

**Investment  
proposition**  
January 2024



# Investment proposition

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## Our purpose

**Bringing water to life** – supporting the lives of people and the places they love for generations to come

## Our values

Be  
**ROCK  
SOLID**

Be  
**YOU**

Be the  
**FUTURE**

At Pennon Group, we provide clean and wastewater services through our businesses across the Great South West. Our team of around 3,500 talented colleagues work around the clock to deliver services to a population of over 4 million. We embrace innovative ways of working, we nurture and support our people – recognising that people are our greatest asset, and we listen to our stakeholders – working in partnership to deliver lasting improvements.

As one of only three listed water companies in the UK, strong governance is at the heart of our decision making as we focus on doing the right things, in the right way, every day.

Our strategy for growth is twin-track - focused on organic and acquisitive opportunities. In the current regulatory period to 2025, we expect to grow our water business regulatory capital value (RCV) by over 70%, and see further growth to 2030 of almost 40%.





We are investing more than ever before to deliver environmental benefits, and to support the achievement of our stretching commitments for customers and communities – tackling the sector's biggest challenges head on. Since privatisation in 1989, we've invested over £13 billion in our infrastructure across the region and we are well underway in delivering more.

In October 2023 we submitted our plan for 2025-30, outlining £2.8 billion of capital investment in the areas that matter most. This is a plan that goes further in tackling the biggest challenges in our region as we invest to protect water quality and build resilience, tackle storm overflows, eradicate pollutions and protect the environment from climate change. With a laser like focus on efficiency it's also a plan that supports customer affordability. We know there is more to do, and the work we are underway with, combined with our ambitious plan to 2030, positions us well to deliver for all.





# Our businesses and brands

## Regulated water

|   |   |   |   |
|---|---|---|---|
|  <p><b>South West Water</b></p> <p>water services wastewater services</p> <p><b>c. 1.8 million</b> population served</p> <p><b>450 million litres</b> of drinking water per day</p> <p>Supplying Cornwall, the Isles of Scilly, Devon and small areas of Dorset and Somerset</p> |  <p><b>Bournemouth Water</b></p> <p>water services</p> <p><b>c. 500,000</b> population served</p> <p><b>140 million litres</b> of drinking water per day</p> <p>Supplying parts of Dorset, Hampshire and Wiltshire, from our base in Bournemouth</p> <p>Acquired in 2015</p> |  <p><b>BRISTOL WATER</b></p> <p>water services</p> <p><b>c. 1.2 million</b> population served</p> <p><b>280 million litres</b> of drinking water per day</p> <p>Supplying the city of Bristol, and surroundings from our base in Bristol</p> <p>Acquired in 2021</p> |  <p><b>ses WATER</b></p> <p>water services</p> <p><b>c. 750,000</b> population served</p> <p><b>160 million litres</b> of drinking water per day</p> <p>Supplying parts of Surrey, Kent and South London</p> <p>Acquired in 2024</p> |
|---|---|---|---|


