SOUTH WEST WATER LIMITED
ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

southwestwater.co.uk bournemouthwater.co.uk bristolwater.co.uk

CONTENTS

STRATEGIC REPORT

Our sector – a changing landscape 4

Chair's letter 7

Our CEO's review 9

South West Water's group context 14

Our business model 15

Stakeholder engagement overview 16

Our people and culture 28

Operational review

- Building water resources, improving water quality 36
- Tackling storm overflows and pollutions 41
- Driving environmental gains 45
- Supporting affordability, delivering for customers 48

Our operational KPI's 51

Our financial KPI's 53

Our CFO's review 54

Risk management 61

Viability statement 78

Our integrated approach to ESG 81

Net Zero - our promise to the planet 82

Sustainability reporting

- Task-force on Climate-related Financial Disclosures (TCFD) 86
- Task-force on Nature-related Financial Disclosures (TNFD) 86

Non-Financial and sustainability information sheet 130

GOVERNANCE

Governance at a glance 134

Chair's introduction 137

Our Board and Executive Team 139

Monitoring purpose and culture 144

Board leadership 146

Division of responsibilities 147

An effective Board 149

Key activities of the Board 152
How the Board engages with stakeholders 154
Composition, succession and evaluation 156
Our s172(1) statement 158
Nomination Committee Report 161
Audit Committee Report 166
ESG Committee Report 176
Health and Safety Committee Report 180
Remuneration Committee Report 182
Director's Remuneration Report 185
Annual report on remuneration 186
Board of Directors and company information 199
Directors' Report 200
Statement of Directors' responsibilities 204
INDEPENDENT AUDITOR'S REPORT 206
FINANCIAL STATEMENTS
Income Statement 214
Statement of Comprehensive Income 215
Balance Sheet 216
Statement of Changes in Equity 217
Cash Flow Statement 218
Notes to the Financial Statements 219

OUR SECTOR – A CHANGING LANDSCAPE

THIS YEAR HAS BEEN PIVOTAL FOR THE SECTOR

This has been a year in which many of the foundations have been under review, with a new Government, new legislation, a sector wide commission, and a price review. In short, there has never been a more important time to be part of the sector, whether you are a customer or a water company.

PRICE REVIEW (2025-2030)

The latest price review PR24 (2025-2030) has heralded a reset, unlocking record levels of investment with over £100 billion over the next five years across the sector. This includes a fourfold increase in spending on new infrastructure and resources. By 2030, it's expected that this investment in critical infrastructure will deliver tangible improvements for customers and the environment, right across the UK. This will see the sector producing enough supply of water to meet the needs of nearly three million people, with nine new reservoirs and nine large scale water transfer schemes, delivering the lowest leakage levels since privatisation and reducing spills from storm overflows by over 45% from 2021 levels. Customers and communities will also continue to benefit from world class drinking water.

At the heart of South West Water's plans is a £3.0 billion[1] investment programme which drives forward our four strategic priorities across all regions we serve: ensuring resilient water supplies and excellent drinking water quality; improving water quality by reducing pollution levels and the reliance on storm overflows; driving net zero and environmental gain; and delivering for customers whilst keeping bills increases affordable. Our plans are ambitious and as a result South West Water was one of only two plans recognised by Ofwat as 'outstanding' with the funding and scope of work largely supported, setting us up to deliver for the long-term. This is the third price review in a row that the South West Water plan has achieved the top rating from Ofwat, something no other company has achieved.

NEW LEGISLATION

The Water (Special Measures) Act, passed in February 2025 is an important step in strengthening the power of water industry regulators, with Ofwat now consulting on the detailed implementation. At a principle level, we always strive to maintain constructive working relationships with government and our regulators. It is what the public expects from us. Any proposed changes should therefore support good governance, leadership, and delivery in the public interest, and as a publicly listed business, we welcome this.

INDEPENDENT WATER COMMISSION

The Cunliffe Review, led by former Bank of England deputy governor Sir Jon Cunliffe, aims to fundamentally reform the UK's water sector regulatory framework. Its primary purpose is to address the challenges facing the sector, including climate change, environmental pressures, public trust, and affordability, with a move towards a more integrated, outcomes-focused approach to water regulation, rather than what many say today is a fragmented, process-driven one. The recommendations will form the basis of further legislation to attract long-term investment, environmental outcomes and support for customers and communities, injecting billions of pounds into the economy, speeding up delivery on infrastructure to support house building and addressing water scarcity for the longer term, and requiring c.£300 billion investment by 2050.

Drawing upon a panel of experts from across the regulatory, environment, health, engineering, customer, investor and economic sectors, its aim is to establish a new partnership between government, water companies, customers, investors, and all those who enjoy our waters and work to protect our environment.

We agree that in a transforming sector, regulation should also reset, building on what has been achieved to date. As a sector providing critical national infrastructure, we believe we should be governed in the same way as other utilities, making a strong case for a more investable, resilient and predictable sector, and in unlocking long term capital at fair rates. We stand ready to implement what is required.

[1] At forecast outturn prices

CHAMPIONING CUSTOMERS, REGIONS AND COMMUNITIES

We also believe we have much to contribute as a listed business with a model that advocates strong governance. As a Company, our regions are distinctive, largely rural and boast some of the UK's most unique natural environments.

We recognise there is much for the sector to benefit from in championing the customer voice, through transparency and fairness. Our parent company, Pennon Group plc's unique WaterShare+ model, which gives customers a stake and a say in their local water company, is a leading example of accountable and customer centric ownership and will remain at the centre of our purpose.

OUR REGULATORS AND POLICY MAKERS

- **Department for Environment, Food and Rural Affairs (Defra)** - Defra sets the overall policy framework in England, including the environmental and service requirements. Climate change, growth, consumer expectations, and macroeconomic trends all impact on the policies that Defra sets.
- **Ofwat** - Ofwat is the economic regulator, with duties to protect the interests of consumers, ensure companies can carry out their functions, and ensure companies can finance their functions – through promoting efficiency, innovation, competition and economic growth.
- **Environment Agency (EA)** - The EA is the environmental regulator focused on protecting and improving the environment. It is also responsible for managing and reducing flood risk. The EA is a principal adviser to Defra on the water environmental.
- **Natural England** - Natural England is the government's advisor on the natural environment, with the aim to protect and improve the natural environment.
- **Drinking Water Inspectorate (DWI)** - The DWI is the drinking water quality regulator, with responsibility for ensuring that companies supply wholesome water that is clean and safe to drink.
- **Consumer Council for Water (CCW)** - CCW represent the needs of customers, and support customers who have complaints about their water company.

DELIVERING ON OUR PRIORITIES

2024/25 saw a resilient close to the K7 regulatory period with preparation underway to make sure we are ready for delivery in K8.

- **Serving more customers and communities across our regions:**
  - Synergies from Bristol Water are now delivered
- **Delivering on our four strategic priorities:**
  - We have reshaped our business to establish business units, focused on Water Services and Wastewater Services, to align delivery with our strategic priorities
  - Our reshaping aligns our operating model with our parent company's four strategic priorities, allowing us to focus on delivering on our customers' priorities
  - We are also bolstering front line staff, and ensuring we have a best-in-class customer service platform to serve our customers
- **Reset and rebased for K8**
  - Robust balance sheet, with gearing at 63.3%
  - We have continued to invest record levels in our asset base, with £588.7 million in the current year as we focus on the things that matter most
  - Our strong investment grade credit ratings, secured in the year, place us well for funding our ongoing investment programme
  - We have progressed £67 million annualised efficiencies of our targeted £75 million efficiencies, resetting our cost base and integrating Bristol into our Company
- **Strong Platform secured for the future**
  - Return to profitability, with reset revenue and efficient cost base
  - Successful water efficiency in 2024/25 supports customer affordability as tariffs increase
  - Supported by sustainable supply chain through our delivery partners – our 'Amplify' delivery alliance

THE MARKETS IN WHICH WE OPERATE

HOUSEHOLD WATER SECTOR

The provision of safe drinking water and sanitation of wastewater is fundamental to society and to the economy. At the same time, the provision of these essential services must respect the management of the natural environment, and it should be consistent with the overall objectives for the management of the nation's water upon which there are many competing demands. It should be efficient and not impose unnecessary or unjustified cost on the consumers who pay for these essential services.

The water industry was privatised in 1989 with the objective of increasing efficiency and attracting the significant investment needed to meet EU environmental standards. There have been improvements since privatisation of the water industry. Drinking water and sanitation standards are world leading. Environmental monitoring and transparency in England and Wales have increased. There has been roughly £236 billion of capital investment since privatisation with 2023/24 capital investment over double the annual levels in the years immediately before the sector was privatised.

Our parent company, Pennon, is a FTSE listed business, with a strategy focused on the UK water sector, underpinned by delivering long term value creation for stakeholders. With a history and heritage built up over many years, we continue to learn, innovate and grow, organically and through acquisition, as the only consolidator investing in the sector today.

Over the past 10 years we have been growing and learning, with Pennon's acquisitions enabling us to unlock benefits for customers. Our parent company's acquisition of Bournemouth Water in 2015 has unlocked investment in two new water treatment works to supply 85% of the local population.

2020 saw the successful adoption of the Isles of Scilly, with customers benefiting from first time water and sewage. We followed this with our parent company's acquisition of Bristol Water in 2021. This year we announced we are resurrecting plans for Cheddar 2, a strategic reservoir that will not only benefit customers in and around Bristol but across the wider South West.

CHAIR'S LETTER

It is a privilege to be writing to you for the first time as Chair of your company. There has never been a more important or consequential time to join this sector given the intense focus of a new Government, the Water (Special Measures) Act, the independent Commission on the Water Sector Regulatory system and the continuing public and media attention.

With our clear purpose to bring water to life, by supporting the lives of people and the places they love for generations to come, our strong governance model, and our unique positioning, focused on growth, the Board and I firmly believe South West Water possesses the critical insights and strategic initiatives necessary to secure the long term success and sustainability of the business.

We look forward to working in partnership with Government and the Commission to achieve the changes necessary.

I'm confident that looking forward, stakeholders will see the benefit of our investment and growth plans, increasing innovation, improving environmental performance and better services for customers, as South West Water looks to build on the momentum we announced this year, with a determined record £3.0 billion[1] to invest in the regions to 2030.

Following my appointment as Chair in July 2024, I took time to familiarise myself with the Company's operations and the strengths of the business, and have concluded that a strong foundation exists upon which we can build and transform our performance to achieve a successful future with South West Water embarking on a new five-year regulatory cycle.

Over the course of my first year, I have met many employees, as part of my corporate induction. The passion and dedication of those I have met to deliver essential services for customers has been unwavering, as has the leadership of the Company, led by Susan and the Executive Team. I want to thank everyone I have met, for their honesty – as I have asked everyone I have met, what do we do well, and what we can do better.

Supporting our c.2,750 employees has to be at the heart of what we do. If our employees feel supported and engaged, then everything else follows. It's not always been easy for them, given they live and work in the regions we support, and when the sector headlines have been challenging.

I have also spent time talking to our regulators. There is more alignment, than difference. We all recognise that that the long-term success of our Company and the sector is intrinsically linked to the health of the natural environment, our financial health and supporting customers. That's why the Board will be extending its pledge to support customer affordability to 2030, and with a £168 million support package.

I also want to thank the Board for their warm welcome. I am committed to leading an effective Board, that works in a constructive way with the Executive team, to deliver on our strategy and drive long term sustainable growth, that creates value for all our stakeholders. This years' Board evaluation has reinforced that the Board is operating effectively, and we will continue to evolve the way we can work better together.

I would like to extend my thanks to Gill Rider who stepped down from the Board as Group Chair on 24 July 2024, and Claire Ighodaro CBE who retired from the Company's Board of Directors and as Chair of the Remuneration Committee with effect from 31 December 2024. On behalf of all the South West Water's Directors, I would like to thank them both for their dedication, wise counsel and contribution over the years. We all wish them well for the future.

I'm delighted to have welcomed Andrea Blance as the incoming Chair of the Remuneration Committee, with her significant experience and Dorothy Burwell will transition to take on the role as Chair of the ESG Committee from Iain Evans. Over the course of the next year, Iain will retire from the Board as SID, and we have already started the process for his successor. Until then, I am indebted to Iain for his continuing wise counsel and significant knowledge of the sector.

[1] At forecast outturn prices

I am confident that we can deliver the commitments we have made over the next regulatory period for all our stakeholders. We will continue to take care of one of life's essentials for our customers and to support the communities in which we operate. Never has our role been more important, with continued investment, more innovation and better services to come.

OUR CEO's REVIEW

ENDING K7 RESILIENTLY, RESHAPED AND RESET IN 2024/25, SECURED A STRONG PLATFORM FOR THE FUTURE

I'm pleased to share my Group Chief Executive's Review for 2024/25, highlighting key aspects from the year, as we close down K7 (2020-2025) five-year delivery period to 2025 and make a strong start on our new K8 (2025-2030) delivery period.

As a company focused on UK water, with a growing geographical footprint, we are rightly being challenged to do more for customers today and invest more for the future. We are doing both.

I want to start by saying the fundamentals for the business are robust, and our performance for 2024/25 reflects the reset and reshaping we have done ahead of K8, in what has been a challenging year.

We have successfully closed out the K7 regulatory period to 2025, having delivered higher than allowed base regulatory returns and consistently been a top quartile performer against stretching regulatory outcome performance metrics. The solid operational performance, across all parts of the Company, whether you are a South West Water (SWW) or Bristol Water (BW) customer was recognised in Ofwat's Water Company Performance Report in 2024.

We have worked diligently this year to support the affordability of bills with customers. Having held off increasing bills for over a decade, with continuing record investment we have had to make a tough decision and put the bills up for customers in the coming year in 2025/26, which is why we have focused on metering, water efficiency and financial support for those who need it most during 2024/25.

Of course, there are also areas where we need to improve our performance, which is one of the reasons we have also reshaped the company with clear business lines, aligned to our four strategic priorities, building water resources and improving water quality, tackling storm overflows and pollutions, driving environmental gains and supporting affordability and delivering for customers. I now have in place Managing Directors leading key delivery aspects for wastewater and drinking water. This new structure ensures there is a direct line of sight into the business and the systems, processes and governance. Having considered the ongoing sector wide and company specific investigations, the refreshed pillars of governance are supporting rectifications we have identified through delivery on action plans as we await any findings. Through rightsizing, we are focused on having more of our colleagues on the front line having increased these teams by c.35%. This puts us in a good position as we head into K8.

Having received an outstanding assessment for our South West Water's business plan, we are well positioned to deliver on our plans for K8, with another period of significant growth.

With our robust deployment of capital, our growing footprint gives us a strong platform for delivery.

Our capital delivery supply chain partnership 'Amplify' has already been stood up, delivering on over 1,000 schemes, representing one third of the £3.0 billion[1] earmarked for investment to 2030. Expenditure for K8 was accelerated, and by April 2025 we had invested c.£85 million (c.£65 million to March 2025), kick starting our plans to reduce spills from storm overflows, investing in water treatment enhancements and improving services to customers. Once again, we have had record investment in 2024/25 at £588.7 million, aligned with the step change run rate required for K8.

Of course, it's not what we do but how we do it that also matters. Our operations across the Company need a reliable and efficient power supply and our parent company is investing to increase renewable energy provision through Pennon Power, supporting resilience and our Science Based Target Initiative underpinning our Net Zero ambitions.

Financially, we have good liquidity and a strong balance sheet having raised debt financing in 2024/25 as well as benefitting from an £330 million equity injection from our parent company Pennon Group plc. We have encouraged customers to use less water, and for 2024/25 that has impacted our revenues. Coupled with the financing costs of accelerated capital investment, we have reported a loss this year. This is a point of inflection

[1] At forecast outturn prices

into K8, where we will see a return to profitability. We have driven cost base efficiencies to offset inflation increases and rightsized and right shaped the business, with cumulative efficiency benefits of c.£67 million.

MAKING PROGRESS ON WHAT MATTERS MOST TO CUSTOMERS, DELIVERING ON OUR FOUR PRIORITIES

We remain resolutely focused on our customers key priorities, and it's the drum beat internally we all follow. With record levels of investment in 2024/25, we are focused on to tackling the use of storm overflows at our beaches and to reduce pollutions, protect water quality and enhance resilience, driving environmental gains and support our customers in making sure their bills are as affordable as they can be, whilst delivering improved services.

REDUCING POLLUTIONS AND TACKLING THE USE OF STORM OVERFLOWS

We rely upon the natural environment to deliver for customers and communities, and our achievements this year have been delivered against a backdrop of some challenging weather conditions; rainfall in 2024 was similar to last year, itself 11% higher than average, and a record wet year. These two years of exceptional rainfall resulted in higher groundwater levels c.14% above normal levels.

Despite the exceptionally wet weather, we have made progress on wastewater measures. Our approach has been two-fold, prioritising reducing pollutions to homes, businesses and land, alongside tackling pollutions to watercourses, given we look after a third of the nation's bathing waters. The number of homes and businesses impacted by internal sewer floodings to homes and businesses fell again this year by 14%, and over the five years since 2020 have reduced by 68%. External sewer floodings have also fallen by 11%, and 24% since 2020 respectively, supported by a 30% reduction in sewer collapses (37% in 2024/25) and reducing sewer blockages through our planned cleansing programme. We are the best performing company at tackling flooding to homes and businesses, and a top quartile performer for reducing pollutions to land.

For the impacts on watercourses, having made sure all our storm overflow monitors were installed at the end of 2022, we are equally focused on delivering against our 15-year programme to 2040 to reduce the use of the storm overflows. Despite the exceptional rainfall and groundwater levels, we were one of only five companies to reduce spills in 2024, and for bathing waters, we have seen a reduction of 20% since 2020, consistent with last year. Our K7 WaterFit interventions are delivering ongoing benefits preventing c.15,000 spills and two thirds of our top spillers from last year have been resolved.

With critical national infrastructure, and a network length that could wrap around the circumference of the world, occasionally things go wrong, it is how we respond and how we strive to eliminate those occurrences that matters.

Overall pollution incidents to watercourses have marginally fallen year-on-year, and whilst I am very disappointed that the level of incidents has not reduced further, and the number of more serious incidents in 2024 has risen from two to four, there has been progress, with pollutions from our thousands of kilometres of network reduced by 40% since 2020, having installed thousands of network monitors that are allowing us to predict, avoid and alleviate incidents.

As we close the period, we are anticipating the EA's Environmental Performance Assessment, which measures 4% of all pollutions, and specifically those which impact watercourses, to maintain a 2-star rating for South West Water. In order for us to improve our rating, we must reduce the number of watercourse pollutions, and our recently published pollution incident reduction plan sets out how we will achieve this. We have a plan to get to EPA 4 star – we have been enacting it – and our regulatory settlement for the outstanding plan means we need to achieve this for the 2028 assessment.

PROTECTING WATER QUALITY AND ENHANCING WATER RESILIENCE

The top priority for our customers is safe clean drinking water, across Bristol, Bournemouth, Devon, Cornwall and the Isles of Scilly regions.

We have been investing to enhance resilience and protect water quality. This has been a monumental undertaking, with teams across South West Water and our supply chain partners. Blackpool pit has been fully operational during 2024/25, coupled with construction completing at the new treatment works at Rialton. That means for Cornwall we have supplemented resources available for use cumulatively since 2022 by 34%, with 4% extra delivery this year, having delivered the 30% uplift for Devon in 2023/24. Whilst there are rising concerns nationally about water resources, after the driest start to spring 2025 in 69 years, we have already learnt more about managing through drought than most, given the 1 in 200 year drought we experienced in the South West in

2022. Simply put, we have invested and innovated to break the cycle of drought, repurposing disused mines and quarries as mini reservoirs and building network recharge schemes. As a result, with the scenarios we have modelled, we do not anticipate restrictions to supply across our regions this summer.

There are always two sides to the coin. Reducing demand is also fundamental to future resilience alongside tackling our own production losses and leakage from our network. Across K7, we have reduced leakage by 13% in South West Water and 1% in Bristol. Whilst we narrowly missed the stretching leakage targets for 2024/25 for South West Water and Bristol the in-year leakage results for 2024/25 were a 9% and 4% improvement respectively on the prior year.

Our sector leading demand reduction schemes have focused on supporting customers to use less and save money. Leading with our 'Water is Precious' water efficiency campaign we are targeting both residents and visitors. In Cornwall residents were given £10 off their bills for delivering a 5% reduction in use. We are also trialling several firsts for the region with progressive tariff trials (seasonal and progressive), early results are showing demand reductions from between 2% and 9%.

Whilst we are focused on protecting water resources, safe, clean drinking water remains customers' number one priority, and we continue to make good progress in rolling out our successful Quality First culture and training programme in Bristol. The incident last year in Brixham, highlights just how important it is that customers can have confidence in their water supply. For eight weeks in the summer, teams worked tirelessly to return safe clean drinking water to the people and businesses in and around Brixham in Devon. Over 800 brilliant colleagues and supply chain partners supported customers during that period, flushing over 30km of network 27 times, and installing UV and filtration equipment to ensure the supply could be restored as quickly and safely as possible. I would like to thank customers for their incredible patience, and their kindness to colleagues who were working on the ground at all hours. We continue to work with the Drinking Water Inspectorate on the lessons learned from that incident.

Our underlying water quality is improving. With South West Water the top performer for water and sewerage companies, we are confident that we can do even more as we share best practice. For Bournemouth customers, we continue to make good progress, using state of the art off site build techniques for our new water treatment works at Alderney and Knapp Mill which will supply 85% of the Bournemouth population. In Devon and Cornwall, we are on track to finalise improvements at Stithians, Saint Cleer, Restormel and Littlehempston with tactical investments in Bristol delivered in 2024/25, ahead of significant investment in K8, showing improvements on last year's performance.

DRIVING ENVIRONMENTAL GAINS

We have improved river water quality at 37 sites, with an 80% reduction in phosphorus, and improved the RNAGS over K7 from 19% to 12%. Our award-winning catchment management programme, delivering c.144,000 hectares of improvements, is leading the way for biodiversity gains as well as continuing to help the way others manage their land, improve water quality, biodiversity and climate resilience. The activities range from building ponds, improving farm tracks, slurry storage as well as planting trees and buffer strips to catch and filter water.

SUPPORTING AFFORDABILITY, DELIVERING FOR CUSTOMERS

In tackling affordability, it is about doing two things, keeping bills as low as possible and supporting those who find themselves struggling with affordability. By focusing on efficiency, we have kept bills as low as possible over the last decade to 2025, with increases below headline inflation over that period. We are supporting more customers than ever before with over 111,000 across the company benefiting from our support frameworks. By unlocking over £124 million of financial support we have increased affordability to 100% for customers in South West and Bristol, having met our pledge of having zero customers in water poverty by March 2025. Alongside supporting customers, we have also supported 55 charities through our neighbourhood fund.

That said, with the significant investment we will be making, bills are rising by on average c.28% in 2025/26 for South West Water customers, with the average water and sewerage bill now being c.£1.85 per day. Water bills for customers in Bristol are set to rise by 5%. We know customers are worried about the necessary bill increases to support investments. The majority of the funding will come from shareholders and debt providers, meaning that customers will pay around a third. At the same time, we will support those who need it most with a £168 million support package, building on our 100% affordable bill pledge. We have continued to support our vulnerable customers through our priority services register to ensure they have our support when they need it.

And given you can't choose your water provider; we believe you should have a say which is why we plan to grow our unique WaterShare+ scheme, which gives customers a stake and a say in our parent company Pennon. Through WaterShare+, we are demonstrating how a socially responsible model can successfully develop in a monopoly market. Listening to our customers, in 2020 we launched our first WaterShare+ share issuance in our parent company. Sharing financial outperformance arising from delivery on our regulatory plans, we have offered money off bills or share ownership. So far, we have c.80,000 customers who have become shareholders through the two issuances we have had. This equates to nearly four times the number of institutional shareholders. Customers have all the voting rights this affords, whether holding us to account at quarterly public meetings, or attending our parent company's AGM, their voice is always the loudest. At the Pennon AGM in July, we will be seeking authority to launch a third issuance, distributing the funds set aside for this purpose following the rights issue in our parent company earlier this year.

One aspect I enjoy most about the scheme is the ability for me to meet so many of my customers. I have met over 1,000 customers through our customer roadshow campaign and the WaterShare meetings.

Key to building trust is reducing complaints and with Bristol recognised as a top performer for complaints and customer service, we see opportunities for improving across the Company, with South West reducing complaints by 7% last year.

We continue to support customers to use less and save more with our progressive charges trials, underpinned by our smart metering programme.

RECORD INVESTMENT AND GROWTH

RECORD INVESTMENT IN K7 – WITH £588.7M IN 2024/25 AT THE RUN RATE FOR K8

Investment reflects the ongoing focus on transitioning to K8, as well as delivering the final regulatory commitments for K7. With more resilient water resources, excellent progress on our state of the art water treatment works in Bournemouth and 100% water quality at bathing waters, our investment is delivering benefits as we have closed out the regulatory period. We have accelerated K8 investment, which coupled with our strategy of consolidation in the UK water sector, has resulted in RCV growth of 77% over K7.

POINT OF INFLECTION FOR 2024/25

We have reset and reshaped ahead of K8.

Firstly, our successful water demand customer initiatives, helping customers to use less and save more, has meant that on a like-for-like basis, across the wholesale water businesses we have seen lower revenues, resulting in a loss before tax on both an underlying and statutory basis. Regulatory revenue mechanisms are in place to protect future recovery.

Secondly, having delivered £67 million of cumulative annualised efficiency savings in 2024/25 as we reshape Company towards our targeted annualised savings of c.£75 million in K8, this is an important base from which to deliver the K8 business plans.

Thirdly, having ramped up capital expenditure during K7, we are delivering at the required K8 run rate, with the supply chain alliance 'Amplify' in place. Our Return on Regulated Equity for South West Water is relatively strong, at 10.4% on a nominal basis, and 6.0% on a real notional WaterShare basis (10.3% and 5.9% including Bristol). We are delivering for stakeholders, with robust relative performance on common ODIs, with overall cumulative ODI performance at c.70%.

Underpinning all our activities is a robust funding position, with total water group RCV gearing of 63.3%. With a strong balance sheet and good liquidity, we maintain the agility to deliver on our strategy in UK Water and are well positioned for a sustainable future.

A SUSTAINABLE FUTURE IN THE UK WATER SECTOR

We share the Government's ambition for a step-change in environmental performance, and to drive economic growth and our significant investment plans for K8 will help us to achieve this.

STANDING READY TO IMPLEMENT NEW LEGISLATION, GOVERNMENT REVIEW

This has also been a year in which many of the foundations, underpinning effective regulation, have been under review, with a new Government, new legislation and a renewed focus on the sector. The Water (Special Measures) Act, passed in February has been an important first step, strengthening the power of water industry

regulators, with Ofwat now consulting on the supporting rules. We have responded and await the outcome. At a principal level, we always strive to ensure we maintain constructive working relationships with government and our regulators. It is what the public expects from us. However, to effectively regulate a transforming sector, we recognise that regulation should also reset. As a sector providing critical national infrastructure, we do believe we should be governed in the same way as other utilities, making a strong case for a more investable, resilient and predictable sector, and in unlocking long term capital at fair rates. We stand ready to implement what is required and continue to contribute to the independent Water Commission's review of water.

OUR PEOPLE

With a history and heritage built up over many years, we continue to learn, innovate and grow, Everyone who works at South West Water is fiercely proud of our heritage in the water sector, with generations of fathers, sons, mothers and daughters, who have dedicated their lives to water, and I am extremely proud of our brilliant teams.

Our c.2,750 talented colleagues don't just bring water to life every day; we drive economic growth, and break down barriers to opportunity, supporting livelihoods in the areas we serve. As one of the largest private employers in the South West, and across the Company, leadership is all about making this a great place to work, and a safe place to work. Our employee engagement scores during the year were the highest we have ever had, and health and safety engagement is consistently our best scoring area. Our health and safety track record has improved for the past five years, as we focus on making sure everyone who works for us and with us, goes home safe every single day, through our HomeSafe culture programme. This is reflected in our lowest ever LTIFR rate of 0.24, which has halved over the last five years.

Our partnerships with the wider supply chain and our Amplify alliance more than doubles our workforce and plays a critical role in the regions too. As a Real living wage employer, we continue to invest in skills and jobs, and the only water company recognised by the Government as a top 100 apprenticeship employer, with our earn and learn approach and as our parent company being a member of the 5% club with platinum status. With over 600 apprenticeship and graduate placements we are well on with our target by 2030. With organisations like the Institute of Water, we are focused on making sure we have the talent and trained colleagues we need across the sector for our record investment and delivery.

STRONG PLATFORM FOR THE FUTURE

The fundamentals for the business are robust for a sustainable future.

Our growing footprint puts us on a strong platform for delivery. We have good liquidity and a strong balance sheet, having delivered higher than base allowed regulatory returns and consistently been a top quartile performer against our regulatory outcome performance.

As we look ahead, we are set to invest a record level of £3.0 billion[1] by 2030, having achieved a sector leading plan in South West Water for three consecutive price reviews. With Managing Directors now in place for Water Services and Wastewater Services, we are reshaping the Company aligned to the new model, with more resources and capabilities, on the front line, supported by expert corporate functions, ensuring we are well positioned to deliver our outstanding business plan for K8, and another period of significant growth.

Finally, it's not what we do but how we do it that matters, walking in the shoes of our customers and the regions we serve, living our values, and as we bring together customers and communities.

[1] At forecast outturn prices

SOUTH WEST WATER'S GROUP CONTEXT

South West Water Limited is a subsidiary of Pennon Group plc (which is South West Water's immediate and ultimate parent company), a FTSE 250 company, whose principal significant trading subsidiaries are shown below:

Note: South West Water's subsidiaries are described in note 18 (page 243).

SOUTH WEST WATER
South West Water provides regulated water and wastewater services across Cornwall, Devon, Isles of Scilly and parts of Dorset and Somerset, water only services in areas of Dorset, Hampshire and Wiltshire (the Bournemouth Water area), Bristol, and a small amount of non-appointed services. It is responsible for delivering the 2020-25 business plan, in the original South West Water area of operation, the Bournemouth Water and the Bristol Water areas of operation. South West Water provides retail services to residential (household) customers.

SES WATER
On 10 January 2024, Pennon Group plc acquired 100% of the issued capital of Sumisho Osaka Gas Water UK Limited, the holding company of Sutton and East Surrey Water plc ("SES Water") and certain other ancillary businesses. The acquisition is currently subject to an ongoing review by the Competition and Markets Authority (the "CMA") and SES Water continues to be managed separately from South West Water and is not included in this report.

PENNON WATER SERVICES
Pennon Water Services provides retail services to non-household customers. Whilst part of the wider Pennon Group, South West Water has in place robust policies and practices to ensure full competition compliance with the market codes for the non-household retail market.

SOUTH WEST WATER'S SUBSIDIARIES
South West Water Customer Services Limited manages South West Water's billing, collections and customer contact activities.

South West Water Finance plc acts as a financing company, raising borrowings for South West Water.

Bristol Water plc is the former operating company of Bristol Water. The company retains external debt and the defined benefit pension scheme.

OUR BUSINESS MODEL

Our business model is shaped by our purpose: Bringing water to life: supporting the lives of people and the places they love for generations to come. This means we are not only seeking to create value for our stakeholders today but reinvesting in our business in a carefully planned and sustainable way for the future.

Guided by the Pennon Group's four strategic priorities:

Building water resources, improving water quality

Tackling storm overflow and pollutions

Driving environmental gains

Supporting affordability and delivering for customers

Reshaped structure into Pennon Group's four clear business units:

Water Services
Ensuring an available and sufficient provision of raw water is critical to ensuring a continuous supply to our customers

Wastewater services
We treat wastewater to a high standard at our wastewater treatment works before returning treated wastewater to the environment, safely.

Pennon Power
Pennon is building a portfolio of renewable energy projects to secure c.50% of the Group's energy.

Retail Services
We manage an extensive network to deliver uninterrupted supplies to our customers while keeping customers' bills affordable.

Generating value for our stakeholders:

- **For the environment –** We focus on our environmental strategy, which is central to everything we do, as evidenced by the fact that the environment and 'nature first' solutions underpin three of our four strategic priorities. Read more on pages 45 to 47.
- **For our customers, communities and colleagues -** We focus on how we manage and work with our c.2,750 colleagues to ensure they feel valued and deliver excellent customer service. Read more on pages 16 to 23 and 28 to 35.
- **For our wider stakeholders -** We focus on how we communicate, engage and work with our other key stakeholders, namely, our regulators, our suppliers and policy makers. Read more on pages 23 to 27.

Underpinned by our values:

STAKEHOLDER ENGAGEMENT OVERVIEW

We believe the best decisions are made when everyone has a voice. That's why we maintain regular, open dialogue with our stakeholders, from customers and community groups, to regulators and environmental partners. These conversations are not a formality, they are a vital part of how we shape our strategy, make decisions, and deliver meaningful outcomes. By listening closely to what matters to our stakeholders, we can respond effectively, and ensure our actions deliver real value to the communities we serve.

Our approach is built on trust, transparency, and long-term relationships. Whether it's through formal panels, market research, community events, or one-to-one meetings, we stay connected, because strong relationships result in better outcomes. The insights we gain directly influences everything we do, from Board decisions to strategy and social purpose. For more on how stakeholder voices shape our governance, see Section 172(1) on pages 158 to 160.

CUSTOMERS

WHO THEY ARE
Our business supply water and wastewater services to 3.5 million residents across the South West regions. We also support an additional 10 million people who visit the South West each year – making our services vital to both residents and tourists.

KEY HIGHLIGHTS

- We hosted 24 roadshows across Devon and Cornwall, engaging with over 1,000 customers
- Through the WaterShare+ scheme 80,000 of our customers are now shareholders in our parent company Pennon.

WHY WE ENGAGE
The best way to serve our customers is to listen to them. Engagement gives us insights into customer views, needs and ambitions. This enables us to improve our services.

Whether it's a phone call, a doorstep conversation, or a community drop-in, every interaction helps us understand what matters most to the people we serve. From this contact, we know what customer key concerns and priorities are, and the sense of urgency there is about improving the network, and the impact it has on the environment they love.

We know that trust is earned through action. That's why we're committed to listening carefully and responding meaningfully, so our customers feel heard, respected, and supported.

Away from the frontline of customer service, we also know that broader engagement is crucial. We visit schools to inspire the next generation about the water cycle, meet one-to-one with customers who need extra support, and host public events where customers can ask questions directly.

We also engage with the Consumer Council for Water (CCW), which provides an independent voice for water consumers in England and Wales.

HOW WE ENGAGE
Our customer contact and support centres focus on continuous improvement to deliver excellent service to customers. We're proud to hold the BSI ISO 22458 Kitemark for Vulnerability and Inclusive Service, recognising our commitment to supporting all customers. We use customer feedback to drive improvements.

The WaterShare+ Customer Advisory Panel is an important part of our customer engagement. The panel of independent customer, business and social representatives is strengthened by expert advice from representatives of the Consumer Council for Water, the Environment Agency and Natural England. Thanks to the WaterShare+ scheme, 80,000 of our customers are now shareholders in our parent company Pennon, giving them a stake and a say in how we operate.

To provide transparent data for customers, our WaterFit Live interactive map displays near real-time storm overflow activations. This helps customers make informed decisions about whether and where to enter the water, while also showing where we're investing in improvements.

We hold regular customer roadshows and local drop-in events, which brings experts from around the business into communities to listen, learn, and act on local concerns.

Across our regions we run an extensive customer research programme with surveys delivered by independent research agencies. The surveys help us identify what matters most to customers and where our efforts should be focused in future. We ensure that research reaches harder to reach and vulnerable customers from our Priority Services Register (PSR).

We also use research to understand customer needs in specific areas. For example, we undertook a series of interviews with customers to explore their responses to our new bill design. Their thoughts and suggestions helped to make the bill as user-friendly as possible.

We engage customers on complex topics, including a series of focus groups to gather views on the Isles of Scilly investment programme.

Last year, we ran five Youth Boards across our regions, giving young people a voice in how we manage water and respond to incidents. Their ideas are helping shape our future.

After an incident, we survey affected customers to help improve our approach to future incidents. After the water quality incident in Brixham, we commissioned independent research projects both during and after the event. This helped us to gather as much insight from customers as possible. This research is fundamental to our evolution as an organisation.

We run three online panels with almost 10,000 customers. Using these panels on a regular basis allows us to understand how views change over time. More recently, we surveyed our panels to understand customers' perspective on affordability.

We undertake evaluation projects with customers to inform our work. Currently, customers are evaluating our progressive charges pilot project, and our lead-free Bristol project.

In April 2024 we launched water-saving campaigns using the slogans 'Water is Precious' and 'Every Drop Counts'. The campaigns were rolled out across Devon and Cornwall to encourage customers to think about saving water, with the overall aim of reducing demand for drinking water.

The campaign started with a targeted message to the Colliford area supply zone with a challenge to save 5% across the community, along with a leaky loo campaign across other targeted areas. A supporting multimedia campaign was launched using billboards, radio, print adverts and digital. The full campaign ran from April 2024 to September 2024.

In the South West, demand for water escalates each summer as the annual influx of tourists vastly increases the population. To raise awareness of the need to conserve water, we launched a five-week campaign thanking tourists for using less water, helping protect resources during peak season.

KEY CHALLENGES AND HOW WE ARE RESPONDING

The provision of clean, safe drinking water is the number one priority for our customers. We are focused on building new resources, investing to upgrade infrastructure and reducing leakage.

We are helping to reduce pollution and protect water quality in bathing waters. We have been running a trial programme of water sampling and monitoring to build customer trust. Our WaterFit Live maps now share the near real-time status of overflows in the region, including those on rivers. We also respond to customer concerns through face-to-face events in coastal communities. We have been working with event organisers to help ensure safe and enjoyable water-based events, throughout the year as well as festive swims.

We are committed to being a socially responsible business. We aim to achieve net zero by 2030. We focus on key environmental projects, including peatland restoration, renewable energy generation and energy efficiency at our sites. We are also creating an independent WaterFit environmental advisory board.

With the ongoing cost-of-living crisis and implementation of bill increases, affordability has been a major focus for us. We do all we can to keep bills affordable and support those who need it. We're focused on maintaining zero water poverty to 2030, ensuring fair pricing and the acceleration of smart metering.

OUTCOMES, ACHIEVEMENTS AND ACTIONS
Through the roadshows we visited 24 locations across the South West, supported by 140 colleagues engaging over 1,000 colleagues.

This, together with our Youth Boards gave us a unique insight into how our existing and future customers feel about the services we offer and the topics that of interest to them.

The youth boards gave us a unique insight into what our future customers think of the services we offer and how we can better engage them in areas they have indicated are important to them.

CUSTOMER ROADSHOWS
In 2024/25 we hosted 24 roadshows, 16 in Devon and 8 in Cornwall. 140 of our talented colleagues offered their expertise to over 1,000 customers who attended these events.

The roadshows present localised information boards about water and wastewater services, explaining what we are currently doing and what we have planned up to 2030. Customers can talk to experts from throughout the business and ask questions.

The roadshows focus on our four strategic priorities:

- Investing in Water Quality and Water Resilience
- Tackling Storm Overflows and Pollution
- Delivering for Customers and Addressing Affordability
- Reaching Net Zero and Enhancing Environmental Gains

At the Looe Roadshow in January 2025 we displayed a new storm overflow model, which demonstrates how the sewer system operates. This gives customers a better understanding about the journey of wastewater.

