a variation of such rights for any purpose or require the consent of the holder of the WaterShare+ Share.
- (c) Without prejudice to the generality of the foregoing, the Company is authorised to reduce (or purchase shares in) its capital of any class or classes and such reduction (or purchase) shall not involve a variation of any rights attaching to the WaterShare+ Share for any purpose or require the consent of the holder of the WaterShare+ Share.

(7) Deletion of article 5A(1)–(6) when the WaterShare+ Share is no longer in existence

Article 5A(1)–(6) shall remain in force until the WaterShare+ Share, once issued, is subsequently cancelled and is no longer in existence, notwithstanding any provision in these articles to the contrary. Thereafter article 5A(1)–(6) shall be, and shall be deemed to be, of no effect (save to the extent that provisions of article 5A(1)–(6) are referred to in other articles) and shall be deleted and replaced with the wording ‘Article 5A(1)–(6) has been deleted’, and the separate register for the holder of the WaterShare+ Share shall no longer be required to be maintained by the Company; but the validity of anything done under article 5A(1)–(6) before that date shall not otherwise be affected and any actions taken under article 5A(1)–(6) before that date shall be conclusive and shall not be open to challenge on any grounds whatsoever.”

Issue of WaterShare+ Share

The following resolution will be proposed as an ordinary resolution:

Resolution 19

That, in addition to the authority granted pursuant to Resolution 13 and subject to the passing of Resolution 18:

- (a) the Directors be authorised, pursuant to section 551 of the Companies Act 2006, to exercise all powers of the Company to allot and issue credited as fully paid up a single non-cumulative redeemable preference share of 1 penny in the capital of the Company carrying the rights and restrictions set out in article 5A of the Articles of Association of the Company (as amended pursuant to Resolution 18) (the **WaterShare+ Share**) to a nominee company to be determined by the Board in connection with the WaterShare+ scheme of South West Water Limited, a wholly-owned subsidiary of the Company; and
- (b) the authority conferred by this resolution shall expire at the conclusion of the second Annual General Meeting of the Company after the passing of this resolution.

By Order of the Board



Simon Pugsley

Group General Counsel and Company Secretary, Pennon Group plc

Registered Office: Peninsula House,
Rydon Lane, Exeter EX2 7HR
Registered in England and Wales
No. 2366640

17 June 2019

Important notes

The following notes explain your general rights as a shareholder and your rights to attend and vote at this meeting or to appoint someone else to attend and vote on your behalf.

Entitlement to attend or vote

Only those shareholders registered on the register of members of the Company as at close of business on 23 July 2019 (or, if this meeting is adjourned, at close of business on the day that is two days prior to the date fixed for the adjourned meeting), shall be entitled to attend or vote at the AGM in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after close of business on 23 July 2019 or, if this meeting is adjourned, at close of business on the day that is two days prior to the adjourned meeting, shall be disregarded in determining the rights of any shareholder to attend or vote at the AGM. In calculating the period mentioned in this paragraph, no account shall be taken of any day that is not a working day.

A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of his or her rights to attend, speak and vote provided that each proxy is appointed to attend, speak and vote in respect of a different share or shares. A proxy need not be a shareholder but must attend the meeting for the shareholder's vote to be counted. Appointing a proxy does not prevent a shareholder from attending and voting in person if he or she so wishes. You must inform the Company's registrar, Link Asset Services, in writing of any termination of the authority of a proxy. If a share is held by joint shareholders, and more than one of the joint shareholders votes (including by way of proxy), the only vote that will count for that share is the vote of the person whose name is listed before the other shareholders on the register of members.

Appointing a proxy

A proxy form is enclosed with this Notice of AGM. A shareholder can appoint a proxy only using the procedures set out in these notes and the notes to the proxy form. Details of how to appoint the Chairman of the meeting or another person as a shareholder's proxy using the proxy form are set out in the notes to the proxy form. If a shareholder wishes his proxy to speak on his behalf at the meeting, he or she will need to appoint his own choice of proxy (not the Chairman) and give his/her instructions directly to the proxy. A shareholder may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, a shareholder must complete a separate proxy form for each proxy or, if appointing multiple proxies electronically, follow the instructions given on the relevant electronic facility. Shareholders may copy their original proxy form or, alternatively, additional proxy forms may be obtained by telephoning Link Asset Services on 0371 664 9234 (calls are charged at standard geographic rates and will vary by provider) or +44 371 664 9234 for outside the UK (charged at the applicable international rate). Lines are open 8.30am to 5.30pm Monday to Friday excluding public holidays in England and Wales. For both UK and overseas shareholders calls are charged at a standard rate. A shareholder appointing more than one proxy should indicate on the relevant proxy forms the number of shares for which each proxy is authorised to act on his or her behalf.

To be valid any proxy form must be received by the registrar at the address shown on the proxy form or received via www.signalshares.com if the appointment is made electronically or lodged using the CREST proxy voting service: (i) no later than 2.30pm on 23 July 2019; or (ii) in the case of any adjourned meeting that is to be held more than 48 hours after the time fixed for holding the original meeting, no less than 24 hours (excluding any part of a day that is not a working day) before the time for holding any adjourned meeting; or (iii) in the case of a poll taken more than 48 hours after it is demanded, no less than 24 hours (excluding any part of a day that is not a working day) before the taking of the poll at which it is to be used. Further details regarding the CREST proxy voting service are given below. Any power of attorney or any other authority under which the proxy form is signed (or a certified copy of such authority) must be included with the proxy form.