## Non regulated

water retail services

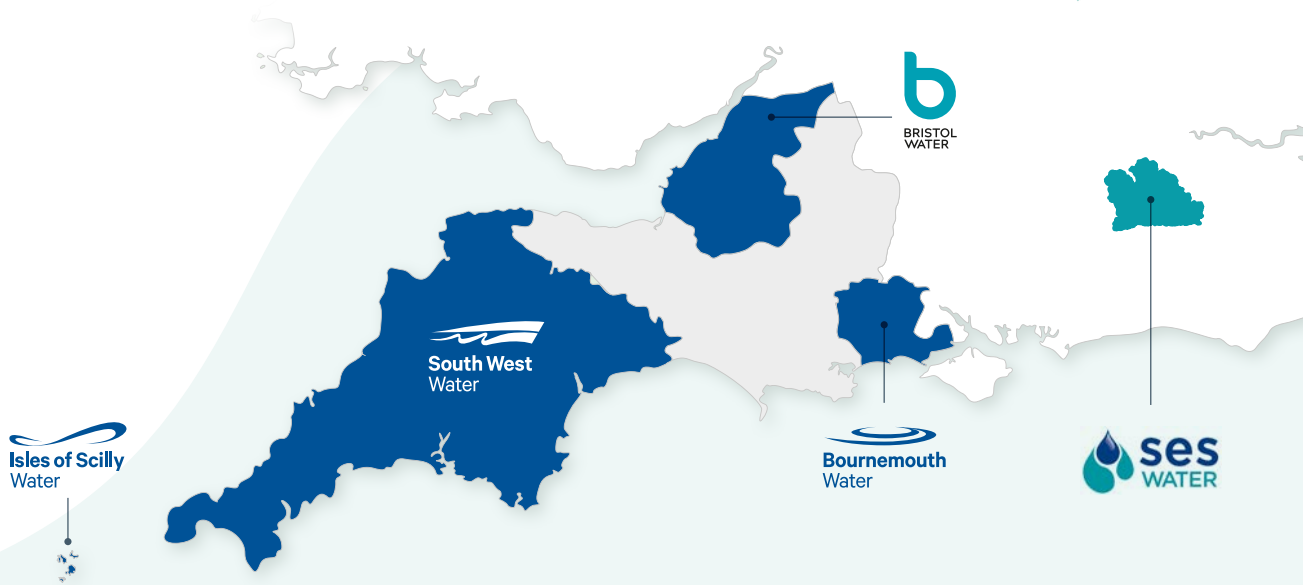
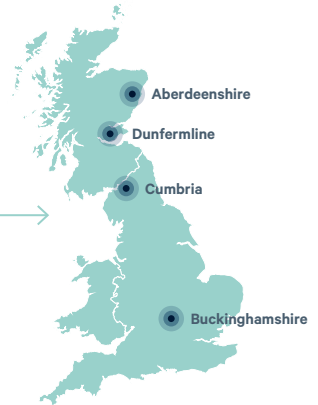
Profitable businesses providing water retail services to businesses across England and Scotland

Combined market share of c.12%



Renewable energy generation

Investing in renewable energy generation to accelerate our 2030 net zero commitment, whilst providing attractive commercial returns



# Pennton's strategy for growth underpins the creation of long-term, sustainable value for all.

## 1 Stable regulatory environment, positive outlook

### Well positioned to deliver for customers, shareholders and the environment

- Rolling 25 year licence – predictable index-linked growth, and visibility over future revenues
- One of only three listed water companies, and the only company to receive fast-track approval for two consecutive business plan reviews by Ofwat
- Strong operational performance – delivering on our stretching business plan commitments, alongside additional and accelerated initiatives

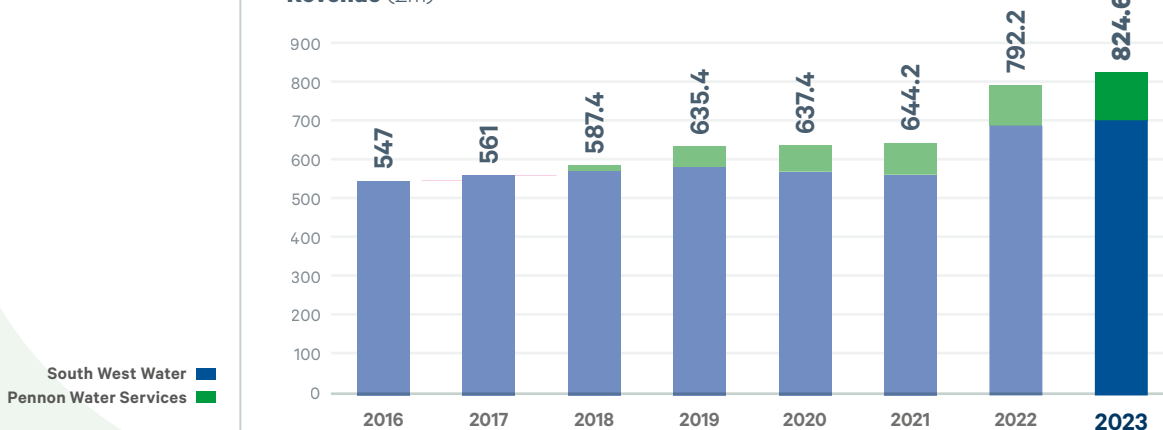
### Long-term environmental investment outlined in 25 year plans – highlights significant requirement for enhanced resilience and environmental investment