93 customers attended the Budleigh Salterton Roadshow at the Venture Hall on 2 April 2024, while 30 customers attended the Newquay Roadshow on 11 September 2024 at Mount Wise Community Centre. At this event, we were joined by MyCoast who were showcasing their first-of-its kind app, created in partnership with the RNLI, to revolutionise the way we interact with our coastlines. South West Water provides the water quality data for the app.

CUSTOMER FEEDBACK
"There was a variety of departments and enthusiastic staff talking about their area of work"

"A brilliant idea, you need to do more of these roadshows to educated people and give vital information about our most important resource – water – as we need it to survive."

COMMUNITIES

WHO THEY ARE
We deliver services that are crucial to daily life, which means we are not just a utility provider, we're part of the fabric of local communities. Our teams live and work where we serve, so we're closely connected to the people and places that make each community unique. We work with community groups to ensure people have a voice in shaping services that matter to them.

KEY HIGHLIGHTS

- Our education programme delivered 212 lessons on the water cycle, sewer misuse, plastic pollution and water efficiency to 3,000 children and young people
- Our Awesome Water programme has reached 34,000 people across the South West

WHY WE ENGAGE
We are woven into the everyday lives of communities across the region. By listening regularly and responding

with care, we can better understand local needs and deliver services that protect water, support wellbeing, and safeguard the environment today and for generations to come.

Our charitable donations and community funds support hundreds of amazing causes, from water conservation to education and environmental restoration, making a real difference to peoples' lives and the places they love.

Our education programme inspires future champions across the region to learn about the value of water in fun and interactive ways.

Our outreach teams work directly in the communities we serve, offering support to those who need it most and having honest conversations about the environmental challenges we face together.

We don't just talk about sustainability, we act on it. For over a decade, we have partnered with local organisations to deliver nature-based solutions, including working with farmers to adopt sustainable practices and planting trees to protect water quality.

We have also restored vital peatlands to boost biodiversity and reduce runoff into rivers and streams. Our charity partnerships open up access to lakes and reservoirs, offering health and recreational benefits to thousands of people.

HOW WE ENGAGE

Our Stakeholder Forum has brought together over 1,000 stakeholders from across the region to review and develop plans with us.

Our 'Wheels of Engagement' van, painted by a local artist, has become a familiar sight across the region. With over 50 visits, we can respond quickly to local needs, whether it's a planned event or a live incident, giving us the flexibility to engage quickly when a particular need arises. We have engaged face-to-face with over 1,000 people in this way.

We use a mix of print, digital and social media campaigns to reach people where they are. Campaigns like 'Thank you for using less water' and 'Every Drop Counts' have helped raise awareness about water conservation, whilst targeted social media has supported customers through the cost-of-living crisis and bill rises, by sharing financial support options.

Our Awesome Water team attended 16 event days across the South West, reaching over 34,000 people. These events bring water education to life, covering sewer misuse, water efficiency and the water cycle in fun and family-friendly ways.

Now in its fourth year, the South West Water Neighbourhood Fund awarded £100,000 to 55 different charities and groups in the year, helping over 40,000 people across the South West. Through South West Water's Water Saving Community Fund, 21 projects received £55,772 in funding, saving an estimated 2.7 million litres of water annually.

Bristol Water's Together for Good programme awards £500 a month to a local charity or community group, for projects that make a difference to the community.

We recently launched the new £5 million Better Futures programme to support water customers and communities across Devon, Cornwall, Bristol, Bournemouth and the Isles of Scilly. Better Futures provides hardship grants to families and supports community groups focused on physical activities, education, health and wellbeing and positive environmental outcomes. This builds on our £200 million customer support package, ensuring help reaches those who need it most.

We also host a Conservation and Recreation Forum twice a year, working with partners like South West Lakes Trust to improve access to our land and water sites for recreation and wellbeing.

KEY CHALLENGES AND HOW WE ARE RESPONDING

The South West region has over a third of the nation's designated bathing waters. We're committed to protecting these special places and for the last three years 100% of designated bathing waters in the region we operate have met all of the stringent standards set for bathing water, with 98% rated as having 'Excellent' or 'Good' water quality status.

We have successfully concluded pilot studies into water quality on the River Dart, which has successfully supported the designation of four new inland bathing waters. These designations mark a significant step forward in improving access to safe, clean rivers for recreation and community wellbeing.

Each year, over two million visitors visit our 40 inland lakes and reservoirs. We remain committed to keeping these special places open and accessible, supporting health, recreation, and a deeper connection with nature for local communities.

OUTCOMES, ACHIEVEMENTS AND ACTIONS

Through our Community Programme we have now delivered £329,247 of funding, across 36 funding periods, to 198 projects, supporting 83,000 people.

Our 'Wheel of Engagement' engagement programme was designed to bring our teams directly into communities. This flexible, on-the-ground approach enabled us to host 50 pop-up events throughout the year, including rapid responses to live incidents.

At the time of print, this programme has been short-listed for Customer Initiative of the Year at the 2045/25 Water Industry Awards, a recognition of our commitment to meaningful, community-first engagement.

CREWW

We are also looking at longer-term challenges through the Centre for Resilience in Environment, Water and Waste (CREWW), a 25-year research partnership between South West Water and the University of Exeter (UoE).

CREWW extends the many years of collaboration between the two organisations including our sector-leading catchment management programme, Upstream Thinking (first pioneered in 2006).

CREWW brings subject matter experts from South West Water and UoE, combining their knowledge and expertise to undertake innovative research into some of the most pressing challenges facing both the business and the water industry.

The outcomes will help inform our operations and enable better services for our customers, the region and the environment. The research facility is underpinned by £21 million of capital and research investment by South West Water. It is the first water sector partnership to receive UK Research Partnership Investment Fund (UKRPIF) support, and the largest RPIF-sponsored project in the South West.

Since the centre opened in March 2024, the research programme has expanded to tackle a wider range of current and future issues. The cutting-edge CREWW facilities allow us to understand our environment more fully, including the presence of emerging contaminants and micro-pollutants.

Over 3.5 years, a £1.1 million research study led by leading environmental biologist and (eco) toxicologist Professor Charles Tyler will establish the composition of discharges and monitor environmental/ecological impacts on the environment.

We have invested £500,000 into modelling and computer science research, backed by expertise from the University's world-renowned Centre for Water Systems. These research projects will model groundwater, identifying which parts of the wastewater network are most at risk of groundwater infiltration, which is a crucial factor in storm overflow operation. The project is led by Professor Akbar Javadi and Dr James Webber.

A second project led by Professor Raziyeh Farmani and Professor Ed Keedwell uses Artificial Intelligence to improve our ability to locate the remaining lead pipes within our distribution network accurately, and to replace them quickly.

CREWW is home to dedicated state-of-the-art microplastics laboratory. The priority is to enhance knowledge and understanding of microplastics in South West Water operations, be that in the water we abstract, treat and supply as drinking water, or when we collect, treat and return to the environment.

The project teams work closely alongside a multi-disciplinary team of experts from South West Water. The CREWW partnership is delivering for customers and the environment.

PEOPLE

WHO THEY ARE

c.2,750 people work across Company, in corporate and operational roles. They are the heart of our business, delivering essential water and wastewater services and ensuring clean, safe drinking water for our customers 24/7.

KEY HIGHLIGHTS

- **Strong focus on PR24** - Engaging all our colleagues and ensuring we are all focused on delivering for our customers, today and in the future
- **Launching a new Pennon Podcast** - Listening to our colleagues and regularly updating our internal communications
- We delivered 25,000 training days across the Company for our colleagues
- **Viva Engage, our internal communications platform** now used by over 2,000 employees

WHY WE ENGAGE

Our employees are our greatest asset. We believe that when employees are heard, supported, and empowered, they thrive, and so does our business.

We engage with colleagues at every level through two-way dialogue, feedback channels, and regular communication. This helps us understand what matters most to them and make meaningful improvements based on their feedback.

We regularly connect with our teams on topics such as:

- Health, safety, and wellbeing
- Organisational culture and values
- Diversity, equity, and inclusion
- Training, development, and career growth

We use a range of tools to stay connected, including pulse surveys, listening sessions, employee forums and trade union representation.

HOW WE ENGAGE

GREAT PLACE TO WORK

We have enhanced our use of the Great Place to Work (GPTW) platform. We have introduced regular pulse surveys alongside the full survey, which during the year gave colleagues additional opportunities to share feedback. We continue to work hard to keep engaging and supporting our colleagues to enable them to bring their best to work, and to ensure we are creating the best work environment as well as supporting them appropriately.

LISTENING AND ACTING ON EMPLOYEES' VIEWS

We take our responsibility to listen, to understand and support our employees seriously. Our s172(1) statement on pages 158 to 160 outlines how employee interests are considered in our decision making.

SPEAK UP

Our Speak Up whistleblowing policy continued to operate throughout the year, and remains a vital channel for open, safe and transparent communication, helping us build a culture of trust. Employees are able to speak up and are supported if they do so. Read more on Speak Up on page 174 in the Corporate Governance report.

Additionally, we have introduced new 'open door' channels that allow employees to ask questions and share ideas directly with senior leaders fostering a culture of openness and accessibility. This new approach brings together several employee communication channels and encourages employees and senior leaders to keep connecting more.

BE THE FUTURE FORUM

We ensure 100% employee representation, either through the Be The Future Forum or collective bargaining agreements with our Trade Union partners GMB and Unite in our operational teams.

EMPLOYEE TRAINING PROGRAMMES

We're committed to helping our people grow. Last year, we delivered over 23,000 training days across the company for our colleagues – an average of nearly seven days per employee.

We undertake high-quality training and development to support all our colleagues and enable them to undertake their jobs professionally and safely. All our training places health and safety at its core to ensure all colleagues go home safe at the end of every day.

Our award winning apprenticeship and graduate programmes are developing the next generation of water professionals.

PERFORMANCE AND PROGRESSION

Regular one-to-ones, appraisals, and performance reviews ensure colleagues are supported in their roles and have clear pathways for development.

INTERNAL COMMUNICATION ACTIVITIES

We're always evolving how we communicate. Our key activities include:

- Big Chat video calls with the CEO and the Executive team are held regularly and focus on topical business issues and employee highlights. In response to employee feedback, we have broadened the group of speakers, involving colleagues from all areas and levels across the company.
- Viva Engage, our internal communications platform is growing in popularity, now used by over 2,000 employees.
- Toolbox talks and breakfast meetings with frontline teams that work tirelessly around the clock, supported by our senior leaders and designed to ensure two-way dialogue with operational teams.
- WaterWorks, our monthly dashboard, keeps everyone informed on performance and progress on delivering for our customers, communities and the environment, so that all employees across the Company are regularly updated on these critical areas.

LAUNCHING OUR NEW PODCAST: THE PENNON POD

During the year, our parent Company Pennon, launched our brand-new internal podcast, The Pennon Pod, which was created as a result of feedback through the Pulse surveys. Our People told us that they would like to hear more about the values and what they mean, and told us that they would like a range of ways to get information about our business. The first three episodes were based on each of our values.

In the first episode of The Pennon Pod, we got under the skin of what it means to Be 'Rock Solid' and two colleagues, our Director of External Relations, and our People Services Advisor, were invited to tell explain what this value means to them and how they live it to deliver great business results. They were joined by a very special guest, British athlete, World Champion and two-time Olympian, Derek Redmond, who shared how he used the behaviours and sentiment of 'Be Rock Solid' to achieve success.

In the second episode we explored what it means to bring your best self to work and how our best self evolves for all of us, throughout our changing careers. Special guest, former Royal Marines Commando and Invictus Games Medallist, JJ Chalmers hosted a discussion with our Instrument Maintenance Technician for South West Water, to get under the skin of our value, 'Be You'. They covered some unexpected similarities between their military experience and life at South West Water, from the importance of playing a part in building a successful team, supporting each other and recognising that diversity makes us stronger.

In the third episode futurist Tracy Follows, sat down with two colleagues to explore the concept of 'Be the Future'. As one of our values, 'Be the Future' represents the importance of foresight, curiosity adaptability and innovation in today's rapidly changing world. They delved into how 'Be the future' can be applied in our lives and day-to-day roles. They covered everything from why personal development and continuous learning is more vital than ever in 2025, to how learning from our failures is crucial for progress, personally and as an organisation. The key

takeaways from the pod included the need for a culture of innovation and collaboration within the company, the value of experimentation, and a bold approach to professional growth.

KEY CHALLENGES AND HOW WE ARE RESPONDING

We proactively recognise and address employees' mental health and wellbeing by delivering a broad and comprehensive programme of offerings for all employees and their family members.

Maintaining focus on Health and Safety is key, with continued investment through HomeSafe. See page 31 to 32 for further detail on this.

We support diversity and inclusion through our employee networks and ensure we provide equal opportunities for all through our recruitment processes.

We are focused on future skills. We're investing in apprenticeships, internships, and graduate schemes to build a skilled, resilient workforce.

Employee survey feedback is addressed by enhancing Company communications and employee pay and bonuses.

OUTCOMES, ACHIEVEMENTS AND ACTIONS

Our goal is zero workplace accidents, and we continue to prioritise safety and wellbeing.

We are pleased to see our mean gender pay gap reduce significantly during the year to 3.53%, but our goal is to work to eliminate any gap.

By investing in developing future talented and skilled employees and maintaining our focus on driving innovation, we are seeking to use new technologies and ways of working to address future challenges and enhance our services for customers.

SUPPLIERS

WHO THEY ARE

As a large organisation we work with a large and diverse supply chain. Our supply chain partners are essential to delivering safe, efficient, and sustainable operations, bringing innovation, expertise, and resilience to every part of our business.

KEY HIGHLIGHTS

- £3.0 billion[1] 2025-2030 infrastructure plan
- over 1,000 schemes already underway

WHY WE ENGAGE

We know that strong partnerships are key to meeting future challenges and delivering long-term value. By working collaboratively with strategic suppliers, we can deliver major investment programmes, drive innovation, and ensure our operations remain resilient and future-ready.

We're committed to working with partners who share our values, standards, and behaviours. Through our structured approach, rationalising and segmenting our supply base into strategic, key, preferred or transactional relationships, we have tailored our engagement with each supply chain partner to maximise value and impact.

Our parent company, Pennon Group plc, is a signatory to the EU Skills Accord, we support skills development and investment throughout the supply chain. And through our ESG and Net Zero strategies we engage our supply chain to better understand and reduce our collective environmental impact.

[1] In forecast outturn prices

HOW WE ENGAGE

Our capital delivery supply chain partnership "Amplify" is now stood up and is delivering on over 1,000 schemes, representing one third of the £3.0 billion[1] earmarked for investment to 2030.

To help deliver these projects, Amplify's main construction partners, following a highly competitive tendering process, are working alongside a range of consultancy organisations. Project management, design and cost consultancy is now being used to deliver the optimum spend through standardising specifications, streamlining requirements for efficiency and building supply resilience.

Supplier reviews and audits continue to deliver opportunities for innovation, testing and improvements.

The Code of Conduct for Supply Chain Partners has been established, and all new suppliers are brought on board using the framework.

Formal contracts and framework agreements are utilised to generate robust cost effective and market-tested procurement.

E-procurement and Risk Management platforms are being used to monitor the suppliers, flag risks in advance to the teams and ensure suppliers remain compliant.

Alongside, we engage with neighbouring water companies like Wessex Water through the Western Procurement Hub, collaboratively procure goods and services to derive the best value as well as to share best practices.

KEY CHALLENGES AND HOW WE ARE RESPONDING

Meeting the environmental challenges of today, and tomorrow, requires a shift in how we think about infrastructure. That's why we're embracing a 'nature-first' approach, prioritising solutions that work with the natural environment rather than against it. We're embedding nature-based thinking into the heart of our supply chain strategy.

To deliver this, we're securing the best talent and expertise from our partners, those who share our vision for a greener, more resilient future. Our mobilisation board is already overseeing the delivery of current schemes, ensuring that nature-based principles are integrated from the outset.

We also continue to minimise the risk of supplier failure or insolvency through rigorous due diligence and proactive risk management, strengthening resilience and ensuring long-term delivery capability.

OUTCOMES, ACHIEVEMENTS AND ACTIONS

We have identified opportunities to collate smaller areas of spend across our regions, bringing under central management in order to improve value, enhance service quality and reduce risk.

Our data driven approach to tendering ensures that procurement decisions are market-tested for both value and performance. This helps us deliver current schemes efficiently while maintaining high standards.

To strengthen supply chain resilience, we're actively mapping upstream supplier networks, giving us greater visibility and control over potential risks and dependencies.

Building on the success of Amplify, we are now expanding the outcomes of Amplify across a broader range of supply chain goods and services, as we look to embed collaboration, innovation, and sustainability into every layer of delivery.

REGULATORS

WHO THEY ARE

We have an open dialogue and meet regularly with our regulatory bodies: Ofwat, the Environment Agency, the Drinking Water Inspectorate, Natural England, and the Health and Safety Executive (HSE).

[1] In forecast outturn prices

KEY HIGHLIGHTS

- May 2024 we hosted officials from Defra in Plymouth, sharing the work we are doing with local Government and landowners in our region to sustainably store water and manage flood risk.
- Summer 2024 Ofwat awarded South West Water the top “outstanding” business plan status for the third price review in a row. No other company can match this track record.
- 29 January 2025 we confirmed our decision to accept Ofwat’s PR24 Final Determination.
- 27 February 2025 the Independent Water Commission launched their eight week Call for Evidence on the Water Regulatory System.

WHY WE ENGAGE

Engaging with our regulators is fundamental to maintaining our licence to operate and delivering long-term value. Through open and constructive dialogue, we ensure our plans are aligned with national priorities, meet compliance obligations, and reflect the needs of the people and places we serve.

The regulatory landscape is evolving, around environmental performance, affordability, and governance, and our engagement aims to help shape future policy in the interests of our customers.

We work to ensure that regulation supports innovation, enables long-term investment, and holds the sector to account in a way that is fair, transparent, and focused on outcomes. Engaging early and often is essential to build a regulatory framework that is fit for the future, supporting both public trust and sustainable growth.

HOW WE ENGAGE

We take a proactive and collaborative approach to regulatory engagement. This includes regular meetings and open dialogue to ensure customer voices and environmental needs are reflected in our plans.

We submit detailed action plans, performance reports, and compliance reviews to our regulators, ensuring transparency across key metrics such as leakage, customer service, and investment delivery. We participate in industry consultations and working groups, helping to shape new and emerging regulations. Joint site visits and inspections provide further opportunities to review progress and performance in real time.

KEY CHALLENGES AND HOW WE ARE RESPONDING

The water sector is facing a period of significant transformation, driven by environmental pressures, technological advances, and rising expectations from customers. Issues such as water quality, drought resilience, pollution, and affordability are becoming more urgent, particularly in the context of changing weather patterns, growth, and pressures on household incomes.

In response, we are working closely with our regulators as the regulatory framework evolves to meet these challenges. This includes contributing to the Government’s comprehensive review of water regulation, led by Sir Jon Cunliffe and conducted through the Independent Water Commission, whose recommendations are expected in summer 2025.

We are also responding to HM Treasury’s Action Plan, which calls on regulators to support economic growth and housing. With over 80,000 new homes planned across our regions, we are investing early in infrastructure to support this growth, including storm overflow upgrades and sustainable bioresources solutions.

In parallel, we are engaging with Ofwat on its evolving expectations around executive pay, dividends, and performance-linked incentives. We support the principle that rewards should be clearly linked to delivery for customers and the environment, and we are aligning our governance and reporting accordingly. We are also exploring innovative tariff structures that better reflect customer usage and affordability, while supporting long-term investment in resilience and sustainability.

Major infrastructure projects such as the Cheddar 2 and Mendip reservoirs, and the Poole water resource scheme, delivered in partnership with Wessex Water, demonstrate our commitment to long-term, nature-based solutions.

These efforts are underpinned by strengthened governance, improved data transparency, and a clear focus on delivering sustainable outcomes in partnership with our regulators.

OUTCOMES, ACHIEVEMENTS AND ACTIONS

Our engagement is shaping a regulatory framework that supports innovation, sustainability, and long-term value for customers. Over the past year, we have finalised our robust and forward-looking PR24 business plan; improved our collaboration around environmental improvement programmes such as storm overflow reduction and the adoption of nature-based solutions; and we have continued to align with regulatory expectations on governance, risk management, and customer outcomes. We also submitted our formal response to the Government's Independent Water Commission on 23 April, setting out our views on how regulation must evolve to support a resilient, customer-focused, and environmentally responsible water sector.

POLICY MAKERS

WHO THEY ARE

Policy makers play a central role in shaping the legislative and regulatory environment in which we operate. We engage with national and regional stakeholders, forming relationships that are essential to ensuring that water policy reflects the needs of customers, communities, and the environment.

We maintain open and transparent relationships with a broad spectrum of policy makers, from central government departments, such as the Department for Environment, Food & Rural Affairs (Defra), through to local authorities, local MPs, and parliamentary committees. While local MPs advocate for their constituents, central government sets national water priorities and policy directly and through regulatory bodies such as Ofwat and the Environment Agency.

We engage with Parliamentary Committees regularly to set the tone of legislative activity, ensuring that South West Water's voice is heard at the heart of government. But we don't just engage with the Government, we work cross-party to our best to ensure that our values are heard across the political divide.

In addition, as our parent company, Pennon is a FTSE-listed business, we also collaborate with third parties such as the Confederation of British Industry (CBI) and Chambers of Commerce, to ensure that the voice of business is heard in national policy discussions.

WHY WE ENGAGE

Following huge change at the last General Election in July 2024, and in a highly politicised operating environment, it is more important than ever to educate and engage our new and historical stakeholders.

As one of the largest employers and businesses in the Greater South West, we have a responsibility to support the local economy and growth in our region, whilst upgrading and improving our assets, so that stakeholders have confidence in our plans.

HOW WE ENGAGE

We engage with national political stakeholders through Select Committees, All Party Parliamentary Groups, and other forum focused on the environment, renewable energy, skills and regional growth, so that South West Water's story is at the forefront of the minds of policymakers. Our membership of Water UK enables us to contribute to national policy development and sustainable water service delivery.

We host regular meetings with MPs, including site visits and constituency-based meetings, as well as events in Westminster. We contribute to roundtable debates and provide briefings MPs and ministers ahead of parliamentary discussions, helping shape the narrative from the outset.

We also respond to government consultations, such as the proposed reforms to the National Planning Policy Framework and the Independent Water Commission's Review into the Water Sector.

KEY CHALLENGES AND HOW WE ARE RESPONDING

In the wake of the 2024 General Election, we have proactively built relationships with new and returning MPs, helping them understand our business and regional impact. Stakeholders have been interested to hear from us on a range of topics, including customer bills, investment plans and environmental initiatives.

We respond promptly to enquiries we from local MPs and councillors. We proactively facilitate site visits for them to see firsthand our work in their constituencies, demonstrating investment in infrastructure and how we are upgrading our network to protect and enhance water quality and the environment. Policy makers are also

regularly invited to join our customer roadshow events, where we explain the work we have been doing in their area.

OUTCOMES, ACHIEVEMENTS AND ACTIONS

Since the General Election in July 2024, we have extensively engaged with new and re-elected MPs, supporting around 500 day-to-day enquiries on casework issues and providing educational briefings on the water cycle and our investment plans. Our CEO has held one-on-one meetings with MPs in Westminster, whilst our wider team has hosted site visits across the region. These efforts have strengthened relationships, supported MPs in their communications with constituents, and helped build a positive narrative around South West Water's infrastructure improvements aligned with the current parliamentary term.

OUR PEOPLE AND CULTURE

As one of the largest employers in the region, with c.2,750 colleagues, we have a responsibility and duty to make a positive societal contribution. Our goal is to be the Employer of Choice across our region through promoting social mobility and prioritising Diversity and Inclusion by addressing racial and gender inequality.

We provide safe, secure and meaningful employment where all employees are paid fairly for the work they do and where trust is high. We fully recognise that the levels of external scrutiny on the water industry have increased significantly in recent years, and this is felt by our colleagues personally as they carry a heightened level of responsibility. Despite these pressures, we are delighted that our colleagues are even more determined to provide high quality services to our customers and the wider environment.

Over the past ten years our region has seen significant population growth. It's been estimated that more people moved to the South West during and following the pandemic than had been anticipated by 2050. This increase in population has an impact on many different areas of society, including employment, housing and opportunities for young people.

With a double coastline and dispersed population, many coastal towns around the South West suffer from high rates of poverty, unemployment and health risk factors, together with poor housing and public service provisions, as well as poor public transport and communication connections.

At South West Water we take our social stewardship role seriously, whether that's through driving our environmental improvements or growing the number of jobs we support.

PREPARED FOR PR24

We are reshaping the Company, aligned to our four strategic priorities, focusing on having more colleagues on the front line, and ensuring we are in a good position as we move into the new year and business planning cycle. Our strategic priorities are our drumbeat internally, ensuring we can deliver commitments externally, and delivering the things that matter most to customers.

We have been working hard throughout the last year to align our teams within South West Water, Bournemouth Water and Bristol Water, and within the respective non-core water business to ensure we are well placed to successfully deliver the challenges within PR24.

Our exciting business plan, which has been approved by our regulators, will see us create upwards of 2,000 new jobs as part of a wider £3.0[1] billion investment planned across the Company. Our business plan was built around our company values and aims to have a positive impact on customers, communities, colleagues and the environment.

Our approach to Human Capital seeks to go further: supporting community investment and social mobility across our region by creating education and employment opportunities across our region; ensuring we pay our employees a fair wage for doing a fair day's work and therefore being well placed to be able to make a wider societal contribution; and delivering our Diversity and Inclusion strategy by prioritising diversity of thought, gender and ethnicity to promote social mobility and opportunity for all.

This is all part of a wider strategy to be the employer of choice in the region, and in creating a Great Place to Work.

EMBEDDING OUR NEW COMPANY VALUES

Last year, we launched our new Company values: Be You, Be Rock Solid and Be the Future. These values serve as guiding principles that shape our interactions with customers, communities and each other. They give us a framework for how we should engage as a team and help us build a foundation for growth and trust, and a positive workplace environment.

[1] In forecast outturn prices

Over this past year, we have worked hard to embed these values, using them as a tool to align our teams as we prepare the business for K8 and to deliver on our strategic priorities. Some examples of this include:

- Launching the 'Pennon Pod' – encouraging open and engaging discussions on what our values mean to individuals across the business
- Colleague Roadshows – holding face to face events for colleagues to interactively engage with the new values
- 'Be You' Photo competition – encouraging colleagues to share their authentic selves whether that be in or outside of the workplace

We are proud to witness our values in action in the workplace every day. Because of this, we have launched a new set of internal colleague awards –the 'You Rock' Awards. This is a new recognition scheme that aims to shine a light on the best of South West Water, highlighting those who truly embody our values and demonstrate the best behaviours for our colleagues, customers and communities.

The values are:

Be you
We want you to bring your best every day. Be open and inclusive, work together and win as one team. Let your passion inspire those around you. Be authentic, make your mark and be you.

Be rock solid
We want you to be the one we all look up to. Be trusted. Act with integrity and make good on your promises. Build trust, one relationship at a time. Be rock solid.

Be the future
We encourage you to be curious and challenge convention. Share ideas with confidence and purpose, and help share our future. Embrace change. Drive progress. Own the challenge. Be the future

ENHANCING THE ORGANISATION CULTURE
After launching our new company values last year and working hard with colleagues across all our business units to fully roll them out during this year, we are now well placed to deliver our PR24 plans aligned with our company values. Our values are seen as the guiding principles by all colleagues in how we undertake our activities.

We have sought to embed our values to deliver real behavioural change and incorporate them in all business activities from recruitment, induction, performance management and communications to reward, recognition and reporting. Setting the tone from the top has been key to ensuring that these principles are reflected across the company.

Across the Company we have developed a coherent approach to leadership, culture, talent, and skills development which will not only help us unlock the full potential in our business, ensuring we are match fit today, but also prepare us for future challenges.

Ensuring our people are at the heart of all these key areas of focus will mean we continue to successfully deliver for all the customers and stakeholders that rely on us. Our people are our greatest asset. We are proud of the values we live by in all that we do, and we have been delighted by how our employees have risen to the challenges we have faced throughout the last year, and in going above and beyond to deliver for our business and our customers.

We continue to work to develop strong relationships with our employees and Trade Union Partners, ensuring we are engaging with these important stakeholders in our business in all aspects of our People Strategy.

As a purpose-led organisation, South West Water has strong values and ethics which are important barometers in fostering the culture and beliefs that we require to be successful. One of the key reasons why we use Great Place to Work to survey our employees is that it is one of the few providers that seeks to measure values and ethics. These are notoriously difficult areas to measure as they are impacted by individual's personal values and ethics. See page 144 on how the Board monitors culture.

TALENT DEVELOPMENT

We have a strong commitment to invest in the development of our employees and to build and recognise talent across the Company. Training and development are available for employees at all levels within the Company and all are actively encouraged to participate. Our aim is to increase productivity, job satisfaction and safety, and to equip the next generation of leaders and employees with appropriate knowledge, skills and the competencies they need to thrive.

Our parent company, Pennon, joined the 5% Club, an organisation with over 1,000 members that aims to address the issue of poverty arising from high youth unemployment and a shortage of the right skills for the workplace of today and tomorrow. We are delighted to be the only water company that has been awarded Platinum Membership status of the 5% Club as we have around 10% of our employees undertaking apprenticeships or on a formal structured graduate programme. Achieving Platinum status demonstrates our long-term commitment to investing in structured apprenticeship and graduate programmes for our employees.

APPRENTICESHIPS

We have a long-standing commitment to apprenticeships, as they are an effective way to recruit and develop high quality talented employees. We are delighted to report we are ahead of schedule and have supported over 600 and currently have 310 live on programme. Attracting and developing the next generation of talented employees is vital in building resilience in our workforce and ensuring we can deliver the essential services our customers and communities deserve.

OUR GRADUATE PROGRAMME

After launching our graduate programme in 2021 and setting a long-term commitment to recruit 200 graduates on a structured two-year development programme by 2030, we are again ahead of schedule.

Attracting larger numbers of female and ethnically diverse employees into our Graduate programmes has been a core part of our People Strategy. We are delighted our graduate programme is helping deliver this outcome whilst providing high-quality career opportunities for all these individuals.

LEADERSHIP DEVELOPMENT

We continue to invest in our leaders and, utilising our ‘Best of the Best’ mindset following our integration with Bristol Water, we have rolled out two leadership programmes across the business, LEAD Aspire and LEAD Programme.

LEAD Aspire is a four-day programme for employees who have been recognised as being a leader of the future and are working towards this as part of their personal development plan. The programme allows them to develop their leadership mindsets and approaches, explore leadership theories, models and best practices, and learn that you don’t need a title to be a leader. The four-day programme also has senior leaders from across the business sharing their thoughts on leadership, providing great insight into their personal experiences of leadership and how it has shaped them.

Our LEAD Programme is for our current manager and leadership population to help them hone their leadership skills, working across a six-month programme on leadership mindset, including topics such as personal impact and purpose- led leadership, and skills areas such as coaching and mentoring, inclusive leadership, and building high-performing teams.

Throughout 2024/25, we continued to run our leadership development programmes. Overall, our training offering has delivered 23,000 training days, ensuring that on average each employee received 50 hours of training – 7 days.

PRIORITISING HEALTH AND WELLBEING

Our wellbeing strategy is a core area in our People Strategy, to ensure our people know that we care about them. To further enhance the support we provide our people, we have embedded health and wellbeing into our HomeSafe strategy. This will provide extra emphasis on occupational health, physical and mental health, and overall wellbeing.

It is estimated that in any given week, one in six people of working age experiences a common mental health problem like stress, depression or anxiety. Most of us will understand, from personal experiences or friends and family, the huge personal cost that this can bring.

Our Wellbeing strategy focuses on four main areas:

- **Mental** - Taking care of our Minds, coping effectively with life and creating satisfying relationships
- **Physical** - Encompassing the major external and internal factors such as social health
- **Financial** - Taking care of our financial wellbeing, being in control over our financial future
- **Community** – Encompassing the major external and internal factors such as social health

Our approach to wellbeing, incorporates a number of initiatives including:

- **Mental Health First Aiders**: We now have 100 Mental Health First Aiders across the Company – one for every 40 employees, ahead of our target of one for every 50 employees.
- **Wellbeing Champions:** We have established a network of wellbeing champions across the business to help us engage colleagues.
- **Time To Talk:** Regular sessions where colleagues are invited to join online webinars focusing on a range of health and wellbeing issues, primarily focused on mental health.
- **EAP Helpline**: Our Employee Assistance Programme (EAP) provides extensive advice and support for employees and family members, and we intend to further boost awareness and utilisation of the services offered.

HOMESAFE, THE COMPANY'S FLAGSHIP HEALTH AND SAFETY PROGRAMME
Ensuring our people go home safe to their families safely every day is an utmost priority. Our HomeSafe programme continues to focus on the three key areas of Visible Safety Leadership, Accountability and Data Driven Targeted Interventions. Relentless focus on and driving consistency in these areas has seen the Company's Lost Time Injury Frequency Rate (employees and agency, excluding contractors), the Company's primary measure of health and safety performance, continue to reduce, and this year outperform the original HomeSafe strategic target of 0.25. This year has seen the fourth year in a row of reduction in LTIFR, down to 0.24 at 31 March 2025, compared to 0.30 at 31 March 2024.

The three areas we focussed on:

1. Visible Safety Leadership

    - The third year of HomeSafe Live events:
        i. Six conferences across Devon, Cornwall, Bournemouth and Bristol, sponsored by the Senior Management Team from all departments. Over 1,000 employees attended fun, engaging sessions focused on the "Mind Safety" principles connecting day to day behaviours to safety outcomes.
        ii. Leaders owning HomeSafe, celebrating success with the intention of encouraging others to develop good practice and behaviours.
        iii. Leaders hosted safety 'stand-downs' to discuss recent events and immediate lessons to be adopted.
        iv. An expansion of the successful '12 days of Christmas' campaign into a full 24 day advent calendar where each day for 24 days, a team from across all Pennon Group companies and supply chain partners owned a key HomeSafe message for the Company ranging from simple pictures and messages through to scripted and acted out videos to engage the audience.

2. Driving a culture of accountability throughout the organisation

    - Implementing an index HomeSafe scorecard with a 70% performance bias on lead activities, driving up performance against these areas and embedding these behaviours as the 'way we work'.
    - Empowered decision making on risk management and investment into the front line teams to identify hazards and solutions, and deliver these locally at pace to improve the working environment.

3. Using analytics to target interventions on the key areas at the right time to drive down harm particularly in manual handling and slips, trips and falls.

Additionally, this year we have driven increased focus on our 'Site Pride' initiative, encouraging teams across the Company, including Tier 1 and 2 contractors, to meet the minimum standards of their workplaces to achieve a Bronze, Silver or Gold Site Pride award. Through a league table approach we have introduced healthy 'competition' between teams to drive up standards in their work environment, instilling local pride and creating

and maintaining clean, healthy and safe work environments that will ultimately lead to higher engagement and fewer injuries. 45 individual sites have achieved an award to date with a similar number in flight and due to be assessed in the coming year.

As we prepare for K8, HomeSafe has also been embedded within Amplify, our engineering partnership between South West Water and our supply chain, leveraging the skills, experiences and innovation opportunities from across a wide range of organisations.

While we have delivered year-on-year improvements, we continue to recognise that HomeSafe is not a project that will be completed. It continues to be the way we work and how we deliver on our commitments to customers, communities and the environment. Our roadmap to HomeSafe 2025 has delivered its original objective. HomeSafe is truly embedded within the Company, and to build on this success we have evolved HomeSafe again, focusing on four key cornerstones that will drive continued improvements in Occupational Safety while increasing focus and improvements in health and wellbeing. The plan to 2030 has been developed with significant input from across the whole Company and will see HomeSafe remain at the core of how we deliver for our customers, stakeholders and the environment, expanding the remit to ensure we support our people to be the best version of themselves and that everyone goes home safe every day.

- **Occupational Safety:** focussing on the Individual
- **Process Safety:** focussing on the high consequence processes within our water and wastewater treatment process.
- **Occupational Health and Wellbeing:** focussing on physical and mental health
- **Security:** focussing on physical and personnel security

EQUITY, DIVERSITY AND INCLUSION (E,D&I)
As one of the largest employers in the region, we have a responsibility to promote social mobility, address inequality and drive inclusivity.

We continue to champion diversity and promote an inclusive workplace. We have published our Gender Pay Gap report for the last six years and are now pleased that this incorporates our Ethnicity Pay Gap report. These can both be found on our parent company's website: www.pennon-group.co.uk.

It is important to be open and transparent about the gender and ethnic diversity of our employees and this report is a key tool for us to do that, whilst also allowing us to share the measures we have taken and will be taking to continue to create a more diverse workforce across all roles and levels within the organisation.

We understand that fostering an inclusive workplace is imperative for both attracting and retaining talent within our organisation. As one of the largest employers in the region, we have a duty to contribute positively within our communities, providing a work environment that promotes social mobility, celebrates and drives diversity and inclusion, and ensures an equitable and psychologically safe space for all our employees.

In the latest edition of the FTSE Women Leaders Report, our parent company, have once again solidified their standing as a trailblazer for female representation, claiming the bronze position for best performer in the Women on Boards category within the entire FTSE 250. The report, independently conducted and backed by the government, is a ringing endorsement of our parent company, Pennon's, relentless efforts to lead the charge in fostering equality and inclusivity, with Pennon one of the rare FTSE-listed entities where women on the board outnumber their male counterparts.

We are pleased with the recent progress made but know there is more to do in increasing the diversity of our workforce during the coming year.

RECRUITMENT

We continue to develop our careers website to leverage our employer value proposition and the creative campaign that sits alongside this, #JustAddWater. We have forged new partnerships with third parties to enhance and drive our work in the recruitment space to support our ED&I agenda. We are both a signatory to the Armed Forces Covenant and a Disability Confident Employer.

We regularly review our approach to monitoring diversity and inclusion with a specific focus on job applications. We use a software gender decoder tool which allows us to check all our job adverts for masculine bias to reduce the potential risk of alienating female applicants. We ensure that our brand imaginary represents both the communities we serve and our workforce, which encourages more diverse candidates to apply. We are pleased that we are receiving high numbers of applications from ethnically diverse applicants and women into what is still a male-dominated industry.

Last year, 30% of job applicants were female and 24% were ethnically diverse. We offer additional support to our new employees on our graduate programme and the 10,000 Black Interns programme, as we recognise many of them move to the region to start in these new positions.

EMPLOYEE LED INCLUSION

Our Employee Network Groups continue to play a significant role in raising awareness and driving change. Areas of focus for these groups include raising awareness around challenges that under-represented groups face, which has included educating employees on LGBTQ+ topics and experiences, including a session led by a transgender speaker, celebrating different cultures and customs through in-person events, sessions on racism and allyship, promoting understanding of neurodiversity, developing a webinar on sexism and misogyny, and creating an ED&I awareness session, which is delivered to all new starters to the business.

Our two new network groups this year, brought about through employee feedback, are the Veterans Network and the Neurodiverse Network. All of our groups have members sitting on the overall ED&I Steering Group to ensure collaboration across the whole ED&I agenda and driving communication between the groups.

We operate a flexible bank holiday policy, as we recognise that half of the UK bank holidays are linked to the Christian calendar, but many of our employees do not follow the Christian faith. The scheme enables colleagues to swap traditional bank holidays based on their religious or cultural beliefs, or personal need.