The 'Vote Withheld' option on the proxy form is provided to enable shareholders to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

As an alternative to completing a paper copy of the proxy form, shareholders may register a proxy appointment or voting directions electronically by visiting www.signalshares.com. If you have already registered to receive all shareholder communications electronically you may also submit your proxy form via this web portal. For security purposes you will need to log on with your personal details and Investor Code, which can be found on recent communications such as your dividend confirmation or your share certificate. Full instructions are given on the website. The proxy appointment and instructions should reach Link Asset Services not less than 48 hours before the time appointed for the holding of the AGM or 24 hours (excluding any part of a day that is not a working day) before the time for holding any adjourned meeting that is to be held more than 48 hours after the time fixed for holding the original meeting. If you return more than one valid proxy appointment, either by paper or electronic communication, that received last by the registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Any electronic communication found to contain a computer virus will not be accepted. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

Electronic proxy appointment through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM to be held on 25 July 2019 and any adjournment(s) thereof by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid the appropriate CREST message (CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction as described in the CREST Manual (available via www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must in order to be valid be transmitted so as to be received by the Company's registrar, Link Asset Services (ID RA10) by no later than 2.30pm on 23 July 2019 or, if the meeting is adjourned to a time more than 48 hours after the time fixed for holding the original meeting, 24 hours (excluding any part of a day that is not a working day) before the time fixed for the adjourned meeting. For this purpose the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) at which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instruction to proxies appointed through CREST should be communicated to the appointees through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate representatives and nominated persons

Any corporation, which is a member, can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a **Nominated Person**) may, under an agreement between him or her and the shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statement of the rights of shareholders in relation to the appointment of proxies in the notes above does not apply to Nominated Persons. The rights described in these notes can only be exercised by shareholders of the Company.

Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

AGM results announcement and total voting rights

As soon as practicable following the AGM the results of the voting at the meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the resolutions will be announced via a Regulated Information Service and also placed on the Company's website www.pennon-group.co.uk/investor-information/shareholder-services/aggm.

As at 17 June 2019 (being the last practicable date prior to the publication of this Notice of AGM), the Company's issued share capital consists of 420,521,146 ordinary shares of 40.7p each, of which 8,443 ordinary shares are held in treasury. Therefore, the total voting rights in the Company as at 17 June 2019 are 420,512,703.

Shareholders' right to raise questions

Members satisfying the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006 and which the members propose to raise at the meeting. The Company may not require the members requesting the publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Any statement placed on the website must also be sent to the Company's auditor not later than the time it makes its statement available on the website. The business that may be dealt with at the AGM includes any statement under Section 527 of the Companies Act 2006 that the Company has been required to publish on its website.

A member attending the meeting has the right to ask questions. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except if (a) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered, (b) the answer has already been given on a website in the form of an answer to a question, or (c) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information.

Documents available for inspection

Copies of the Executive Directors' service contracts and the Chairman's and the Non-Executive Directors' contracts for service are available for inspection during normal business hours at the Registered Office of the Company. They will also be available for inspection at the AGM from 1.30pm on 25 July 2019 until the conclusion of the AGM.

A copy of this notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website: www.pennon-group.co.uk/investor-information/shareholder-services/aggm.

Electronic addresses

Please note you may not use any electronic address provided either in this Notice of AGM or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

Explanatory notes on resolutions

Annual reports and accounts

Resolution 1 proposes that shareholders receive and adopt the Company's annual reports and accounts (the **annual report**).

The annual report is available on the Company's website at www.pennon-group.co.uk/investor-information. Printed copies have been sent with this Notice of Meeting to shareholders who have previously registered a preference for paper communications. Printed copies can also be obtained from the Company's registrar.

Dividend

Resolution 2 proposes that the shareholders approve the declaration of a final dividend. If approved, a dividend of 28.22p per share will be paid on 3 September 2019 to shareholders on the register at close of business on 26 July 2019.

Directors' remuneration report

Resolution 3 proposes the approval of the Directors' remuneration report, which is set out on pages 92 to 105 inclusive of the annual report. It is a requirement, pursuant to Section 439 of the Companies Act 2006, that the Directors' remuneration report be submitted to shareholders for approval. The vote on Resolution 3 is advisory only and the Directors' entitlement to remuneration is not conditional on this resolution being passed. The Directors' remuneration policy was approved at the 2017 Annual General Meeting and remains unchanged. It is therefore not required to be put to shareholders at the 2019 Annual General Meeting. The remuneration policy can be found on the Company's website: www.pennon-group.co.uk/about-us/governance-and-remuneration.

Re-election and election of Directors

Resolutions 4, 5, 6, 8 and 9 propose the re-election of Sir John Parker, Neil Cooper, Susan Davy, Christopher Loughlin, and Gill Rider as Directors of the Company. Resolution 7 proposes the election of Iain Evans, it being his first AGM since his appointment on 1 September 2018.

In accordance with the UK Corporate Governance Code, each Director will stand for election or re-election at the AGM.

The Directors' biographies are set out on pages 12 and 13 and details of the Directors' remuneration are set out in the annual report.

The Board supports the re-election/election of each Director, as it believes that the particular knowledge and experience of each Director assists in ensuring that the Board has an appropriate balance of skills and experience for the requirements of the business. It is the Board's view that the Directors' biographies on pages 12 and 13 illustrate why each Director's contribution is, and continues to be, important to the Company's long-term sustainable success.