- c.£1.6 billion environmental investment plan to 2025 well underway – our largest in 15 years, investing in the areas that matter most to our customers, tackling the biggest challenges
- Population growth, climate change, new legislative requirements ever increasing societal expectations driving additional investment
- Regulatory support to deliver step change in environmental investment presenting significant scope for further RCV growth.

#### Capital investment (£m)



#### Revenue (£m)



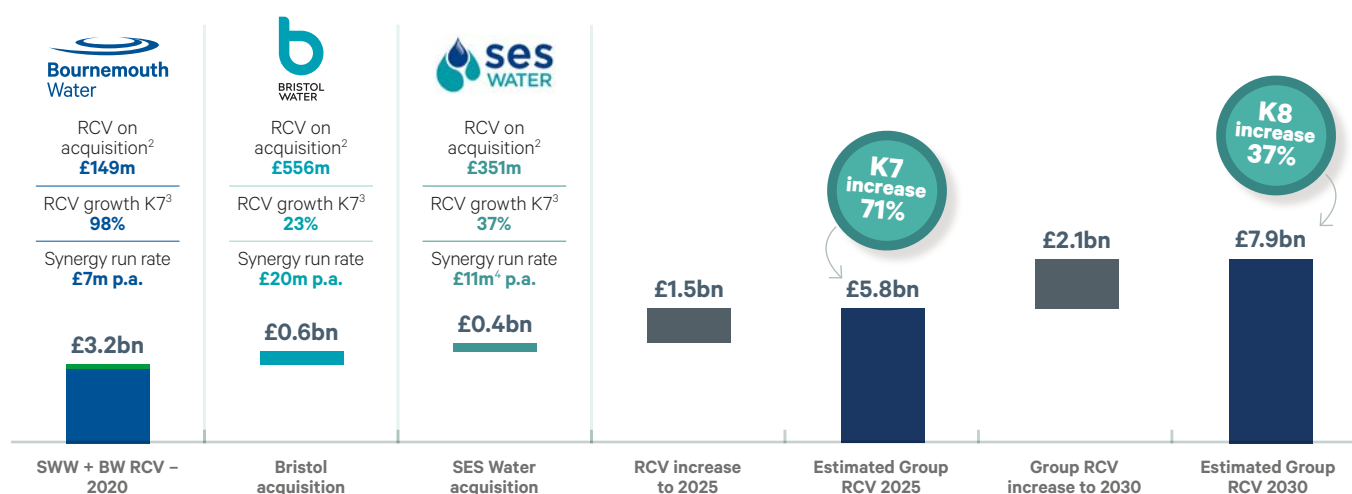
## 2 Long-term sustainable growth, driven by twin track strategy

### Organic and acquisitive strategy for growth

- Track record of execution – proven acquisition and integration blueprint honed through successful M&A in recent years including Bristol Water, Bournemouth Water, and in January 2024, SES Water
- c.£160m investment ringfenced for renewable energy generation – complementary assets that will deliver attractive, sustainable returns, supporting the water businesses, and reducing exposure to global energy markets
- Growing, profitable B2B retailers – Pennon Water Services and water2business with a combined market share of c.12%

### RCV growth of >70% over current regulatory period

Shareholder value – Increase in total RCV



Note: All £m numbers shown to 0 decimal places. Potential differences due to rounding. Shadow RCV figures shown on nominal basis.