PROGRESSION

One of our key challenges has been enabling a diverse workforce at all levels through internal progression. The REACH (Racial, Ethnic and Cultural Heritage) Network and Women's Network have both been key drivers in looking at how we can better support them with career progression across the organisation.

We operate a Women's Mentoring Programme, which supports women whether they are seeking professional guidance, building their network, or navigating their working environment and some of the challenges this entails. Throughout the year we piloted a Reciprocal Mentoring scheme, which paired eight members of the REACH Network with eight members of our executive and senior leadership team, with the goal being for individuals to share their lived experiences and encourage actionable behaviours from those involved.

We have also partnered with the Inclusive Village to run a REACH development programme. The programme is designed to support the career ambitions of those who may experience career disadvantage or inequalities due to their racial identity, whilst also enabling the Company to foster the realisation of our commitment to the Change the Race Ratio campaign. This programme will cover a range of career-enabling topics identified by research as most pertinent in supporting ethnic minorities in the workplace, including leveraging line manager and ally relationships, impact and influence, and developing a credible professional/personal brand.

We will continue to work with these groups in relation to career progression opportunities, to understand the challenges they face and how as an organisation we can address these.

CHANGE THE RACE RATIO INITIATIVE
Back in 2020, our parent company Pennon pledged its support to the Change the Race Ratio initiative (of which South West Water adopted), a campaign to increase racial and ethnic participation in the senior leadership of companies, as a route to encouraging more diversity at all levels, and was the first water company to do so. During the last year, our pledge and ongoing commitment continued to help shape our business activities and decisions.

10,000 BLACK INTERNS INITIATIVE
We are pleased to be a proud supporter and sponsoring business of the 10,000 Black Interns initiative. Over the last three years we have supported 25 placements ranging from summer internships to one-year placements. Following successful completion of their internships, most students returned to university to complete their degrees. We are pleased that many of our interns have already secured a permanent position graduate programme or have gone direct into other business roles. This important scheme not only offers Black students an opportunity to understand our business but also enables us to improve the levels of ethnic diversity across our industry.

OUR GENDER AND ETHNICITY PAY GAP
In recent years, the composition of South West Water has further evolved with the acquisitions of both Bournemouth Water and Bristol Water plc, and the inclusion of these employees into the growing Company. This is the second year we have included Bristol Water in the results. Our mean gender pay gap has significantly reduced during the year to 3.53% from 6.72%, and sits lower than the national average of 13.1%. Our median gender pay gap has seen a decrease of just under 1% to 8.28%, indicative of a shift in the representation of women, notable within the upper quartiles, where we have seen an uplift to 25% in female representation, which reflects our efforts to enhance female representation at leadership levels.

Since 2022, we have voluntarily produced and published our ethnicity pay gap, which stands at 8.89%. We know that there is still more for us to do in this area, including increasing the employee self-disclosure diversity rates across the Company and continuing to attract more ethnically diverse candidates at all levels across the Company.

Furthermore, by offering dedicated support to new employees through the graduate programme and supporting the 10,000 Black Interns Programme, we have been able to attract more ethnically diverse applicants. As many of these applicants are recruited and progress their careers, we anticipate them having a further positive impact on our ethnicity pay gap.

A full report breakdown and an update on our performance and plans can be found on our parent company's website.

SOCIAL MOBILITY
We continue to be a proud signatory of the Social Mobility Pledge and have set further commitments across the Company during this year to strengthen our resolve to deliver for our customers and communities, and support the drive to address social injustice. To this end, we have become a tier 1 funder of the registered charity Social Mobility Business Partnership, and launched work experience clusters in Exeter and Bristol, with Plymouth added this year. After increasing our commitment to apprentice and graduate recruitment, and having set new targets, we are delighted to have 10% of our employees on these schemes.

HUMAN RIGHTS
We are fully supportive of the principles set out in the UN Declaration of Human Rights, and the Company ethics policy outlines the high standards of employment practice with which all employees of South West Water are expected to comply. The Company also supports the International Labour Organisation's core conventions for the protection and safety of employees wherever they may work throughout the Company. These standards are also embedded in our sustainable supply chain and documented in our procurement policy and Code of Conduct for supply chain partners.

COLLEAGUES UNITE FOR CUSTOMERS
Over the past year, we have faced a number of unprecedented operational challenges. These challenges have shone a light on the resilience, capabilities and passion of our employees.

CHRISTMAS SWIMS

Every year communities across our region celebrate the festive season with organised sea swims on Christmas Eve, Christmas Day, Boxing Day, New Year's Eve and New Years Day. These events are increasingly popular and a huge event in the calendar year for customers across Devon and Cornwall.

Our teams are passionate about ensuring our infrastructure supports these celebrations and that we plan to reduce the likelihood of combined sewer overflow activity affecting these events. Given the time of year and likely weather, this can be challenging, with mitigation plans needed to ensure no releases from storm overflows impact on planned swims.

It is therefore testament to the planning, commitment and hard work of our people that none of the swims were cancelled due to our infrastructure. From the operational and environmental monitoring teams working in challenging conditions on the front line, to the teams behind our external response and event handling, it was a team effort to ensure these events went ahead and communities were engaged and kept informed as required.

BRIXHAM

They say that in the most challenging of times, you see the very best in people, and that's exactly what happens when an incident occurs. We saw this last year in and around the communities of Brixham when a boil water notice was issued following a very rare outbreak of Cryptosporidium.

From the hundreds of network technicians, engineers, water quality scientists, and contractors who worked tirelessly on rotation, around the clock, to the many volunteers from across the Company who gave up weekends and evenings to man water bottle stations and hold drop-in sessions, we saw our values in action. Everyone from across the Company stepped up and leaned in. We also sought advice from the most brilliant of minds, from around the world, in the UK, and in the sector.

Of course, none of this excuses what happened and for the distress and inconvenience to customers and businesses, as we cleaned and tested more than 30,000 kilometres of the pipework, flushed the network almost 30 times, carried out ice-pigging, the installation of filters and UV, and the relaying of new pipework, over eight weeks.

STORM DARRAGH, DECEMBER 2024

Storm Darragh was one of the worst storms to hit the West Country in decades. The Met Office issued an extremely rare red weather warning across areas of the South West. The storm was more widely spread than initially forecast, with high winds causing numerous power outages. To minimise the impact of the event on the operation of our assets, our services and the environment, 150 colleagues stood up to support during the event, minimising the impact both to our customer's water supply and the local environment.

OUR OPERATIONAL REVIEW

We are making progress in the areas that matter most, focusing on our four strategic priorities and delivering for customers, communities and the environment.

BUILDING WATER RESOURCES, IMPROVING WATER QUALITY.

Our purpose is rooted in the sustainable stewardship of water, a resource vital to communities and ecosystems, now and for generations to come. We have delivered meaningful steps to strengthen water resilience, protect water quality, and deliver lasting value through innovation, collaboration, and targeted action across our regions.

South West Water	**Bournemouth Water**	**Bristol Water**
c.1.8 million population served	**c.0.5 million** population served	**c.1.2 million** population served
c.480 million litres of drinking water per day	**c.160 million litres** of drinking water per day	**c.280 million litres** of drinking water per day

A resilient supply of clean drinking water is our customers' number one priority. We have made significant strides in enhancing our water infrastructure, ensuring that we are equipped to meet the challenges of climate change and population growth, and delivering against stringent regulatory standards. From repurposing disused mines and quarries to deploying advanced treatment technologies, we are focused on securing reliable, high quality water supplies for all. Capital investment in South West Water in 2024/25 of £588.7 million delivering a more resilient and high-quality water service across our regions.

WATER QUALITY AND RESILIENCE

CLEAN, SAFE, RELIABLE DRINKING WATER

Delivering high-quality tap water is central to our purpose. We proudly serve 3.5 million customers across Bristol, Bournemouth, Devon, Cornwall, the Isles of Scilly, and parts of Dorset.

Customers consistently rank safe, clean water as their top priority. That’s why we’re embedding our Quality First culture across all operations.

The water quality incident in Brixham serves as a powerful reminder of the importance of maintaining public confidence. Over eight weeks, around 800 of our people and supply chain partners worked tirelessly to restore safe drinking water to the community. This included flushing more than 30km of network 27 times and installing advanced UV and filtration systems. We are working closely with the Drinking Water Inspectorate to ensure that all lessons are captured and applied across our operations.

Overall, water quality performance continues to improve. South West Water leads among water and sewerage companies, a reflection of our focus on continuous improvement and knowledge sharing. In Bournemouth, we are making excellent progress on two major infrastructure projects, Alderney and Knapp Mill, which will together supply 85% of the local population. These schemes are being delivered using modern offsite construction techniques, helping to reduce disruption, improve efficiency, and deliver long-term value. Across Devon and Cornwall, upgrades at Stithians, Saint Cleer, Restormal, and Littlehempston are progressing well, while targeted improvements in Bristol have been successfully completed in 2024/25.

These investments are not only improving performance today, they are laying the foundation for the next phase of our long-term strategy. As we look ahead to the 2025 to 2030 investment period, we are building on this momentum to deliver even greater resilience, reliability, and quality for the communities we serve.

ALDERNEY UPGRADE

Investing to improve your drinking water services

The Alderney Water Treatment Works supplies high-quality drinking water to 375,000 people, nearly 85% of homes and businesses in Bournemouth.

Constructed over 100 years ago, Alderney has played a vital role in delivering clean, safe water for generations. It is now nearing the completion of a major transformation to meet the highest water quality standards for the future.

Investing for the future
Local people want a reliable source of high-quality water that's resilient to climate change and environmentally responsible. We are transforming Alderney to ensure it continues to deliver exceptional water quality.
With a £115 million investment, we are delivering significant improvements:

- Enhancing water quality for 375,000 people
- Increasing resilience to extreme weather and climate change
- Creating around 200 jobs in the local supply chain
- Introducing ozone treatment and advanced ceramic membrane filtration to reduce carbon emissions and improve efficiency

This multi-year upgrade has only been possible due to the financial support and resources provided by being part of a larger group.

An innovative approach
Water quality in the area can be affected by naturally occurring dissolved organic carbon (DOC) in the River Avon, particularly after heavy rainfall. While harmless, DOC can affect the appearance of tap water and fall short of the aesthetic standards we aim to deliver.

To address this, ozone is injected into the water to break down DOC before it passes through a fine ceramic membrane filter that removes bacteria and viruses.

Ceramic filters were first used at our Mayflower works in Plymouth - the UK's first to adopt this technology. At Alderney, we've refined the design further. Unlike Mayflower, where ozone is used to clean the membranes, at Alderney it forms part of the treatment process itself, dosed at very low levels to enhance membrane performance and throughput.

We have retrofitted this innovative technology into the existing works. The modular design of the ozone and ceramic membrane units allowed groundworks to proceed at Alderney while the units were built offsite in Inverness—an approach that improved efficiency and reduced disruption.

INVESTING TO SECURE RESILIENCE, NOW AND INTO THE FUTURE

BUILDING WATER RESOURCES
We have continued to make major strides in strengthening the resilience of our water supplies and safeguarding water quality across our regions.

In response to growing national concerns about water scarcity, particularly following the dry spring, we have drawn on our experience managing extreme drought conditions in 2022 to inform a smarter, more resilient approach. As we have re-purposed former disused mines and quarries into localised storage assets, and developed innovative network recharge schemes, we have reshaped how we manage water in a changing climate.

Thanks to this work, we are confident in our supply outlook for summer 2025, with no restrictions anticipated across our regions under the scenarios we have modelled.

Reducing demand is equally critical to long-term resilience. We have made strong progress in cutting water losses from our own operations and across the wider network. Over the 2020-25 regulatory period leakage has been reduced by 13% in South West Water and 1% in Bristol Water, and whilst we have narrowly missed our 2024/25 leakage targets in some areas, the reductions build resilience and support the environment.

SUPPLY SCHEMES
With Blackpool Pit now fully operational, and construction completed at the new abstraction and treatment works at Porth Rialton, we continue to enhance supply resilience across the South West.

We have supplemented capacity in Cornwall by 4% this year, with c.34% greater resource availability achieved since 2022, alongside the 30% uplift resource availability in Devon. Overall, water resource levels exceeded our 90% target at 31 March 2025 across Devon and Cornwall, and we achieved 100% supply demand balance index for the first time in the 2023/24 EPA.

In Bristol, supply levels remain in surplus – and we continue to deliver our long-term plans including investment in Cheddar 2 Reservoir, which will support resources across the wider South West region.

COMPLIANCE RISK INDEX (CRI)
The Compliance Risk Index score as reported by the Drinking Water inspectorate (DWI) measures water quality compliance.

In 2024/25 we continued with out 'Quality First' transformation programme across our SWB region (consisting of South West Water and Bournemouth Water) as well as the Bristol Water region, with continued investment in advanced treatment technologies, including ceramic membranes and granular activated carbon.

South West and Bournemouth Water's (SWB) performance continues to improve, delivering industry upper quartile performance in calendar year 2024 with a CRI of 1.19. Performance is the best achieved in K7, reducing 67% over this period. 51,000 customers in West Cornwall have benefited from advanced granular activated carbon (GAC) and UV disinfection this year, improving the taste and smell of supplies and increasing the resilience of the disinfection processes at our Stithians water treatment works.

Bristol saw a significant improvement in CRI this year at 2.82, compared with 7.05 in 2023, with customers benefiting from enhanced maintenance and improved process operations during the year.

WATER QUALITY UPGRADES
In Bournemouth we have made strong progress in our investment in Alderney and Knapp Mill treatment works. These upgrades to existing works will deliver state-of-the-art treatment to customers in the region.

At Alderney, construction of advanced ceramic membrane microfiltration and GAC has been completed. Commissioning will commence once the final power connection is in place.

Similar investment is nearing completion at Littlehempston, where upgrades will benefit 193,000 customers across Torbay and South Devon. This includes the installation of advanced filtration and disinfection systems to enhance water quality and ensure compliance with the highest regulatory standards.

An additional 500 lead supply pipes were also replaced as part of our long-term strategy to reduce consumers exposure to lead across the Company.

Collectively, these projects form part of our wider commitment to modernising our treatment infrastructure and delivering consistently high-quality drinking water across all our regions.

TASTE, SMELL AND COLOUR CONTRACTS
We recognise that consumers expect their drinking water to look and taste great and that this is important in maintaining consumers' trust in the quality of our supplies. We continue to invest in all aspects of our operations from source to tap to maintain that trust.

South West Water contacts at 1.87 per 1,000 population, have increased slightly compared to last year, despite a record level of flushing in our extensive network of pipes with c.300 network areas being flushed in the period. There is a natural lag in this activity showing in improved performance, however early indications in the first quarter of 2025 are that the work has been effective with a reduction in the number of consumers reporting discolouration of their supplies.

Bristol Water has also seen a slight increase in the volume of contacts received to 0.95 per 1,000 population in 2024, a large number of which related to customers' own plumbing, although this was also impacted by the increased public awareness following the increase in media attention concerning water quality.

REDUCING LEAKAGE AND SUPPLY INTERRUPTIONS

LEAKAGE

We recognise that preventing water loss through leakage, whether from our network or our customers' pipes, is a major concern for all. That's why we are committed to ongoing efforts to reduce it.

In 2024/25, we identified and repaired a record number of leaks, supported by investments in pressure management, metering, and customer-side repairs. We ramped up detection efforts using satellite technology and leak detection dogs, while managing network pressure to reduce pipe stress. Targeting trunk main losses and helping customers fix private leaks, which account for up to a third of total leakage, has strengthened both resilience and environmental protection.

Looking ahead, we continue to enhance our capabilities. We are focused on enhanced data and monitoring, including the installation of further acoustic loggers to enable faster and more accurate leak detection. In parallel, our key mains replacement programme is making good progress and will play a vital role in strengthening the resilience of our networks.

MINIMISING CUSTOMER SUPPLY INTERRUPTIONS

The value of an 'always on' supply is often most recognised when it's not there. We know how vital our services are, and we're committed to delivering resilient, reliable water for all.

2024/25 performance has been shaped by a small number of large impact events. Despite this, 75% of our supply interruption incidents had no or minimal impact on customers.

In the South West, the average number of minutes lost per customer due to supply interruptions was 14 minutes and 44 seconds. A key contributor to these interruptions was third-party damage to our water network. To address this, we are actively engaging with contractors and landowners to raise awareness of the impact such incidents have on our customers and to promote better preventative practices.

In Bristol, the average supply interruption duration was 7 minutes and 21 seconds. Two events, in Nailsea and Meare, accounted for 3 minutes and 9 seconds of this total, with the Nailsea incident the result of third party damage. Excluding this, the adjusted performance would have been 4 minutes and 13 seconds, placing it within the target range.

MANAGING DEMAND AND ENSURING EFFICIENCY

PER CAPITA CONSUMPTION (PCC)

To help customers use water wisely and reduce per capita consumption (PCC), we run targeted water efficiency schemes, building on past successes. Our 'Water is Precious' campaign supports both residents and visitors to use less and save more. In 2024/25:

- We have conducted water audits in customer's homes, to identify opportunities to reduce water usage, fix leaky loss and identify other sources of internal water losses. Leakbots helped customers identify internal leaks.

Our Water Efficiency Fund offers £75,000 in support for charities and community groups, helping to fund projects that save water and reduce costs. We educate young people and communities on using water more efficiently, and during the year reached 8,000 children through 144 school lessons and engaged a further 3,000 at community events across the South West. We also attended 40 community events in Bristol with our "Every Drip Every Drop" campaign. Our websites contain information on how to save water for our customers with opportunities to order free water saving devices.

In South West Water, we have continued our wider programmes that support water efficiency, including installing 62,000 meters through our North Devon smart metering programme, as part of our 'Smarter, Healthier Home' Green Recovery programme. This programme is now complete, and we will learn from this and have started to roll out smart meters across our wider geographies from 1 April 2025.

We're continuing our progressive charging trials across our regions. These trials aim to balance affordability with incentives for water efficiency. In Cornwall, households received a £10 bill credit for reducing water use by 5%,

directly rewarding conservation. Our “Smart Saver” trial links progressive tariffs with smart meters, providing better usage insights and aligning charges with consumption. We have also introduced seasonal tariffs, including rising block and peak seasonal rates. These are the first trials of their kind in the region, with early results showing demand reductions of 2% to 9%.

WATER AVAILABILITY
Perceptions of water security are shifting, especially after the dry start to spring, which has raised national concerns about water resources. However, we are in a strong position thanks to the lessons learned from the 2022 drought – and the significant investments we’ve made since. These include repurposing disused mines and quarries into mini reservoirs, such as Hawks Tor and, more recently, Blackpool Pit, as well as enhancements to our network, pumped storage capacity, and the construction of the new treatment works at Rialton.

MAINTAINING ASSET HEALTH

UNPLANNED OUTAGES
Water treatment unplanned outage provides a means of assessing the reliability of our water treatment works. It tracks the temporary loss of production capacity across all water treatment works, resulting from unplanned breakdowns and asset failure.

South West Water has once again met its target for unplanned outage with a figure of 2.09% for 2024 compared to the industry target of 2.34%. This means we have achieved this target in each year of the current regulatory period. This is founded on effective investment and maintenance regimes to ensure that unplanned failures are minimised. This in turn minimises the risk of any production outages resulting in service impacts for our customers.

For Bristol, performance for the year achieved target with 1.57% unplanned outages. A multi-year programme is ongoing to reduce future risks through the replacement of relevant assets.

MAINS REPAIRS
When our water mains are damaged or fail, it is vital that repairs are carried out quickly to prevent water loss and ensure customers remain in supply.

South West Water’s performance in 2024/25 was 127.5 repairs per 1,000km of mains, which has slightly increased. However, we have achieved our mains repairs target for the year, meaning we have met the target every year during this five-year regulatory period. This consistent performance reflects our continued investment in network calming initiatives, such as pressure management, to reduce the frequency of mains failures. We have also made targeted investments to replace poor-performing sections of pipe, helping to improve long-term reliability.

Bristol Water’s performance remained strong, with 121.0 repairs per 1,000km of mains, however this is above the agreed regulatory target.

TACKLING STORM OVERFLOWS AND POLLUTIONS

We maintain and operate over 25,000km of sewers in the South West region, removing waste from the homes and businesses.

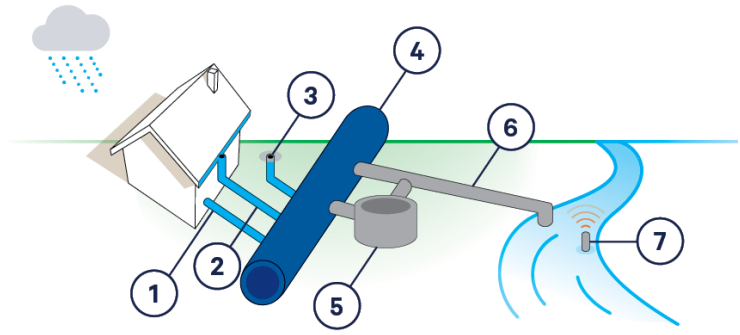
Tackling storm overflow spills and reducing pollutions is of utmost importance to us, ensuring we protect the environment and respond to the concerns of our customers and communities. We have implemented a programme of proactive interventions, informed by extensive data and AI to ensure we are identifying and fixing issues quickly, as well as improving the health of our network.

Tackling storm overflow spills is a priority, focusing on those areas that are most important to our communities. We have delivered 100% bathing water compliance for the fourth year in a row, and while 2024 was the wettest hydrological year on record, spills reduced by 4%. We were one of only five companies to see a reduction in the year.

Tackling storm overflows and reducing pollutions is critical to delivering on our commitments to customers and the environment. We reduced both storm overflow spills and pollutions in 2024, despite it being the wettest hydrological year on record, with rainfall similar to 2023, itself a record year. Exceptionally high ground water resultant from two years of high rainfall also led to high ground water levels, meaning that water cannot drain naturally and instead entered our sewers and continued to place pressure on our wastewater infrastructure.

We have seen improvements in our operations, and in the resilience of our networks, reflecting our focused investment and we continue to drive a programme of works to improve our treatment works and pumping stations.

THE ROLE OF STORM OVERFLOWS



Key

1. Drain
2. Roof drain
3. Storm drain
4. Combined sewer in wet weather surface run-off from roads and buildings is combined with wastewater in the sewer
5. Storm tanks fill up if the volume is more than the treatment works can process it is stored in storm tanks until it can be treated
6. Combined storm overflows are used once the storm tanks are full to prevent the flooding of homes, gardens, roads and businesses
7. Water quality sensors will monitor river health and the impact of overflow spills in near real time, as part of our K8 investment programme

This is an important discussion as there's nothing more important than water – it's essential for life, health and the planet.

Our 655 wastewater treatment works, over 1,302 pumping stations and over 25,000km of network, enough to stretch around the world, are designed with overflows to prevent the backing up of sewage into homes and businesses. These assets are largely interspersed in and around the coastline, reflecting where customers live and businesses operate in our region.

This sewerage system, developed over many years, takes not just sewage but also rainwater from roads, driveways and fields. In periods of prolonged or heavy rainfall, the sewers can become overloaded and the overflows act as a safety release mechanism.

DRAINAGE RESPONSIBILITIES

Private drainage, highways drainage, rural run-off and river flooding all contribute to overloading our network and systems. As well as rainfall, groundwater infiltration is a factor. There are times and locations where groundwater levels can become higher than sewers causing groundwater to enter the sewer. In the South West this can also occur in coastal areas due to sea water infiltration (tidal ingress). As a result of tidal ingress some storm overflows operate for longer periods, due to sea water flowing in and out past the monitor with the rise and fall of the tide.

Storm overflows can discharge through misuse of the system. Wet wipes are the leading cause of sewers blocking, mixing with oils and greases to form environmentally harmful “fatbergs”. We all have a part to play in improving how we use our sewer system.

SEWER FLOODING AND NETWORKS

We understand how distressing it is for sewage to flood a customer's home or business and we have been prioritising reducing pollutions to homes, businesses and properties. We are proud of our track record on reducing internal and external sewer flooding and in 2024/25 we have seen fewer customers impacted, with internal flooding incidents falling 14%, and external flooding incidents falling by 11%. With a 68% reduction since 2020, internal sewer flooding incidents are now 0.63 per 10,000 connections against a target of 1.34. This means that for every year of this regulatory period we have been sector-leading in this common metric. Our external sewer flooding performance has also improved by 24% since 2020, however we are above the targeted 1,123 at 1,465 incidents in the current year, but we are a top quartile performer in this area.

We continue to target further resilience in our networks with both sewer collapses and sewer blockages outperforming the targets set. Sewer collapses are down 37% this year, from a peak seen in the previous year, and our prioritised sewer cleansing programme should deliver multiple benefits across both our pollution and flooding targets going forward.

We are also working hard to identify any illegal flows in the network that may contribute both to storm overflow spills and flooding incidents, and working with third parties to remove them.

BATHING WATERS

Given we look after a third of Britain’s beaches, this has been a key priority. We have delivered all of our bathing water investments over this regulatory period and, for the fourth year in a row, have achieved 100% of bathing waters meeting the more stringent quality standards (for existing bathing waters where South West Water has assets that can impact on water quality). In our region, we know our customers’ priority is beautiful beaches, and we are proud that we have reduced spills at bathing waters by c.20% since 2020.

In addition, South West Water supported the application for six newly designated bathing waters across the region which were assessed for the first time in 2024. Three of the six sites achieved the standards with two achieving excellent
status. We have undertaken detailed investigations at all sites, which show that these bathing waters are more affected by bacterial sources upstream of our assets, and that the impact of South West Water assets is limited. Nonetheless, we have identified improvements which are planned across all three sites by.

STORM OVERFLOWS

Storm overflows are used in wet weather as a ‘release valve’ on the network to avoid flooding to homes and businesses. Despite the accumulation of the sixth wettest year in 2023 and seventh wettest year in 2024 we have still achieved an overall c.4% reduction in spills since 2023 which reflects the positive progression on our storm overflow reduction plans within our WaterFit programme.

South West Water was one of only five companies to reduce spills between 2023 and 2024 even though the South West region has experienced more rainfall than other parts of the country (up to 70% more in some cases). With over half our storm overflows affecting bathing, shellfish or high amenity waters and so much to protect; we know we need to be industry-leading in this area, and that is our ambition. So we are focused on delivering against our 15-year programme to 2040, but with all bathing beaches being targeted first by 2030.

To support this, we have invested in enhanced Event Duration Monitoring (EDM), we were among the first to achieve 100% coverage and have the second highest EDM operability in the country with 94% of our EDMs

recording all year round. We also monitor overflows at a higher standard than required by our permits and other companies with most of our EDMs scan levels every 10 seconds, far exceeding the 15-minute minimum regulatory requirement. While this may result in higher reported spill numbers compared to companies using less frequent monitoring, it enables faster detection and response to protect our rivers and beaches.

Our infrastructure has worked exceptionally hard to manage the increased rainfall and groundwater infiltration. If conditions had been typical, spill numbers would have been even lower. We recognise there is more to do, particularly at higher-spilling sites, and we are continuing targeted interventions as we move into the next regulatory period (K8).

Our WaterFit programme has delivered:

- Installed over 4,600m^3 of storm storage across 19 sites so when flows exceed treatment capacity they can be stored and treated later, avoiding discharges
- Prevented groundwater infiltration at 120 sites re-lining 36km of sewer, sealing of over 1,300 manholes and surveying over 83km of targeted sewers
- Reduced phosphorus and ammonia impact on watercourses at 29 sites costing and completed our final bathing water improvement scheme at Malborough treatment works
- Completed major upgrades and design work at seven pumping stations, making the network more reliable and ensuring all flows arrive at Wastewater Treatment Works (WWTW) to be treated
- Rehabilitated rising mains, including two major mains in Exmouth preventing bursts and pollution incidents adjacent to the Bathing Waters.

This investment at our bathing waters alongside investment to address our highest spilling overflows has already delivered results, with spills reduced at two thirds of our top 20 spilling overflows. Our 2025 to 2030 investment will maintain the focus on addressing spills at bathing beaches, shellfish waters, and high-spilling sites by 2030. As we do this, we are embedding a Green First approach, prioritising nature-based solutions such as sustainable drainage systems, wetlands, and natural attenuation to reduce pressure on the sewer network and improve water quality.

POLLUTION INCIDENTS

Pollution incidents to watercourses continue to be an area of challenge, with the number of incidents remaining elevated impacted by high rainfall and groundwater levels. Our interventions, particularly in the second half of the year, have nevertheless resulted in a marginal improvement year-on-year.

Our targeted investment in c.12,000 sewer depth monitors enables us to better predict where issues may arise, and uses AI to respond proactively in advance of rather than after an incident arising. This has allowed us to maintain the c.40% reduction in incidents on our network achieved since 2020. A higher proportion of incidents have occurred at pumping stations and treatment works, and to reduce pollutions going forward, our focus is now on ensuring they are resilient to weather and flows.

We continue to record zero Category 1 pollutions, the most serious category of pollutions, having not had any Category 1 pollutions since 2018. However, we are disappointed by the increase in Category 2 incidents to four for the year. Two of these occurred in Exmouth, where a rising main failure led to temporary discharges, which reoccurred during repair works. Although the environmental impact was limited and short-lived, these incidents underscore the critical need for continued investment in asset resilience and the importance of rapid, effective response measures.

Reducing pollution is priority for the next regulatory period. In April 2025, we published our Pollution Incident Reduction Plan, which outlines the actions we are taking to further reduce emissions from our network. We also recognise that the pollutions metric largely measures those emissions from the network that impact watercourses, in our region and topography, where we are close to rivers and seas, this is more important and of greater likelihood than for other regions, where the impact of emissions from networks are less likely to reach watercourses. When all emissions including flooding to houses and properties are considered, we perform relatively well against our peers, with one of the lowest number of these emissions per km.

NUMERIC COMPLIANCE

When returning wastewater to the environment we need to ensure this is of the right quality to avoid harming the environment. Numeric permits place measurable conditions on the final effluent discharged to the environment and measure compliance with these conditions. Our performance of 98.1% was below the target for this year, but reflects an improvement on 2023, with a halving of the number of failures. We have enhanced our action plans across our treatment works, including working closely with the Environment Agency, with regular reviews taking place.

ENVIRONMENT PERFORMANCE ASSESSMENT (EPA)

The Environmental Performance Assessment (EPA) is the Environment Agency's annual review of water companies' environmental performance, with an overall rating of up to four stars based on a range of key indicators.

As we close the regulatory period, we are anticipating a two-star rating for South West Water for the 2024 calendar year (aligned with the 2024/25 financial year), consistent with previous years. While this remains below our target of four stars, we have made progress in several areas. Numeric compliance failures have halved, we have consistently met sludge compliance standards, and the supply/demand balance metric achieved a perfect score of 100 for the second consecutive year.

Pollution incidents remain our most significant challenge. The EPA currently measures only around 4% of all pollution incidents, largely those that reach watercourses. To improve our rating, we must reduce these watercourse-related pollutions. Our recently published Pollution Incident Reduction Plan sets out the actions we are taking to achieve this. The Environment Agency is currently consulting on changes to the EPA framework from 2026. As this is a critical measure for the sector, we have submitted detailed feedback. In particular, we have highlighted that while the EPA is widely regarded as the key benchmark for environmental performance, it does not currently reflect the full range of emissions from wastewater networks and assets.

For example, internal and external sewer flooding, which can have significant public health and amenity impacts, are not included in the EPA despite their relevance to environmental and customer outcomes. We believe the EPA should evolve to provide a more rounded and representative view of environmental performance, one that drives meaningful improvements across the sector.

TACKLING SPILLS – MAKING A DIFFERENCE

Our focus on reducing spills means we are reviewing every overflow and targeting our efforts where it makes most positive impact.

RILLA MILL

We achieved this massive 93% spill reduction by tackling multiple problems at once. This included installing a new inlet screen and balance tank at the WWTW, lining sewers to reduce ground water infiltration, and sealing manholes to reduce rainfall runoff entering sewers. Rilla Mill was our fifth highest spiller in 2023 but is now spilling less than 20 times per year.

DULOE

Duloe was our highest spiller in 2023 but upgrades to the storm weir and additional treatment capacity means spills have been reduced by 46% in 2024.

STIBB CROSS AND LANGTREE

The overflows at Stibb Cross and Langtree WWTW were among our highest spillers but as a result of using CCTV cameras to investigate 1,500 metres of sewers, we have been able to identify and remove sources of infiltration – lining over 650m of sewers.

DRIVING ENVIRONMENTAL GAINS

South West Water is proud to be at the forefront of environmental infrastructure, delivering sustainable outcomes for our customers, communities, and ecosystems.

With our operations deeply connected to the natural water cycle, protecting and enhancing the environment is central to our success.

Our strategy focuses on measurable action, long-term investment, and innovation to improve river and sea water quality, boost biodiversity, and accelerate progress toward Net Zero.

We are committed to supporting the natural environment. From restoring habitats to investing in clean energy, we are helping to build climate resilience and protect the places people love. Since 2019, we have planted 389,306 trees, reaching our 2025 target a year early, an important milestone in our nature-based approach to removing carbon from the atmosphere

SAFEGUARDING WATER RESOURCES IN OUR DRINKING WATER PROTECTED AREAS

Our Upstream Thinking programme has delivered catchment management in the Meldon reservoir drinking water protected area to address specific water quality risks from dissolved organic carbon (DOC), total organic carbon, and manganese, which were attributed to degrading and eroding peatland.

Employing Nature Based Solutions (NBS) with peatland restoration, we can mitigate water quality risks and improve biodiversity for the benefit of Sites of Special Scientific Interest (SSSIs) and S41 NERC habitats within the drinking water protected area safeguard zone.

Working with the South West Peatland Partnership (SWPP) we identified areas of heavily modified and degrading peatland in the catchment that were contributing to the DOC and Manganese concentrations in the reservoir. Innovative restoration techniques including blocking drainage and erosion channels with wooden leaky dams, and locally sourced Dartmoor wool bunds are helping to re-wet and restore the natural function of the peatland. The result interrupts the pollution pathways by preventing peatland decay whilst also creating a mosaic of bog habitats where wildlife can thrive with enhanced protection from the effects of climate change.

WORKING WITH THE NATURAL ENVIRONMENT
The regions we serve are home to some of the UK's most treasured natural assets, 157 bathing waters, 860 miles of coastline, four national parks, and ten National Landscapes. From the cliffs, beaches and moorlands of the South West to the chalk streams and ancient woodlands in the South East, these diverse landscapes, habitats, and species are under increasing pressures from climate change and human impact.

Across the regions we serve, land use and environmental pressures are placing increasing strain on rivers, wetlands, and coastal ecosystems. For example, in the South West, over 70% of the land is agricultural, shaping the health of our catchments and the quality of our water. And with one in six species now at risk of extinction, urgent action is needed to protect and restore nature.

As a business rooted in the regions we serve, we have a responsibility to act. Our environmental leadership is focused on restoring habitats, improving rivers, supporting sustainable land use, and investing in nature-based solutions that build resilience and protect the places people love. Our customers expect this of us, nine in ten believe it's important we lead on the environment, and we are delivering on that promise.

ENHANCING THE NATURAL ENVIRONMENT
A healthy environment is important for our region, particularly in the face of climate change, ecological decline and greater recreational use of rivers and seas. Nature and the environment are priorities for us, as we look to work with natural processes to provide sustainable solutions for the challenges we face. Putting water quality and nature recovery at the heart of what we do, working with partners means we can create climate resilient places and infrastructure.

INVESTING IN THE HEALTH OF OUR RIVERS

Over 2020 to 2025 we have made significant progress in enhancing water quality and reducing environmental pressures, with RNAGS improving from 19% to 12%. Through phosphorus reduction schemes and investment in treatment infrastructure, we have improved river water quality at 37 sites, achieving an 80% reduction in phosphorus concentrations. These improvements have contributed to healthier ecosystems and more resilient river catchments.

We have trialled phosphorus removal technologies like I-Phyc and Electro-Coagulation, gaining valuable insights despite their early-stage development. A standout success has been our use of low-carbon Reactive Media Reed Beds, such as at Wilmington, which improves water quality and biodiversity without the need for chemical dosing.

These initiatives support our Water Framework Directive goals and reaffirm our commitment to restoring river ecology. Looking ahead, we're continuing to invest in the health of our rivers by upgrading treatment works to further reduce phosphorus discharges by an additional 10%. These upgrades will build on the progress already made, helping to deliver cleaner, healthier rivers for wildlife and communities alike.

UPSTREAM THINKING – TO SAFEGUARD OUR WATER QUAILITY

Rivers supply 90% of our drinking water, and through our award-winning Upstream Thinking programme, we have improved 80% of drinking water catchments working with our partners – Cornwall Wildlife Trust, Devon Wildlife Trust, Natural England, the Farming and Wildlife Advisory Group, South West Lakes Trust, and Westcountry Rivers Trust. Since 2010 we have worked with our partners, farmers and landowners to enhance water quality, biodiversity, and climate resilience.

In 2024/25 alone, we delivered 17,387 hectares of catchment improvements, bringing the total to 144,120 hectares, exceeding our 2025 target. We have restored 2,124 hectares of peatland and planted over 389,000 trees since 2019, hitting our tree-planting goal a year early.

Our work tackles pollutants such as nutrients, pesticides, and antibiotics through practical measures like pond creation, buffer strips, and improved slurry storage. These efforts support cleaner water, better wastewater dilution, and natural flood management.

Looking ahead, we're expanding into new drinking water catchments, aiming to manage an additional 12,500 hectares by 2030, raising our total target to 146,500 hectares.

ENHANCING BIODIVERSITY ACROSS OUR ESTATE

Our diverse land holdings, ranging from moorlands and reservoirs to forests and urban sites, include ecologically important areas like Special Areas of Conservation (SACs) and County Wildlife Sites (CWSs), and 1,251 hectares of Sites of Special Scientific Interest (SSSIs), 88.5% of which are in favourable condition.

We have restored former industrial sites such as Park Pit and Stannon into vibrant heathlands and reservoirs, while opening access to 40 lakes for education and recreation. We are also re-naturalising rivers and watercourses to support species like fish, eels, and beavers, and ensuring our operations deliver measurable biodiversity gains.

COLLABORATING FOR REGIONAL NATURE RECOVERY

We actively support regional climate and nature recovery through partnerships, including local nature and catchment groups, and our Let's Talk Water forum, which fosters collaboration and shared planning.

Our delivery partners are key to achieving environmental and biodiversity improvements across the South West. Looking ahead, we are expanding our nature recovery programme. This includes launching a new Nature Recovery Fund to support local initiatives, planting a further 300,000 trees, and launching our 1,000 ponds initiative to create new habitats and improve water retention across the landscape.

SAFEGUARDING SENSITIVE HABITATS AND PREVENTING BIODIVERSITY LOSS

To protect the South West's most sensitive habitats, we focus on freshwater sites designated as SSSIs, SACs, SPAs, or CWSs. In 2024/25, as in the previous three years, there were no pollution events at these locations, supporting our commitment to the Government's Environmental Improvement Plan and its goal to improve all SSSIs within the next decade.

We are also addressing the threat of invasive non-native species (INNS), which pose significant risks to native species and our infrastructure. Biosecurity measures have been installed at key sites, awareness signage is now in place at 125 locations, and new watercraft washdowns have been introduced at Stithians and Tamar Lakes reservoirs. These actions form part of our broader strategy to prevent biodiversity deterioration and protect the region's unique natural heritage.