The Chairman confirms that, following the formal annual performance evaluation, each Non-Executive Director performs effectively and demonstrates commitment to his or her role, including commitment to time for Board and Committee meetings and other duties as they are likely to arise. The Board has determined that each of the Non-Executive Directors is independent. Given the longer service of Gill Rider on the Board, a particularly rigorous review was undertaken in respect of her re-election. The Board is satisfied that, based on her participation at meetings and her contribution outside of the boardroom, Gill Rider continues to demonstrate independence of character and judgement in the performance of her role.

Reappointment of auditor

Resolution 10 proposes the reappointment of Ernst & Young LLP as auditor of the Company to hold office until the conclusion of the next AGM at which accounts are laid before the Company, as recommended by the Audit Committee.

Auditor's remuneration

Resolution 11 proposes that the Audit Committee be authorised to determine the level of the auditor's remuneration.

Political donations

Whilst Resolution 12 requests shareholder approval by way of an ordinary resolution to approve donations to political parties, please note that the Company and all its subsidiaries have a policy that they do not make donations to, or incur expenditure on behalf of, political parties. However, the Companies Act 2006 contains restrictions on companies making donations or incurring political expenditure and defines these terms very widely, such that activities that form part of the normal relationship between the Company and its subsidiaries and bodies concerned with policy review, law reform and other business matters affecting the Company may be included. These types of activities, which are in the shareholders' interests for the Company and its subsidiaries to conduct, are not designed to support, or implement support for, a particular political party.

The Board believes that the authority proposed under this resolution (which is the same as that agreed by shareholders at the AGM last year and in previous years) is necessary to ensure that the Company, and its subsidiaries, do not commit any technical breach that could arise from the uncertainty generated by the wide definitions contained within the Companies Act when carrying out activities in the furtherance of their legitimate business interests.

Authority to allot shares

Resolution 13 requests shareholder approval by way of an ordinary resolution to renew (in compliance with published institutional guidelines) until 1 October 2020 or, if earlier, the conclusion of the next AGM of the Company, the Directors' authority to allot ordinary shares or grant rights to subscribe for or convert any security into shares in the Company in accordance with Section 551 of the Companies Act 2006. It is the Directors' intention to seek to renew this authority annually in accordance with investor guidelines.

The Investment Association (IA) guidelines on Directors' authority to allot shares state that IA members will permit, and treat as routine, resolutions seeking authority to allot shares representing up to one-third of a company's issued share capital or up to two-thirds of existing issued share capital where such authority is to be applied for a fully pre-emptive rights issue.

Paragraph (a)(i) of Resolution 13 will allow the Directors to allot ordinary shares up to a maximum nominal amount of £57,049,557 representing approximately one third (33.33%) of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 17 June 2019 (being the latest practicable date prior to publication of this Notice of AGM).

In accordance with the guidelines issued by the IA, paragraph (a)(ii) of Resolution 13 will allow Directors to allot, including the ordinary shares referred to in paragraph (a)(i) of Resolution 13, further of the Company's ordinary shares in connection with a pre-emptive offer by way of a rights issue to ordinary shareholders up to a maximum nominal amount of £114,099,113 representing approximately two thirds (66.67%) of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 17 June 2019 (being the latest practicable date prior to publication of this Notice of AGM).

The Directors have no present intention of issuing new ordinary shares (other than pursuant to the Company's employee share schemes) but they do consider that they should have this authority in order to be able to take advantage of opportunities as they arise and to retain flexibility. If they do exercise this authority, the Directors intend to follow best practice as regards its use, as recommended by the IA.

As at 17 June 2019, the Company held 8,443 ordinary shares in treasury, which represents approximately 0.002% of the total ordinary share capital in issue (excluding shares held in treasury) as at 17 June 2019 (being the latest practicable date prior to publication of this Notice of AGM).

General authority to disapply pre-emption rights

Resolution 14 requests shareholder approval by way of a special resolution to renew until 1 October 2020, or if earlier, the conclusion of the next AGM of the Company, the Directors' authority to allot equity securities for cash without first being required to offer such securities to existing shareholders. If approved, the Directors will be authorised to issue shares in connection with a rights issue or other pre-emptive offer and otherwise to issue shares for cash up to a maximum nominal amount of £8,557,433 which includes the sale on a non-pre-emptive basis for cash of any shares the Company may hold in treasury. The maximum nominal amount of equity securities to which this authority relates represents not more than 5% of the issued share capital of the Company (excluding shares held in treasury) as at 17 June 2019 (being the latest practicable date prior to publication of this Notice of AGM).

The Directors do not intend to issue, under a general authority to disapply pre-emption rights used other than in conjunction with an acquisition or specified capital investment in line with the Pre-Emption Group Statement of Principles 2015 (the **Statement of Principles**), more than 7.5% of the Company's issued share capital for cash on a non-pre-emptive basis in any rolling three-year period without prior consultation with shareholders.

It is the Directors' intention to seek to renew this authority annually in accordance with investor guidelines.

Authority to disapply pre-emption rights in connection with an acquisition or specified capital investment

Resolution 15 requests further shareholder approval, by way of a separate special resolution in line with the best practice guidance issued by the Pre-Emption Group, for the Directors to allot equity securities or sell treasury shares for cash without first being required to offer such securities to existing shareholders. The proposed resolution reflects the Statement of Principles and will expire on 1 October 2020 or at the conclusion of the AGM in 2020, whichever is the earlier.