### Continual focus on opportunities for growth in UK water – highly disciplined approach to capital allocation, which considers:



<sup>2</sup> Group RCV increase on acquisition % terms as follows: Bournemouth Water: c.5% ; Bristol Water: c.16% ; SES Water: c.7%

<sup>3</sup> RCV growth for K7 represents the period from 2020-2025

<sup>4</sup> Anticipated run rate of targeted efficiency savings (on a net basis)

### 3 Efficient & responsible financing

Lower proportion of index-linked debt compared to industry average

Sector-leading finance costs – sustainable and efficient financing

#### Pioneered unique Sustainable Financing Framework in 2018 – with over £1 billion raised to date

- Targeting to raise all new finance through the framework
- Sector-leading effective interest rate maintained through K7 to date

#### Responsible water business gearing – 61%

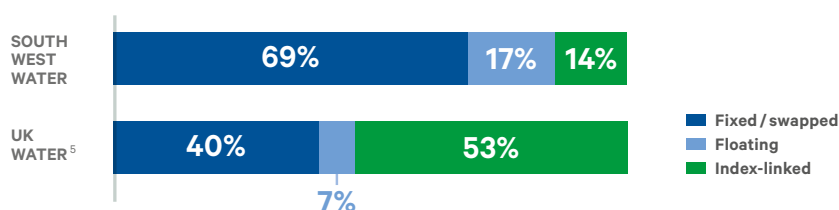
- Net debt / RCV around Ofwat's notional gearing level of 60%

#### Pension schemes in surplus – no ongoing deficit recovery contributions

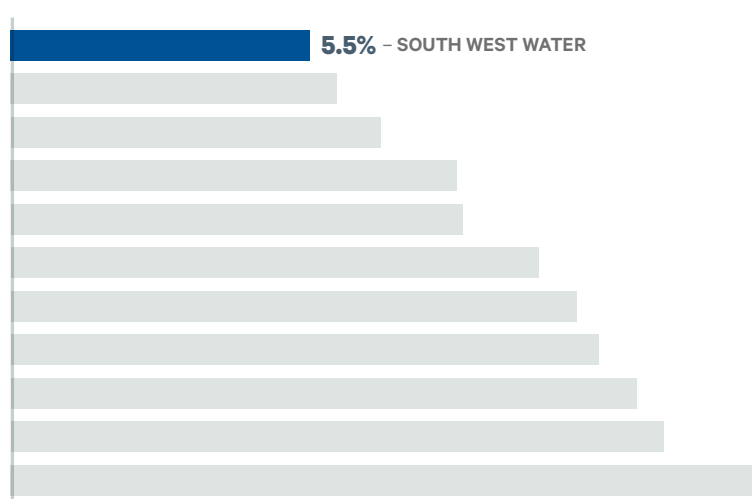
#### Strategically positioned financing portfolio

- Flexible strategy and diverse debt portfolio enables the Group to outperform in both low and high inflationary environments

#### UK Water gross debt mix

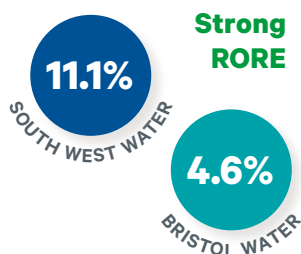


#### Indicative weighted average nominal interest rate



Source: Pennon calculation based on company Annual Reports – 2022/23 published in July 2023.