PREVENTING THE SPREAD OF INVASIVE NON-NATIVE SPECIES

The Natural Resources Team working in collaboration with the Environment Agency, South West Lakes Trust, Angling Trust and other stakeholders have overseen the installation of the first known biosecurity hubs at two new reservoirs in 2024/25. Our biosecurity facilities include watercraft washdowns, SUP inflation points, angling dip (disinfection) tanks, boot scrubs, drying racks, and novel invasive species awareness features.

The purpose of these facilities is to engage the public and raise awareness of the threat that invasive non-native species (INNS) present to biodiversity deterioration in our region and beyond. Supporting the GB Non-native Species Secretariat (NNSS) with their 'Check, Clean, Dry' awareness campaign, we aim to highlight and mitigate one of the NNSS priority pathways of spread for INNS from angling and watercraft.

Most aquatic INNS have no known method of eradication, so preventing their spread is imperative to protect water supply operations, recreational activities, and biodiversity.

Invasive non-native species continue to present risks to our operational activity and to the habitats and species of the region. As a responsible business and landowner we are legally required to take ongoing action to control their presence and potential spread. We continue to take a leading role with partners and regulators in surveying, monitoring and controlling the presence of INNS across the region and sharing our experience and best practice.

CLIMATE CHANGE ADAPTION

We're evolving how we work to meet the growing challenges of climate change, such as more intense rainfall, hotter summers, and rising sea levels, by embedding resilience into our infrastructure and planning.

We assess climate risks across our operations, using these insights to guide investment and ensure our assets are future-ready. We're working with landowners and farmers to restore wetlands and improve soil health, drawing on learning from the Ofwat Innovation-funded Water Net Gain project, which explores how nature-based solutions such as smart ponds, can deliver multiple environmental benefits and climate resilience.

Our approach combines natural and engineered solutions to support flood mitigation, carbon capture, and biodiversity. We're also helping communities adapt by promoting sustainable behaviours and raising awareness, building a resilient future for people, nature, and generations to come.

NET ZERO

Our commitment to Net Zero by 2030 goes hand in hand with climate adaptation. We are cutting emissions through renewable energy, low-carbon infrastructure, and operational efficiency, we have already reduced our carbon footprint by 45% since 2020/21 in South West Water and Bristol Water businesses.

We are also innovating across our supply chain, having trialled low-carbon materials and processes to reduce embedded emissions. As we look to 2030, we will continue to decarbonise our operations, reducing nitrous oxide emissions and repurposing methane. We will also invest in bioresource energy recovery, using waste to power our own operations, and supporting our supply chain in adopting low-carbon materials and techniques.

SUPPORTING AFFORDABILITY, DELIVERING FOR CUSTOMERS

Tackling affordability means focusing on two core priorities: driving efficiency to keep bills as low as possible, and providing meaningful support to those who need it most.

Over the past decade, we have kept bill increases below inflation, while expanding support to over 150,000 customers. By unlocking £124 million in financial aid, we met our pledge to eliminate water poverty in South West and Bristol by March 2025.

As providers of essential services, we play a vital role in the health and economic wellbeing of our communities, and we are committed to delivering excellent customer experiences while keeping bills affordable. Our household contact centre focuses on providing seamless, end-to-end support.

We are supporting more customers than ever before with over 111,000 across the Company benefitting from our financial support framework.

ADDRESSING AFFORDABILITY AND DELIVERING FOR CUSTOMERS

KEEPING BILLS AFFORDABLE
Affordability begins with delivering high-quality services at the lowest sustainable cost. Over the past decade, we've kept bill increases below headline inflation by focusing on operational efficiency and customer service excellence. We resolve over 90% of customer queries at first contact, helping to reduce administrative costs and improve satisfaction.

Our WaterShare+ scheme and progressive tariffs reward customers for using less water, directly linking conservation with lower bills. These efforts are supported by ongoing investment in technology, including a new billing and customer experience platform and the rollout of smart meters. These tools allow us to personalise services, improve efficiency, and help customers better understand and manage their water use.

Despite these efforts, 2025/26 brings a necessary increase in bills, around 28% for South West Water customers, raising the average daily cost to approximately £1.85. This rise supports critical infrastructure investment, but customers will only fund about a third of the cost, with the remainder covered by shareholders and debt providers. To mitigate the impact, we are launching a £168 million support package.

ERADICATING WATER POVERTY
In 2019, we made a bold pledge to eradicate water poverty and ensure that every customer has an affordable bill by 2025, defined as spending no more than 5% of disposable income on water. We made this commitment five years ahead of the industry-wide target for South West Water and Bournemouth Water, and a similar target was also set for Bristol Water in 2020.

Amid the ongoing cost-of-living crisis, we have significantly expanded our affordability measures, unlocking over £124 million in financial support and helping more than 111,000 customers across our regions.

As a result, 100% of households served by South West Water and Bournemouth Water (up from 98% the previous year) and 100% of Bristol Water customers have been independently assessed as having an affordable bill. This success reflects the strength of our affordability toolkit, which includes discounted tariffs, payment support, water efficiency support, benefits entitlement checks, and the proactive identification of customers in need through advanced data modelling and auto-enrolment.

Looking ahead, we aim to lift a further 5,000 customers out of water poverty in the coming year. This will be achieved by enhancing our affordability toolkit and strengthening partnerships with local councils and debt support organisations to better identify and assist those in need.

We are also investing in long-term community resilience through our £5 million Better Futures programme. This initiative provides hardship grants to individuals and supports community groups that promote wellbeing,

education, and positive environmental outcomes, ensuring that support reaches both households and the wider communities they belong to.

HELPING CUSTOMERS UNDERSTAND OUR BILLS

Our plans for K8 result in a £3.0 billion[1] investment programme to improve services and infrastructure. Whilst two-thirds of this investment is funded upfront by investors, customers will fund around one-third of this investment, which means bills will increase.

We recognise that this comes at a difficult time, following a prolonged cost of living crisis and increased scrutiny of our sector. That's why we have taken time to ensure we communicate to our customers around the bill increases, both why they are necessary, and what customers can do if they are financially vulnerable.
To ensure we engage with customers in a clear and effective way, we have based our messaging on customer research and feedback, as well as ensuring we consider other ways in which customers can reduce their bill. As a result, we have focused on two elements; re-designing our existing bills to make them simpler and clearer; and providing a bill insert that explains what we will be delivering over the five-year period.

Our bill design was informed by customer research, and developed using behavioural science to:

- make it easier for customers to understand what they owe and how to pay;
- highlight to metered customers the benefit of reduced water usage;
- drive awareness of PSR and affordability schemes; and
- reduce complaints about 'balance enquiry'.

We obtained feedback from customers on the proposed bill and also engaged with the Consumer Council for Water and the WaterShare+ Independent Panel. The research provided incredibly positive feedback, particularly in the areas of clarity, functionality, and user experience:

- the majority of customers found the new design visually appealing, highlighting the use of pastel colours visual aids, and clearer sections to make the bill easier to understand.
- many respondents appreciated features such as the prominent display of the account balance and breakdown of charges, which helped them navigate the bill more effectively.
- metered customers valued the inclusion of comparative data that helped them gauge their water consumption. explanations like the practical equivalents for water usage (e.g. bathtubs) were also well-received as they added clarity.

INNOVATIVE TARIFF TRIALS

We are developing new tariff structures that promote fairness and sustainability.

Our Seasonal Tariff Trial charges higher rates during the summer and lower rates in the winter to encourage conservation during peak demand, and our Smart Saver Tariff, introduced in April 2024 uses a tiered pricing model for smart meter customers where initial water usage is charged at a lower rate, and higher usage is progressively more expensive. Early results show a 1.9% reduction in daily water use and increased customer trust in South West Water.

Smart metering is a key enabler of these innovations. In 2024, we completed the Green Recovery programme, installing over 60,000 smart meters in North Devon. This initiative is now being scaled across the South West. Smart meters provide real-time usage data, helping customers track consumption, detect leaks, and manage their bills more effectively.

More information is available at: South West Water Smart Metering
https://preproductionv12.southwestwater.co.uk/household/your-account/smart-meter.

PROGRESSING CHARGING TRIALS

In April 2024 we began a series of Progressive Charging trials. These trials are informed by extensive customer feedback, with input from over 250,000 customers. The concept of 'Progressive Charges' is seen as a crucial tool

[1] At forecast outturn prices

to incentivise water efficiency and make bills more affordable and are being conducted across various regions and customer types, with four small-scale tariff trials launched in 2024/25.

The design process for these tariff trials took two years and involved modelling different tariff proposals against actual customer data. The process was developed with the support of the Consumer Council for Water and in consultation with Ofwat. To engage customers in the right way we partnered with Behavioural Insight experts to develop our communication approach pre, during and post the trials. Selected customers are supported by a dedicated team, offering home audits and interventions to save water and money. The trials include various tariff systems, such as the Summer Peak Tariff and the Seasonal Tariff, which offer reduced water rates for customers with AMI Smart Meters. The evaluation framework for the trials assesses the impact on customer behaviour and opinion across five areas: consumption, affordability, perceptions of fairness, customer experience, and reputation.

Initial findings from the Smart Saver programme's six-month quantitative evaluation show that the trial group reduced their daily water use by 1.9%, with higher users reducing their usage by 9.5%. The evidence suggests that household water use is responsive to price signals provided by the Smart Saver tariff.

We are continuing to gather important evidence to guide future tariff design, aiming to learn, evolve, and enable wider roll-out in K8. This is a key component of our affordability strategy and encouraging water efficiency through innovative tariff solutions.

SUPPORTING VULNERABLE CUSTOMERS

We are committed to ensuring that all our customers, especially those in vulnerable circumstances, receive the support they need. Our Priority Services Register (PSR) plays a central role in this, offering tailored assistance to customers who may require extra help due to age, ill health, disability, or other personal circumstances.

We make it easy for customers to register for the PSR, ensuring that those who need help reading their bills, understanding their account, or accessing services can do so with ease. We also work closely with other utility providers to share relevant data, helping to identify and register customers who may benefit from additional support. For those who rely on a constant water supply for medical or personal needs, we ensure that appropriate help is available during any service interruptions, and across all regions, we are performing at or above our performance commitment levels for PSR services.

Recognising the importance of these services, we also measure customer satisfaction with our PSR offering each year. In the most recent results, South West Water achieved a satisfaction score of 93%, and Bristol Water scored 78%, both exceeding our targets. These results reflect the value our customers place on the PSR and the effectiveness of the support we provide.

We are continuing to expand and align our PSR services across the company, including expanding outreach efforts and ensuring that all customers have access to the support they need.

OUR OPERATIONAL KPI's

More information can be found in Pennon Group Annual Report and Accounts 2025 pages 56 to 58.

BUILDING WATER RESOURCES, IMPROVING WATER QUALITY

WATER QUALITY (CRI SCORE)
The Compliance Risk Index (CRI) is the Drinking Water Inspectorate's (DWI) measure of water quality. In 2024/25 we continued with our 'Quality First' transformation programme across our SWB region (consisting of South West Water and Bournemouth Water) as well as the Bristol Water region, which is subject to separate cost and performance reporting to Ofwat. For the SWB region, 2024 saw our best performance achieved during the five-year regulatory period and we were within the regulatory deadband of 2.00. This was due to a number of factors, especially improved tank cleaning and maintenance. Bristol Water also achieved its best performance in the five-year period, having adopted and applied the 'Quality First' programme, with enhanced mains flushing, tank inspection and cleaning, alongside staff training.

SUPPLY INTERRUPTIONS (DURATION PER PROPERTY PER YEAR)
Performance across the Company is often impacted by colder weather and third-party damage. Despite a relatively stable underlying performance, specific events of scale have contributed to levels of supply interruptions in both SWB and Bristol Water that exceed our KPIs. While essential repairs were completed and water was restored, alternative water supply provisions were offered, including bottled water stations and utilisation of our priority services register, to ensure vulnerable people received bottled water to their homes.

TASTE, SMELL AND COLOUR (CONTACT PER 1,000 POPULATION)
We recognise that customers expect their drinking water to look and taste great and this is important in maintaining customers' trust in the quality of our supplies.

We saw an increase in contacts in SWB following media reporting, despite over 300 areas flushed in 2024. There is a natural lag in this showing in improved performance, which we expect going forward. In addition to this lag, there was a general increased concern surrounding drinking water quality from increased public attention.

Bristol Water has also seen a slight increase in the volume of contacts received, a large number of which related to customers' own plumbing, but this was also impacted by the increased public awareness following the increase in media attention concerning water quality.

LEAKAGE (3-YEAR AVERAGE – MEGALITRES PER DAY)
Reducing leaks is a critical component of ensuring a sustainable water supply. Across K7, we have reduced leakage by 13% in South West Water and 1% in Bristol. Whist we narrowly missed the stretching leakage targets for 2024/25 for South West Water and Bristol Water the in-year leakage results for 2024/25 were an 9%, 4% improvement respectively on the prior year.

UNPLANNED OUTAGES (%) & MAINS REPAIRS (NUMBER OF REPAIRS PER 1,000KM)
Asset health is essential for ensuring a robust supply of water to our customers. Mains repairs performance has improved again for SWB and BRL, ensuring that we have met targets in these regions. Both SWB and Bristol Water met the unplanned outage target of 2.34.

TACKLING STORM OVERFLOWS AND POLLUTIONS

POLLUTION INCIDENTS (NUMBER OF WASTEWATER INCIDENTS)
Category 1-3 pollutions is our most challenging area. The start of 2024 was impacted by the continuation of exceptional wet weather in 2023/24. The number of pollution incidents during Winter 2024 has been lower than the previous exceptional Winter. Performance in the final quarter of 2024 saw less than half the number of incidents as the previous year. We continued to develop and implement our Pollution Incidents Reduction Plan (PIRP), with our plans published in March 2025. We know there is more to do and we continue to target a further step change in performance. The final value is subject to the standard finalisation processes ahead of publication in the Annual Performance Report.

NUMERIC COMPLIANCE (%)
We measure the compliance of our discharges against our permits. Around half of our wastewater treatment works, and a small number of water treatment works, have permits with measurable numeric conditions governing the final effluent discharged to the environment.

Performance in this area has improved year-on-year with incidents halving in 2024. Following issues experienced in Summer 2023, we enhanced our action plans across our treatment works, including regular reviews with the Environment Agency taking place. We know there is more to do in this area and continue to update our improvement plans.

INTERNAL SEWER FLOODING (INCIDENTS PER 10,000 SEWER CONNECTIONS) & EXTERNAL SEWER FLOODING (NUMBER OF INCIDENTS)
Sewer flooding is a key area that significantly impacts on customers. In 2024/25 we maintained our industry-leading internal sewer flooding performance and have delivered a further reduction in both internal and external flooding incidents, despite the prolonged periods of significant rainfall and high groundwater levels at the start of the year.

SEWER COLLAPSES (INCIDENTS PER 1,000KM) & SEWER BLOCKAGES (NUMBER)
These measures reflect service impacts to our customers as well as being a lead indicator of asset health. Our performance in respect of sewer collapses has improved again and we have met this target of 13.99, in each of the five years of the regulatory period. Blockages have remained broadly stable, meeting the target of 6,500 again this year.

DRIVING ENVIRONMENTAL GAINS

BIODIVERSITY (HECTARES)
We are continuing our pioneering catchment management approach. Catchment management protects and improves river quality and critical water abstraction sources to provide clean, safe drinking water without the need to provide additional infrastructure. We have exceeded our targets for each year of the 2020 to 2025 period.

ENVIRONMENTAL PERFORMANCE ASSESSMENT
A combination of a basket of measures, the EPA is the Environment Agency's assessment of environmental performance. Whilst still under the Environment Agency process for finalisation, our performance this year results in a provisional 2 star rating.

BATHING WATERS
South West Water has over 860 miles of coastline to protect, representing over one third of England's coastal bathing waters. For 2024, we have also successfully added six designated river bathing waters, with now a total of 157 designated bathing waters in the region (151 like-for-like). The vast majority of these, including all coastal bathing waters impacted by South West Water assets, meet stringent EA classifications, with over 90% classified as 'good' or 'excellent'.

AVERAGE SPILLS
Our WaterFit programme is focused on protecting rivers and seas. During 2024, the average number of spills reduced, despite intense rainfall and high groundwater levels. South West Water was only one of five water companies to see such a reduction. South West Water has made interventions at a number of sites during the year to help achieve this reduction. For example, investments at Rilla Mill near Liskeard have helped achieve a 93% reduction in the number of spills year-on-year. Our investment programme is also targeting reductions in those locations that matter most to our customers, our beaches, where on average spills are six in the bathing season.

SUPPORTING AFFORDABILITY, DELIVERING FOR CUSTOMERS

OVERALL SATISFACTION WITH PSR (%)
We provide the Priority Services Register (PSR) services for vulnerable customers across the Company and we measure customer satisfaction with these services each year in SWB and Bristol Water. At SWB there are over 125,000 customers registered for PSR. This follows significant increases in each year of the regulatory period. All regions have outperformed the common industry measures again this year.

CUSTOMER MEASURE OF EXPERIENCE (C-MEX)
C-MeX is Ofwat's measure of customer experience both for those customers who directly contact us as well those surveyed around their perception of our brands. Bristol performance has been consistently strong throughout the period, SWW is 15th in the rankings and BRL are 5th and we see opportunity to share best practise across the Company.

CUSTOMER AFFORDABILITY (%)
We have targeted zero water poverty by 2025, and we have a range of affordability schemes to address customer needs. South West Water and Bristol Water have a measure which assesses customer affordability and which is improving year-on-year. Both SWB and Bristol Water have achieved 100.0% of customers finding their bill affordable.

DEVELOPER MEASURE OF EXPERIENCE (D-MEX)
D-MeX is Ofwat's measure of service experience for developers which directly compares us with our peers. Across the 2020 to 2025 period, each of South West Water and Bristol Water have seen broadly improving trends in performance in this metric. SWW is 6th and BRL are 9th in the rankings.

OUR FINANCIAL KPIs

RETURN ON REGULATED EQUITY (RORE) (%)
Return on regulated equity (RORE) expresses the return the water businesses have managed to earn above and beyond expectations set by the regulator through financial and operational performance. RORE for SWB is 6% and for BRL is 5.1%. Commentary on performance is set out in the Chief Financial Officer's report on pages 54 to 60.

REGULATORY CAPITAL VALUE (RCV)
Regulatory Capital Value (RCV) has been developed for regulatory purposes and is primarily used in setting price limits. RCV is widely used by the investment community as a proxy for the market value of the regulated business and forms part of covenant debt limits. Commentary on performance is set out in the Chief Financial Officer's report on pages 54 to 60.

GEARING
The regulated gearing is calculated as year end net debt as a proportion of RCV (based on RCV including the adjustment for the IFRS16 leases). Commentary on performance is set out in the Chief Financial Officer's report on pages 54 to 60.

(LOSS)/PROFIT BEFORE TAX (£M)
(Loss)/profit before tax is a key measure of the Company's financial performance after deducting all operating and finance costs. Underlying (Loss)/profit before tax is measured to exclude any distorting non-underlying items. Commentary on performance is set out in the Chief Financial Officer's report on pages 54 to 60.

OUR CFO'S REVIEW

This financial year has been a year of transition as we close out K7 and prepare for K8 - reshaping our operations whilst ensuring a resilient balance sheet for the growth ahead.

Taking on the role of CFO at this point in the regulatory cycle is always challenging, and the 2024/25 financial year has proven a period of transition. I started the role on the day we received our Draft Determination for K8 and with uncertainty for the sector through ongoing public scrutiny and regulatory change, it has been a tough year for the business.

Our 2024/25 financial results were in line with expectations, reflecting the challenges seen across the UK water sector, as well as a relentless focus from our teams to meet the commitments we have made to customers and stakeholders, whilst investing in our assets to protect the environment and meet the expectations of the public.

Our underlying loss before tax of £28.8 million for the year (2023/24: underlying profit of £17.8 million), resulted from lower regulated revenue impacted by lower customer demand in Devon and Cornwall, driven by customer efficiency initiatives. Cost pressures have been seen as we strive to deliver against our regulatory targets

Depreciation and interest have increased as a result of the increased capital investment we have seen in the current and previous years. These investments have been reconciled into RCV as the K7 period ends, with a step-up in revenue associated with the allowed returns on such investments commencing from the 2025/26 financial year.

The Company's statutory loss before tax of £61.2 million for the year (2023/24: £2.2 million profit) includes non-underlying items of £32.4 million (2023/24: £15.6 million), the majority of which related to costs in relation to the cryptosporidium water quality incident and costs in connection with restructuring and reshaping actions. The statutory loss after tax of £48.6 million (2023/24: £2.5 million profit) incorporates the associated tax credit on these results.

We were pleased to receive an 'outstanding' assessment for South West Water's Business Plan. In our Final Determination received in December 2024, Ofwat allowed 100% of the revenues requested in our Business Plan, and improved both the cost of capital and risk mitigations through cost adjustment mechanisms, compared with July's Draft Determination. We believe that the Final Determination provides a strong base for the business to deliver against its strategic priorities and so confirmed we would accept that Determination in late January.

It is critical that we deliver on our strategic priorities, but that we also deliver the required outcomes and our capital programme as efficiently as possible. As such, in this period of transition from K7 to K8, we have continued to progress our efficiency programme, which targets annualised run rate savings of £75 million. In the 2024/25 financial year, we have focused on reshaping and realigning the business to ensure we are ready to deliver on the strategic priorities we have set for the next regulatory period.

With this in mind, we have restructured the business around Pennon's four business units, as well as continued with our programme of integration and transformation to ensure effective, efficient delivery. We have also invested in a number of measures to transform our underlying operational performance.

In addition to the restructure, we have continued to deliver our transformation and integration programmes. Synergies delivered through our acquisitions of Bristol Water have delivered savings of c.£20 million. Combined with base efficiency of c.£47 million we have delivered c.£67 million of the expected annualised savings of c.£75 million for K8. These actions have resulted in non-underlying costs of £11.4 million in the current year, but will provide a more effective and efficient delivery as we head into the next regulatory period.

We have continued to invest record levels of capital to deliver enhancements and benefits for the environment and our customers. Our company wide capital investment of £588.7 million as we focus on delivering on our K7 commitments and transition to K8. Key investments, such as our new treatment works at Alderney and Knapp Mill, have progressed at pace, whilst our continued focus on the environment, through investment in our WaterFit and storm overflow programmes, have also driven capital investment in the year. Our programme to increase our water resources and strengthen our resilience to drought has also continued, leading to a 34% increase in water resources in Cornwall since the drought, as well as a 30% increase in Devon, positioning us well as we experience an exceptionally dry spring period across the UK.

Our current rate of investment aligns with that required to deliver our K8 programme of £3.0 billion[1] and which will deliver 34% growth in our regulatory asset base to 2030. To support this growth, ensuring a strong and resilient balance sheet has been a key focus. Following the completion of the parent company's rights issue in February 2025, £330 million of share capital was issued to South West Water; with the proceeds received, we close the K7 period with a company gearing of 63.3% (net debt/forecast shadow RCV), within our renewed gearing policy of 55-65. The gearing ratio of 63.3% (31 March 2024: 65.0%), reflects the benefit of the equity injection following the rights issue, notwithstanding continued record levels of capital expenditure and reduced operating cash flows.

Debt funding is also fundamental to our growth; during the year we secured strong investment grade credit ratings for South West Water Limited. These credit ratings have allowed us to secure funding through private placements, the public bond markets, lease financing and wider bilateral lending. Overall, we have raised £1.1 billion in debt and equity funding to the end of the year, as well as ensuring our EMTN programme, launched in July 2024, provides an efficient and flexible way to fund our ongoing funding and liquidity needs over the next five years. South West Water Finance plc, a subsidiary of the Company, launched the EMTN programme in this financial year.

We continue to outperform the regulatory cost of equity. Our RORE across the K7 period reflects a 6% real return to stakeholders, outperforming the equity return allowed by Ofwat of 4.19% as a result of strong financing performance across the five-year cycle, partially offset by increased investment, cost pressures including higher power costs than allowed, and ODI performance.

STATUTORY FINANCIAL PERFORMANCE

South West Water's revenue for 2024/25 was £739.2 million (2023/24: £731.3 million). Revenue was broadly flat year-on-year, as tariff increases were offset by lower customer demand in the first half of the year from South West Water customers, in response to our water efficiency campaigns and activities.

Underlying operating costs of £429.4 million (2023/24: £398.1 million) have increased year-on-year by £31.3 million. This reflects the impact of inflationary pressures, the cost of implementing the new digital customer services platform and a focus on delivering key finance commitments. These were partially offset by lower wholesale commodity power costs and efficiency savings.

South West Water's underlying EBITDA reduced by 7.6% to £309.8 million. Underlying operating profit has decreased by 18.1% reflecting the lower EBITDA performance, and an increase in the depreciation charges of £5.9 million compared to last year, in line with our record capital investment programme.

Net finance costs of £170.3 million (2023/24: £155.0 million), reflect an effective interest rate of 5.2[2]% (adjusted for the March injection of equity) (2023/24: 5.3%) The year-on-year increase of £15.3 million was as a result of higher debt, funding the capital programme.

South West Water's statutory loss before tax was £61.2 million (2023/24: profit of £2.2 million) after non-underlying costs of £32.4 million (2023/24: £15.6 million).

South West Water's capital expenditure was £588.7 million (2023/24: £582.9 million), a continuation of the increase in investment level from 2023/24. We have invested c.£2 billion over the K7 period, both in the underlying PR19 programme, but also in additional programmes, including WaterFit and storm overflow reductions, investing more in our wastewater infrastructure; Green recovery, delivering smarter, healthier homes in our regions; and water resources, increasing our resilience to climate change and drought. Further investment during a year of high rain fall has enabled a reduction in pollutions and spillages despite being the wettest hydrological year on record, as we drive operational improvements in support of our focus on protecting the natural environment, on which we rely.

EXPECTED CREDIT LOSSES

We recognise the pressure the ongoing cost-of-living crisis puts on our customers so we are determined to continue to provide a broad range of affordability measures to support those in financial need. Across the

[1] At forecast outturn prices

[2] A measure of the mean average interest rate payable on net debt, which excludes interest costs not directly associated with net debt.

business, the potential impact of significant increases in the cost of living on affordability has been considered in assessing our expected credit loss charges.

Cash collections across the Company have remained robust during the financial year. Expected credit loss charges for 2024/25 of £8.2 million for South West Water (1.1% of revenue) are in line with previous levels (2023/24: 0.9%).

NET FINANCE COSTS
The increase of £15.3 million resulted from; £43.5 million from new and renewed debt facilities, offset by lower inflation and interest rates (£21.3 million), and higher levels of capitalised interest as we continue to invest record levels of capital (£9.0 million) and an increase in interest receivable.

The Company continues to efficiently secure funding through its Sustainable Financing Framework and to ensure c.60% of its interest rate risk is mitigated in line with the Group Treasury Policy, which is achieved both through issuing fixed rate debt and effective interest rate hedging, with a further element being index-linked.

NON-UNDERLYING ITEMS
Non-underlying items for 2024/25 were a net charge before tax of £32.4 million (2023/24: net charge of £15.6 million). Non-underlying items are those that in the Directors' view should be separately identified by virtue of their size, nature or incidence and where they believe excluding non-underlying items provides a more useful comparison of business trends and performance.

The non-underlying charge includes:

- £21.0 million of costs in relation to the Brixham water quality incident which includes enhanced customer compensation, provision of bottled water over an eight-week period, and extensive interventions to clean and filter the network.
- £11.4 million of costs in connection with restructuring and reshaping actions.

The non-underlying charges in the year give rise to a net tax credit of £8.1 million in relation to the above items.

RESPONSIBLE APPROACH TO TAX
We are proud of our responsible approach to tax. The Company has maintained the Fair Tax Mark accreditation for the year, having been the first water company to achieve this status and holding the award continuously since 2018.

The overall 2024/25 tax credit for the Company was £12.6 million (2023/24: credit of £0.3 million). On an underlying basis, the net tax credit for 2024/25 for the Company of £4.5 million (2023/24: charge of £3.6 million) consisted of:

- Current tax credit of £1.5 million, reflecting an effective tax charge rate of 5.3% (2023/24: credit of £0.7 million, 4.1%). The reduction in rate is due to the Company generating tax losses, all of which are carried forward for future relief. These tax losses reflect the enhanced capital allowances available because of full expensing and first year allowances, pension payments made during recent years where tax relief is now due, and capitalised interest, which for tax purposes is deductible in the year incurred.
- Deferred tax credit of £3.0 million (2023/24: charge of £4.3 million). This primarily reflects a current year deferred tax credit in relation to tax losses carried forward for utilisation in later periods, partially offset by a charge in relation to capital allowances in excess of depreciation charged across the Company, largely due to full expensing, and a charge in respect of pension payments paid in previous years and where tax relief is now due.

There was also a deferred tax credit in the year of £8.1 million (2023/24: £3.9 million) relating to the non-underlying items. This related to losses carried forward for utilisation in later years.

Given the Company's continued capital investment programme and full expensing deductions together with 50% first year allowances on long life assets and integral features, the Company does not expect to generate taxable profits for the foreseeable future, and therefore does not expect to make any corporation tax payments in the immediate future.

MOVEMENT IN NET DEBT
The Company's cash flow from operating activities for 2024/25 was £218.8 million (2023/24: £261.9 million). This

recognises robust cash collection in the period, whilst we remain focused on supporting customers through a range of affordability measures where they may be financially vulnerable. Operating cash flows continue to reflect the lower levels of underlying profitability, impacted by lower customer demand and cost pressures from inflation and delivering on our operational performance commitments.

Net interest payments were £112.3 million (2023/24: £100.1 million) with the higher payment in 2024/25 driven by increased debt consequent on our ongoing record levels of capital investment, partially offset by lower inflation and interest rates.

Capital investment has resulted in an increase in capital expenditure cash outflows of £60.6 million to £604.1 million (2023/24: £543.5 million).

ROBUST LIQUIDITY AND FLEXIBLE FUNDING STRATEGY

As at 31 March 2025, the Company had £650.6 million of cash and committed facilities (31 March 2024: £294.2 million). This consists of cash and cash equivalents of £280.6 million (31 March 2024: £0.8 million overdraft), excluding £46.1 million (31 March 2024: £26.0 million) of restricted funds representing deposits with lessors against future lease obligations, and £370.0 million (31 March 2024: £295.0 million) of undrawn committed facilities.

Since 31 March 2024, the Company has secured c.£905 million of new debt, through its diverse portfolio of debt, consisting of:

- £150 million in US private placements with an average maturity of 15 years.
- £650 million through our inaugural public bond issuances under our EMTN[1] programme.
- £65 million of new term loans and leasing with an average maturity of 6 years.
- £40 million of new and renewed revolving credit facilities.

These issuances signal the move to more benchmark-sized transactions in both the private placement and public bond markets as the scale of capital expenditure and ongoing refinancing grows. The bond followed the launch of our £2.5 billion EMTN programme, which allows us to issue funding across the forthcoming regulatory period to fund the growth in the business and improvement in services reflected in our Business Plan.

Resulting from the changes above and drawing of new debt during the year, South West Water gross debt at 31 March 2025 was £3,884.3 million (31 March 2024: £3,395.3 million). The debt has a maturity of up to 32 years with a weighted average maturity of 14 years.

South West Water net debt at 31 March 2025 is a mix of fixed/swapped (£2,531.8 million, 71%), floating (£248.5 million, 7%) and index-linked borrowings (£777.3 million, 22%), which reflects our diverse debt portfolio and compares to a 2024 industry average of fixed/swapped 32%, floating 12% and index-linked 56%. Where appropriate, derivatives are used to fix the rate on floating rate debt.

At 31 March 2025, South West Water's net debt to RCV ratio stood at 63.3% (31 March 2024: 65.0%). This is due to increased capital investment and reduced in period operating cash flows.

South West Water's cost of finance, with an effective interest rate in 2024/25 of 5.2% (2023/24: 5.3%), continues to benefit from the diverse portfolio of debt.

STRONG INVESTMENT GRADE GEARING

During the first half of the year South West Water has achieved two strong credit ratings with Moody's and Fitch. We were pleased that despite the sector wide downgrade by Moody's due to ongoing regulatory risk, and the impact of the Determinations on the wider sector, our credit rating remained unchanged subsequent to the Final Determination.

South West Water launched its EMTN programme in July 2024, establishing a programme for access to the debt capital markets. This included the first public ratings for South West Water ahead of the appointee licence requirement for two ratings by April 2025. Following the Final determination outcome, both rating agencies have reaffirmed the rating, maintaining the Baa1 (negative) and BBB+ (Stable) ratings.

[1] Euro Medium Term Note

The Company maintains its commitment to maintaining strong investment grade ratings across the water businesses and has showed significant commitment through the March 2025 equity injection to support this.

INTERNAL BORROWING
South West Water's funding is treated for regulatory purposes as ring-fenced. This means that funds raised by South West Water are not available for other areas of the Pennon Group.

RETURN ON REGULATED EQUITY
During K7 we continued to deliver South West Water RORE performance of 6.0% cumulatively, with Bristol achieving 5.1% cumulatively, equating to c.£146.0 million of outperformance. This consists of c.£344.0 million financing outperformance (inclusive of the benefit from tax allowances), net of c.£140.0 million totex overspend, and c.£58.0 million ODI net penalty impact. This has enabled the funding of additional capital investment initiatives as noted above.

The cumulative benefits from the structure of our debt book on financing costs persist, but have reduced due to the impact of falling inflation. Totex performance has been impacted in year due to peak levels of capital expenditure following past outperformance. ODI performance across South West Water in 2024/25 has continued to be dominated by pollutions underperformance, partly mitigated by areas of outperformance such as internal sewer flooding, catchment management and bathing waters. As a consequence, South West Water has incurred a penalty of c.£19 million (2023/24: penalty c.£12.1 million). South West Water continues to build on its ODI performance with c.70% either on track or ahead of target across a broad range of challenging bespoke, common, and comparative measures. ODI performance for Bristol Water is on track to achieve c.70% of its ODIs and has resulted in a net financial penalty of c.£4 million (2023/24: penalty of c.£1.7 million).

Across K7, South West Water has created c.£910 million of value from base returns, RORE outperformance and the growth in RCV over the five year period. The South West Water Board has taken a prudent approach to its dividend payments in making distributions to Pennon Group and as result c.£200 million has been distributed in K7 to date. This results in over £710 million of retained value (including dividends declared but not yet paid of £45 million) in South West Water, which the South West Water Board will consider as K7 closes.

FAIR TAX MARK
We are proud that our parent company have been awarded the Fair Tax Mark for the seventh year in a row in October 2024. The Fair Tax Mark accreditation scheme is the gold standard of responsible tax conduct. It seeks to encourage and recognise organisations that pay the right amount of corporation tax at the right time and in the right place. Accredited businesses include listed companies, co-operatives, social enterprises and large private businesses.

As a FTSE 250 UK-focused company, Pennon takes its responsibility to transparency and societal contribution seriously which includes ensuring it pays the right amount of tax, in the right way, at the right time. The Company became the first UK business in the water industry to be awarded the Fair Tax Mark in 2018 and has now successfully retained it each year since.

TAXATION STRATEGY
Transparency remains a critical component of our approach, recognising that openness and honesty with our customers is essential. Optimising our tax position benefits them, for example by keeping water bills down, but we do not enter into artificial tax arrangements, use tax havens or take an aggressive stance in the interpretation of tax legislation. As a long-term business with a long-term approach to financial management, there have been no changes to the Company's overall tax strategy this year compared to last.

Under our tax strategy we:

- At all times consider the Company's corporate and social responsibilities in relation to its tax affairs
- Operate appropriate tax risk governance processes to ensure that the policies are applied throughout the Company
- Comply with our legal requirements, file all appropriate returns on time and make all tax payments by the due date
- Consider all taxes as part of ongoing decisions
- Do not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation

- Do not undertake transactions which are outside the Company's low risk appetite for tax or not in line with the Code of Conduct
- Engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real-time, such interpretations following both the letter and spirit of the laws
- Do not have any connections with tax havens unless it is necessary for the purposes of trading within those jurisdictions
- As a long-term business with a long-term approach to financial management, there have been no changes to the tax strategy which is reviewed and reaffirmed on an annual basis.

Further details are given in the Company's Tax Strategy document which is available on the Pennon website.

TAX CONTRIBUTION 2024/25 – BORNE/COLLECTED
The Company's total tax contribution (TTC) for 2024/25 amounted to £92 million (excluding £134 million of VAT receipts) (2023/24: £82 million excluding £125 million of VAT receipts). TTC is a standardised measure of a Company's total tax contribution, having been developed by PwC and the 100 Group (FTSE 100 Finance Directors). It is acknowledged as being a fair and comparable representation of total tax cost.

TTC looks at taxes borne, and taxes collected. Taxes borne includes all taxes which are a cost to the Company, such as business rates, corporation tax and employers' National Insurance contributions (NICs). Taxes collected and recovered highlights where the business is collecting tax on behalf of HMRC.

Employment taxes totalled £39 million (2023/24: £37 million) including employees' Pay As You Earn (PAYE) and total NICs. A net amount of £25 million (2023/24: £25 million) was collected on behalf of the authorities for employee payroll taxes.

Business rates of £32 million (2023/24: £29 million) were paid to local authorities. This is a direct cost to the Company and reduces profit before tax. UK Corporation Tax receipts from HMRC in the year were £3 million (2023/24: £3 million receipts) in relation to over-payments made in prior years. There were no payments due in respect of 2024/25 or 2023/24 as the Company has generated tax losses in both years.

Payments to the Environment Agency and other regulatory bodies totalled £20 million (2023/24: £14 million). This reduces profit before tax. Fuel excise duty of £1 million (2023/24: £1 million) related to transport costs. This reduces profit before tax. VAT repayments of £134 million (2023/24: £125 million) have been received by the Company from HMRC. VAT has no material impact on profit and is excluded from the TTC figure to avoid distortions in this.

POST BALANCE SHEET EVENT
Ofwat and the Environment Agency (EA) announced an industry-wide investigation into sewage treatment works on 18 November 2021. On 10 July 2025, Ofwat announced its findings for South West Water and its proposed decision to accept South West Water's enforcement package, in lieu of a financial penalty. In doing so, Ofwat recognised the work South West Water has done to improve systems, process and controls and the investments already made to address the historical findings. The agreed undertakings result in investment and funding worth £24million[1] to be delivered over the period to 2030 including:

- £20 million accelerating investment from K9 to reduce the number of spills at environmentally sensitive locations or within a focused community
- £2 million fund for customers to tackle sewer misuse and misconnections to address environmental pollution, infrastructure strain and public health issues caused by improper connections to the sewer system
- £2 million Nature Recovery Fund to support environmental groups to deliver measurable environmental gains

These investments will provide improvements for both customers and the environment alongside our K8 plans to tackle all storm overflows at our bathing and shellfish waters and our highest spilling sites.

[1] The enforcement package proposed is in lieu of a penalty of £19.0 million, which equates to c.6.5% of wastewater revenue (below the 10% maximum) possible for such enforcement).

CONTINGENCIES

On 23 May 2023 Ofwat announced an investigation into South West Water's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to assurance processes which include independent checks and balances carried out by an external technical auditor. The Company continues to work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation. The Company has undertaken its own internal investigation into the data and third party experts have concluded the calculations are within a tolerance as reported, as a result there were no detrimental impacts to customers through Outcome Delivery Incentives ('ODIs'). The Company recognises opportunities to enhance data quality to improve the estimation process and these have been shared with Ofwat. Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply from closing the investigation with no further action, agreeing to formal S.19 undertakings through to fining the Company up to 10% of its revenue in relation to the regulated drinking water business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty.