The authority granted by this resolution, if passed:

- (i) will be limited to the allotment of equity securities and sale of treasury shares for cash up to an aggregate nominal value of £8,557,433, which represents not more than 5% of the issued share capital of the Company (excluding shares held in treasury) as at 17 June 2019 (being the latest practicable date prior to publication of this Notice of AGM); and
- (ii) will only be used in connection with an acquisition or other capital investment of a kind contemplated by the Statement of Principles, and which is announced contemporaneously with the allotment, or has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

The authority granted by this resolution would be in addition to the authority under Resolution 14. The maximum nominal value of equity securities which could be allotted if both authorities were used would be £17,114,866, which represents not more than 10% of the issued share capital (excluding shares held in treasury) of the Company as at 17 June 2019 (being the latest practicable date prior to publication of this Notice of AGM).

Authority to purchase ordinary shares of the Company

Resolution 16 requests shareholder approval by way of a special resolution to renew the Company's authority to purchase up to 42,051,270 shares (representing approximately 10% of its ordinary shares in issue (excluding treasury shares) as at 17 June 2019) at or between the minimum and maximum prices specified in the resolution. This authority is requested in order to increase the Company's flexibility to optimise the long-term financial and tax efficiency of its capital structure. The Directors confirm that they will only purchase shares where they believe the effect would be to increase future earnings per share on those shares not purchased and would be in the best interests of shareholders. The Directors have no current plans to exercise such authority.



Explanatory notes on resolutions

continued

The Companies Act 2006 allows companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them. In addition to shares already held in treasury, the Directors may decide to hold further of the Company's own shares that may be purchased pursuant to the authority conferred by this resolution as treasury shares as an alternative to cancelling them. Shares held in treasury may subsequently be cancelled, sold for cash or issued for the purposes of satisfying share options and share awards under the Company's employee share schemes. The Directors believe that holding shares in treasury provides the Company with greater flexibility in management of its share capital. No dividends may be paid on shares held in treasury and no voting rights are exercisable in respect of treasury shares.

The total number of options to subscribe for ordinary shares that were outstanding as at 17 June 2019 (being the latest practicable date prior to publication of this Notice of AGM) was 2,568,567. The proportion of issued share capital that they represented at that time was 0.61% and the proportion of issued share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 0.76%.

Calling of general meetings

Resolution 17 requests shareholder approval by way of a special resolution to enable Directors to continue to be able to call general meetings, other than AGMs, on 14 clear days' notice. A similar resolution has been passed by shareholders at previous AGMs. The notice period required by the Companies Act 2006 for general meetings is 21 clear days' notice unless shareholder approval has been obtained for the holding of such meetings on not less than 14 clear days' notice, as sought by Resolution 17. AGMs must always be held on at least 21 clear days' notice. The Company undertakes to meet the requirements for electronic voting under the Companies Act 2006 before calling a general meeting on less than 21 clear days' notice.

If given, the approval will be effective until the Company's next AGM when it is intended that a similar resolution will be proposed.

The Directors will only consider taking advantage of the flexibility permitted by this authority where there is a need for urgency and if (taking into account the circumstances), it is appropriate and considered necessary to do so in the interests of the Company and shareholders as a whole.

WaterShare+ business

Amendments to Articles of Association

Resolution 18 requests shareholder approval by way of a special resolution to amend the Articles of Association of the Company to set out the rights and restrictions attached to a single new non-cumulative redeemable preference share of 1 penny in the Company (the **WaterShare+ Share**), in accordance with Section 21 of the Companies Act 2006.

The purpose of the WaterShare+ Share is to facilitate the implementation of the plan to enable eligible customers of South West Water Limited (**SWW**), a wholly-owned subsidiary of the Company, to elect to acquire ordinary shares in the Company instead of receiving a cash rebate or a future bill reduction pursuant to the WaterShare+ scheme, as described on page 70 of the Company's annual report and accounts for the year ended 31 March 2019. It is envisaged that the WaterShare+ Share will be held by a nominee company within the Link Market Services group (the **Nominee**) (being the Company's registrar) on behalf of such eligible SWW customers who elect to acquire ordinary shares in the Company.

Under the WaterShare+ scheme, eligible customers would be offered a choice between receiving: (i) a cash rebate or future bill reduction linked to SWW's regulatory outperformance (as explained in the investor summary at www.pennon-group.co.uk/investor-information) for the 2015-20 regulatory period; or (ii) ordinary shares in the Company to be acquired in the market at market value at the time the scheme is implemented for an amount equal to the value of such cash rebate or future bill reduction, rounded up to the nearest whole share.

Please refer to the appendix to these Notes and the investor summary at www.pennon-group.co.uk/investor-information for further details on the WaterShare+ scheme.

The following paragraphs set out how ordinary shares in the Company would be acquired and held on behalf of those eligible customers who choose to acquire shares in the Company instead of receiving the cash rebate or future bill reduction.

Subject to the passing of Resolution 19 and shareholder authorisation by way of a special resolution at the 2020 AGM (and following the election by eligible customers), the Directors intend to allot and issue the WaterShare+ Share to the Nominee and resolve to pay a dividend (the **WaterShare+ Dividend**) in favour of the Nominee (as the holder of the WaterShare+ Share) of a total amount equal to:

- (i) the aggregate value of the rebates offered to those eligible customers who elect instead to acquire ordinary shares in the Company;
- (ii) an estimated 'top up' amount required to allow the purchase for each eligible customer who elects to acquire ordinary shares of the nearest number of whole shares (which would be deducted from the value of subsequent WaterShare rebates available to customers of SWW in future years) (the **Top-up Amount**);
- (iii) an additional amount as contingency for any increase in the share price of the ordinary shares on the actual day of purchase; and
- (iv) the costs of the Nominee in setting up the WaterShare+ scheme, acquiring ordinary shares on behalf of eligible customers, and operating the WaterShare+ scheme in its first year.