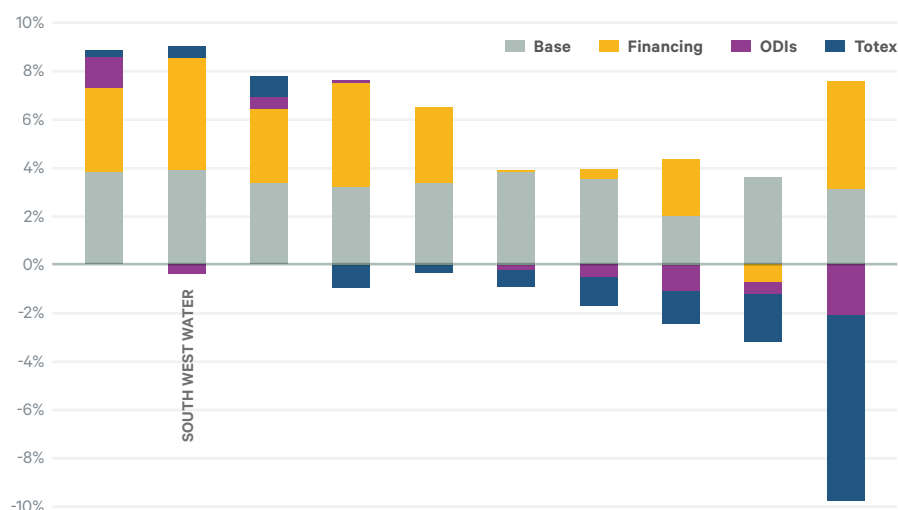
## 4 Double-digit returns, underpinning index-linked dividend policy



**Pennon Group has a long-established history of delivering sector-leading dividend growth**

## Delivering a continued doubling of base returns on regulated equity over K7

Cumulative RORE to March 2023<sup>6</sup>



## Sector-leading dividend policy

- Pennon's dividend policy for 2020-2025 of growth of CPIH +2% reflects the Board's confidence in the Group's sustainable growth strategy and is underpinned by continued RORE outperformance across the Group

Dividend policy<sup>7</sup>



In 2020, reflecting the change in the regulatory methodology linking revenue growth to CPIH rather than RPI, Pennon announced its policy for the K7 regulatory period 2020-2025, aligning with this indexation change – whilst continuing to reflect the confidence in continued RORE outperformance.

<sup>6</sup> RORE data taken from 2023 Annual Performance Reports, published in July 2023

<sup>7</sup> Dividend re-based to reflect sale of Viridor in 2020 and share consolidation in 2021. 2022 includes 3p uplift reflecting the inclusion of Bristol Water within the Group

# 5 Operational & environmental performance

Critical ways in which we monitor and track our operational and environmental performance with a consistent, aligned focus on improving our EPA rating.

**SAVE EVERY DROP**  
Investing in innovative solutions

**Water resilience** – securing resilience now and for future generations (10 metrics)

**Environmental Performance Assessment** (6 metrics)

Additional Green Recovery investment, above our business plan commitments



**2020-2025 Business Plan** – delivering on our stretching business plan commitments (>75 metrics)

Outcome Delivery Incentives



**c.75%**  
on track or ahead of target



**c.70%**  
on track or ahead of target



**WaterShare+**

Unique customer sharing mechanism – £40m to date in K7 – more households now shareholders than ever before

**ESG** – operating a sustainable & socially responsible business (18 metrics)



Delivering sustained improvements in pollutions performance – targeting lowest absolute number in the sector in K7



Committed to achieving Net Zero 2030



Investing to enhance and protect the region's river and coastal waters

## Environmental Performance Assessment<sup>8</sup>

Our operations and initiatives are aligned to deliver our focus on continuously improving environmental performance.

| Pollution incidents                  | Serious pollution incidents | Self-reporting                  | Treatment Works Compliance                | SDBI   | WINEP                             |
|--------------------------------------|-----------------------------|---------------------------------|---|--|-----------------------------------|
| Further <b>c.30%</b> improvement YoY | <b>75%</b> reduction YoY    | <b>Improved</b> performance YoY | <b>Best ever</b> performance <b>99.4%</b> | Future recovery supported by our <b>Stop the Drop</b> initiative | <b>&gt;99%</b> projects delivered |
| BP ESG                               | BP ESG                      | BP                              | BP  | BP WR  | BP ESG WR                         |