On 2 February 2024, summons were received by South West Water Limited from the EA in relation to alleged non permitted discharges at 7 locations with a total of 30 charges. The EA have since withdrawn 6 of these charges relating to 1 site. At a hearing on 14 November 2024, South West Water pleaded guilty to 5 of the charges and the sentencing hearing for all 24 charges will take place in the third quarter of 2025 with judgement following at a later date.

On 15 May 2024, cryptosporidium was detected in South West Water's water network and, in response, boil water notices were issued for certain customers in the Brixham area that were lifted in a phased manner completing on 8 July 2024. South West Water continues to assist the Drinking Water Inspectorate in their ongoing investigation, the outcome of which is not known at this time.

PENSIONS

At 31 March 2025, the overall Company surplus on retirement obligations was £14.7 million (31 March 2024: £10.8 million).

The increase in the surplus in 2024/25 of £3.9 million is largely from the Pennon Group Pension Scheme (PGPS), recognised in other comprehensive income. Total liabilities have reduced by c.£59 million, largely due to changes in the financial assumptions driven by the increase in the discount rate. Total assets have reduced by c.£55 million, driven by the reduction in the value of assets from the prior year. The triennial valuation of PGPS as at 31 March 2022 was finalised in March 2023 and no deficit recovery contributions were required. The ongoing funding requirements for the Company to the scheme were limited to the continuing administration expenses. The next triennial valuation of PGPS is in progress and is expected to conclude in March 2026.

DIVIDENDS

The Company has established a dividend policy which includes the following components:

- a sustainable level of base dividend growth, determined by a number of factors including the shareholder's investment and the cost of capital
- a further level of growth funded by efficiency outperformance
- comparison with the assumptions made by Ofwat in setting prices for the regulatory period.

Dividend payments are designed to ensure that key financial ratios are not prejudiced, whilst also taking into account balance sheet considerations. With this in mind, the dividend policy also states that the total dividend payment will not exceed the retained underlying profit in any year, except as a result of a special dividend and balance sheet restructuring, or where there is a significant non-underlying non-cash impact (such as deferred tax).

Payments are made taking into account the ability of the Appointee to finance its Appointed Business. A special dividend of £125 million was declared and approved by the Board on 4 July 2025, subsequent to the year end, but has not yet been paid (31 March 2024: dividends declared but not yet paid £45 million). Payment of declared dividends will be considered in 2025/26, taking into account the financial resilience of the Company.

OUR RISK MANAGEMENT

The Company operates within a complex and evolving risk environment which includes responding to changing Government policy, multiple regulatory frameworks and increasing expectations.

The long-term success of the Company is dependent on the effective management of risks and opportunities and remains a key focus for the South West Water Board and Executive.

The Company's risk management framework considers risk from both a strategic (top down) and tactical (bottom up) perspective. This enables a common understanding of risks and opportunities and their interdependencies, allows risks and opportunities to be cascaded and escalated effectively and provides a multi-layered approach to the review and challenge of risk.

SOUTH WEST WATER'S RISK MANAGEMENT FRAMEWORK

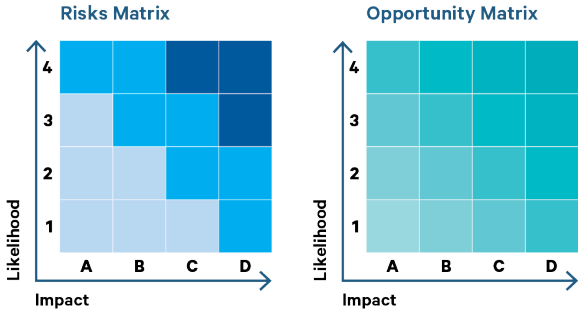
Principal and emerging risks are reviewed by both the South West Water Board and the South West Water Executive throughout the year and are considered in the context of the Company's strategic priorities and the external environment within which the Company operates.

The consideration of these risks and the effectiveness of their management against the desired risk appetite is informed by, and reviewed against, other data points, including; key performance metrics, operational insights, the outcome of assurance activities and broader geopolitical, regulatory and economic developments.

This is underpinned by an established risk management framework which forms part of our governance structure and is embedded into our processes, culture and ways of working, ensuring that there is robust identification, review, challenge and assurance over the management of both our current and emerging risks and opportunities.

		Risk management responsibilities	**Key assurance activities**
OVERSIGHT	Board	• Sets the Company's strategic objectives • Establishes the Company's risk appetite • Determines the Company's principal risks • Ensures an effective internal control framework	• Quarterly reviews of the Company's principal risks against the determined risk appetite • Quarterly reviews of emerging risks and horizon scanning
	Audit Committee	• Reviews the effectiveness of the Company's risk management framework and internal controls framework	• Perform regular deep dive reviews on principal risks • Ensures an appropriate level of assurance coverage over the Company's principal risks • Approves the risk-based South West Water Internal Audit Plan • Receives reports on the outcomes of key assurance activities
FIRST LINE OF DEFENCE	Operational Risk Management	• The identification, evaluation and monitoring of strategic and tactical risks • Maintaining robust internal controls to mitigate key risks • Monitoring compliance with internal control framework	• Ensure robust first line assurance across key business processes • Annual self-assessment and certification of compliance

		Risk management responsibilities	Key assurance activities
SECOND LINE OF DEFENCE	Executive Committee	• Ensuring the operation of the Company's risk management and internal control frameworks • Quarterly review of the Company's principal risks and mitigation strategies • Review of significant bottom-up tactical risks • Provides challenge to individual functional areas over the management of their risks • Horizon scanning to identify emerging risks and opportunities	
	Business units Committees and steering groups	• Managing Directors have established committees and steering groups that assess, monitor and review risks to feed into the overall Executive reviews.	
	Compliance Committee	• Performs deep-dive reviews on risk areas relating to data and substantive submissions	• Reviewing, scrutinising and approving data submissions • Escalating identified material issues and risks to the Executive Committee • Ensuring the completion of actions to mitigate any risks identified
THIRD LINE OF DEFENCE	Group Internal Audit	• Provides independent, risk-based assurance on the effectiveness of the internal control framework • Coordination of independent assurance activities	• Quarterly reporting to Audit Committee and Executive on the effectiveness of internal controls and the outcomes of key assurance activities



Key: Likelihood of risk occurring (over 5 year period)

1. Rare	2. Unlikely	3. Possible	4. Probable
Only in extreme circumstances	Less than even chance	Even chance	Above average

Key: Financial Impact (over 5 years)

A. Minor	B. Moderate	C. Major	D. Severe
<2% Profit after tax	2-5% Profit after tax	5-7.5% Profit after tax	>7.5% Profit after tax

A consistent methodology is applied when assessing the Company's risks and opportunities (including climate-related risks and opportunities), which considers both the likelihood of a risk occurring and its potential impact. Risk impact is assessed across various financial and non-financial categories including: financial, safety, environmental, stakeholder and customer impact, reputation, sustainability, and quality. Likelihood is defined as the probability of a risk event occurring over the next five years under four categories (probable, possible, unlikely or rare) with defined probability thresholds. Risks are assessed on both a 'gross' (without the consideration of existing control measures) and 'net' (with consideration of existing control measures) basis enabling the effectiveness of control measures to be assessed and assured. The combined impact and likelihood determines the overall Red, Amber, Green (RAG) risk rating which is assessed against the relevant risk appetite to determine and prioritise further action.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK MANAGEMENT

Our purpose and values recognise the broader societal role that the Company plays within the regions and communities it serves. Consequently environmental, social and governance (ESG) considerations are at the heart of the Company's activities and how we operate as a responsible business. The identification, assessment and management of ESG risks and opportunities is integrated into the Company's overall risk management framework and methodology. The delivery of ESG metrics and targets, and the associated risks and opportunities, are monitored thorough the ESG framework by the ESG Committee. Further detail is provided on pages 176 to 179.

As the owner of water and wastewater companies, the Company acknowledges the fundamental impact that climate change has on the Company's strategy and priorities and is considered to be pervasive across the Company's principal risk profile. The assessment of the individual principal risks, as detailed within the table below, has included the consideration of both physical and transitional climate change influences, where relevant, and the mitigating actions being taken.

Further detail on the specific physical and transitional climate change risks and opportunities relevant to the Company, along with mitigating actions being taken, are detailed further within TCFD on pages 86 to 129.

REGULATED WATER AND WASTEWATER TECHNICAL (NON- FINANCIAL) DATA

In addition to the risk management framework detailed above which applies across the Company, recognising the importance of the regulatory ODI framework, South West Water engage independent, third-party auditors to audit the accuracy of the technical (non-financial) data reported within the various annual performance reports and regulatory publications and submissions, including its performance commitments and environmental data. Furthermore, a third party provider, Jacobs, has also performed additional assurance work over selected sustainability measures.

CONTINUOUS IMPROVEMENTS TO RISK MANAGEMENT AND INTERNAL CONTROL

The Company is committed to continuously improving its ability to identify and respond to current and emerging risks. Examples of risk management improvements during the year include:

- The Company's confidential Speak Up process has been reviewed and further enhanced.
- A dedicated second line function has been established focused on environmental permit assurance across the Company's water and wastewater sites, providing an additional layer of assurance in this area.
- South West Water has successfully achieved external ISO45001 accreditation of its Occupational Health and Safety Management System.

OFWAT'S PRINCIPLES - BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

Ofwat requires that holding companies manage their risks in such a way that the regulated company is protected from risk elsewhere in the Group. Pennon Group's principal risks and uncertainties include those Group-level risks which could materially impact on South West Water.

Pennon's risk management and internal control frameworks ensure that it does not take any action that would cause South West Water to breach its licence obligations. Further, the Group's governance and management structures mean that there is full understanding and consideration of South West Water's duties and obligations under its licence, as well as an appropriate level of information sharing and disclosure to give South West Water assurance that it is not exposed as a result of activities elsewhere within the Group.

Further details of Company-wide principal risks and application of the Company's risk management framework across the Company are provided in the Pennon Group plc Annual Report and Accounts 2025 (pages 70 to 79).

HORIZON SCANNING AND NOTEABLE EMERGING RISKS

Emerging risks and opportunities are considered to be factors and events which could have a future impact on the achievement of the Company's strategic priorities but lack the required clarity or certainty in order to adequately assess their impact. Horizon scanning of emerging risks and opportunities is embedded within the risk and opportunity review process.

Emerging risks are reviewed by the Executive and Board as part of their regular assessment of the Company's risk profile. Notable emerging risks and opportunities are detailed within the table below:

Risk/opportunity	Comment	Risk category impact	Time horizon
Geopolitical Tensions	Increased escalation of conflict in the Middle East combined with the ongoing war in Ukraine could further impact the global economy, heighten energy resilience risks and disrupt key supply chains such as chemicals.	• Market and Economic Conditions	Short-Medium term
Artificial intelligence and machine learning	There is a risk that automated intelligence and learning deployed within operational processes develops faster than Government regulations and standards.	• Operating performance	Medium-term
Quality of water resources	Changes in regulatory requirements over the treatment of micro-plastics, micropollutants and 'forever chemicals' (e.g. PFAS) as a result of ongoing research may require significant changes in operational processes in the water treatment process	• Operating performance • Business systems and capital investment	Medium-term
Changes to the demographics within the areas that we serve	Increases in population migration to the South West climate change and an increasingly aging population could place further demand on our resources and assets.	• Operating performance	Medium-term
Water sector reform	Reviews of the water industry commissioned by the Government – the Cunliffe Review and the Correy review – could result in significant changes to approach, regulation, and to institutional arrangements	• Law, regulation and finance	Short-Medium term

WHAT IS PFAS?
PFAS (per and poly fluoroakyl substances) is a chemical family consisting of at least 5,000 individual substances that are emerging contaminants, and as such our scientific understanding continues to evolve, alongside our understanding of how they can be managed.

All are chemically very strong and gives them properties such as chemical and thermal resistance, but also makes them extremely hard to break down and therefore they are persistent in the environment; they are sometimes known as “forever chemicals” because of this.

Scientific information that has developed over the past few years has lead regulators to review and update approaches for managing risks to human health and the environment. The EA is undertaking surveillance of PFAS and South West Water is also monitoring them. The DWI is engaged with the sector also and issued guidance in March 2025 that provides a margin of safety in advance of further research emerging. South West Water complies with this guidance and is working with Government and regulators regarding this, across drinking water supplies, effluent discharges and biosolids.

WHAT ARE WE DOING ABOUT IT?
CREWW MICROPLASTICS RESEARCH
CREWW is home to dedicated state-of-the-art microplastics laboratory, representing an initial investment of £1.4 million and collaborating with the University of Exeter's world leading academics. The priority is to enhance knowledge and understanding of microplastics in South West Water operations, be that in the water we abstract, treat and supply as drinking water, or when we collect, treat and return to the environment. The current programme of research which began in autumn 2023 is focused in three main areas;

- Microplastics in sewage sludge – the aim is to investigate novel techniques and optimisation opportunities for the measurement of microplastics in final sludge. Improved methods will streamline calculation of how much is received by the environment. Further research in this project will include the effect of different sludge treatment processes on microplastics content e.g. anaerobic digestion vs lime stabilisation.
- Toxicology of microplastics in soils – to understand what the potential ‘safe’ or ‘acceptable’ levels of microplastics for UK habitats and how the activities of the water sector are contributing. Further investigation will study methods for reducing microplastics in sludge.
- Future Fibres – plastics in the fashion industry – the global fashion and textiles industry is a major source of water pollution with an estimated 20% of the world’s industrial water pollution emanates from textile processing. The Future Fibers programme is a programme studying the development of real time, digital monitoring tools to track microfibres and textiles waste through the wastewater system.

INTERNAL RESEARCH
Our internal innovation activities around microplastics are also research based, we are contributing to two UKWIR research projects;

- Advance Thermal Conversion technologies – to understand the levels of technical and commercial readiness and their ability to suitably treat specific substances in biosolids.
- Microplastics Generated within Wastewater Treatment Works – being delivered as part of the national Chemicals Investigation Programme. This project will investigate the level of plastics generated by the breakdown of plastic components at Wastewater Treatment Works.

RISK APPETITE
There are inherent risks that exist within the water sector and all risk cannot be completely eliminated in the delivery of the Company’s activities. The Company therefore seeks to strike an appropriate balance between risk and reward which aligns not only with the Company’s strategic priorities but also its purpose and values.

Recognising that it is not possible to apply a single risk appetite to all risks that the Company is exposed to, the Board has developed overarching risk appetite statements for each risk category which then informs the risk appetite statement for individual principal risks.

This allows the business to pursue value-enhancing opportunities, while maintaining an overall level of risk exposure that the Board considers to be appropriate.

The risk appetite statement for each risk category is detailed below:

Risk category	Risk appetite statement
Law, regulation and finance	The Board is committed to fully complying with, and being seen to be complying with, all relevant laws, regulations and obligations and has no appetite for non-compliance in this area. This includes, but is not limited to, environmental and health and safety laws and regulations. The Company also operates a low risk appetite in respect of our financing strategy, ensuring our long-term financing commitments are met. The Board acknowledges, however, that South West Water operates in a complex environment influenced by Government regulatory policy. Consequently, there is a greater risk appetite in these areas whilst seeking to mitigate any potential downside and leverage opportunities that may arise from Government policy and regulatory change.
Market and economic conditions	The Board recognises that our activities are exposed to changes in macroeconomic and external market conditions. The Company seeks to take well-judged and informed decisions to mitigate these risks where possible but accepts that a level of residual risk may remain beyond the Board's control.
Operating performance	Whilst the Board recognises that unforeseen events do occur from time to time, the Board has no appetite for significant operational failure of our water and wastewater assets and seeks to reduce both the likelihood and impact through long-term planning and careful management of our operational assets. There is greater appetite for well-informed risk taking to develop further markets, subject to this not detrimentally impacting on the level of service expected of our regulators, customers and wider stakeholders.
Business systems and capital investment	The Board has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan. There is greater appetite for broader value accretive investments with risk weighted against the expected level of return on a case-by-case basis and subject to this not detrimentally impacting on the level of service expected of our regulators, customers and wider stakeholders within our core water business. South West Water seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Company's operations.

PRINCIPAL RISKS AND UNCERTAINTIES

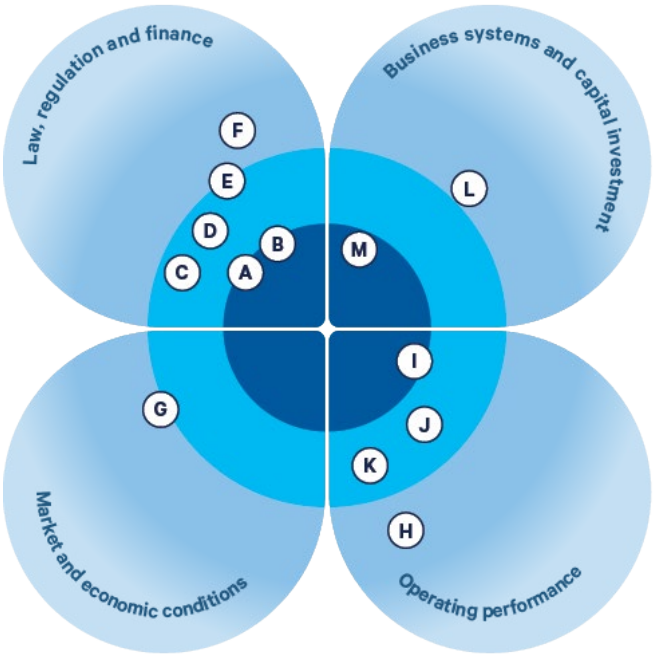
During the year there have been continued sector specific and broader geopolitical developments that have created an environment of continued heightened risk and uncertainty. Notwithstanding that from a regulatory perspective there is certainty as a result of the PR24 Final Determination, there remains continued focus on the financeability of the broader sector as well as ongoing government-commissioned reviews of the sector, the impact of global trade wars and of the continued war in Ukraine impacting operational costs and energy prices.

The Board has carried out a detailed review of the Company's principal risks in the context of the Company's strategic objectives and priorities as well as the external environment within which it operates. This has included:

- Confirming that the Company's risk appetite statements remain appropriate
- Receiving and reviewing updates on the Company's principal risks, including movements in the risk exposure
- Undertaking horizon scanning of emerging risks and trends
- Performing deep dive reviews into key risk areas
- Through the Audit Committee, confirmed the effectiveness of the risk management and internal control framework.

These principal risks have been considered in preparing the viability statement on pages 78 to 80.

AN OVERVIEW OF THE PRINCIPAL RISK PROFILE



Trend	
Increasing	↑
Stable	↔
Decreasing	↓

Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
Law, regulation and finance	**A**	**Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our**	Changes in Government policy	HIGH	↔

Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
		customers			
	B	**Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Changes in regulatory frameworks and requirements	HIGH	⟷
	C	**Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Non-compliance with laws and regulations	MEDIUM	↑
	D	**Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	MEDIUM	↑
	E	**Water Quality and Resilience** **Storm Overflows and pollutions**	Non-compliance or occurrence of avoidable health and safety incident	MEDIUM	⟷
	F	**Addressing affordability and delivering for our customers**	Failure to pay all pension obligations as they fall due and increased costs to the Company should the defined benefit pension scheme deficit increase	LOW	⟷
Market and economic conditions	**G**	**Net Zero and Environmental gains** **Addressing**	Macro-economic risks impacting inflation, interest rates and power prices	MEDIUM	↑

Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
		affordability and delivering for our customers			
Operating performance	**H**	**Water Quality and Resilience**	Failure to secure, treat and supply clean drinking water	MEDIUM	↑
	I	**Storm Overflows and pollutions** **Net Zero and Environmental gains**	Failure to improve wastewater performance resulting in environmental commitments not being delivered	HIGH	↔
	J	**Addressing affordability and delivering for our customers**	Failure to provide excellent service or meet the needs and expectations of our customers and communities	MEDIUM	↑
	K	**Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Inability to attract and retain staff with the skills required to deliver the Company's strategy	MEDIUM	↑
Business systems and capital investments	**L**	**Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes in K8	LOW	↔
	M	**Water Quality and Resilience** **Storm Overflows and pollutions** **Addressing affordability and delivering for our customers**	Inadequate technological security results in a breach of the Company's assets, systems and data	HIGH	↑

For information on climate-related and nature-related risks impact see pages 86 to 129.

LAW REGULATION AND FINANCE

Strategic impact	Mitigation	Appetite
Principal Risk A: Changes in Government policy		
2025 Net risk and direction:	**2024 Net risk and direction:**	
HIGH, STABLE	**HIGH, DECREASING**	
Changes in Government policy may fundamentally impact our ability to deliver the Company's strategic priorities, which can impact value. **Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** Nature change influence: **Transitional**	We actively engage and respond to policy consultations and the Company regularly engages with MPs, government departments and other political stakeholders, both directly and via Water UK. This includes highlighting the impact that our proposed capital investment of £3.0 billion[1] in the next regulatory period will have on our operational performance as well as our wider contribution to society and the economy. Additionally, horizon scanning of emerging changes in Government policy, including climate change-related policies, is regularly undertaken to monitor and assess the potential direct or indirect impact on the Company and to ensure we engage and respond accordingly.	We recognise that Government Policy evolves which presents both risks and opportunities. The Company seeks to minimise the potential risk and maximise opportunities through regular engagement and robust scenario planning.
Principal Risk B: Changes in regulatory frameworks and requirements		
2025 Net risk and direction:	**2024 Net risk and direction:**	
HIGH, STABLE	**HIGH, STABLE**	
Changes to regulatory frameworks may impact on the deliverability and affordability of the Company's priorities, which can impact value. **Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** Nature change influence: **Transitional**	South West Water has a well established and experienced strategy and regulatory function. Regular meetings take place with regulators and we have comprehensive and robust response processes. We announced our acceptance of Ofwat's Final Determination for PR24 on in January 2025, and a robust governance framework remains in place over the K8 period.	We accept that regulatory frameworks evolve which creates both risks and opportunities. We seek to minimise the potential risks by targeting changes which align to our long-term strategy.

[1] At forecast outturn prices

Principal Risk C: Non-compliance with laws and regulations		
2025 Net risk and direction:	**2024 Net risk and direction:**	
MEDIUM, INCREASING	**MEDIUM, INCREASING**	
South West Water is required to comply with a range of laws and regulations across our business. Non-compliance with one, or a number of these may result in financial penalties or a negative impact on our ability to operate effectively and reputational damage to the Company. **Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** **Physical** Nature change influence: **Transitional** **Physical**	The Company operates within robust and mature regulatory frameworks, which includes second line compliance functions, ensuring compliance with permit and other requirements of Ofwat, Environment Agency and other relevant regulators. These frameworks are regularly reviewed to ensure the Company remains compliant with the increasingly complex legal and regulatory landscape. The control framework continues to be enhanced with the embedding of a dedicated internal Environmental Permit Assurance Team, which conducted 213 site visits in the year. The Company also maintains a comprehensive internal framework, overseen by the Legal Compliance function, to ensure compliance with corporate laws applicable to public limited companies, reinforced through key policies approved by the Board and compliance training provided to staff. This has been enhanced this year through the creation and roll out of a new Code of Conduct and interactive eLearning module which is mandatory for all employees. The Company operates a confidential whistleblowing process. This is overseen by the Executive-led Ethics Management Committee. To underpin our commitment to continuous improvement, we have led on the creation of a Water Industry Whistleblowing Best Practice Forum consisting of 12 water and waste companies across England and Wales. There remains an increased appetite amongst regulators for pursuing enforcement action for perceived non-compliance, with industry-wide investigations of wastewater treatment works permit compliance ongoing.	South West Water aims to maintain the highest standards of compliance.

Principal Risk D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments.		
2025 Net risk and direction:	**2024 Net risk and direction:**	
MEDIUM, INCREASING	**MEDIUM, INCREASING**	
Failure to maintain funding requirements could lead to additional financing costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt. **Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** **Physical** Nature change influence: **Transitional** **Physical**	The Company has well established treasury, funding and cash flow arrangements in place, underpinned by a Treasury Management Policy endorsed by the Board. The Company's financing commitments and cash flow, funding and covenant compliance is regularly reviewed by the Executive and the Board. In February 2025, the Pennon Group provided £330 million new equity into the Company to support the financial resilience and balance sheet strength of South West Water as it enters into a period of significant growth over the next five years. Since March 2024, over £900 million has been secured through the Company's Sustainable Financing Framework. South West Water retains £650.6 million of cash and committed facilities as at 31st March 2025.	We operate a prudent approach to our financing strategy, maintaining an appropriate mix of cash and pre-funding facilities, to ensure our funding requirements are fully met.
Principal Risk E: Non-compliance or occurrence of an avoidable health and safety incident		
2025 Net risk and direction:	**2024 Net risk and direction:**	
MEDIUM, STABLE	**MEDIUM, DECREASING**	
A significant health and safety event could result in financial penalties, significant legal costs and damage to the Company's reputation. **Water Quality and Resilience** **Storm Overflows and pollutions** Climate change influence: **Physical** Nature change influence: **Physical**	The Company has developed HomeSafe 2030 to ensure our plans and strategy are fit for the future and deliver continued improvements throughout K8. Established health and safety training, procedures and reporting systems are complimented by site based investment, regular site visits by senior staff, initiatives such as Site Pride and HomeSafe Live as well a regular programme of wellbeing events. Health and safety performance is monitored by the Executive and the respective Board and Executive Health and Safety Committees. Continual integration of health and safety initiatives and processes across the Company. Establishing best practice, through collaboration and alignment.	The Company has no appetite for health and safety related incidents and we maintain the highest standards of compliance for our staff, contractors and other third parties.

	During the year South West Water successfully maintained ISO 45001 accreditation of its Occupational Health and Safety Management System and the Company's year-on-year lost time injury frequency rate (LTIFR) has reduced again to 0.24.	
Principal Risk F: Failure to pay all pension obligations as they fall due and increased costs to the Company should the deferred pension scheme deficit increase		
2025 Net risk and direction:	**2024 Net risk and direction:**	
LOW, STABLE	**LOW, STABLE**	
The Company could be called upon to increase funding to reduce the deficit, impacting our cost base. **Addressing affordability and delivering for our customers** Climate change influence: **n/a** Nature change influence: **n/a**	The Company has in-house pensions expertise supplemented by external specialists, including professional advisors who manage the scheme's investment strategy. The Pennon Group Pension Scheme is overseen by an independent Board of Trustees. As at 31st March 2025 the Company's pension schemes remain in a surplus of £14.7 million. The triennial valuation of PGPS as at 31 March 2022 did not require any deficit recovery contributions.	The Company will ensure that all obligations are met in full but seeks to manage this without unnecessary increased costs to the Company.

MARKET AND ECONOMIC CONDITIONS

Strategic impact	**Mitigation**	**Appetite**
Principal Risk G: Macroeconomic near term risks impacting on inflation, interest rates and power prices		
2025 Net risk and direction:	**2024 Net risk and direction:**	
HIGH, INCREASING	**MEDIUM, DECREASING**	
Significant changes in inflation, interest rates and power prices could increase the Company's near term cost base. **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** Nature change influence: **Transitional**	The macroeconomic position remains volatile, with rising gilt yields, continued high inflation and ongoing global conflicts. The Company maintains a manageable debt maturity profile and diverse funding mix with c.20% index-linked which is continuously monitored. Additionally, a significant proportion of the Company's power prices has been hedged for the next 24 months in line with defined levels. The Company's in-house procurement function drives value within strategic contracts and consumables through competitive sourcing and tendering processes. Long-term protection from an increasing inflationary environment is provided through regulatory mechanisms with inflation-linked revenues and RCV growth, along with regulatory true-ups.	The Company seeks to de-risk volatility by having set proportions of inflation linked debt, fixed interest, and power prices. These are implemented over time to avoid concentrated exposure to one particular cycle of the macroeconomic environment. The macro-economic environment sets the financial background for performance and five yearly regulatory reviews provide a natural long-term mitigation.

OPERATING PERFORMANCE

Strategic impact	Mitigation	Appetite
Principal Risk H: Failure to secure, treat and supply clean drinking water		
2025 Net risk and direction:	**2024 Net risk and direction:**	
MEDIUM, INCREASING	**LOW, STABLE**	
An inability to secure, produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Company's reputation. **Water Quality and Resilience** Climate change influence: **Transitional** **Physical** Nature change influence: **Transitional** **Physical**	The Company continues to diversify its water resource capacity and the resilience of its network and assets, informed by key plans including the Water Resources Management Plan and drought plans. As a result of this investment, with the scenarios we have modelled, we do not anticipate restrictions to supply across our regions this summer. Furthermore, delivery of phase 1 of the desalination project is expected during 2025/26, enabling more time to develop the application for a larger desalination plant. During the year we have extended our 'Quality First' continuous improvement culture and training programme to our Bristol colleagues. Asset health is managed through a well-established programme of routine planned and preventative maintenance works with asset and network performance managed by the 24/7 Control Centre. Where such events do occur, these are managed through established incident management procedures and utilises the Company's supply chain partners.	The Company operates a low tolerance for significant operational failure of its water treatment assets or quality of water produced and seeks to mitigate these risks where possible.
Principal Risk I: Failure to improve wastewater performance resulting in environmental commitments not being delivered		
2025 Net risk and direction:	**2024 Net risk and direction:**	
HIGH, STABLE	**HIGH, STABLE**	
An inability to improve wastewater could resulting adverse environment impacts, financial penalties, regulatory enforcement and damage to the Company's reputation. **Storm Overflows and pollutions** **Net Zero and Environmental gains** Climate change influence: **Transitional** **Physical**	Minimising the impact of our activities on the environment remains a strategic priority for the Board and Executive. The Company continues to make progress in delivering environmental improvements through the WaterFit programme which combines enhanced processes, targeted capital investment and proactive asset maintenance. Robust governance structures and clear accountabilities under the recently appointed Managing Director for Wastewater Services ensure there is a greater performance focus and regular reporting on pollution, storm overflow and numeric compliance, further supported by the establishment of a Permit Compliance Assurance function.	The Company operates a low tolerance for significant operational failure of its wastewater processes and assets and maintains the highest level of environmental standards.

Strategic impact	Mitigation	Appetite
Climate change influence: **Transitional** **Physical**	Despite this progress high rainfall in 2024 and ongoing groundwater levels resulting in increased wastewater flows has impacted headline performance for pollutions and use of storm overflows.	
Principal Risk J: Failure to provide excellent service or meet the needs and expectations of our customers and communities		
2025 Net risk and direction:	**2024 Net risk and direction:**	
MEDIUM, INCREASING	**MEDIUM, STABLE**	
Failure to meet the needs of both customers and wider stakeholders may result in reputational damage to the Company and lower performance resulting in financial penalties impacting on stakeholder value. **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** **Physical** Nature change influence: **Transitional** **Physical**	The Company continues to enhance and invest in its customer services teams, expanding the channels by which it can interact with and support household customers. The Company offers a range of schemes and tariffs to support customers with affordability challenges with a £168 million support package to 2030. During the year both South West and Bristol Water successfully achieved kitemark certification to the vulnerable customer ISO 22458 standard. The Company also undertakes a range of initiatives to engage with the wider communities it serves including community road-show events, Neighbourhood Fund and funding to support water retention and leakage reduction. Whilst Bristol Water's regulatory customer service metric was positive, further improvement is required for South West Water.	The Company continually seeks to engage with and improve satisfaction levels amongst customers and wider stakeholders.
Principal Risk K: Inability to attract and retain staff with the skills to deliver the Company's strategy		
2025 Net risk and direction:	**2024 Net risk and direction:**	
MEDIUM, INCREASING	**MEDIUM, STABLE**	
Failure to maintain a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Company forward. **Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and**	The demands for high quality skills and expertise across the Company remains high, mirroring the national and regional skills demands for our industry. The introduction of the Water Special Measures Act could impact the attraction and retention in comparison to other sectors. The Company's People strategy, aligned to the Company Values, enables the Company to attract, retain and develop our employees as well as recognising the significant contribution that our people make on delivering for our customers and communities every day. The key areas of focus during the year have been on reallocating resources to	We ensure the appropriate skills, knowledge and experience are in place, which, combined with our Reward Strategy and robust succession plans, provide adequate resilience to keep employee turnover at a minimum.

Environmental gains **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** Nature change influence: **Transitional**	align with customer and business priorities and building capacity to manage a growing capital programme. We regularly engage with our employees, both individually and in groups, across multiple communication methods, to really understand their issues and concerns, and obtain feedback. We undertake employee pulse surveys throughout the year, conduct Big Chats for all employees to hear from our Executive, have an Employee Engagement Forum attended by functional representatives, provide employee newsletters sharing topical updates and have an employee collaboration platform via Viva Engage. These are all in addition to the countless team meetings, breakfast meetings and toolbox talks which take place every day across the company, to share updates and gather employee feedback. We have continued to develop a diverse and inclusive talent pipeline and have doubled our long-term commitments with enhanced recruitment targets for graduates and apprentices through to 2030, and continued prioritisation of our diversity and inclusion agenda. The Company continues to invest in leadership development with two leadership programmes rolled out across the business helping current and prospective senior leaders develop key skills and mindsets.	

BUSINESS SYSTEMS AND CAPTIAL INVESTMENT

Strategic impact	**Mitigation**	**Appetite**
Principal Risk L: Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes in K8		
2025 Net risk and direction:	**2024 Net risk and direction:**	
LOW, STABLE	**LOW, STABLE**	
The inability of our supply chain to support in the delivery of our operational and capital programmes may result in increased costs and delays, detrimentally impacting our ability to achieve our change and growth agenda. **Water Quality and Resilience**	Delivery of the investment included within South West Water's PR24 business plan will require a significant increase in the Company's capital programme. The integrated delivery model for K8 will enable greater flexibility and broadens the number of supply chain partners providing enhanced resilience for the Company. The framework procurement for professional services, Tier 1 and Tier 2 contractors has been completed.	The Board has a low appetite for risk associated with the delivery of key operational and capital programmes within our regulated business plan.

Strategic impact	Mitigation	Appetite
Storm Overflows and pollutions **Net Zero and Environmental gains** Climate change influence: **Transitional** **Physical** Nature change influence: **Transitional** **Physical**	The Company also regularly monitors the financial health of key partners and we work in partnership with our supply chain to identify and manage potential issues and challenges. Where action is required, there are established plans and alternative arrangements which provide mitigation and early intervention.	
Principal Risk M: Inadequate technological security results in a breach of the Company's assets, systems and data		
2025 Net risk and direction:	**2024 Net risk and direction:**	
HIGH, INCREASING	**HIGH, INCREASING**	
Failure of our technology security, due to inadequate internal processes or external cyber threats, could result in the business being unable to operate effectively and the corruption or loss of data. This could have a detrimental impact on our customers and result in financial penalties and reputational damage to South West Water. **Water Quality and Resilience** **Storm Overflows and pollutions** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers** Climate change influence: **n/a** Nature change influence: **n/a**	External threats are increasing in complexity and sophistication with the National Cyber Security Centre (NCSC) highlighting the heightened risk to critical national infrastructure and an increased focus on the water sector. The advent of Artificial Intelligence also increases the complexity of our data and technology environment. The Company maintains a dedicated Information Security team with a strong preventive and detective information security framework, aligned to guidance issued by the NCSC supported by regular training, communications to raise awareness amongst staff. South West Water continues to hold the ISO27001 accreditation. Enhanced technical controls introduced during the year across the Company's corporate and operational technology sector are informed by best practice and learnings from across sectors. Furthermore, the regulated water business continues to progress actions as part of the roadmap to meet the requirements of the Network and Information Systems Directive (NIS), with activities aligned to the priorities identified by the Drinking Water Inspectorate. The Company also maintains established disaster recovery plans which are subject to regular review and testing.	The Company seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Company's operations.

VIABILITY STATEMENT

The Directors of South West Water are responsible for ensuring the long-term viability of the company. The Directors need to ensure the resilience of the Company by identifying, managing, avoiding or mitigating risks which may impact viability.

The Board's consideration of longer-term viability of the company is an extension of the strategic business planning which is managed through regular long-term modelling and monitoring of key measures including gearing, debt covenant headroom and level of liquidity. The resilience of the business and these key viability measures are appropriately assessed by a number of mechanisms including a robust risk management assessment, sensitivity analysis and stress tests of financial performance.

The overall market context is a cornerstone of the viability assessment. South West Water is a long-term business characterised by multi-year investment programmes, with associated revenue streams with high levels of future visibility.

The viability assessment has been made with reference to the Company's current position and prospects, including consideration of the ongoing impacts of the Ukraine crisis, climate change, its longer-term strategy, the Board's risk appetite and the Company's principal risks and how these are managed, as detailed on pages 61 to 77 of the risk report.

PERIOD OF ASSESSMENT

The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Company's viability should be increased to seven years, previously until the end of 2030, which recognises the longer-term visibility in the regulatory environment of the South West Water business to the end of the next price setting period in 2030 and beyond. This period gives visibility beyond the current regulatory period, testing the long term viability of the business.

RISKS

The Board considers the preventative and risk management actions in place and the potential impact of the principal risks (as detailed on pages 61 to 77 against our ability to deliver the business plan. This assessment has considered the potential impact of these and other risks arising on the business model, future performance, solvency and liquidity over the period in question. The Company has a strong liquidity and funding position with £650.6 million of cash and committed facilities as at 31 March 2025.

The Company has a mixture of fixed, floating and index-linked debt financing with a weighted average maturity of non-current debt being 14 years. In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's viability. Over the course of the year the Board, either directly or through the activities of the Audit Committee, has considered a deep-dive review of the following principal risks to enable a thorough assessment of the impact of these risks on ongoing viability:

- Incident management
- Cyber security
- Wastewater processes and controls.

STRESS TESTING

The Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 61 to 77, individual sensitivities (shown in the table below) have been identified. These sensitivities, which are individually ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied collectively to the baseline financial forecast which uses the Company's annual budget for 2025/26 and longer-term strategic business plan through to March 2032, based on the Final Determination for the first five years.

The impact of climate risks have been assessed in detail as set out in the Task Force on Climate-related Financial Disclosures (TCFD) section on pages 86 to 129. The Company's strategic business plan includes the expected investment identified at this stage to meet climate-change adaptation.

The stress-testing scenarios applied during the viability assessment period do not include specific reference to climate change-related risks alone as climate change has been considered as part of the principal risks identified.

Beyond the period of assessment, additional impacts from climate change are considered in more detail within the TCFD section along with mitigating actions.