The amount of the WaterShare+ Dividend would be limited to a maximum of £25 million.

If the Board is authorised by shareholders at the 2020 AGM (by way of a special resolution) to resolve to pay the WaterShare+ Dividend, SWW would declare a one-off dividend in favour of the Company of an amount equal to the WaterShare+ Dividend.

The Company would then pay the WaterShare+ Dividend to the Nominee, which would then use such amount (less the Nominee's costs) to acquire existing ordinary shares in the Company at market value through the London Stock Exchange, and hold such shares as nominee for the eligible SWW customers who elect to acquire ordinary shares in the Company instead of receiving the rebate in cash or as a bill reduction.

In addition to the WaterShare+ Dividend, the WaterShare+ Share would carry the right to an additional dividend, payable annually from the calendar year following the year in which the WaterShare+ Share is issued until such time as the WaterShare+ Share is cancelled, for the purposes of covering the ongoing costs of operating the WaterShare+ scheme, including dealing costs and the costs of the ongoing services to be provided by the Nominee. The maximum amount of such additional dividend per annum would be £1 million (with the final amount, up to such specified limit, being determined by the Board of the Company in each year).

The WaterShare+ Share would have a par value of 1 penny and will carry limited rights beyond the receipt of the dividends described above and be subject to certain restrictions, as it is intended only to serve as a mechanism to facilitate the acquisition of ordinary shares in the Company on behalf of eligible SWW customers who elect to acquire ordinary shares under the WaterShare+ scheme, with the Nominee holding those ordinary shares as nominee for such customers and to pay the costs of the Nominee in setting up the scheme.

It is proposed that the WaterShare+ Share will carry a right to return of capital at par value of 1 penny and will not carry any right to receive notice of, or attend, speak or vote at, any general meeting of the Company.

In addition, it is proposed that the WaterShare+ Share may be redeemed by the Company at any time at par value and will be transferable only with the prior consent of the Board of the Company. It would not be listed or traded on any stock exchange. The Company does not intend to redeem the WaterShare+ Share as long as the WaterShare+ scheme is in operation.

The ordinary shares acquired by the Nominee on behalf of eligible SWW customers who elect to acquire shares will carry the same rights as all the other ordinary shares in the Company. The Nominee will be the legal owner of such shares, and such SWW customers will be the beneficial owners of the shares unless and until such shares are transferred out of the Nominee to the customer or are sold by the Nominee on the instruction of the customer.

Issue of WaterShare+ Share

Resolution 19 requests shareholder approval by way of an ordinary resolution to grant the Directors authority to allot the WaterShare+ Share to the Nominee, in accordance with Section 551 of the Companies Act 2006, in order to facilitate the implementation of the WaterShare+ scheme (as described in further detail in the explanatory note to Resolution 18 above).

As the exact amount of the rebates to be offered to customers under the WaterShare+ scheme will be linked to SWW's regulatory outperformance for the 2015-20 regulatory period, this amount will not be determined until the Company's financial statements for the financial year ending 31 March 2020 have been finalised. It is therefore intended to implement the WaterShare+ scheme later in 2020, subject to shareholder authorisation (by special resolution) at the AGM in 2020 for the Board to resolve to pay the WaterShare+ Dividend. As a result, paragraph (b) of Resolution 19 provides that the requested authority to allot the WaterShare+ Share to the Nominee will expire at the conclusion of the Company's AGM in 2021.

Paragraph (a) of Resolution 19 will allow the Directors to allot the WaterShare+ Share for a nominal amount of 1 penny. The issued WaterShare+ Share will represent less than 0.00000001% of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 17 June 2019 (being the latest practicable date prior to publication of this document).



Sir John Parker
Chairman



GBE, FREng, DSc (Eng), ScD (Hon),
DSc (Hon), DUniv (Hon), FRINA

Sir John was appointed to the Board as Deputy Chairman on 1 April 2015 and became Chairman on 1 August 2015. He is also chairman of the Nomination Committee.

Skills and experience

Sir John is a highly experienced and independent chairman and brings a wealth of leadership experience across a range of industries. He is widely recognised for his policy work on the value of diversity in the boardroom, having chaired the Government’s review on Ethnic Diversity on UK Boards in 2017. Prior to that, he was a member of the Davies Committee – Women on Boards.

He has chaired five FTSE 100 companies and was previously the chairman of Anglo American plc and National Grid plc, senior non-executive director and chair of the Court of the Bank of England, senior non-executive director of the Cabinet Office Board, deputy chairman of DP World, joint chair of Mondi and chair of BVT and P&O plc. He was also president of the Royal Academy of Engineering from 2011 to 2014 and is a Visiting Fellow of the University of Oxford.

External appointments

Sir John is the chairman of construction and engineering company Laing O’Rourke. He is also a non-executive director of Carnival Corporation and is a senior adviser to Spencer Stuart.



Christopher Loughlin
Chief Executive Officer



BSc Hons, MICE, CEng, MBA

Chris was appointed to the Board on 1 August 2006 upon joining Pennon as Chief Executive of South West Water. He became the Group Chief Executive Officer on 1 January 2016. Chris is chairman of the Pennon Executive and a member of the Sustainability Committee.

Skills and experience

Chris has extensive experience of the regulated business environment and the management of major engineering and infrastructure services. He started his career as a chartered engineer working in both the consulting and contracting sectors and, after holding a number of senior positions with British Nuclear Fuels plc, joined its board as an executive director. Prior to joining Pennon, he was chief operating officer with Lloyds Register and before that, executive chairman of Magnox Electric plc. He was also a senior diplomat in the British Embassy, Tokyo.