Driving further improvements – targeting continued 30% YoY reduction throughout K7

**Our EPA improvement glide path is on track and we are confident in achieving 4★ status for 2024**



## Operational and environmental performance – investment driving performance

delivering on our stretching business plan commitments – (ODIs)

### Areas on track or ahead of target

### Areas of focus

c.£1.6bn investment plan<sup>11</sup>

ODIs



**c.75%**



**c.70%**

on track or ahead of target<sup>9</sup>



- ✓ Sector-leading internal sewer flooding performance
- ✓ Water quality improved – anticipating upper quartile performance
- ✓ 100% bathing water quality – third consecutive year
- ✓ Enhancing biodiversity – >115,000 hectares improved<sup>10</sup>
- ✓ Leakage performance on track
- ✓ >120,000 customers benefiting from our affordability support
- ✓ Targeting to eliminate water poverty by 2025

### Areas of focus

#### Water quality

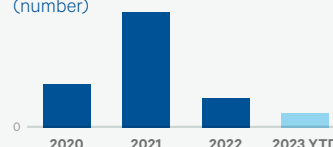
- ✓ Quality First transformation and investment programme – targeting improvements across assets



#### Wastewater pollutions

- ✓ Improved serious pollutions performance – one event to date in 2023

**Pollution Cat 1-2 incidents**  
(number)



## Environmental, Social and Governance – operating a sustainable and socially responsible business

### WaterFit –

#### Protecting rivers and seas together

- 100% of monitors installed across our network of storm overflows – ahead of regulatory plan
- On track to reduce releases from overflows to 20 per asset by 2025
  - c.50% reduction in releases in 2022 bathing season
  - c.30% reduction in 2022, from 39 to 28
- River water quality pilots underway on the Dart and Tavy
- WaterFit Live – launched, providing increased transparency of environmental water quality



**c.£45m**

### Net Zero 2030 –

#### Our promise to the planet

- On track to reduce emissions across the Group – c.40% reduction to date<sup>12</sup>
- Increasing energy efficiency, investing in an electric fleet
- Investing in self-generation opportunities to support c.50% target
- Working in partnership to deliver natural carbon sequestration



**c.£160m**

## Water resilience – Investing to secure resilience now and for future generations

- Investing in additional and accelerated water resources to increase resilience and protection from climate change and population growth
- Re-purposing quarries and mines
- Progressing desalination solutions – industry first
- Successfully incentivising customers to reduce demand

**SAVE EVERY DROP**

**c.£125m**



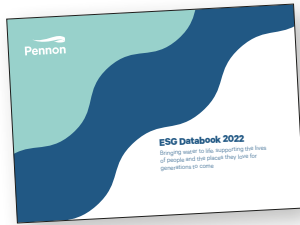
Hawkstor reservoir

<sup>9</sup> Reported position as at Pennon Group HY24 results    <sup>10</sup> Cumulatively – K7 to date

<sup>11</sup> Includes £82m Green Recovery and Accelerated Infrastructure Delivery investment to 2025

<sup>12</sup> 2021: 130,000 tonnes reduced to 80,000 tonnes

## 6 Sustainability at the heart of the business



### Strong governance, led by an experienced Board, influencing decision making to ensure we focus on doing the right things, in the right way

- Combined high quality plan in development for PR24 – focused on delivering the best outcomes for customers, communities and the environment
- Passionate about creating a diverse and inclusive place to thrive – proud to be a signatory to the change the race ratio, and promoting gender diversity at all levels
- Investing in the next generation through embracing an earn and learn culture – Gold member of 'The 5% Club', doubling our apprenticeship and graduate schemes to 1,000 by 2030, along with offering 5,000 work placements over the same period
- High performing company with strong sustainability credentials.





**For further information**

Please don't hesitate to reach out if you'd like to know more.

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