Principal risk	Viability sensitivities tested	Modelled impact
A: Changes in government policy	Changes in Government policy affecting the water industry, such as additional environmental legislation may impact operational performance or investment requirements. The estimated average adverse impact on the Company's cash flows from a range of potential policy changes has been applied as a sensitivity.	£13m
B: Changes in regulatory frameworks and requirements	Whilst we have seen greater stability in the regulatory framework post PR24 Price Review, there are still significant changes expected in the water sector over the next few years.	£13m
C: Non-compliance with laws and regulations	The estimated impact of financial penalties and reputational damage from failure to comply with laws and regulations has been modelled as a sensitivity.	£13m
D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	The impact of reduced availability of financing resulting in increased costs has been modelled as a sensitivity.	£9m
E: Non-compliance or occurrence of an avoidable health and safety event	The financial impact and cash outflows related to a major health and safety event has been applied as a sensitivity.	£13m
F: Failure to pay all pension obligations as they fall due and increased costs for the Company should the defined benefit pension scheme deficit increase	The financial impact on the Company's gearing from additional funding being required to support the Company's defined benefit pension schemes has been applied as an adverse scenario.	£9m
G: Macroeconomic near-term risks impacting on inflation, interest rates and power prices	The adverse impacts of higher operating and finance costs from increasing power prices and general inflation increases over and above increases assumed in base financial plans, including the impact on Totex underperformance on regulatory returns and impact on debt financing costs have been applied as a sensitivity, as well as a reduction in the collection of customer debt from adverse economic conditions.	£36m
H: Failure secure, treat and supply clean drinking water I: Failure to improve wastewater performance resulting in environmental commitments not being delivered J: Failure to provide excellent service to meet the needs and expectations of our customers and communities	The adverse impact from non-delivery of regulatory performance targets which result in ODI penalties, other financial penalties and required additional investment reducing Company revenues and cash inflows have been applied as a sensitivity to the base plan.	£35m
K: Difficulty in recruiting and retaining staff with the skills required to deliver the Company's strategy	Whilst the Company has robust processes to retain and develop staff, viability testing considers the impact of increasing costs including staff related costs.	£13m
L: Insufficient capacity and resilience of the supply chain to support the delivery of the Company's operational and capital programmes in K8.	Supply chain capacity shortages will impact on the costs required to deliver on the programme, which, whilst specific cost protections exist in the regulatory framework against construction costs, have been considered as part of the sensitivity testing.	£5m

Principal risk	Viability sensitivities tested	Modelled impact
M: Inadequate technological security results in a breach of the Company's assets, systems and data	The adverse financial impacts of a cyber attack resulting in operational disruption, potential loss of data, potential detrimental impacts on customers with potential for financial penalties have been included in the sensitivity analysis.	£13m

A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Company. The combined weighted impact of the risks occurring is c.£101 million, this value is considered equivalent to an extreme one-off event that could occur within the going concern period to 31 October 2026, the probability of such an event happening is deemed unlikely.

STRESS TESTING EVALUATION AND MITIGATIONS

Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the Company's viability over the seven-year period. The assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants, the modelled impact on each of the individual risks and combined stress tested scenario did not breach the headroom or covenant calculations over the viability period. The financial impacts of the risks were probability weighted to obtain a value that was used in the stress testing. While mitigations were not required in any of the above individual or combined scenarios to ensure that the company was viable, additional mitigations could be deployed to reduce gearing and increase covenant headroom. These include:

- Reduction in discretionary operational expenditure (reducing gearing and increasing covenant headroom)
- Deferral of capital expenditure and / or cancellation of essential capital expenditure (reducing gearing)
- Reduction in the amount of dividend payable (reducing gearing)

The Company has confidence in its ability to raise additional funding if required should it be required to ensure the Company maintains solvency.

In addition, a reverse engineered scenario that could possibly compromise the Company's viability over the seven-year assessment period has been modelled. This scenario builds on the factors above and additionally assumes all the Company's principal risks occurring in any given year across the viability period, with no probability weightings attached. The Board considered the likelihood of this scenario on the Company's viability over the seven-year viability period, as remote, concluding the Company could remain viable. Mitigations, as noted above, could also be deployed over the period if deemed necessary.

In making its assessment of the Company's viability, the Directors have taken account of the Company's strong capital solvency position, the Company's latest assessments of forward power and other commodity prices, latest inflation forecasts, its ability to raise new finance and a key potential mitigating action of restricting any non-contractual payments. In assessing the prospects of the Company, the Directors note that, as the Company operates in a regulated industry which potentially can be subject to non-market influences, such assessment is subject to uncertainty, the level of which depends on the proximity of the time horizon. Accordingly, the future outcomes cannot be guaranteed or predicted with certainty. As set out in the Audit Committee's report on pages 166 to 175, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of the stress testing performed.

VIABILITY ASSESSMENT CONCLUSION

The Board has assessed the Company's financial viability and confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a seven-year period, the period considered to be appropriate by the Board in connection with the UK Corporate Governance Code.

OUR INTEGRATED APPROACH TO ESG

We are pleased with the progress made towards our ESG targets. As these current targets reach their conclusion, we are reflecting on our progress, assessing our impact, and shaping the next phase of sustainability ambition. Our ESG approach has delivered long-term value for our customers, communities, and the environment, and we will ensure sustainability remains embedded at the heart of our business.

This year, we have also conducted a Double Materiality Assessment (DMA) to refresh our understanding of the most important ESG topics to our stakeholders - both in terms of their impact on our business and our influence on the wider world. This process sets the foundation for ambitious targets relevant to our stakeholders, to take us to 2030 and beyond.

Throughout this transition period, our commitment to environmental stewardship, social responsibility, and strong governance remains unwavering. We continue to drive progress across climate action, resilience, and nature, while supporting our colleagues, customers, and communities.

With a strong governance framework and our core values guiding us, we are building our approach to keep Pennon at the forefront of sustainability leadership in our industry.

ESG CAPITALS

Creating value through our ESG approach. Everything we do is connected to our six capitals mapped below, which serve as a foundation for informed decision-making and long-term value creation. Our integrated approach to the capitals framework and E, S and G drives sustainable outcomes across all areas of our business.

Our Natural Capital – Environment	Our Social & Human Capital – Social	Our Manufactured, Intellectual & Financial Capital – Governance
• Freshwater • Land (including soils) • Species • Ecological communities • Coasts • Atmosphere • Waste	• Colleagues • Customers • Commitments	• Supply Chain • Responsible business • Stakeholders and partnerships • Finance

ESG performance, targets and approach can be seen in the Pennon Group plc Annual report and Accounts 2025 on pages 82 to 87.

NET ZERO - OUR PROMISE TO THE PLANET

In 2021, we published our Promise to the Planet – our ambitious plan to reduce our operational carbon emissions to Net Zero by 2030. During 2024/25 we have continued to make progress towards our goal of decarbonising our operational activities.

	Pillar	Our three-pillar strategy remains unchanged	Progress against our three-pillar strategy
1	Sustainable living	• Reducing emissions through changes to operational practices, increasing energy efficiency, and switching to lower carbon fuel sources. • Meeting our commitments to reduce leaks and help customers to use less water – protecting the environment and saving carbon.	• During 2024/25 our South West and Bournemouth Water business successfully achieved re-certification to the Energy Management Systems Standard ISO 50001. As well as maintaining compliance with the ISO 50001 standard we also ensured continuing compliance with the UK Government ESOS (Energy Savings Opportunity Scheme) by submitting our ESOS Phase 3 Energy Action Plans via the Government MESOS online portal. • We have also been continually investing in maintaining our pumping assets in their optimum condition. Our programme of pump efficiency testing, pump repair and replacement concentrated on our larger drinking water pumps during 2024/25. We carried out extensive refurbishment of pumps at our Littlehempston water treatment works and Newbridge pumping station, amongst other sites. • Elsewhere on our wastewater treatment works we embarked on a major project to replace some of our largest process blowers at our Brokenbury wastewater treatment works in Torquay with brand new and much more efficient machines. • At our Countess Wear (Exeter) wastewater treatment works we have now completed our initial monitoring trial to measure the nitrous oxide (N_2O) emissions from the onsite processes. We are currently assessing the results. At the same time, the results of our initial trial to measure fugitive escapes of methane (CH_4) emissions at the same site revealed no emissions leakage. • We are continuing to fuel our wastewater back-up generators with HVO (Hydrotreated Vegetable Oil). Made from waste oil, HVO is a much lower carbon alternative to the previous diesel fossil-fuel we were previously using. • Our planned transition away from fossil fuelled vehicles towards electric vehicles continues, with over 160 of our company cars and 59 of our company vans now fully electric.

2	Championing renewables	• Maximising self-generation from renewables at our sites across the South West – working with partnerships and utilising our expertise. • Where we cannot generate enough electricity to meet all our needs ourselves, 100% of what we purchase will be from renewable sources.	• South West Water (including Bournemouth Water) continue to source 100% renewable electricity (since 2022) representing over 85% of the Company's electricity consumption. We decided to delay switching Bristol Water to 100% renewable electricity for 2024/25 due to the cost of Renewable Energy Certificates, investing the money directly into renewable energy projects instead. • During 2024/25 we have added to our portfolio of onsite renewable electricity by installing new Solar PV schemes at our Lowermoor WTW, Hill Barton STW and Fluxton STW sites, as well as having a number of further sites in construction.
3	Reversing carbon emissions	• Reversing carbon emissions from our core activities. • Working in partnership to ensure our core activities reverse carbon emissions through solutions such as peatland restoration. • Supporting the development of innovative solutions to develop low carbon footprint processes through research and development.	• Our catchment management programmes include improved soil management, wetland creation, buffer strips, tree planting and other nature-based solutions. We have pioneered a collaborative partnership approach to peatland restoration across the region, continuing to develop best practice and build capacity to scale up into the future. Over time these interventions store more carbon in the landscape and reduce loss to the atmosphere, whilst retaining water upstream to improve long-term resilience. • In 2024-25 our Upstream Thinking programme has planted 81,482 trees to once again exceed our annual target of 50,000 trees. In total the 389,306 trees now planted for K7 are expected to store an estimated 23,500 tCO_2e during the next 30 years. • We have restored 489.5 hectares of peatland, bringing our total area of restoration to 2,151.8 hectares between 2020-2025. • Looking forward, we are increasing adoption of nature-based solutions in delivery of our PR24 Business Plan in 2025-2030 for the multiple benefits they provide for the environment. In a period of rapid regulatory change and emerging nature markets, we continue to collaborate with regulators and partners to investigate opportunities for nature-based carbon sequestration, including the development of science-based carbon codes for soil, hedgerows, saltmarsh and seagrass.

PROGRESS IN THE YEAR

Lowering the carbon emissions from our operational activities and throughout our supply chain is the responsible thing to do and aligns with efforts being taken by businesses, institutions and customers across the region to tackle the climate crisis and increase our resilience to climate change.

Our Net Zero 2030 plan is well underway, and we are making good progress, reducing our carbon footprint by c.45% to date against our 2020/21 baseline.

SCIENCE BASED TARGETS

Our parent company, Pennon Group plc, has committed the Group to achieving near-term science-based targets (SBTs) by 2032/33, with these targets having been validated and approved by the Science Based Targets initiative in May 2024. This means South West Water and Bristol Water's primary emissions reduction focus will now be on reducing emissions that contribute to meeting these new targets to reduce the Group's Scope 1, 2 and 3 emissions, increasing the business' share of renewable electricity usage and in decarbonising the Group's supply chain.

SBTs provide a clearly defined pathway for companies to reduce greenhouse gas emissions. Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels.

Further details of how we are integrating climate into our business and readying for a low carbon future can be found in our TCFD report on pages 86 to 129.

EMBODIED CARBON

Our carbon emissions extend beyond our daily operations. Embodied carbon are emissions associated with the construction, repair, and maintenance of our physical assets, and we are cognisant that they can account for a significant proportion of our Company's total emissions. We are committed to reducing all sources of our carbon emissions, which is why we have developed a bespoke embodied carbon performance commitment to support our carbon reduction goals.

Embodied carbon accounting is the foundation of decarbonising our capital projects and our supply chain, and we are working collaboratively with our supply chain to identify the best tools and techniques for whole life carbon accounting, as well as in developing strategies to help drive down our emissions from our capital investment programme.

NET ZERO CULTURE

We recognise that achieving our Net Zero goals will be a collaborative effort. We are working towards creating a working environment in which workers, customers, and suppliers are motivated to accelerate our transition to Net Zero emissions. We have developed a robust communication and engagement plan, supported by an effective governance structure working with internal stakeholders at all levels to ensure carbon emissions and our Net Zero commitments are adequately considered in decision making. This is further corroborated by data, and our benefits realisation work, where we quantify and monitor the greenhouse gas consequences of our Net Zero initiatives.

RENEWABLE ENERGY

South West Water and Bristol Water's continued generation of renewable electricity from onsite Solar PV, wind power, hydroelectricity and bioresources, as well as renewable electricity privately wired into our operational sites, will contribute the Pennon Group's overall ambition to generate 50% of the Group's annual electricity usage through the Group's own renewable electricity generation by 2030, measured against a baseline of South West Water's 2020/21 grid electricity import requirements.

We have achieved 7.14% energy generated from renewables based on our South West Water and Bristol Water sites compared to our total energy usage (excluding fleet transport).

During 2024/25 we completed and commissioned three additional onsite Solar PV installations at Lowermoor WTW, Hill Barton STW and Fluxton STW and we have more Solar PV in our pipeline of projects under construction.

Overall, our installed renewable energy capacity now totals 18.5MW including connected private wire assets. Investment in renewable energy generation is an important part of achieving our Net Zero strategy and is aligned with our long-term sustainable growth strategy in UK environmental infrastructure.

PROCESS AND FUGITIVE EMISSIONS

Process and fugitive emissions, mainly in the form of methane (CH_4) and nitrous oxide (N_2O), arise from our wastewater treatment processes. It is a challenge to accurately measure process emissions and this often means establishing a baseline to monitor changes in N_2O emissions can be difficult. Measuring and monitoring is the first step; without it, we cannot establish the efficacy of N_2O reduction initiatives. We have been piloting an innovative N_2O monitoring technology at one of our largest wastewater treatment sites, Countess Wear in Exeter. This pioneering initiative will enable us to benchmark N_2O at this site that provides wastewater treatment services to around 10% of our total regional population. Our monitoring activity has demonstrated that seasonal variability in N_2O emissions over the course of the year requires us to take a long-term approach to the monitoring. Alongside this we have also commenced with a separate trial to directly measure fugitive emissions of methane (CH_4) at the same site. These initial trials will inform our future strategy for directly measuring and reducing process and fugitive greenhouse gas emissions.

TRANSITION PLAN

Through our established strategies, plans and policies, we are preparing for a changing climate and lower carbon economy. Our annual Taskforce on Climate-related Financial Disclosures (TCFD) response on pages 86 to 129 sets out further details of this in accordance with the TCFD recommendations. This identifies one of our key transition risks as rising energy costs. Through our planned investment in renewable energy alongside our dynamic hedging strategy we are managing this risk.

For further information on nature-related disclosures, please see our Taskforce on Nature-related Financial Disclosures on pages 86 to 129.

SUSTAINABILITY REPORTING

The Company has taken advantage of the exemption offered under the Companies Act 2006 and has not reported details of Greenhouse gas emissions during the financial year. Details of South West Water's greenhouse gas emissions can be found in the Annual Performance Report (APR).

Further details on SECR can be found in our parent company Pennon Group Plc's Annual Report and Accounts 2025 on pages 91 to 93.

Further details on SASB disclosures can be found in the ESG data book on our parent company's website www.pennon-group.co.uk.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) AND TASK FORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD)

We are driven by our strategic focus of leading UK environmental infrastructure, delivering for the benefit of our customers, communities, and the environment.

We depend on the natural environment to deliver essential services to customers and communities. We therefore need to address the challenges posed by climate change, the nature emergency, and the transition to Net Zero.

We operate in a changing environment where the impacts of climate change and biodiversity loss are increasingly evident. To remain resilient, we monitor environmental risks, assess their implications, and embed these insights into our strategic planning and investment decisions. Our disclosures under the TCFD and TNFD frameworks reflect our commitment to transparency, accountability, and continuous improvement.

Our regulated water business is the focus of our TCFD and TNFD disclosures, with most of our assets, revenues, and expenditures related to this area of our business.

TCFD RECOMMENDATIONS

Created by the Financial Stability Board (FSB), the TCFD published its recommendations in June 2017. This is our sixth year of TCFD reporting and the below shows our progress and compliance to the recommendations including the updated TCFD guidance (2021 Annex).

As part of our ongoing TCFD programme, we have continued to enhance our assessment of physical risks, transition risks, and climate-related opportunities. Our disclosure refers to several plans, reports and data – all of which is supplementary information beyond our disclosures.

TNFD RECOMMENDATIONS

The TNFD published their final framework for nature-related financial disclosures in September 2023. This is our fourth year of voluntarily reporting against the TNFD framework. We continue to integrate TNFD into our TCFD disclosures, recognising the substantial overlap and synergies for our business between action on climate change and the nature emergency. At the same time, we also recognise some trade-offs in meeting our goals around resilience, Net Zero, and nature. We acknowledge there is further work to do on the recommended TNFD disclosures, and we are continuing to monitor the inclusion on nature risks in the UK sustainability disclosure requirements.

DEVELOPMENTS IN 2024/25

The year 2024 was marked by unprecedented weather patterns, characterized by above-average rainfall and frequent storms, resulting in extreme precipitation and high winds.

As weather extremes intensify, so too does the risk of water contamination and disruption to essential services. We are proactively addressing these challenges by reinforcing our infrastructure, enhancing monitoring systems, and strengthening our rapid response capabilities.

Recent weather events underscore the importance of building climate change resilience and preparedness, and have afforded us valuable insights into our capacity to withstand such occurrences. We are using these insights to inform our physical climate risk assessment and adaptive strategies.

Progress is detailed in our Climate Adaptation Report, recently published as part of the UK government's adaptation reporting cycle, and which will feed into the next UK Climate Change Risk Assessment (available https:// www.southwestwater.co.uk/siteassets/documents/environment/climatechange-adaptation-report_2024.pdf.).

Our Climate Adaptation Report identified that we have made adaptation progress in all areas. Whilst we are recognised as industry leaders in managing sewer flooding risk, the increased intensity of rainfall is contributing to a rise in wider surface water and fluvial flooding risks. These challenges, combined with heightened customer and regulatory expectations, mean we need to go further to manage the impacts of extreme weather, including the risks to storm overflows and sewer flooding. This is a key area of focus for us, our customers, and other stakeholders.

In December 2024 Ofwat approved our business plan to invest £3.0 billion[1] across 2025-2030, focusing on four priorities – water quality and resilience, storm overflows and pollution, Net Zero and environmental gains, and addressing customer affordability. Importantly, this will ensure we can strengthen our climate and nature resilience.

Our TCFD and TNFD disclosure reflects our updated current and future actions to mitigate climate and nature risks and realise related opportunities.

We are focused on delivering for all of our stakeholders. As a result, we are continuing to embed climate change resilience, sustainability, and nature-positive practices into decision making within our business, as well as managing the near-term inflationary pressures, including power prices. We will also continue to manage changes to our investments to explore new technology, materials, and nature-based solutions, within the current global constraints on capacity and supply chains, to deliver both affordability and fairness for our customers.

OVERVIEW OF PROGRESS

GOVERNANCE
Our governance around climate-related and nature-related risks and opportunities

2024/25 PROGRESS

- We are continuing to enhance our governance framework, including increased recognition of the role that each Board Committee and several executive committees play in managing climate-related risk and opportunities, such as our ESG Committee which provides strategic oversight of environmental performance and sustainability.
- We continue to incorporate carbon values into our investment decision-making, and we continue to incentivise our Executives to deliver through performance-linked targets tied to customer and environmental outcomes.

STRATEGY
The actual and potential impacts of climate-related and nature-related risks and opportunities on our business, strategy, and financial planning

2024/25 PROGRESS

- We have reviewed and enhanced our assessments of physical and transitional climate risks and opportunities. We have re-assessed the materiality of key risks with stakeholders across the Company and enhanced the actions we are taking to manage the most pressing risks.
- Climate change resilience and nature recovery are central to our Business Plan 2025-2030.
- We have updated our Environmental Policy this year (January 2025): Group Environment Policy. This can be found here: https://www.pennon-group.co.uk/sites/default/files/attachments/pdf/group-environment-policy.pdf
- Overall ownership and responsibility for climate strategy is held by the chair of the organisation's ESG Committee. Implementation of this Environmental Policy is the direct responsibility of the Board and senior management, and indirectly, all Directors, employees and contractors working for the organisation.

[1] At forecast outturn prices

RISK MANAGEMENT
The processes used by the organisation to identify, assess, and manage climate-related and nature-related risks and opportunities

2024/25 PROGRESS

- We have reviewed how climate change, Net Zero, and the nature emergency impact and influence principal risks and inform our strategic risk management.

METRICS AND TARGETS
The metrics and targets used to assess and manage the relevant climate-related and nature-related risks and opportunities

2024/25 PROGRESS

- We have continued to monitor key metrics linked to selected climate and nature risks and opportunities, and our investments in climate action. We are tracking progress against our ESG targets and our Net Zero commitments and renewable energy generation through regular reporting and governance oversight
- We have undertaken analysis to quantify key risks, such as major assets at risk of coastal flooding as well as actively monitoring proposed coastal flooding defence schemes, to assess where our infrastructure may remain exposed.

CLIMATE-RELATED AND NATURE-RELATED GOVERNANCE

TCFD/TNFD recommendations: Disclose the organisation's governance around climate-related risks and opportunities.

BOARD OVERSIGHT
The Company has a strong governance structure in place to oversee the effective operation of our business and to manage all risks, including climate-related and nature-related risks and opportunities. Overall ownership and responsibility for risks, opportunities, and mitigation actions rests with the South West Water Board, which regularly reviews principal risks as part of its risk management processes.

The Board considers climate-related and nature-related risks and opportunities throughout its duties – including when considering the Company's strategy and objectives, monitoring business and operational performance, business planning and annual budget setting, reviewing major capital expenditures and existing investments, and in considering acquisitions/divestitures.

Several Board Committees support this oversight: The ESG Committee provides strategic direction and monitors environmental performance and climate-related matters. The Audit Committee oversees risk management and internal controls. The Remuneration Committee ensures incentives are aligned with the delivery of sustainability and environmental goals. The Nomination Committee supports Board composition and succession planning, including consideration of ESG and climate-related expertise. The Health and Safety Committee monitors operational resilience and asset health, including how health, safety, and environmental risks are managed across the Company.

As a UN Global Compact signatory, we embed its principles on human rights, labour, environment, environment, and anti-corruption into our ESG approach and report progress annually.

We recognise that climate change, the nature emergency, and the transition to Net Zero influence several of the Company's principal risks (see our Principal Risks report on pages 61 to 77). Principal risks are reviewed as part of our audit governance processes.

New Board members, such as the new Chair who joined last year, are briefed on key climate- and nature-related risks, for example through site visits and strategic discussions. For more information see our Corporate Governance report pages 134 to 205.

BOARD COMMITTEES

All Board Committees play a role in managing our climate-related risks and opportunities, and several play a role in managing our nature-related risks and opportunities, and we are continuing to raise awareness of these issues across Board Committees. Matters are escalated to the Board as appropriate. Board Committees report their actions and decisions to the Board, ensuring robust governance – including for matters influenced by climate change, nature recovery and the transition to Net Zero. The responsibility for climate-related and nature-related risks and opportunities is cascaded through the business in order to meet our targets and objectives. Governance of nature-related risks and opportunities has been enhanced for K8 with performance commitments that now include biodiversity.

Audit Committee **Attendance**: Meets at least four times annually. Attended by the members of the Committee and other regular attendees at the invitation of the Committee. **Role relating to climate risks and opportunities:** The Committee monitors the Company's financial reporting, including how the impacts of climate risks are accounted for in financial statements. The Committee also reviews key risks and opportunities (including climate-related risks), and challenges and tests the Company's internal control processes including risk management and internal audit. Further information on pages 166 to 175.	**ESG Committee** **Attendance**: Meets four times annually. Attended by the Board, CEO, CFO and other Company Executives. **Role relating to climate and nature risks and opportunities:** Provides the platform for discussion of the Company's ESG agenda and related climate and nature risks and opportunities, as well as setting and reviewing key metrics relating to ESG targets and goals. The Sustainable Financing reporting and monitoring is reported to the Committee for onward submission to the Board. Further information on pages 176 to 177.
Nomination Committee **Attendance:** Meets four times annually. Attended by the Chair and other Non-Executive Directors. **Role relating to climate risks and opportunities:** Considers competency related to climate risks and opportunities when reviewing the structure, size, and composition of the Board and senior executives in the Company. Further information on pages 161 to 165.	**Remuneration Committee** **Attendance**: Meets four times annually. Attended by the Chair and other Non-Executive Directors. **Role relating to climate risks and opportunities:** Considers the Company's objectives and responsibilities, and advises the Board on the framework of executive remuneration for the Company and for the wider workforce, including mechanisms to incentivise achievement of the Company's objectives related to climate change, Net Zero, and sustainability goals. Further information on pages 182 to 184.
Health and Safety Committee **Attendance**: Meets two times annually. Attended by the Chair, CEO, CFO, and other Non-Executive Directors. **Role relating to climate risks and opportunities:** Supports the Executive Board on matters of risk across all areas of health and safety, resilience, and process safety - including areas impacted by climate-related risks, particularly related to extreme weather events. Also reviews the effectiveness of the Company's procedures for health and safety reporting and performance. Further information on pages 180 to 181.	

MANAGEMENT'S ROLE

Executive managers play a key role in identifying, assessing, and managing climate-related risks and opportunities, and Executive managers sit on relevant Executive committees. Over the past year we have reorganised our business into business units: Clean Water and Wastewater; supported by our Corporate Functions. Management within each business unit are responsible for owning, managing, and assessing climate-related and nature-related risks in their business units - including risks related to water resources, wastewater, regulation, procurement, engineering, natural resources/biodiversity, and finance. Risk is identified and categorised within each business unit prior to being formally passed onto senior management responsible for those business units. Each business function and department maintains a risk register, and management escalates risks to the Executive Committees as appropriate. We are continuing to raise awareness and the capacity of teams and executive management to identify, assess, and manage climate and nature risks and opportunities.

The Executive Directors' remuneration policy is set to incentivise the achievement of key performance objectives. This includes ESG objectives and broader environmental performance including targets that align with the Company's climate and sustainability ambitions.

EXECUTIVE BOARD

Attendance: Group CEO, Group CFO, Group Counsel & Company Secretary, Chief People Officer, Chief Strategy and Regulation officer, Managing Directors for the Business Units, Chief Engineering Officer

Role relating to climate and nature risks and opportunities: The Committee monitors, approves and reviews business objectives and plans, and provides challenge and feedback to investment decisions. Throughout these processes climate-related and nature-related risks and opportunities are considered and actions to manage risks are embedded in business planning and Investment decision-making. There are several executive committees who report to the Board, including Business unit senior leadership teams.

STRATEGY

TCFD/TNFD recommendation: disclose the actual and potential impacts of climate-related and nature-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

CLIMATE RELATED RISKS AND OPPORTUNITIES

Our most material physical and transitional climate-related risks and opportunities are presented on the following pages. These have been identified by considering the climate scenarios described on pages 117 to 118. The risks have been assessed using the South West Water 4x4 risk assessment matrix which puts the highest risks in the red category under the RAG rating. Further information on our risk assessment methodology can be found on pages 61 to 62. We have identified impacts over short (0-10 years), medium (10-30 years) and long term (30-100 years) horizons (the rationale behind these time horizons is presented on pages 116 to 117).

Due to the nature of the business, the opportunities are not only assessed on financial merits, with some opportunities not increasing revenues but are opportunities to save costs and/or carbon, which supports our ability to provide the best outcomes for our customers and stakeholders.

We then present our findings from scenario analysis, exploring the potential range of impacts and our strategic responses under plausible contrasting climate scenarios (see page 120).

PHYSICAL RISKS

	Key impacts identified on our operations and customers	Examples of our actions to mitigate risks and realise opportunities through PR24 investments	Primary financial and reputational impacts to our business
Key physical climate risks **Increasing frequency and intensity of droughts - risks to water supply and impacts on the overall water cycle.** **Relevant time horizon** Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon This year's risk rating: Current risk rating = Medium / decreasing Risk score in 2050 without further action = High / stable Last year's risk rating: Current risk rating = Medium / increasing Risk score in 2050 without further action = High / increasing	• Sustained drought can lead to supply shortfalls with a heightened risk for recovering water storage if there are consecutive drought years. • Risk compounded by high temperature events that increase daily and peak demand for garden watering, crop irrigation, and tourism exceeding the capacity to redistribute water • Drought events lead to loss of supply and de-pressurisation of pipelines, greater incidence of pipe failure and contamination. • More extreme wetting and drying cycles cause soil movement, more pipe movement/ subsidence and bursts/ increased leakage. • Lower river flows as a result of drought events reduce yields. Could lead to reductions in our future abstraction allowances and increased need to release more water to rivers/the environment (see also 'climate-related regulation in the Water sector' transition risk). • Lower groundwater levels reduce borehole yields. Intake, borehole pump and reservoir draw-off levels may not match reduced levels. • Demand for environment protection impacts the availability of water for sustainable abstraction. Water companies' legal obligations and our environmental ambition	**Current actions:** **Strategic Planning and Regional Collaboration** • Publication and delivery of the 2024 Water Resource Management Plan, setting out long-term strategies for sustainable supply. • Active participation in regional water resource management through water resource groups: West Country Water and Environment. • Enhanced drought planning, including preparation for more extreme events using stochastic and multi-year drought analysis to test system performance under prolonged dry conditions. **Infrastructure investment and the Supply Resilience** • Repurposed disused mines and quarries to create new water storage capacity. • Enhancements to the distribution system to remove bottlenecks and support peak demand. • Implementation of Abstraction Incentive Mechanism (AIM) schemes to promote sustainable abstraction practices. **Innovation and Efficiency** • LeakBot trials underway at households to help reduce leakage levels across the network.	**Impacts from mitigating the risk:** Proactive investment in drought resilience, including storage, leakage reduction, and desalination, supports long-term water security, reduces service disruption, and protects environmental flows during prolonged dry periods. **Impacts of the unmitigated risk:** Failure to mitigate drought risk could lead to water supply shortfalls, infrastructure damage, environmental degradation, and regulatory noncompliance, with significant financial, operational, and reputational consequences.

	to protect, restore and enhance the environment is increasingly challenging with increased frequency and severity of droughts. • Saline intrusion due to lowering groundwater compounded by sea level rise (see 'Rising sea levels' risk). • Decreased intake raw water quality (see 'risks to raw water quality and treatment' risk). • Impacts on wastewater networks due to lower flows from surface water into the network, such as less storm overflow volumes but increased risk of sediment build up. • Prolonged low water levels lead to increased incidents of invasive non-native species (INNS) as stressed native ecosystems become more vulnerable and INNS exploit newly available habitats.	• Participation in the Ofwat Innovation Project, Water Net Gain, focused on piloting smart ponds to provide localised water storage solutions. **Planned or future actions:** **Strategic Planning and Regional Collaboration** • Development of the Water Resources Management Plan 2029, including new water supply and demand reduction options. **Infrastructure investment and the Supply Resilience** • Commencement of the Cheddar 2 reservoir, a major new storage scheme to benefit the entire South West region. • Poole Reuse: A strategic reuse project that will pump treated wastewater from Poole to a new advanced treatment facility before discharging into the River Stour, in order to support water supply and the environment in Bournemouth. • Increased water grid connectivity to improve resilience in areas such as Roadford and Colliford. **Innovation and Efficiency** • Continued development of desalination schemes to enhance drought management, including progressing feasibility studies across Cornwall and the Isles of Scilly.	

Key physical climate risks Gradual and significant increasing average and high temperatures - risks to water quality and water treatment **Relevant time horizon** Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon This year's risk rating: Current risk rating = medium / decreasing Risk score in 2050 without further action = high / stable Last year's risk rating: Current risk rating = medium / increasing Risk score in 2050 without further action = medium / increasing	• Increased catchment erosion leads to decreased water quality (odour, discolouration, dissolved organics, microbes) requiring additional resources and cost to remove pathogens from drinking water or ensure water quality meets regulatory standards at WTWs. • Increased microbe propagation and survivability affecting treatment processes. • Algal blooms, triggered by catchment erosion and runoff, are exacerbated by higher temperatures. • Higher peak demand for water compounded by reduced runoff yields due to higher temperatures increasing evaporation (see 'Increasing frequency and intensity of droughts' risk). • Decreased water quality compounded by overheating of equipment/assets. • Cascading impacts to interdependent networks (e.g. power supply) from overheating, leading to service disruption. • Increased prevalence of INNS.	**Current actions:** **Nature-Based Solutions and Catchment Management** • Exceeded Upstream Thinking catchment management targets, with benefits for water quality, wildlife, water resources and peatland restoration. • Implementation of a INNS (Invasive Non-Native Species) programme, with two South West Water sites upgraded from bronze to silver in the AQUA biodiversity accreditation scheme. • Embedded our 'Green First' approach to all decision-making, promoting the use of nature-based solutions where possible. **Innovation and Research** • Ongoing innovation through the Centre for Resilience in Environment, Water and Waste (CREWW), a purpose-built research facility supporting cross-sector collaboration and applied research. **Infrastructure and Operational Resilience** • Upgraded treatment works, including the rollout of stat-of-the-art treatment technologies designed to make out sites and assets more resilient to future challenges, including the rebuilding of two strategically important treatment works in the Bournemouth Water region.	**Impacts from mitigating the risk:** We could incur increased expenditure (Capex and Opex) for water treatment, and to increase capacity for water supply infrastructure. Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon **Impacts of the unmitigated risk:** Service disruptions and lower-quality service provision could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue). We could face additional expenditure (Opex and Capex) to recover from service disruptions, reduce leakage, and manage water demand. Some of our assets could deteriorate and face impairment due to physical impacts.

		• Maintained robust health and safety practices and management across operations, to support operational resilience and workforce protection in the face of increasing climate-related physical risks. **Planned or future actions**: **Infrastructure and Operational Resilience** • Continued modernisation and upgrade of treatment infrastructure, ensuring they are future proofed against climate risks. **Innovation and Research** • Continue to innovate through cross-sector collaboration via the CREWW research programme, supporting long-term resilience and environmental outcomes.	
Key physical climate risks Increasing frequency of heavy rainfall and floods - risks to sewer flooding **Relevant time horizon** Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon This year's risk rating:	• Impacts from intense rainfall overwhelming the surface water drainage system and from prolonged rainfall leading to groundwater flooding. • Flooding of assets and treatment works, loss of access to assets, and greater sediment levels in raw water which disrupt services and potentially impact the environment. • Cascading impacts to interdependent networks (e.g. power supply) from flooding, leading to service disruption. • Increased groundwater leading to increased infiltration into assets. • Increased volumes of storm-water exceed	**Current actions:** **Strategic Planning and Collaboration** • Development of the National Storm Overflows Plan, setting out plans to reduce storm overflows and supporting national-level strategy, transparency, and alignment. • Development of Pollution Incident Reduction Plan (PIRP) to identify and address pollution risk. • Catchment Systems Thinking Co-operative (CaSTCo) project with CREWW, exploring how nature-based solutions can reduce surface water inputs to	**Impacts from mitigating the risk:** We could incur additional expenditure (Opex and Capex) to improve operational resilience and flood defences, and to enhance our Upstream and Downstream Thinking programmes. Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon. **Impacts of the unmitigated risk:** Service disruptions and combined storm

Current risk rating = high / increasing Risk score in 2050 without further action = high / increasing Last year's risk rating: Current risk rating = medium / increasing Risk score in 2050 without further action = medium / increasing	pump capacity leading to service failures. • Exceedance of storm tank design and asset flooding/damage with interruption to service. • Increased frequency and duration of storm overflows, with potential impacts to water bodies - including potential closure of beaches. • Increased river flows and risk of bank erosion exposing wastewater pipes, increasing the risk of collapse. • Catchment erosion in moorland or peatland areas, with nutrients leaching that increase algal growth in waterbodies and reservoirs. • Dilution of, and rapid variations in, influent flows – longer retention of water in storm tanks leads to increased septicity and operational problems. • Increased flood incidence impacts water quality for some boreholes, may result in temporary inaccessibility or contamination. • Increased turbidity of water sources. • Increased river flows and riverbank erosion. Risk to riverside pipework and assets.	combined sewer networks. **Network Resilience and Pollution Reduction** • Achieved 100% storm overflow monitoring, enabling better oversight and real-time response. • Investment in Waterfit Plans, reducing storm overflow with a focus on beaches and high-amenity areas improving water quality and restoring habitats. • Proactive sewer investigations, cleaning, and repair, combined with network improvements, to prevent flooding and reduce failure risk. • Implementing sustainable solutions, such as surface water separation to reduce pressure on the sewerage network, and phosphorus removal schemes to support river health. • Partnership flood schemes, including work at Countess Wear Wastewater Treatment Works (Exeter). **Nature-Based and Community Solutions** • Catchment management through Upstream and Downstream Thinking, supporting water quality and flood resilience, working with local partners and communities in 15 catchments. • Collaborative work to achieve designed inland bathing waters in the South West – a first for the region.	overflows could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue). We could incur additional expenditure (Opex and Capex) to recover our services and repair damaged assets. Some of our assets could deteriorate and face impairment due to physical impacts.