Chris has a comprehensive understanding of the water industry. He was previously a board member (and, for a period, president) of the Institute of Water, and between April 2008 and March 2012 was chairman of Water UK.

An enthusiastic advocate of local business, Chris was previously the vice-chairman of the Cornwall Local Enterprise Partnership.

Since his appointment as Group Chief Executive Officer, Chris has set Pennon on a path of closer collaboration in pursuit of delivery of its strategy, with the constituent parts of the Group now working together to identify synergies, reduce costs and exploit opportunities for growth.

External appointments

Chris is currently chairman of British Water, a director of Water UK, and a director and trustee of Reall.



Susan Davy
Chief Financial Officer



BSc Hons, ACA

Susan joined the Board on 1 February 2015. She is a member of the Sustainability Committee and the Pennon Executive.

Skills and experience

Susan is a graduate qualified chartered accountant with 20 years’ experience in the utility sector. Prior to her current appointment, Susan was Finance Director at South West Water between 2007 and 2015, during which time she was responsible for the company’s Business Plan to 2020. She has also held a number of other senior finance roles in the water sector, including as Head of Regulation and Head of Finance (Wastewater) at Yorkshire Water.

Susan’s knowledge of the industry coupled with her financial and regulatory expertise has supported the development of Pennon’s strategy and her input has been invaluable to the Board in its deliberations. Susan is highly respected in the City and has been instrumental in building Pennon’s reputation.

External appointments

Susan is a non-executive director and chairman of the audit committee of Restore plc and is also chair of the CBI South West council and a member of the A4S (Accounting for Sustainability) CFO leadership network.

Board Committee members

- Pennon Executive
- Audit Committee
- Sustainability Committee
- Nomination Committee
- Remuneration Committee
- Chair of Committee



Gill Rider
Senior Independent Director
(Non-Executive)



CB, PhD, CCIPD

Gill was appointed to the Board on 1 September 2012. She is chairman of the Remuneration Committee and a member of the Audit, Nomination and Sustainability Committees.

Skills and experience

Gill has a wealth of experience in leadership, governance and remuneration across a broad range of sectors, including professional services, education and government.

Formerly, she was head of the Civil Service Capability Group in the Cabinet Office, reporting to the Cabinet Secretary and prior to that held a number of senior positions with Accenture LLP, culminating in the post of chief leadership officer for the global firm. She was previously president of the Chartered Institute of Personnel and Development and a non-executive director of De La Rue plc and chair of the council of the University of Southampton.

At Accenture she chaired the global corporate responsibility and foundation giving programme and was instrumental in building sustainability objectives into Accenture's worldwide human capital strategies.

As chair of the Remuneration Committee Gill is helping to steer Pennon's approach on executive remuneration, ensuring that it is aligned with and supports the Group's strategy.

External appointments

Gill currently holds non-executive directorships with Charles Taylor plc, where she is senior independent director and Intertek Group plc. She is chairman of both their remuneration committees.



Neil Cooper
Independent
Non-Executive Director



BSc Hons, FCMA

Neil was appointed to the Board on 1 September 2014. He is chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Skills and experience

Neil brings to the Board extensive experience in a wide variety of corporate and financial matters. He is currently the chief financial officer of Currencies Direct, a foreign exchange broker and international payment provider. Previously, he was group finance director of Barratt Developments plc and, before that, group finance director of William Hill plc and Bovis Homes plc. He also held senior finance positions at Whitbread plc, worked for PricewaterhouseCoopers as a management consultant and held a number of roles with Reckitt & Colman plc.

As chairman of the Audit Committee, Neil has been influential in directing Pennon's approach on a number of significant matters, including internal control, governance and financial reporting.

External appointments

Executive Director, Currencies Direct.



Iain Evans
Independent
Non-Executive Director



CBE, BSc Hons, FCA, MBA

Iain was appointed to the Board on 1 September 2018. He is chairman of the Sustainability Committee and a member of the Audit, Nomination and Remuneration Committees.

Skills and experience

Iain has 40 years of extensive global experience in advising companies and governments on issues of complex corporate strategy. In 1983 he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms with a global footprint active in a wide range of industries. Iain was appointed as a non-executive director of Welsh Water plc in 1989 and served on the board for nearly ten years, including five as chairman.

As chairman of the Sustainability Committee, Iain is leading Pennon's development of a sustainability programme that underpins the delivery of Pennon's strategy.

External appointments

Iain acts as an independent corporate strategy consultant.

Appendix: WaterShare+ – frequently asked questions

What is WaterShare+?

WaterShare+ is an extension of the innovative mechanism introduced by Pennon's subsidiary South West Water (SWW) as part of its 2015-20 business plan, as a means of sharing with customers the benefits that accrue when the company achieves or exceeds its regulatory performance commitments. To date, these benefits have been shared with customers in the form of reinvestment in services, bill reductions or a deferral of benefits for the future, with the decision being driven by the output of various customer engagement activities and overseen by an independent WaterShare panel.

In SWW's 2020-25 business plan, we have committed to offer customers the choice, alongside bill reductions and rebates, of taking a financial stake in the business via an equity share of the parent company, Pennon Group plc. Subject to confirmatory votes at the Pennon AGMs in 2019 and 2020, eligible household customers will have the option of receiving their rebate in the form of Pennon shares. This is a key feature of WaterShare+.

Why do the Directors believe this is in the best interests of the Company's shareholders?