		Innovation and Risk Mapping • Developing a Groundwater Infiltration Risk Map with CREWW, incorporating climate change scenario modelling **Planned or future actions** **Strategic Planning and Collaboration** • Commencing the next cycle of our Drainage and Wastewater Management Plan (DWMP), in collaboration with stakeholders and flood risk management organisations, to address shared responsibilities for surface water flooding and drainage. • Ongoing and regular updates to the Pollution Incident Reduction Plan (PIRP) to reflect new risks and performance data. **Network Resilience and Pollution Reduction** • Expanded investment to address storm overflows at beaches and shellfish waters, including storm storage, sewer separation, and other infrastructure upgrades as part of our £3.0 billion[1] Business Plan. • Continued improvements to incident management to reduce pollution and service disruption. **Nature-Based and Community Solutions**	

[1] At forecast outturn prices

		• Assessing storm overflow solutions using the 'Green First' principle, prioritising nature-based approaches. • Expending the Upstream Thinking initiative to further enhance catchment-scale water quality and resilience. • Promoting improved understanding that the number of combined sewer overflows (CSOs) does not directly equate to environmental or human health impact.	
Key physical climate risks Rising sea levels and coastal erosion - risks to assets and services **Relevant time horizon** Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon This year's risk rating: Current risk rating = Medium / stable Risk score in 2050 without further action = high / stable Last year's risk rating: Current risk rating = Medium / stable Risk score in 2050 without	• Direct asset damage from flooding, storm damage and/or coastal erosion. • Cascading impacts to interdependent networks (e.g. power supply) due to damage from coastal flooding, storm damage and/or coastal erosion. • Rising sea levels increase the extent of the saline intrusion zone. Tidal limits move upstream, causing increased salinity at river intakes. This can cause accelerated asset deterioration and reduced process performance efficacy. • Increased health and safety implications e.g. hydrogen sulphide gas from wastewater treatment works. • Saltwater intrusion of groundwater sources causing source to become unusable (compounded by lowering groundwater levels – see our 'Increasing frequency and intensity of droughts risk). • Coastal estuarine storm overflow discharges	**Current actions:** **Current actions:** **Climate-Informed Risk Assessment and Planning** • Five-yearly asset flood risk assessment incorporating the latest UK Climate Projections to inform Shoreline Management Plans to work collaboratively with other land holders on shared solutions. • Drainage and Wastewater Management Plan (DWMP) supports long-term resilience planning. **Operational Resilience and Asset Protection** • Deployment of Operational Response and Recovery Plans to manage flood risks and ensure service continuity. • Enhanced flood resilience across coastal assets, including targeted defences against saline intrusion (e.g. Otter Basin)	**Impacts from mitigating the risk:** We could incur additional expenditure (Opex and Capex) for maintenance and upgrades to assets to enhance resilience to storms. Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon. **Impacts of the unmitigated risk:** Service disruptions could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue). We could face additional expenditure (Opex and Capex) for using alternative water supply if sites/sources become unusable. Some of our assets could deteriorate and face

further action = high / increasing	become tide-locked hindering free discharge • Increased environmental ambition by other stakeholders to replace lost coastal habitat and manage coastal erosion, impacting our assets and services (in some cases requiring us to carry out actions which may not be funded through the regulatory system).	• Delivery of partnership flood schemes, such as Countess Wear WWTW in Exeter to strengthen regional protection. **Customer and Community Support** • Prioritised support for vulnerable customers during extreme weather events. • Ongoing engagement with coastal erosion risk management authorities. **Planned or future actions**: **Strengthening Coastal and Water Resource Resilience** • Expansion of saline intrusion protection to additional at-risk sites. • Desalination programme to replace 'at risk' sources such as Isles of Scilly boreholes **Collaborative Planning and Adaptation** • Continued collaboration with risk management authorities to inform and evolve Shoreline Management Plans.	impairment due to physical impacts.
Key physical climate risks Increasing frequency of extreme weather events, heatwaves and storms – acute risks to assets and services **Relevant time horizon** Short, medium and long term, with increasing	• Power supply failure due to high winds, heavy rainfall/flooding, lightning at key network and treatment sites and resultant cascading impacts to interdependent networks, including water supply delivery and wastewater management. • Cold snaps and freeze/thaw events leading to pipe bursts/ increased leakage	**Current actions:** **Operational Resilience and Incident Management** • Improved operational and incidence response actions throughout South West Water and Bournemouth regions to minimise impact of power failures. • Continued investment in our control room operations and alternative water supply	

likelihood and magnitude of risk over each horizon This year's risk rating: Current risk rating = Medium / decreasing Risk score in 2050 without further action – medium / stable Last year's risk rating: Current risk rating = Medium / increasing Risk score in 2050 without further action – medium / increasing	• Reduced ability for our services and assets to recover under consecutive storms • Surges in customer water use during heatwave events leads to operational challenges to treat and distribute water at pace even when there is enough water in sources (also see 'Increasing frequency and intensity of droughts' risk). • Damage to our assets due to extreme weather and/or heatwaves e.g. overheating of electrical equipment • Decreased water quality during heatwaves (also see 'risks to raw water quality and treatment risk).	teams to ensure service continuity. • Severe and cold weather protocols and winter preparedness activities on operational assets to reduce disruption, protect critical infrastructure, and prioritise support for vulnerable customers during extreme conditions. • Regular sector-wide coordination through Water UK Platinum Incident Management and National Incident Management calls. **Energy Resilience and Diversification** • Power resilience visualisation tool developed to assess vulnerability to national energy outages and drive targeted investment in resilience. • Diversified energy supply, including onsite renewable energy generation, to reduce reliance on the national grid. • Use of sludge to generate energy, powering parts of operations and enhancing energy self-sufficiency. • Backup power at plants to manage risks of energy supply interruption. • Standby generator roll-out programme, with a switch from diesel to Hydrotreated Vegetable Oil (HVO) for lower caron emissions. **Collaboration and Supply Chain Resilience** • Working with energy providers and other	

		stakeholders to enhance regional resilience. • Mutual aid agreements in place to manage competing demands during emergency events. • Supply chain resilience initiatives, including a new commercial framework to diversify suppliers for critical items like treatment chemicals and HVO. • Development of a Business Continuity and Visualisation Tool with Water UK and other companies to support operational decisions and reduce customer impacts, especially for vulnerable populations. **Planned or Future actions:** **Strategic Planning and Climate Adaptation** • Future climate adaption and transition planning, ensuring long-term resilience to evolving climate risks. **Operational Resilience and Incident Management** • Continual improvement of our operational and incident response, incorporating lessons learned from past events and building on the appointment of a new incident management team. • Continue collaboration with Water UK and industry groups to strengthen regional and national resilience to power outages. **Energy Resilience and Innovation**	

		• Further investment in generating renewable energy and back-up power infrastructure to enhance energy security. • Investment in mobile Granulated Activated Carbon (GAC) units, to allow us to respond to climate related raw water quality issues, ensuring that we can continue to treat water through weather extremes.	

TRANSITION RISKS

	Key impacts identified on our operations and customers	Examples of our actions to mitigate risks and realise opportunities	Primary financial and reputational impacts to our business
Type as defined by TCFD Policy, Regulation and Legal Risks **Relevant time horizon of risk** Short and medium term Potential for this risk to decrease over time as regulation evolves to remove contradictions and misalignment, and as leadership on climate action becomes commonplace across Government	**Risk of challenges balancing trade-offs in regulation in the Water sector between agendas of Net Zero, climate resilience, environmental enhancement, and other objectives, posing the risk of increasing costs and carbon:** Prioritising different regulatory goals can result in undesired climate impacts. Rapid changes in policies and regulations can misalign holistic actions with stringent agendas, posing risks to South West Water. Some examples include: • Stricter environmental regulations for climate adaptation and nature-positive agendas, with reduced abstraction allowances and increased river compensation flows. (see our 'drought' physical risk) • Increased environmental ambition to restore coastal habitat and manage erosion. (see our 'rising sea levels' physical risk).	**Current actions:** • Horizon scanning for new regulations. • Engaging with stakeholders and maintaining public relations. • Net Zero programme. • Tracking small outperformance through the voluntary ODI under the Green Recovery Initiative. • Establishment of science-based targets (SBTi) for carbon reduction. • Communicating the impact of regulations on climate risks to regulators. • Clarifying carbon accounting with sector partners. • Engaging with customers via WaterShare+ Customer Advisory Panel. • Adaptive planning approach within WRMP24 and DWMP23. • Considering actions which South West Water can take outside of the regulatory framework (e.g. offsite	**Impacts from mitigating the risk:** Regulatory changes may increase Capex and Opex for new equipment installation and operation. Some costs might be recoverable through the regulatory system. Increased energy and material use could raise our carbon footprint. **Impacts of the unmitigated risk:** Failing to balance regulatory requirements could reduce ODI rewards and

and the economy. Current Risk Rating = medium / increasing Last year's risk Rating = medium / stable	• Changes to carbon accounting methodologies and scope boundaries, such as using location-based instead of market-based GHG accounting (e.g. disincentivising power purchase agreements (PPAs) for renewable energy). • Increased energy demand and subsequent carbon footprint due to the use of modular desalination to ensure drought resilience at pace, and enhanced treatment requirements (e.g. phosphorus removal, UV disinfection, reducing combined sewer overflows in cases where the scale and pace required disadvantages nature-based solutions) • Regulation contradicting Net Zero goals, with limited incentives for broader actions outside the regulated water business.	investment in renewable energy). • Seeking and implementing Ofwat innovation-funded projects for additional investment. • Establishment of the Centre for Resilience in Environment, Water and Waste (CREWW) to collaborate with academia on water sector challenges. **Future actions:** • Upstream Thinking programme for nature recovery and nature-based solutions. • Investment in innovation, R&D and climate resilience. • Consideration of internal carbon pricing. • Public value assessments in decision-making. • Seeking opportunities for additional funding within and outside the regulatory system. • Future climate adaptation and transition planning. • Engaging with WaterUK and contributing as a reviewer for industry-wide developments. • Review of ESG priorities considering the new materiality assessment.	increase penalties, impacting revenue. Negative public perception could harm our reputation. High carbon emissions or poor environmental outcomes may lead to asset obsolescence and impairment.
Type as defined by TCFD Policy, Regulation and Legal Risks **Relevant time horizon of risk** Short and medium term In the short term the risk is more focused on funding to achieve Net Zero, over the medium and	Achieving operational Net Zero by 2030 and to delivering timely climate adaptation may be affected by evolving regulatory expectations and the pace of funding approvals. Emerging requirements may not be fully reflected in regulatory cycles, creating uncertainty around future investment pathways and delivery timeliness.	**Managing regulatory funding risk:** **Current actions:** **Strategic Integration** • Climate and multi-capital considerations embedded in business planning to align with long-term sustainability goals. • Climate objectives regularly reviewed to ensure they remain ambitious, achievable, and responsive to evolving policy and regulatory landscapes. • Our Green First Approach used to underpin value-driven decision-making promoting nature-based and best-value solutions that deliver	**Impacts from mitigating the risk:** Strategic investment in carbon reduction and climate resilience, both within and beyond the regulated business, supports long-term value creation, operational efficiency, and stakeholder confidence. Enhanced engagement with regulators and

long term the risk will increasingly focus on funding to enable adaptation to climate change. Current Risk Rating = medium / stable Last year's Risk Rating = medium / stable		environmental and social benefits. **Engagement and Collaboration** • Maintaining dialogue with regulators, customers, and stakeholders to foster alignment on climate goals and co-develop solutions that support a low-carbon transition. • Monitoring regulatory developments to identify opportunities for strategic alignment and early adoption of climate-related initiatives. **Innovation and Delivery** • Evaluating and prioritising carbon reduction and bioresources initiatives based on long-term value creation, operational efficiency, and environmental impact. • Cultivating partnerships with industry leaders, research institutions and technology providers to accelerate the development and deployment of sustainable solutions. • Advancing initiatives - showcasing a commitment to climate action that goes beyond compliance and regulatory expectations. • Leveraging Power Purchase Agreements (PPAs) to ensure reliable access to renewable energy, enhance energy security, and reduce exposure to market volatility.	stakeholders strengthens alignment and may unlock new opportunities for innovation and revenue growth (see our 'Products and Services' climate opportunity). **Impacts of the unmitigated risk:** Delaying or underinvesting in climate action could limit our ability to meet performance targets potentially affecting outcome delivery incentives (ODIs). It may also lead to increased long-term operational and customer costs, reputational challenges, and reduced asset performance due to physical climate risks. Proactive investment today helps avoid these future impacts and positions us as a climate-resilient leader (see our 'Negative public and stakeholder' and 'Customer affordability' reputation risks).
Type as defined by TCFD	**Capacity and readiness of technology and resources to achieve Net Zero before other sectors and the wider UK:** Risks that skills, technology,	**Managing capacity constraints:** **Current actions:** • Continuing to enhance capacity through training and	**Impacts from mitigating the risk:** Increased Opex to build capacity

Technology Risks **Relevant time horizon of risk** Short and medium term In the short term the risk is primarily driven by limited supply and readiness of technology and resources (due to past underinvestment in skills development across the UK and beyond, particularly in the South West), over the medium term the risk will be increasingly driven by high demand for technology and resources. Current Risk Rating = medium / decreasing Last year's Risk Rating = medium / stable	resources, and infrastructure are not ready and available to enable South West Water's transition to Net Zero operational carbon by 2030, causing delays high costs. Examples include: • Workforce and supply chain availability to design low-carbon solutions affected by geopolitical events and macro-economic conditions. • Technology and infrastructure capacity for South West Water's renewable energy projects. • High demand for resources and technologies from others causing delays and increasing costs for South West Water (e.g. demand for expertise, batteries, electric vehicles). • Unsuccessful investment in new technologies, with risks around recovering costs through the regulatory system. • Larger-than-expected innovation needed to reduce process emissions, risking unsuccessful R&D investments and suboptimal decisions. • Readiness and performance uncertainty of nature-based solutions.	recruitment, collaboration with partners and financial planning. • Establishment of the South West Water Innovation Committee, which is a network across the company working alongside CREWW, promoting innovation opportunities and preparing Ofwat innovation applications. **Managing supply chain and infrastructure limitations:** **Current actions:** **Enabling Infrastructure and Capacity** • Collaborating with infrastructure providers, regulators, and Government to encourage investment that expands network capacity. • Enhancing internal capacity and increasing efficiency to reduce supplier reliance on renewable energy. **Future actions:** **Strengthening Supply Chain Resilience** • Diversifying suppliers to enhance supply chain resilience and reduce exposure to supply disruptions. • Developing procurement strategies to secure key technologies and expertise critical to climate and energy objectives. **Reducing Network Dependency** • Exploring decentralised solutions such as onsite battery storage to reduce reliance on external network capacity.	and access skills and technology, some of which can be recoverable through the regulatory system. **Impacts of the unmitigated risk:** Increased Capex and Opex due to delays and high resource demand; unsuccessful technology investments leading to increased costs; penalties and reputational damage if targets are missed and limited ability to reduce carbon emissions (See our "Policy and Regulation" transition risk).

Type as defined by TCFD Market Risks **Relevant time horizon of risk** Short and medium term In the short term the risk is primarily driven by limited supply of renewable energy and low-carbon materials (due to past under investment in infrastructure and materials across the UK and beyond), over the medium term the risk will be increasingly driven by high demand for renewable energy and low-carbon materials. Current Risk Rating = Medium / decreasing Last year's Risk Rating = Medium / decreasing	**Increased costs of energy and materials due to the transition to Net Zero, impacts of climate change, and wider factors:** Costs are rising due to the Net Zero transition, climate change impacts, geopolitical events, and macro-economic conditions like high inflation. Examples include: • Electricity prices, especially for 100% renewable energy, reached record highs in recent years due to market volatility. While prices have since eased, the experience highlights the need for long-term energy resilience and investment in self-supply. • Increased process for liquid fuels and gas. • Higher costs for chemicals and construction materials (e.g., cement, steel) due to rising energy prices and carbon reduction measures. • Increased prices for renewable electricity technologies due to high demand and limited supply.	**Managing cost of energy:** **Current actions:** **Renewable Energy & Supply Resilience** • Generation of renewable energy and explore additional options and power purchase agreements (PPAs). • Championing upscaling of renewables across our regions. • Acquisition of renewable energy generation projects to support energy resilience stabilise costs. **Efficiency & Cost Management** • Increasing efficiency to reduce energy demand (e.g. enhance energy efficiency, reduce leakage - see our 'resource efficiency' opportunity). • Electricity price hedging. • Secure long-term contracts for renewable electricity to manage price volatility. • Accounting for cost recovery mechanism allowed by Ofwat for energy pricing. **Future actions:** **Transition to Low-Carbon Energy** • Switch to alternative fuels, eliminating fossil fuels where possible. • Support Government and wider sectors actions to increase energy security and supply of low-carbon energy. **Smarter Energy Use** • Changing operational practices to reduce energy use and costs (e.g. off-peak electricity pricing). • Exploring low-energy options (e.g. nature-based solutions).	**Impacts from mitigating the risk**: Increased Capex and Opex for renewable energy and low-carbon materials, some recoverable through the regulatory system with potential ROI. (see our 'energy source' and 'markets' climate opportunities). **Impacts of the unmitigated risk:** Increased Capex and Opex due to higher energy and material costs; limited ability to reduce carbon emissions.

		Managing cost of input materials: **Current actions:** **Smarter Procurement & Cost Management** • Implementing cost-reducing procurement strategies (e.g. competitive pricing). • Use whole life carbon tools to understand costs of high-carbon materials. **Supply chain resilience** • Enhanced supply chain resilience by diversifying and expanding suppliers to increase competitiveness and reduce costs. **Future actions:** • Increase efficiency to reduce material use and consumption. • Innovate with different chemicals and materials (e.g. using excavated materials and recycling waste).	
Type as defined by TCFD Reputational Risks **Relevant time horizon of risk** Short and medium term In the short term customers and stakeholders are primarily concerned about impacts on water quality and aquatic environments. Over time it is likely that customers and	**Negative public and stakeholder relations due to South West Water failing to be a seen as a leader in environmental sustainability:** Negative perception from the public/stakeholders/regulators, possibly linked to a major climate-related incident/event/failure. Some examples include: • Public concern about climate-induced pollution events and sewer overflows. • Concern about the environmental impact of abstraction and wastewater discharge. • Public/media focus on high-energy activities like desalination over carbon reduction efforts. • Shifts in stakeholder/customer expectations related to carbon and climate.	**Managing public and stakeholder relations:** **Current actions:** **Environmental Leadership & Climate Action** • Investing in environmental performance and risk reduction, delivering Net Zero and nature programmes (e.g. WINEP, Biodiversity Strategy). • Developing renewable energy projects (e.g. repurposing a disused coal mine). • Committing to global sustainability standards (e.g. UNGC, SBTI) **Stakeholder Engagement & Strategic Thinking** • Engaging customers and communities (e.g. PR24, Nature Recovery, education programmes).	**Impacts from mitigating the risk:** Potential increased Opex to manage stakeholder relations. **Impacts of the unmitigated risk:** Negative public perception impacting reputation (see also our 'Challenges balancing trade-offs' policy transition risk).

stakeholders will have higher concern for carbon emissions and other sustainability objectives. Current Risk Rating = High / increasing Last year's Risk Rating = Medium / stable	• Potential negative perceptions related to development of renewable energy projects, such as impacts on biodiversity. • Stakeholder and customer dissatisfaction if South West Water fails to meet Net Zero commitments.	• Applying the '6 capitals' framework to guide sustainable decision-making. • Collaborating with research partners (e.g. BREWW) to drive innovation. **Future actions:** **Climate Commitment & Policy Evolution** • Continue delivering on our 'Promise to the Planet' to reach Net Zero. • Expanding the Watershare+ Scheme to one in every 10 households.	
Type as defined by TCFD Reputational Risks **Relevant time horizon of risk** Short and medium term The need for additional investment to meet the Net Zero and climate adaptation challenges will likely continue to impact across the medium term, particularly if global climate action is slow and the physical impacts are greater. Current Risk Rating = Low / increasing	**Customer affordability and fairness concerns for achieving Net Zero and adapting to climate change:** Affordability for customers and questions around fairness become very challenging, even with Government contribution to water and wastewater bills (this is compounded by cost-of-living pressures). This risk includes: • Large climate change investments may cause customer and stakeholder dissatisfaction. • Fairness issues, especially for residents in high-impact areas like Cornwall and Devon. • Misalignment among Government departments and regulators requiring increased investment.	**Managing customer affordability:** **Current actions:** **Supporting Customers and Communities** • Support programmes and social tariffs for customers struggling to pay bills, including working with regulators and policymakers on initiatives such as national single social tariff. • WaterShare+ engagement scheme to encourage customers to become shareholders, in our parent company Pennon Group plc, involved in South West Water's decisions. • Board's pledge of zero customers in water poverty by 2030. **Delivering Efficient, Long-term Investment** • Driving efficient investment programmes over the long term whilst ensuring bills reflect value for money. • Phased investment in climate adaptation and Net Zero over time to reduce pressure on bills. • Engaging with customer, stakeholders, regulators, and	**Impacts from mitigating the risk:** Potential increase to Opex to manage public perception. **Impacts of the unmitigated risk**: Negative public perception impacting reputation and potential penalties for not supporting vulnerable customers.

Last year's Risk Rating = Low / stable		the Government to explain investment needs. **Innovating for Affordability and Resilience** • Exploring cost-reduction actions and innovative tariffs, such as our Smart Saver tariff and seasonal tariffs supporting water efficiency whilst keeping bills low. **Future actions:** **Customer Engagement** • Further encourage customers to have a stake and a say through WaterShare+ **Innovating for Efficiency and Fairness** • Ongoing programme to introduce innovation and progressive charges. • Rolling out smart meters to support water efficiency.	

CLIMATE RELATED OPPORTUNTIES

	Key impacts identified on our operations and customers	Examples of our actions to mitigate risks and realise opportunities	Primary financial and reputational impacts to our business
Type as defined by TCFD Resilience **Relevant time horizon** Short, medium, and long term Enhancing resilience to climate change and extreme weather events is of high relevance today, with increasing likelihood and	**Enhancing resilience across South West Water's operations, asset base, and supply chain to avoid costs and enhance value:** Opportunity to invest in enhancing resilience across South West Water's business and supply chain, in some cases saving costs (e.g. avoided damage to assets, avoided losses in revenue, avoided penalties on ODIs and GSS) and enhancing company reputation and value. Some examples include: • Investing in climate change adaptation (e.g. drought and flood prevention) to avoid	**Enhancing South West Water's resilience:** **Current actions:** **Building Resilience and Adapting to Climate Risk** • Diversify water sources (e.g. desalination, repurposing quarries/mines). • Plan for company resilience and climate risk assessment and adaptation. • Investments in response and recovery to operational disruption. • Upgrade and modernise infrastructure.	**Impacts from realising opportunities:** Opportunity to reduce costs (Opex), enhance reputation and increase revenue through improved performance (reduction in penalties or increased rewards). Achieving this will involve strengthening our infrastructure and enhancing our ability to adapt to changing conditions. These efforts will require coordinated planning and resource allocation, and may

magnitude of risk over each horizon. Current opportunity rating = medium / increasing Last year's opportunity rating = medium / increasing	customer disruption and asset damage. • Enhancing supply chain resilience by diversifying suppliers and investing in buffers/storage for critical resources.	**Advancing Renewable Energy and Sustainability** • Generation of renewable energy and explore additional options and power purchase agreements (PPAs) (see our 'market' transition risk). **Future actions:** **Enhancing Climate Resilience** • Actions to adapt to climate change (e.g. enhancing drought resilience) and to mitigate climate risks. • Investing in desalination plant in Cornwall by 2025, to promote climate resilient water resources during periods of drought. **Integrating Nature-Based and Sustainable Solutions** • Incorporate nature-based solutions to reduce drainage and storm overflows.	involve engagement with regulatory frameworks. As we implement climate resilience initiatives, we will also need to carefully manage their associated carbon footprint.
Type as defined by TCFD Energy Source **Relevant time horizon** Short and medium term This opportunity is of high relevance to meet our 2030 Net Zero target, with continued relevance into the medium and long term due to increasing market risks to energy pricing and resilience of energy supply as	**Reducing carbon and enhancing energy resilience by using and generating renewable energy:** Opportunities to lower carbon emissions by using renewable energy and opportunities to invest in renewable energy generation which can lower our carbon emissions, enhance our energy resilience (e.g. less reliance on energy suppliers), and enhance our revenue through sale of renewable energy. Some examples include: • Generating renewable energy on South West Water's sites and through partnerships	**Using renewable energy:** **Current actions:** **Renewable Energy Strategy** • Renewable energy procurement strategy. • Supply contract for 100% renewable energy for South West Water. • Exploring additional options and power purchase agreements (PPAs). **Onsite Renewable Generation** • Generation of renewable energy.	**Impacts from realising opportunity:** Investing in renewable energy supports our transition to a lower-carbon future and strengthens long-term operational resilience (see our 'market' transition risk and 'market' opportunity). These initiatives can also create new revenue streams through the sale of renewable energy. As we expand our generation capacity, we will continue to manage the environmental

physical risks increase in magnitude and likelihood over each horizon. Current opportunity rating = medium / increasing Last year's opportunity rating = medium / increasing	(e.g. PPAs, bioresources, solar and wind energy). • Switching fuels to lower-carbon sources	• Investment in generating renewable energy. **Targeted Carbon Reduction and Net Zero Delivery** • Net Zero programme. • Prioritising investments for highest carbon reduction and return on investment. **Future actions:** **Innovation and Low-Carbon Technologies** • Trials of low-carbon fuels. • Innovation programme (e.g. energy recovery from sewers) • Use of energy recovered from bioresources to power our operations. **Strategic Partnerships** • Engagement with partners for PPAs. • Establishing arrangements to co-fund renewable energy investments.	footprint associated with these activities.
Type as defined by TCFD Markets **Relevant time horizon** Short and medium term In the short term the opportunity is more focused on financing to achieve Net Zero and current physical risks; over the medium and long term the opportunity will increasingly focus	**Generating value and reducing our financing costs through sustainable financing:** Opportunity to reduce our cost of finance and avoid cost increases through access to sustainable financing and generation of green financial assets. Our Sustainable Finance Framework is part of our strategy for taking action on climate change, and our approach is evolving as policy and markets change and information becomes available. We are exploring the implications for our business, including regulatory developments such as the EU	**Sustainable finance:** **Current Actions:** **Sustainability Embedded into Financial Decision-Making** • Our Sustainable Financing Framework aligned with investment decisions and environmental and ESG • Sustainable finance market requirements reviewed to ensure alignment with evolving expectations from regulators and stakeholders. **Future actions:**	**Impacts from realising opportunity:** By embedding sustainability into our financial practices, we strengthen our position as a forward-looking, responsible business. These actions open up opportunities to access innovative funding mechanisms, and demonstrate leadership in climate and nature-related transparency, enhancing trust and long-term resilience (see our 'reputation' transition risks).

on environmental targets and climate change resilience to long term challenges. Current opportunity rating = medium / increasing Last year's opportunity rating = medium / increasing	Taxonomy/UK Green Taxonomy.	**Advancing Sustainable Finance** • Establishing commercial and legal arrangements for green financial assets and credits. • Preparing for future disclosure and ESG initiatives, including alignment with frameworks such as the EU/UK Taxonomy, TNFD, ISSB, and Transition Plan Taskforce (TPT). • Exploring third-party funding opportunities to support sustainability-led projects and unlock investment opportunities.	
Type as defined by TCFD Resource Efficiency **Relevant time horizon** Short and medium term In the short and medium term, investment in resource efficiency is central to many of our options and decisions in our business plan and WRMP's best value plan. This will enhance our resilience, our ability to meet our environmental and our Net Zero targets and reduce our opex over the medium and long term.	**Saving water, energy, materials, and carbon by enhancing efficiency, using low-carbon and nature-based solutions, and reducing emissions across South West Water's supply chain:** Opportunities to invest in enhancing efficiency and reduce wastage of water, energy, and materials, opportunities to use low-carbon construction, approaches, and nature-based solutions, and opportunity to work with suppliers to reduce their carbon footprints and enhance their sustainability. Some examples include: • Leakage reduction, water efficiency, smart metering, rainwater harvesting, and incentivising customers to use less water. • Enhancing efficiency of process equipment buildings and transport to reduce energy and chemical use. • Using low-carbon construction materials and local sourcing.	**Enhancing water efficiency:** **Current action:** **Empowering Customers and Communities** • Customer education and outreach. • Supporting community water-saving projects like the Heathfield Allotment Trust. • Offering free leak fixes for eligible customers. **Leveraging Smart Technology and Date** • Installing AMI Smart meters for direct water usage data. • Addressing water leaks using smart meter data. **Driving Sustainable Water and Land Use** • Demand management and water efficiency programmes, including PCC (per capita consumption) and leakage reductions.	We can reduce our carbon footprint and Opex through resource efficiency, but it requires significant investment in monitoring, metering, and capital projects. Some costs may be recoverable through the regulatory system. We will need to manage the carbon footprint associated with actions to realise resource efficiency opportunities.

Current opportunity rating = medium / increasing Last year's opportunity rating = medium / increasing	• Employing technology like Real Time Control in sewers to avoid high-carbon interventions (see also our 'technology' risk). • Constructing wetlands and sustainable drainage systems (SuDS) • Investing in marine carbon opportunities, peatland restoration, tree planting and soil and grassland activities. • Working with suppliers to reduce their carbon footprints and enhance their sustainability.	• Incorporation of carbon values into capital planning and decision making • Farm water efficiency and resilience project – 1,000 pond nature-based solutions. **Future actions:** **Empowering Customers to Use Water Wisely** • Incentivising customers to use less water. • Supporting customer affordability through efficiency schemes and metered tariffs. • Promoting rainwater harvesting as a sustainable water source. **Enhancing Monitoring and Control Capabilities** • Extend real-time monitoring and control to improve system responsiveness and efficiency. **Enhancing process, building, and transport efficiency:** **Current actions:** **Improving Operational and Energy Efficiency** • Enhancing process efficiency through smarter operations, energy-conscious building practices and low-emission transport solutions. • Energy efficiency programmes for buildings. • Efficient building requirements in leases. **Reducing Emissions Through Smarter Mobility**	

		• Reducing travel needs through remote monitoring. • Procuring/leasing efficient vehicles. **Future actions:** **Driving Innovation and Operational Excellence** • Investments in innovation for efficiency. • Enhancing operational practices (e.g. real-time monitoring) • Partnerships with suppliers/ outsourcing specific operations. **Promoting Low-Carbon Mobility** • Encouraging employee carpooling. • Light-weight vehicles to reduce emissions and improve fuel efficiency. **Using low-carbon solutions:** **Current actions:** **Embedding Carbon Considerations into Decision-Making** • Implementing capital carbon accounting. • Implementing carbon values in capital planning and decision making **Future actions:** **Decarbonising Supply Chains and Materials** • Engaging supply chain for low-carbon solutions. • Collaborations with supply chain to reduce embodied carbon.	

		• Procurement strategies with ESG criteria. • Innovation programmes for alternative materials. **Advancing Net Zero Leadership and Learning** • Net Zero programme with a focus on embodied carbon initiatives. • Learning from other companies in the UK and internationally to adopt best practices and accelerate progress. **Using nature-based solutions:** **Current actions:** **Integration of Nature-Based Solutions** • Embedding natural capital into decision making. • Investing in innovation and piloting. • Practicing catchment management to improve water quality, biodiversity, and ecosystem health through landscape-scale interventions **Future actions:** **Nature-Based Solutions Through Collaboration** • Partnering with stakeholders (e.g. landowners) to co-develop and deliver NBS. • Collaborations with supply chain to integrate Green First and nature-based approaches into projects and operations.	

		• Learning from other companies in UK and internationally to adopt best practices and accelerate impact. • Launching the Nature Recovery Fund to support initiatives that restore and enhance natural ecosystems. **Reducing supply chain carbon:** **Current actions:** • Engaging with suppliers and committing to 60% of suppliers to have science-based targets by the end of March 2028. **Future actions:** **Embedding Sustainability into Procurement Practices** • Procurement strategies with ESG criteria to ensure suppliers align with environmental and social standards. • Learning from other companies in the UK and internationally to adopt best practices in supply chain decarbonisation.	
Type as defined by TCFD Products and Services **Relevant time horizon** Short, medium term and long term Opportunity in the short, medium and long term to	**Enhancing revenue through providing resilient water solutions, bioresources, and expertise to other water companies:** Opportunities to invest in water resources schemes linked to climate change, bioresources opportunities which align with the transition to Net Zero, and other opportunities to enhance our revenues. Some examples include:	**Delivering water resource schemes and bioresources opportunities:** **Current actions:** **Advancing Strategic Water Resource Planning and Collaboration** • Preparatory work on three Strategic Water Resource schemes to secure long-term water resilience.	**Impacts from realising the opportunity** Potential revenue increase through SROs and bioresources sales, requiring significant investment (Opex and Capex). Some costs may be recoverable through the regulatory system. We will need to manage the carbon footprint of SRO and bioresources schemes.

enhance South West Water's revenue through delivery of Strategic Water Resource and bioresources schemes. Current opportunity rating = medium / increasing Last year's opportunity rating = medium / increasing	• Delivering strategic resource options (SROs) and resilient water solutions for other water companies e.g. modular desalination technology. • Selling expertise and technologies for water efficiency and leakage reduction. • Selling bioresources (e.g. biogas, nutrients, sludge etc). Selling expertise in bioresources to other companies	• Engagement with other water companies, regulators and stakeholders to coordinate planning and delivery of regional solutions. • Establishing commercial and legal arrangements for SROs and sale of bioresources. **Driving Innovation in Resources and Technology Deployment** • Business plan includes opportunity related to pyrolysis for bioresources, supporting circular economy and carbon reduction • Roll out new technology in the region to enhance efficiency and sustainability. **Future actions:** **Building Public Support and Driving Innovation** • Engagement with customers to build support (e.g. social license). • Innovation and R&D in collaboration with CREWW.	

SHORT- MEDIUM- AND LONG-TERM HORIZONS

In determining our strategy, we have processes in place for identifying, assessing, and responding to climate-related risks and opportunities. In shaping the strategy, we consider short-, medium-, and long-term horizons.

Short-term – 1 to 10 years

Over this horizon we define key targets (operational, financial, sustainability) and we consider changing regulatory frameworks and emerging Government policies. We develop business plans every five years, defining our actions and investments over this period. Operational risks are planned and budgeted for over this time frame and planning begins during this period for the next regulatory period. Our operational Net Zero 2030 commitment falls within this time horizon, as well as the price reviews in 2029 (PR29) and 2034 (PR34). Transition risks and opportunities are likely to have the largest impacts to our business across this period, with physical risks projected to increase over time.

Medium-term – 10 to 30 years
Our WRMP and DWMP strategic plans consider requirements across this period. Major projects and operational plans will be renewed and managed over this time frame to ensure projects meet the correct regulatory period plans. Our 2045 total Net Zero target falls within this horizon, as well as the UK's 2050 Net Zero target, which will continue to present emerging policy and market changes. Transition risks and physical risks will both impact our business across this period to varying levels, depending on global GHG emissions and the Net Zero pathway taken by the UK and globally.

Long-term – 30 to 100 years
Typically for longer-term strategic direction, risk, and resilience planning. Investment requirements for our long-life assets are considered, such as mains pipes and reservoirs. Current projections are that by the end of this century the planet will have warmed by up to 3°C, however there is much uncertainty related to the effectiveness of global climate change mitigation. Physical climate risks are likely to have the largest impacts to our business over this time horizon.

CLIMATE SCENARIO ANALYSIS

Scenarios
In alignment with the TCFD guidance, we have assessed the risks and opportunities associated with climate change and the transition to a Net Zero climate-resilient economy. We have used plausible contrasting scenarios to explore the potential range of impacts in the future and in turn the possible range in our strategic responses required to mitigate risks and build adaptive capacity in an uncertain future.

Our physical risk scenarios are informed by the IPCC's Representative Concentration Pathways (RCPs) from the IPCC's 5th assessment (2014), including a high and a low emissions scenario, which are also used as the basis for planning by Ofwat as part of the PR24 methodology. The IPCC's 6th Assessment report was released in 2023, and in it the IPCC has adopted new climate scenarios know as Shared Socioeconomic Scenarios (SSPs). However, South West Water has continued to use the RCP scenarios due to these being mandated by Ofwat's PR24 methodology.

Our transition scenarios are informed by high and low levels of socio-economic drivers surrounding policy ambition, the speed at which policy is implemented, and the pace of technological advancement. In 2024 we updated our transition risk assessment to adopt scenarios developed by the Network for Greening the Financial System (NGFS). These transition scenarios have become widely adopted in the UK.

The two Network for Greening the Financial System (NGFS) transition scenarios used are: (1) Orderly transition, aligned to the NGFS Net Zero 2050 and (2) Hot house world aligned to the NGFS Current Policies. The NGFS Net Zero 2050 aligns closely with the IEA Net Zero 2050 scenario. We have selected these contrasting scenarios as they span a range of possible futures, and present different challenges and opportunities for our business.

The NGFS Disorderly Transition Scenario has also been considered, but our view is that negative impacts for our company are more significant under the NGFS Current Policies Scenario, so it has been the focus of our scenario analysis to provide a stress test of our resilience.

We will continue to re-visit our scenario analysis in future, including considering the merit in selecting additional scenarios.

Our scenarios can be defined as follows:

Physical risk scenarios
- **RCP2.6[1]: Lower Physical Impacts** - an approximate 2°C warming scenario by the year 2100 – corresponding to a low emissions 'optimistic' scenario.
- **RCP8.5[1]: High Physical Impacts** - an approximate 4°C warming scenario by the year 2100 – corresponding to a high emissions 'business-as-usual' scenario, which is appropriate to use when considering high risks.

[1] The IPCC's Representative Concentration Pathways from the IPCC's 5th assessment (2014)

Climate Transition risk scenarios

- **1.5 degree scenario NGFS Net Zero 2050** - a scenario which sees the UK as a global leader with strong policies and actions to mitigate climate, aligned with the Paris Agreement.
- **3-degree scenario: NGFS Current Policies** - a scenario which sees the UK make incremental progress to mitigate climate change, but assumes no major policy changes and results in missing the aims of the Paris Agreement.

Key assumptions
For our scenario analysis, the following assumptions for all scenarios were made:

- Scenarios focus on the UK policy and regulatory context and are semi-independent of global action and temperature pathways.
- It is assumed that the current high energy prices remain high throughout this decade.
- The Government's ambition around environmental protection and conservation remains high, regardless of the pace of transition.
- No significant change to South West Water's business activities.
- Population in our region increases by 0.4 million by 2050, overall water demand remains unchanged from today (due to leakage reduction and water efficiency measures), and overall volume of wastewater treated remains unchanged from today (due to actions taken to reduce surface water flows to sewers).

PHYSICAL CLIMATE RISKS – SCENARIO ANALYSIS

Approach taken
The Company undertook qualitative scenario analysis in 2021 considering the financial implications of physical climate risks for South West Water under two climate scenarios based on the IPCC's Representative Concentration Pathway (RCP) scenarios. Potential material financial impacts were considered over the 10-year horizon to 2030, aligning with the Company's regulatory financial viability testing. Material impacts on our business and strategy were considered over the time horizon to 2050 – aligning with a medium-term view of climate change impacts before uncertainty increases beyond 2050. We have extended our analysis to cover Bristol Water region within this disclosure and we will look to update our scenario analysis in future e.g. when Ofwat updates the physical risk scenarios used in business planning. This year we have revised our scenario analysis based on changes over the past year, using the same physical climate scenarios as the previous years.

Impacts
This section discusses impacts under each physical risks scenario of RCP2.6 and RCP8.5.

- **Climate resilience will require increased expenditure and investment.** The most significant financial impacts for the Company are on our expenditures (Opex and Capex), to mitigate against future climate risks by increasing capacity for water supply infrastructure; managing drought conditions and water demand; improving water and wastewater treatment and odour management; improving operational resilience to flooding, saline intrusion and storms; and enhancing our Upstream and Downstream Thinking programmes. These financial impacts would be significantly greater under the higher emissions scenario over the long-term horizon as they will require higher levels of adaptive capacity, although adaptive planning will seek to minimise this impact by identifying low-regret options under both high and low emissions scenarios to inform investment decisions. These costs could be recoverable through the regulatory system.
- **Investments in our natural capital will be central to climate adaptation**. Within the water industry, healthy and functioning ecosystems are critical for resilient operations. Therefore, the risks to South West Water's infrastructure are affected by risks to the natural environment. Accordingly, increased expenditures (Opex and Capex) include heavy investment in our natural capital schemes, catchment management, partnerships, and research and development in this area, as well as implementing our comprehensive Biodiversity Strategy and Environment Plan 2050. Our 'Green First' framework prioritises nature-based solutions to improve climate adaptation and resilience.
- **Climate impacts will affect our ability to meet performance commitments and objectives**. The Company could also be impacted financially by Outcome Delivery Incentive (ODIs) penalties and rewards due to potential failure to achieve performance commitments as part of the regulatory framework, further resulting in negative impacts to our reputation. This impact is more likely under the

higher emissions scenario over the long-term horizon due to higher projected magnitude of climate impacts and frequency of extreme weather events.

- **Investment required is high, but the cost of inaction is much higher**. Our risk assessment clearly shows long-term significant risks if the impacts of climate change are not mitigated. South West Water operates over £8 billion of assets, the majority of which relate to water and wastewater and will be impacted by climate change in some way. The drought in 2022 cost the Company around c.£20 million – and following this we have invested to enhance resilience. The unmitigated risk would result in additional expenditure (Opex and Capex) to recover from service interruptions and repair or replace deteriorated assets. The unmitigated risk would result in more frequent and greater ODI penalties. Although some of this will be our expenditure, wider flood protection investments will be required by others to protect wide-ranging coastal assets.
- **Impacts are worse with every bit of additional warming.** We would experience these impacts for extreme events over all time horizons, however these impacts would increase over each horizon as extreme weather events increase in frequency and magnitude and are compounded by higher average temperatures and drier summer conditions. This trend is more pronounced for the higher emissions scenario, particularly over the long-term horizon, where temperature increases are projected to accelerate.