WaterShare+ is an innovative way through which our customers can participate in our success, helping us in turn to deliver sustainable shareholder value.

The Board believes this is a positive step for Pennon as the interests of customers and shareholders will be more aligned. The purpose of our business model is to create value for all our stakeholders and we have seen the benefits WaterShare has brought to the business in terms of higher levels of customer engagement and enhanced trust through additional scrutiny and transparency of SWW's performance.

Are there any disadvantages from a shareholder perspective?

The Directors are of the view that there are no material risks to shareholders arising from the proposed WaterShare+ scheme. WaterShare+ is a key feature of SWW's 2020-25 business plan, which was awarded fast-track status by Ofwat and a customer approval rating of 88%.

Potential areas likely to be of specific concern to shareholders are dilution and cost of funding the share scheme, in respect of which:

- the shares to be allocated to customers participating in the WaterShare+ share scheme will be purchased in the market, meaning there will be no dilution of existing shareholdings or voting rights;

- the share scheme, bill reductions and cash rebates will be funded by c.£20 million – £25 million of accrued benefits from the current WaterShare mechanism, generated through SWW's regulatory outperformance of the 2015-20 business plan. SWW has already committed to sharing these benefits with customers; and
- the annual cost of operating the scheme (which will depend on the number of participants) is capped at £1 million. The scheme's set-up costs will be covered by the one-off **WaterShare+ Dividend**, which will be used primarily for the purchase of ordinary shares for scheme participants. The WaterShare+ Dividend is capped at £25 million.

What elements of outperformance will you be sharing?

We will continue to share with customers the rewards we receive for meeting or exceeding our regulatory performance commitments and the savings we achieve through efficiencies. For 2015-2020, these included total expenditure savings and Outcome Delivery Incentive (ODI) benefits (which will be shared with customers through bill reductions and reinvestment via the 2020-25 business plan) and other items. From 2020, in addition to sharing the benefits of operational outperformance, WaterShare will include any outperformance on the cost of embedded debt.

What do you expect customers will think of share ownership?

We know from customer feedback that they want to see the benefits of success shared fairly between customers and investors, which is why we launched WaterShare in 2015.

To date, benefits have been shared with customers in the form of reinvestment in services and bill reductions. We also know from customer feedback that customers want this framework to evolve. They want a real stake in the business, comparable with investors.

Therefore, as part of our business plan to 2025 we will offer customers the choice of whether to take a cash rebate, a bill reduction or a stake in Pennon.

Who have you consulted about your plans?

We carried out our most extensive customer consultation to date, which gave us a very good understanding of what our customers want to see and where their priorities lie. Our 'New Deal' recognises that, as well as reliable and resilient services and fair and affordable bills, customers want to feel more empowered. Through the WaterShare+ share ownership scheme, we are

seeking to enhance the relationship between company and customer.

The 'New Deal' was included in SWW's 2020-25 Business Plan which was fast-tracked by Ofwat in September 2018.

How many customers do you expect to take up the shares?

When the idea of share ownership was tested with customers the majority were in favour with around 79% expressing an interest in participating in a share scheme. We will continue to engage with our customers to assess uptake as part of our plans to introduce the scheme.

Can you explain the mechanics of the scheme?

Subject to the passing of Resolutions 18 and 19 at the 2019 AGM, and an additional confirmatory vote at the 2020 AGM, a single new share, the **WaterShare+ Share**, will be created. It is envisaged that the WaterShare+ Share will be issued to Link Market Services group (the **Nominee**), which is also Pennon's registrar. Regulatory outperformance funds will be transferred to the Nominee (by way of dividend paid on the single WaterShare+ Share) for the purposes of acquiring and holding ordinary shares for participating customers.

Are new shares being issued?

It is proposed that a single new share, the WaterShare+ Share, will be issued to the Nominee to facilitate implementation of the WaterShare+ scheme. It will carry very limited rights beyond the right to receive certain dividends for the purpose of funding the acquisition of ordinary shares under the WaterShare+ scheme and the costs of setting up and operating such scheme. The rights and restrictions carried by the WaterShare+ Share are set out in Resolution 18.

No new ordinary shares in Pennon will be issued as part of the WaterShare+ scheme. Existing ordinary shares will be bought in the market ensuring there will be no dilution for existing shareholders.

How will fractions of shares be managed?

We will round up to the nearest number of whole ordinary shares per customer and we will top up funds as required to achieve this. The 'top-up' amount will be deducted from the future total value of the regulatory outperformance pot.

How will the shares be held by customers?

It is envisaged that the shares will be held in trust by the Nominee. The participating customers will be the beneficial owners of the shares.

How will the dividends on customers' shares be paid?

Dividends on the ordinary shares held for customers will be paid to the Nominee for distribution to participating customers.

Will customers be able to reinvest dividends?

There will be no reinvestment alternative offered on the ordinary shares held on behalf of participating customers.

Will all customers be eligible to receive shares?

The option of taking Pennon shares will only be offered to eligible household customers. Eligible household customers in arrears will still have the choice of receiving the benefit in the form of Pennon shares.

Eligible customers will need to consider their own circumstances and, if they wish to do so, take their own qualified advice when deciding whether to take their portion of regulatory outperformance benefits in the form of a cash rebate, bill reduction or Pennon shares.

Can participating customers sell their shares?

Participating customers will be able to sell their ordinary shares in Pennon with no minimum holding period. It is likely there will be a timetable to allow for regular dealing.

The Nominee will allow customers to buy and sell additional Pennon shares and hold them within their nominee account. Share dealing charges for buying and selling additional Pennon shares will apply and will be paid by the customer (as a client of the Nominee).

Do you expect to offer shares to new customers following the initial distribution?

The return of the regulatory outperformance gains to customers from the 2015-20 period will be a one-off exercise. The cash rebate, bill reduction and share purchase will all take place in 2020. Once processed the current WaterShare+ pot will reduce to zero and will not be available to share again. SWW will be seeking to grow the regulatory outperformance pot again during the 2020-25 period and options for sharing such benefits will be assessed towards the end of the period.

What benefits will be available to customers under WaterShare+?

We anticipate c.£20 million – £25 million of outperformance benefits in respect of the 2015-20 regulatory period (for c.1 million customers).

Will customers get shares, a bill reduction or a cash rebate every year?

No. Returning the regulatory outperformance pot to customers will be a one-off process in 2020. Similar schemes may run in the future but will require separate approval from shareholders.

What rights will be enjoyed by customers under WaterShare+?

All customers will be able to:

- vote on the appointment and removal of members of the WaterShare+ Panel at a Customer AGM; and
- attend public quarterly meetings.

Customers participating in the share scheme will also:

- receive a share of the Company profits, in the form of dividends, as and when shareholders do;
- receive the Company's annual reports and accounts; and
- be able to vote on resolutions at the Pennon AGM (via the Nominee).

Will the Nominee be able to vote at Pennon AGMs?

The WaterShare+ Share held by the Nominee simply facilitates the implementation of the WaterShare+ scheme and will not carry any voting rights. The Nominee will submit the voting preferences of the underlying customer shareholders in respect of the ordinary shares held by the Nominee on behalf of such customer shareholders.

What will happen when the share scheme comes to an end?

At the point the Board decides to close the WaterShare+ scheme, the WaterShare+ Share will be cancelled and participants will be offered the choice of selling their shares, or having the legal title to their shares transferred directly into their names on Pennon's share register. It is envisaged that the scheme will run for five years, in line with SWW's regulatory period.

What is the purpose of the two resolutions being proposed at the 2019 AGM?

The purpose of the first resolution (Resolution 18) is to change our Articles of Association to define the rights of the single new WaterShare+ Share, which will be issued in the future to facilitate implementation of the WaterShare+ scheme (in particular, the right to receive dividends). The second resolution (Resolution 19) is to grant the Directors the authority to issue and allot the share to the Nominee. We need to ensure we have the support of our shareholders before engaging further with our customers and planning the processes and communications required to allow us to implement the scheme.

Why does the shareholders' authority to issue and allot the WaterShare+ Share to the Nominee need to last for two years?

The way in which we are required to structure the share scheme means we need to follow a certain order of events and timeline.

Approval sought from shareholders at the 2019 AGM will need to last for two years to allow time for customer engagement and, following the AGM in 2020 (at which shareholder approval will be sought for the payment of the WaterShare+ Dividend), the application process for participating in the share scheme.

Will the WaterShare+ Share receive a dividend every year?

The dividend that will enable the Nominee to acquire the Pennon ordinary shares for participating customers will be a one-off and is expected to be paid in 2020 subject to shareholder approval at the 2020 AGM. The WaterShare+ Share will however also be entitled to an annual dividend to cover the share scheme operating costs decided by the Board and payable from the calendar year following the year in which the WaterShare+ Share is issued until such time as the WaterShare+ Share is cancelled and the scheme comes to an end.

What will happen in 2020?

Subject to the approval of the two WaterShare+ resolutions being passed at the 2019 AGM, in 2020 Pennon will finalise preparations for the launch of the scheme including the development of a prospectus relating to the Company and raising awareness with customers.

At the 2020 AGM, shareholders will be asked to vote on a special resolution to give the Board the authority to award the one-off dividend which will be used to purchase Pennon ordinary shares in the market on behalf of participating customers. A revised estimate of the dividend amount will be provided at the 2020 AGM based on the latest forecast of the number of customers that will choose to participate in the scheme, within the £25 million maximum set in Resolution 18 to be put to the 2019 AGM.

Following the 2020 AGM, SWW will offer eligible customers a choice as to how they would like to receive their portion of the WaterShare+ pot – a cash rebate, a bill reduction or participation in the share scheme. When the registration period has closed and calculations have been completed, the WaterShare+ Share will be issued and the one-off dividend for the WaterShare+ Share will be paid allowing the ordinary shares to be purchased on behalf of participating customers. SWW will process the cash rebate and bill reduction options in its billing system.

Where can I find out more?

We have prepared an investor summary which can be found at www.pennon-group.co.uk/investor-information.

Additional information

Key dates

Date and time	What happens
2.30pm Tuesday 23 July 2019	Deadline for receipt of online or postal proxy appointment to our registrar, Link Asset Services
2.30pm Thursday 25 July 2019	AGM held at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN
26 July 2019	Record date for entitlement to the 2019 final dividend
3 September 2019	Payment of the 2019 final dividend to holders of ordinary shares

Contact information

You can find information on how to manage your shareholding at www.signalshares.com. You will need your Investor Code to register for this service. The Investor Code is up to 11 digits long and can be found on recent communications such as your dividend confirmation or a share certificate.

Telephone

Shareholder helpline – for general enquiries call:

0371 664 9234 (lines are open 8:30am to 5:30pm Monday to Friday excluding public holidays in England and Wales)

+44 371 664 9234 (for outside the UK)

For both UK and overseas shareholders, calls are charged at a standard rate.

Email

pennon@linkgroup.co.uk

Post

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You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the proxy form) to communicate with the Company for any purpose other than those expressly stated.

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