Our strategic response

Our strategy for managing physical climate risks and financial impacts is underpinned by the following principles in order to maintain and improve our Company's performance to the year 2050:

- Adapt to climate change
- Enhance resilience
- Innovate
- Become more efficient
- Collaborate
- Balance investment over time

This will require significant action and investment by our Company, as well as action by our supply chain partners and wider actors (e.g. Government agencies, local authorities, and major land owners in our regions).

Longer-term investment, as outlined in our strategic plans, will be needed to manage future risks to acceptable/tolerable levels. The long-term risk is significant and will require additional investment to mitigate their effect. To achieve this, regulatory and Government support within their policy frameworks will be needed.

In the South West of England, the combined characteristics of low population density, high coastline to land area ratio, and tourism-based seasonal flux on water demand present a unique set of challenges. Through the years, by innovating, investing, and adapting, we have achieved industry-leading results in many areas of the business. Our extensive programme of environmental improvement with Upstream and Downstream Thinking catchment management has resulted in some of the finest bathing waters in Europe. This has been instrumental for us to tackle these challenges and meet the expectations of our customers. Having seen record visitors to our region following the COVID-19 pandemic, it is expected further investment will be required to continue building on the progress made by South West Water to protect the environment and our bathing waters.

Our strategic responses within our WRMP24 and DWMP23 for delivering reliable, efficient, and high-quality drinking water and wastewater services is driven by best-value adaptive planning, as per Ofwat's methodology for PR24. This means that, using the same physical scenarios analysed here (RCP2.6 and RCP8.5), our WRMP24 has developed adaptive investment programmes which: 1) fulfil immediate and most probable future needs; 2) respond to external pressures in the future with alternative investment options that are triggered under specific conditions; 3) identify low and least-regret investments that enable future options or return benefits under the broadest range of potential futures. Subsequently, our strategies for mitigating climate risks and building adaptive capacity are similar under the high and low emissions scenario in the short and medium term, however, additional options will be required under the RCP8.5 scenario, or options may need to be implemented earlier than the RCP2.6 scenario over the long term. Climate change adaptation is a continual, evolving and iterative process, we regularly review our adaptation progress, and like we did during the 2022 drought, we learn from the challenges we have faced to inform our future adaptation actions. As part of our adaptive planning approach, we have predefined trigger points and decision points to implement strategies of the appropriate pathway sufficiently early, so that we can have a proactive and more resilient response to climate change - including greater

opportunity to implement nature-based solutions - rather than more costly reactive approaches which may have higher operational and embodied carbon.

IMPACTS ON FINANCIAL PLANNING
Compared to today, overall our revenue is unlikely to be impacted significantly as we operate in a regulated environment funded through Price Reviews. However, there is a higher risk of reduced regulatory rewards and increased penalties (ODIs) due to climate change. Our operating costs are likely to increase compared to today, and additional capital investment will be required. The value of our assets and our cost of capital would remain relatively unchanged compared to today if we continue to enhance our resilience.

CLIMATE TRANSITION RISKS – SCENARIO ANALYSIS

Approach taken
The Company undertook qualitative scenario analysis in 2022, considering the financial implications of transition climate risks and opportunities under the two transition scenarios described earlier. The assessment considered impacts to the year 2030; this time horizon was selected as it aligns with our operational Net Zero target and there is much uncertainty beyond this time with regards to changes to policy, technology, markets, and public opinion. In 2024 we updated our scenario analysis to consider the NGFS scenarios described earlier.

This year we have revised our scenario analysis based on changes over the past year.

Impacts – NGFS Current Policies scenario
This scenario provides a challenging context for meeting our 2030 operational Net Zero target. In this scenario we have identified the following main impacts for our business:

- **The cost to our business of achieving our 2030 Net Zero target rises, and there is less ability to recover costs through the regulatory pricing system.** This is compounded by the readiness and higher costs for access to low-carbon technologies and related skills (due to the UK's underinvestment in this scenario), and increased costs related to both our own renewable energy generation, and the purchasing of green electricity from external suppliers (where demand is likely to outstrip supply).
- **The current UK policies might not be sufficient to deliver the necessary carbon emission reductions.** As such this could impact our business transition through increased higher costs from the reliance on carbon intensive energy and internal combustion engine vehicles.
- **Meeting our 2030 target requires greater use of carbon offsets.** The enabling environment for decarbonisation is weaker and costs are higher, which leads to slower progress in emissions reductions across our business. As a result, the residual emissions that need to be offset rise, which adds to our costs.
- **Environmental targets require additional energy use.** New guidance on targets for both nutrients and storm overflows will require a significant increase in energy use and associated capital and operational carbon. While nature-based solutions will form part of the solution, there will be significant reliance on engineered solutions due to potential inflexibility in regulation and deadlines to improve outcomes. The increased energy and carbon use compounds impacts above.
- **Reputational risks are significant and require careful management.** Some of our customers and stakeholders may have differing priorities and preferences for actions to meet our 2030 target, for example regarding the increased use of carbon offsets. Some may be highly sensitive to affordability, and increasingly scrutinise our investment choices.
- **Opportunities are lower than the Net Zero 2050 Transition scenario.** Opportunities for our business remain, however, they are in general more limited, and with lower return than in the Net Zero 2050 Transition scenario. Increasing efficiency of energy and resource use, and pursuing low-carbon energy alternatives are the primary opportunities and can help to offset some of the additional energy and carbon costs. There is also an opportunity to clearly identify and communicate the synergies between environmental objectives and the transition to a Net Zero business in order to increase support from customers, stakeholders, and regulators.

IMPACTS ON FINANCIAL PLANNING
Compared to today, overall our revenue is unlikely to be impacted significantly in this scenario, but also our non-water revenue is less able to grow. Our costs to achieve operational Net Zero may increase relative to our current plans, however, early investment in decarbonising the business to meet the 2030 target remains more cost-effective in the long term (post 2030), and reduces the risk to our Company and our customers from measures

such as carbon pricing, as well safeguarding our reputation on environment and climate change. The value of our assets and our cost of capital would remain relatively unchanged compared to today.

Impacts – NFGS Net Zero 2050 Scenario
This scenario is more favourable to our business and to the UK's Net Zero goals, as it creates a more supportive enabling environment to achieve our 2030 operational Net Zero target, however this may present challenges balancing trade-offs between the agendas of Net Zero, climate resilience, environmental protection, customer affordability, and other objectives. In this scenario we have identified the following main impacts for our business:

- **Cost to our business of achieving our 2030 Net Zero target is lower than the NGFS Current Policies Transition scenario**. There is much greater regulatory support in order to support the step change in investment required, with an increase in costs which can be recovered through customers' bills. The maturity of technology and associated business models progresses rapidly, and helps to drive down costs across many areas, including in renewables, resource efficiency, and demand-side measures. Greater R&D programmes with gated investment and piloting will minimise technology investment risks compared to the Slow Transition scenario, where strategies could be more reactive than proactive.
- **Access to the skills and resources needed is costly.** There is very high demand for low-carbon technologies, skills, and expertise across the economy in this scenario, which significantly outpaces supply (partly due to the UK's past underinvestment and the time required to develop supply chains). This adds to our costs associated with decarbonisation, and risks delaying key projects.
- **Environmental targets require additional energy use.** This impact is the same as the Current Policies Transitions scenario, however the regulatory environment may be more favourable for nature-based solutions (NBS) which can also sequester carbon, as there may be more stringent carbon management requirements, and carbon markets would also be stronger and provide more incentives for NBS.
- **Enhanced support to low-income customers may be needed**. Fairness in the distribution of the costs of the UK's transition to Net Zero is a key concern among stakeholders. Increased support to some customers may be required, and our investments will need to be carefully planned and phased to ensure they are efficient and avoid sudden price impacts.
- **Opportunities are higher than the Current Policies scenario.** The more favourable enabling environment means that our opportunities are enhanced in this scenario, and they are easier to realise. There are particular opportunities to further invest and innovate on energy and resource efficiency, and to attract further investment through sustainable finance opportunities.

IMPACTS ON FINANCIAL PLANNING
Compared to today, overall our revenue is unlikely to be impacted significantly in this scenario, but our non-water revenue has greater potential to grow. Our costs to achieve Net Zero may remain largely unchanged compared to today. The value of our assets may increase as we decarbonise and enhance our natural capital, and our cost of capital may decrease compared to today.

OUR STRATEGIC RESPONSE
Although there are important differences in the impacts between the different transition scenarios, there are a number of common elements which will require us to implement a common strategic response. The relative importance of each, and specific elements within the response, will vary across the two scenarios, but we have identified six key focus areas which will enhance resilience to transition risks, and better position the Company to take advantage of opportunities:

- **Investing in efficiency.** Under both scenarios, significant carbon savings and performance improvements can be achieved by driving greater efficiency across our operations. This includes energy efficiency (for example, more efficient pumping to reduces water losses), as well as optimising processes, reducing waste, and deploying smart technologies to improve the performance of our water supply and transmission systems. Many of these opportunities will reduce costs. We are currently investing in programmes to streamline operations, enhance resource efficiency, reduce energy use and carbon across our operations. This will accelerate our progress toward operational Net Zero and help manage the cost of the transition.
- **Enhancing our energy resilience**. We will continue to invest in building resilience across our operations to address climate-related and transition risks. This includes generating more of our own renewable energy to reduce exposure to energy price volatility and to enhance our options for energy

supply, which is favourable under both scenarios. We are strengthening our ability to respond to physical climate impacts such as flooding and drought – by improving the robustness of our infrastructure, increasing water storage and supply flexibility, and integrating adaptive technologies and nature-based solutions.

- **Enhancing our access to Green Economy resources.** Across both scenarios there will be a shortage of skills and resources across key areas of the Green Economy that we will need to support our transition. To manage this, we will diversify our supply chain of low- carbon suppliers, and invest in a programme of internal capacity-building to ensure access to the skills needed. We will also work with partners across the industry and engage with peers, regulators, and Government to enable rapid investment in the skills and capacity needed to support Net Zero.
- **Engage and influence environmental targets and trade-offs.** New ambitious targets on nutrients and storm overflows will require increased energy use and new infrastructure, and subsequently higher operational and capital carbon. There is a trade-off between action to meet these targets and action on decarbonisation, with implications for the balance between nature-based, and engineering solutions. We will engage in ongoing consultations on environmental targets and strategies for meeting them, and seek clear guidance on managing different trade-offs. We will advocate for policies which enable flexibility and time to scale up nature-based solutions so we can maximise co-benefits for our customers and the environment.
- **Enhance our stakeholder and customer engagement.** There are significant reputational risks associated with both scenarios, although the balance of concerns will vary. We will develop plans for enhanced programmes of engagement and communication with our customers and stakeholders, in particular focusing on explaining the costs and benefits of the investments we are making, potential trade-offs and synergies between Net Zero and other environmental targets, and affordability.
- **Pursue opportunities to deliver more value for customers and stakeholders.** We will continue to pursue opportunities to reduce costs and enhance sustainability. This includes reducing our financing costs through our sustainable finance framework, investing in our environmental programme which includes restoring ecosystems to capture carbon, and working with partners and suppliers to enhance our resilience and reduce emissions across our supply chain. We will also continue to explore opportunities to enhance our revenue through water resource options, selling renewable energy, and markets for bioresources and natural capital.

STATEMENT OF RESILIENCE

There are clear impacts on our business under different climate scenarios, in particular:

- higher costs in the short term to meet our operational Net Zero target by 2030 under the Current Policies Transition scenario.
- higher costs in the short, medium, and long term under the RCP8.5 Higher Physical Impacts scenario.

Several of the strategic responses outlined above are already included in our strategic plans and business plan, and we have confidence that our Company has a range of strategic options to manage the impacts, can take advantage of opportunities, and will remain resilient under the different climate scenarios considered. Further analysis, including quantitative analysis, is planned going forward to enhance South West Water's confidence related to resilience both in terms of our strategy and our business model.

There will be the requirement to invest more to improve our resilience to climate change and deliver Net Zero. Assets are likely to require additional protection, and planning for new assets will require a greater level of embedded climate resilience. Significant action and investment will be required by our Company, as well as action by our supply chain partners and wider actors (e.g. Government, local authorities, major landowners/users, and other providers of infrastructure and services).

NATURE RELATED FINANCIAL RISKS AND OPPORTUNITIES – STRATEGY

Our most material nature-related impacts and dependencies for our direct operations are in the freshwater, land, and atmosphere biomes. We rely on water supply from the environment, and we recycle water back to the environment from our wastewater treatment facilities. We also discharge treated biosolids to land, and emit gasses to the atmosphere in our treatment processes.

Our ESG multi-capitals framework tracks a wide range of metrics to manage our multi-capitals performance, and our materiality assessment has been fundamental in helping inform and update our future ESG targets. By taking

all of the capitals into consideration when planning for the future, we will deliver more sustainable outcomes and make decisions based on what matters most.

Our business planning and financial planning are underpinned by a series of environmental strategies, plans and commitments that interlink up to 2050. Key examples include:

- Growing Nature to 2035: our strategy for nature recovery, sets out the key activities that we will take to support nature recovery and biodiversity on our land, in our everyday operations and beyond. There are three principles in the strategy: 1) Protect the best – take action to protect the valuable biodiversity that we have on our landholdings, 2) Restore and enhance the rest – take action across our landholdings and assets to enhance biodiversity in the everyday management of our sites, and 3) Beyond our landholdings – work in partnership with others across the region, taking a catchment approach to deliver biodiversity enhancement and nature recovery. These principles align with the LEAP process advocated by the TNFD, by taking a site approach (locate), formulating plans to monitor those sites via undertaking biodiversity baselines and natural capital assessments (evaluate), and creating management plans (assess) with actions to work across the estate with own staff (e.g. Nature Safe) and external partners, to improve the biodiversity condition. The outputs of these plans will enable South West Water to prepare to respond to and report on, material nature-related issues. Our biodiversity strategy aligns fully with our PR24 Business Plan.
- Our 'Green First' Framework, published May 2023, sets out our approach to utilise NBS and natural flood management wherever possible and practicable to do so. As such, our planning assumptions are based on achieving 50% reduction in surface water flow entering sewers, through nature-based solutions and a minimum removal of 10% of impermeable surfaces.
- The launch of WaterFit in 2022 is our plan for healthy rivers and seas as part of c.£100 million of investment to 2025 focused on the protection of our 860 miles of coastline and rivers in the South West. This includes an additional c.£45 million reinvestment of out-performance.
- Our catchment management initiative, Upstream Thinking, applies natural solutions to reduce agricultural impact on biodiversity and water quality. It does so whilst supporting farmers and the rural economy, by providing long-term resilience to climate change, by: Installing waterside fencing, building ponds, improving farm tracks, increasing slurry storage and planting trees and buffer strips to catch and filter water.
- In early 2024, our Board approved a pilot programme of bespoke, evidence based "Natural Catchment Management Plans" (NCMPs) at selected catchments in Devon and Cornwall ready for June 2024. These are intended to create a blueprint to be rolled out for all bathing water catchments from 2025 onwards, primarily in relation to bathing water quality issues.
- In preparation for Asset Management Period K8, our Tier 1 suppliers were tested for their ability to deliver NBS for wastewater and drinking water. In March 2025, we became a partner of the Supply Chain Sustainability School (SCSS), reinforcing our commitment to upskilling our supply chain and colleagues across key sustainability topics, including climate and nature. This partnership provides access to industry-leading training and resources, enabling our teams and suppliers to deepen their understanding of key topics, and drive positive change across our operations. By working collaboratively with SCSS, we are empowering our supply chain to meet higher sustainability standards as we move into K8.
- South West Water has renewed its commitment to improving the management of natural assets and resources by re-signing the Catchment Management Declaration. The declaration promotes collaborative, cross-sector working in order to better manage water resources.
- We have used remote-sensing technology to determine a baseline condition assessment of habitats on our landholdings. This information will be used to help us target positive biodiversity interventions.
- We are investing in research on new and emerging risks such as microplastics, invasive freshwater mussel species, and on the sustainable management of sludge applied to land.

GOING FORWARD:

- The new Biodiversity Performance Commitment requires all water companies to set out their plans for delivering measurable biodiversity enhancement units measured using the Defra Natural England biodiversity metric. These will be achieved as a result of the actions that we will deliver under our nature plans and strategies across the areas we serve.
- We are creating a 'Nature Safe Framework' to support our employees and contractors across operational sites to understand and protect nature - in alignment with our Biodiversity Strategy. We are

in the scoping phase and envisage this framework to be analogous to our ‘Home Safe Framework’ related to employee health and safety.
- Over the next year we will continue to develop our approach to embedding nature-risk and opportunity management across our business, including conducting materiality ratings of the ecosystem services that we depend on.

RISK MANAGEMENT
TCFD/TNFD Recommendation: Disclose how the organisation identifies, assesses, and manages climate-related and nature-related risks.

The Company’s risk management framework is explained in detail on pages 61 to 77, including the methodology for assessing risks.

The Company is continuing to integrate climate-related and nature-related risk management within the Company’s overall risk management process, and climate-related risks and opportunities are assessed using the same methodology as other business risks. In the past few years we have undertaken specific work to identify and assess climate-related risks and opportunities, and we are moving towards this risk identification and assessment being integrated within business functions. We have the processes in place to enable this integration, and a key area we are continuing to work on is raising awareness and competency so that the key people across our business functions can effectively identify climate-related and nature-related risks, like they do with other risks (in many cases, climate risks are an amplifier or additional driver to risks we have already identified, rather than presenting novel risks). This year and last year we convened workshops with senior management from across business functions to re-visit and re-assess climate-related risks and actions, and management will take forward the responsibility to integrate climate-risks into risk registers owned by each business function.

Furthering our progress, the Company has identified several principal risks which are impacted or influenced by physical and transitional climate and nature risks and opportunities, and as such we are increasingly cognisant that climate and nature risk management is integral to the performance and resilience of our business and strategy. The link between climate-related and nature-related risks and opportunities on our principal risks is summarised in the table below.

We recognise the evolving landscape of climate-related and nature-related risk which is reflected in the changing regulatory frameworks, customer expectations and Government policies that are inherent to our operating context.

This is particularly true for climate change, nature, and Net Zero where new policies and technologies are rapidly emerging, and markets are rapidly changing.

For the climate-related risks that have been identified, a desired ‘target’ net risk level is documented within the Company’s risk framework. This target risk level or tolerance level reflects the acceptable level of risk by the Company and also stands as a target and equitable measure for alleviatory measures to approach the risk going forward. We seek to minimise risks on operational activities within the regulatory environment. Climate-related risks are approached with a minimal level of appetite, and this is subject to Board approval where all appetite levels are established.

Environmental compliance requirements are high, so our risk appetite for environmental impacts is low. Where there is no risk to regulatory compliance, we are willing to take more risks to innovate e.g. NBS.

The appropriate action then follows from the level of difference between the net risk and the desired risk appetite. Actions to manage risks cover four response types:

- Tolerate: where decisions are taken to tolerate a risk, subject to ongoing monitoring. An example is climate-related risks where uncertainty is high and therefore, we might decide to monitor risks until such time as it may be necessary to take further action.
- Treat: where actions are taken to manage and reduce risks, such as implementing operational measures in our drought plan or capital investments to enhance our resilience to droughts.
- Transfer: used where possible to transfer risks to other organisations - such as through insurance or through contracting out responsibilities. We recognise it is not possible to fully transfer risks, rather this approach helps to reduce our exposure. For example, reducing our exposure to the impacts of flooding through flood insurance.

- Terminate: where decisions are taken to stop activities so that we are not exposed to particular risks. For example, we may decide not to undertake a capital project if risks cannot be effectively mitigated - for example due to high costs for energy, materials, and specialist resources related to Net Zero or climate adaptation.

Actions to mitigate risks are allocated to action owners and progress is monitored through the risk review process.

CLIMATE-RELATED AND NATURE RELATED RISKS IMPACT AND INFLUENCE OUR PRINCIPAL RISKS

Below we outline our principal risks which are impacted or influenced by climate- and nature-related risks and opportunities, including where our response to these principal risks needs to consider nature recovery, climate change, and Net Zero. The climate and nature emergency are amplifying our principal risks.

Principal risks	Risk description	Physical Risks*	Transition Risks*
Law, regulation and finance	Changes in Government policy		C and N
	Changes in Regulatory Frameworks		C and N
	Non-compliance with laws and regulations	C and N	C and N
	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	C and N	C and N
	Non-compliance or occurrence of avoidable health & safety incident	C	C
	Failure to pay all pension obligations as they fall due and increased costs to the Company should the defined benefit pension scheme deficit increase	C and N	
Market and economic conditions	Macro-economic risks impacting inflation, interest rates and power prices		C and N
Operating performance	Failure to secure, treat and supply clean drinking water	C and N	C and N
	Failure to improve wastewater performance resulting in environmental commitments not being delivered	C and N	C and N
	Failure to provide excellent service or meet the needs and expectations of our customers and communities	C and N	C and N
	Inability to attract and retain staff with the skills required to deliver the Company's strategy		C and N
Business systems and capital investments	Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes	C and N	C and N
	Inadequate technological security results in a breach of the Company's assets, systems and data		

***Key: C = Climate change influence / N = Nature related influence**

We recognise how climate-related risks are impacting our principal risks and/or how our response to these risks needs to consider climate resilience and Net Zero.

METRICS AND TARGETS

TCFD/TNFD Recommendation: Disclose the metrics and targets used to assess and manage relevant climate-related and nature-related risks and opportunities where such information is material.

We are continuing to enhance the metrics we use to quantify key climate risks and to monitor progress towards managing risks and achieving our targeted objectives.

We continue to disclose comprehensive data relating to our GHG emissions and energy consumption which can be found in the Pennon Group annual report (SECR report on pages 91 to 93). We report on all Scope 3 categories which are relevant and material to our business (ESG Databook). SASB reporting can be found in the ESD Databook. We report on progress against our ODIs, performance commitments and WINEP delivery, in our Annual Performance Report. All material data for TCFD compliance is in the TCFD report.

The Company is committed to improving its sustainability, climate change, and nature related disclosures and will continue to enhance this over the coming years. Some metrics relate only to South West Water (SWW) including Bournemouth Water or Bristol Water (BW).

	Description of the metric	Metric for FY23/24	Metric for FY24/25	Related Targets
GHG emissions	Scope 1, 2, and 3 GHG emissions (in tCO_2e).	368,265	321,522	Operational Net Zero by 2030 (SWW, BW). We have met our target to reduce operational GHG emissions by 70% by 2025 (Scope 2 market-based) (tCO2e) (SWW & BW). We have met our target to reduce operational GHG emissions by 70% by 2025 (Scope 2 market-based) (tCO2e) (SWW & BW). The Company commits to reduce absolute scope 1 and scope 2 GHG emissions by 68% by 2032/33 from a 2021/22 base year. The Company commits to reduce absolute Scope 3 GHG emissions from 'well to tank' electricity and fuels, the delivery of electricity, emissions from waste, and business travel and commuting, by 30% over the same timeframe. The Company commits that 60% of its suppliers by emissions covering purchased goods and services, capital goods and upstream transportation and distribution will have science-based targets by 2027/28. The Company commits to increase annual sourcing of renewable electricity to 100% by 2030.
	GHG Reduction from the baseline year 2021 (Scope 2 market-based) (tCO_2e).	71.9%	70.68%	
	Carbon intensity of our water services in tonnes of CO2e per megalitre of water supplied to customers.	38.8 (SWW) 358.5 (BW)[1]	30.68 (SWW) 358.82 (BW)	
	Carbon intensity of our business in tonnes of CO_2e per £100k of our revenue based on Scope 1 and 2 GHG emissions.	6.0	7.4	
	Reduce scope 1 and 2 GHG emissions by 68% by 2032/33 from a 202/22 base year (science-based target).		51%	
	Reduce absolute Scope 3 GHG emissions from 'well to tank' electricity and fuels, the delivery of electricity, emissions from waste, and business travel and commuting, by 30% by 2032/33 from a 2021/22 base year (science-based target).		(9%)	
	60% of suppliers by emissions covering purchased goods and services, capital goods and upstream transportation and distribution will have science-based targets by 2027/28 (science-based target).		35.23%	
	The Company commits to increase annual sourcing of renewable electricity to 100% by 2030 (science-based target).		85%	

Climate and/or nature-related Transition risks Selected metrics for some material risks	Risk of increased energy costs: Proportion of our operational expenditure on electricity (%).	c.21%	22.4%	Generate up to 50% of the energy we use through our own renewable energy generation by 2030, measured against South West Water's 2020/21 grid import requirement for usage.
	Transition risks in our supply chain: proportion of our key and strategic suppliers who have evidenced they are working towards a Net Zero target.	51%	80%	Met 100% of our key and strategic suppliers will have established an ESG policy or equivalent by 2025. The Company commits to reduce absolute Scope 3 GHG emissions from 'well to tank' electricity and fuels, the delivery of electricity, emissions from waste, and business travel and commuting, by 30% by 2032/33 from a 2021/22 base year. The Company commits that 60% of its suppliers by emissions covering purchased goods and services, capital goods and upstream transportation and distribution will have science-based targets by 2027/28.
	Risk of customer affordability in achieving Net Zero and adapting to climate change: our customer affordability measure.	98.1% (SWW) 100% (BW)	100% (SWW) 100% (BW)	Zero customers in water poverty by 2030. Maintain zero customers in water poverty by 2050. Over 100,000 customers supported via social tariffs by 2030. (SWW) We are planning to improve our WaterShare+ scheme uptake to 1 in every 10 households by 2030. (SWW).

Climate and/or nature-related Physical risks Selected metrics for some material risks	Proportion (%) of customers currently at risk of severe restrictions in a 1-in-200-year drought.	7.6%	0%	Our 2050 target is to achieve 0% of customers at risk of severe restrictions in a 1-in-500-year drought, aligning with Government planning guidance.
	Proportion (%) of customers at risk of sewer flooding in 2050 in a 1-in-50-year storm	9.77%	10.18%	Our long-term target is to reduce this to zero, assuming funding is provided to achieve this through the regulatory system.
	Number of major sites/assets at high risk of coastal flooding and erosion.	36	36	Our long-term target is to achieve 0 of our key sites/assets at high risk, assuming funding is provided to achieve this through the regulatory system.
	Annual average number of storm overflow spills from each storm overflow (number per year).	43	41.3	Reduce spills to an average of 20 per year from each storm overflow by 2025. Zero harm to rivers and seas by 2023.
Climate and/or nature related opportunities Selected metric for a material opportunity	Enhancing our energy resilience and reducing our carbon emissions with renewable energy: Amount of renewable energy we've generated in 2023. (kWh).	34,480	32,496[3]	Generate 50% of the electricity we use through our own renewable energy generation by 2030, measured against South West Water's 2020/21 grid import requirements for usage.
	Proportion of our energy use which came from energy we generated ourselves (%)[2]	7.5%	7.14%	
	Reducing our financing costs through sustainable finance: proportion of new finance under our sustainable finance framework during the year.	82%	100%	We have exceeded our target of 75% of new finance to be through sustainable financing framework by 2025. Raise a further £2 billion of funding through our Sustainable Financing Framework by 2030.
	Biodiversity enhancement (ha) (cumulative)	126,733	144,120	Plant over 500,000 trees by 2030 (cumulative). We're targeting to deliver at least 10% biodiversity net gain.

Capital deployment Selected metrics for material capital investments	Investment (£) earmarked for our renewable energy generation capital plans to 2030.	£160m	£160m	Generate 50% of the electricity we use through our own renewable energy generation by 2030, measured against South West Water's 2020/21 grid import requirements for usage.
Remuneration	Portion of the majority of our management incentive schemes linked to ESG outcomes, including climate change.	20%	27.4%	Further information is provided in the remuneration report.
Internal carbon value	Value of carbon used in business cases and investment planning for PR24 (£/tCO_2e)	£252/tCO_2e Sensitivity testing: Low: £126/tCO_2e High: £378/tCO_2e	£294/tCO_2e Sensitivity testing: Low: £147/tCO_2e High: £442/tCO^2e	

1. Renewable Energy Guarantee of Origin (REGOs) are purchased by SWW but not BRL, hence BRL is more GHG intensive
2. Reported in line with our 2025 ESG Target scope
3. Does not include energy used in transport

Our Net Zero carbon commitments will provide a step change to how we run our business and look to manage the risks of climate change, an update on our progress during the last year is found on pages 82 to 85.

Further detail on our progress with driving environmental gains is provided on page 45 to 47.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

	Climate and environment	People
Description	Our ambition is to become Net Zero by 2030. To achieve this, our Net Zero strategy is built around three key pillars - Sustainable Living, Championing renewables, Reversing Carbon Emissions. To deliver on our carbon ambition, and reduce our climate-related risks, we continue to innovate and look for ways to decarbonise our operations, working with partners and supply chain.	As a purpose led business, we recognise that the best way to deliver for customers is to focus on our people to enable them to deliver their best. We continue to foster a culture built on our purpose and one that reflects our values and business plans. We operate a safety-first mindset to working across the business with our HomeSafe health and safety approach which is embedded in the day-to-day working culture of our business. We encourage continuous learning and development, providing opportunities for all employees. We are building a diverse and inclusive workforce.
Read more	• Approach to ESG – page 81 • Our Task Force on Climate-related Financial Disclosures – pages 86 to 129 • Net Zero – page 82 to 85	• Our people and culture – pages 28 to 35
Related policies	• Biodiversity policy • Water management policy • Environmental policy	• Health, safety and security policy • Code of Conduct • Workplace policy • Diversity, respect and inclusion policy • Board diversity policy
Due diligence processes	• Governance framework in place led by the Board and its Committees • External assurance • External ESG benchmarking	• Regular all colleague Great Place to Work surveys • Health & Safety Steering Group overseeing targets, performance monitoring and interventions • Employee representative groups, including RISE and Trade Unions relations • Change the Race Ratio
Policy outcomes	• Minimising our impact on the environment • Meeting our regulatory commitments • Net Zero 2030 ambition	• Reduced workspace accidents and improved employee wellness • Board diversity target achievements • Sustainability target • Code of Conduct compliance
Principal risks	• Failure to secure, treat and supply clean drinking water • Failure to improve wastewater performance, resulting in environmental commitments not being delivered • Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes in K8.	• Non-compliance or occurrence of an avoidable health and safety incident • Difficulty in recruiting and retaining staff with the skills required to deliver the Company's strategy
KPIs	• % energy usage from renewable energy generation • % reduction in GHG emissions (scope 2 market-based emissions only) • Tree planting • Biodiversity (hectares)	• LTI number • GPTW accreditation • % REACH recruitment • % female employees • 5% club achievement

	Social matters	Human rights	Anti-corruption
Description	We work closely with our customers, communities and partners on the things that matter most to them and have regular engagement with them. Supporting our customers is a priority. Not only providing safe, clean drinking water, but supporting them financially when it matters most. We aim to keep our bills low and have since 2020 provided financial support. Our approach to community relations and investment enables strong and clear governance, making positive community investments which create value, and benefits both the community and the business. Our Neighbourhood Fund is about supporting our local community. We're funding projects that support the wellbeing of people, the environment and communities across the South West, and Bournemouth. Our Together for Good fund provides similar community support for Bristol communities.	We are committed to promoting and maintaining the highest level of ethical standards in relation to how we do business. We uphold internationally recognised human rights standards in all our operations consistently throughout the Company. Our policies help prevent and address any human rights impacts on our business activities and relationships. We ensure all of our partners and suppliers comply with our policies, which include our new revised Code of Conduct (launched in February 2025) and Anti-Modern Slavery and Human Rights Policy. Our Modern Slavery Statement identifies the activities we conduct annually and our Code of Conduct for Supply Chain Partners further aligns our supply chain to the standards we expect of ourselves and others.	One of our guiding principles is to act fairly and responsibly in everything that we do. We are committed to promoting and maintain the highest level of ethical standards in relation to how we do business. We have a zero-tolerance approach to bribery and corruption and have effective systems in place to counter them. Anyone that works with or for the Company must comply with our consolidated anti-financial crime policy and are encouraged to report any breaches to Group Legal Compliance or through the South West Water whistleblowing reporting Speak Up portal which is provided by a third party to enable completely anonymous reporting of concerns.
Read more	• Stakeholder engagement – customers page 16 and communities page 18 • Supporting affordability, delivering for customers – pages 48 to 50 • S172(1) – pages 158 to 160	• Modern Slavery Statement – foot of homepage at www.pennon-group.co.uk	• Code of Conduct – page 173 • Anti-financial crime and corruption– page 174.
Related policies	• Community relations and investment policy	• Anti-Modern Slavery and Human Rights • New revised Code of Conduct • Code of Conduct for Supply Chain Partners	• Whistleblowing Policy • Anti-financial crime policy • New Revised Code of Conduct • Gifts and Hospitality Policy
Due diligence processes	• Community engagement plan in place led by the Regulatory and Customer teams	• Modern Slavery Statement www.pennon-group.co.uk	• Ethics Management Committee • Speak Up portal • Gifts, Hospitality and Conflicts of Interest procedures • Company-wide anti-financial crime mandatory training contained in new

			interactive Code of Conduct module • Supplier due diligence process
Policy outcomes	• Having a positive impact on our local communities through our business activities and investments • Foster an environment that encourages employee engagement with communities and provides opportunities for volunteering and establishing community partnerships	• An open dialogue with our stakeholders on human rights issues	• Seeking to prevent detect and report financial crime, including instances of bribery and corruption • Maintaining and ethical approach to business and adhering to our code of conduct
Principal risks	• Failure to provide an excellent service or meet the needs and expectations of our customers and communities	• Non-compliance with laws and regulations	• Non-compliance with laws and regulations
KPIs	• £ community investment • C-MeX • % priority services register (PSR) – customer satisfaction	• % of instances of modern slavery detected in South West Water of supply chain.	• Number of cases reported through Speak Up portal

APPROVAL OF THE STRATEGIC REPORT

Our Strategic Report consisting of pages 1 to 132 has been reviewed and approved by the Board.

Laura Flowerdew
Group Chief Financial Officer
10 July 2025

GOVERNANCE AND REMUNERATION

GOVERNANCE

Governance at a glance	134
Chair's introduction	137
Our Board and Executive Team	139
Monitoring purpose and culture	144
Board leadership	146
Division of responsibilities	147
An effective Board	149
Key activities of the Board	152
How the Board engages with stakeholders	154
Composition, succession and evaluation	156
Our s.172(1) statement	158
Nomination Committee Report	161
Audit Committee Report	166
ESG Committee Report	176
Health and Safety Committee Report	180
Remuneration Committee Report	182
Director's Remuneration Report	185
Annual report on remuneration	186
Board of Directors and company information	199
Directors' Report	200
Statement of Directors' responsibilities	204

GOVERNANCE AT A GLANCE

HIGHLIGHTS

BOARD CHANGES

- David Sproul was appointed to the Board as an Independent Non-Executive Director on 1 July 2024 and assumed the role of Group Chair after the 2024 AGM on 24 July 2024.
- Gill Rider stepped down from the Board as Group Chair on 24 July 2024.
- Steve Buck stepped down from the Board as Group Chief Financial Officer on 11 July 2024.
- Laura Flowerdew was appointed to the Board as Group Chief Financial Officer on 11 July 2024.
- John Halsall stepped down from the Board on 31 July 2024.
- Claire Ighodaro stepped down from the Board on 31 December 2024.
- Andrea Blance was appointed to the Board as Chair of the Remuneration Committee on 8 April 2025.

Read more on David, Laura and Andrea's experience in their biographies on pages 139 to 141.

KEY FOCUS AREAS FOR THE BOARD IN 2024/25

- Customer affordability
- Delivery of capital projects
- PR24
- K8 Readiness
- Investment programmes
- Storm overflows and eliminating pollutions
- Water quality and resilience
- Incident management

See pages 149 to 151 for more information.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018 AND OTHER REQUIREMENTS

South West Water firmly believes that good corporate governance is essential to enable us to deliver our purpose for all of our stakeholders and remains a top priority for the Board.

South West Water aims to comply with the UK Corporate Governance Code (the 'UK Code') as fully as possible, within the context of being a subsidiary of a listed company, Pennon Group plc, which itself fully complies with the UK Code, except for the provisions which are outlined in the Pennon Group plc Annual Report and Accounts 2025 on page 128. The UK Code is published on the Financial Reporting Council (FRC) website, www.frc.org.uk.

The Company complied fully with the provisions and spirit of the UK Code during the year, subject to the exceptions as described below. Most of the exceptions relate to the Group structure, where certain responsibilities rest with Pennon Group plc (South West Water's parent company) which is fully compliant with the UK Code.

Provision 24 of the UK Code state that the Board should establish an Audit Committee of independent Non-Executive Directors, with a minimum membership of three. For the period between Claire Ighodaro stepping down to the appointment of Andrea Blance, the committee composition was not in compliance with Provision 24, however for meetings during the relevant period another independent Non-Executive Director was in attendance along with the Chair, to ensure all decisions were made with the correct oversight of the company's control, governance and risk management.

Provision 25 of the UK Code state that the Audit Committee should make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor. Provision 25 also states that the Audit Committee should develop and implement policy on the engagement of the external auditor to supply non-audit services. As the auditor is appointed on a Group basis, the appointment, re-appointment and removal of South West Water's external auditor is (and has been throughout the year) a matter for the Pennon Group Audit Committee, as is the auditor's remuneration, terms of engagement and non-audit services.

Provision 26 of the UK Code states that a separate section of the annual report should describe the work of the Committee in discharging its responsibilities, in particular an assessment of the effectiveness of the external audit process. Due to the Group structure, the overall assessment as to whether the external audit function is effective (and has been throughout the year) is the responsibility of the Pennon Group Audit Committee, which carries out its assessment in conjunction with the South West Water Audit Committee.

Provision 33 of the UK Code states that the Remuneration Committee should have delegated responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Chair, Executive Directors and senior management. However, the remuneration of the Chair, who is also the Chair of Pennon Group plc and the Pennon Group Chief Executive Officer and the Pennon Group Chief Financial Officer, who are also a members of the Pennon Group plc Board is the responsibility of the Pennon Group Remuneration Committee.

In addition, South West Water has complied with Ofwat's revised 'Board leadership, transparency and governance' principles. Further details on our compliance with these principles will be provided in our Annual Performance Report and Regulatory Reporting.

Board Leadership and company purpose	**Page**
Board of Directors	139 to 141
Purpose, values, strategy and culture	144
Resource and Control Framework	146
Stakeholder engagement	154 to 155
Workforce policies and practices	151
Division of Responsibilities	
Role of the Chair	147
Division of responsibilities	147
Role of the Non-Executive Directors	148
Board policies, processes, information, time and resources	149 to 151
Composition, Succession and Evaluation	
Appointments to the Board	134
Board skills, experience and knowledge	136
Board evaluation	164 to 165
Audit, Risk and Internal Control	
Independence and effectiveness of internal and external auditors	170 to 171
Fair, balanced and understandable assessment	172
Risk and internal control	173
Remuneration	
Alignment to purpose, values and long-term success	185
Remuneration policy	186 to 187
Independent judgement and discretion	182 to 184

MEETING ATTENDANCE DURING THE YEAR AND BOARD SKILLS MATRIX

Position	Chair	Non-Executive Directors						Executive Directors			
Member	David Sproul[1]	Gill Rider[2]	Iain Evans	Jon Butterworth	Loraine Woodhouse	Dorothy Burwell	Claire Ighodaro[3]	Andrea Blance[4]	Susan Davy	Laura Flowerdew[5]	Steve Buck[6]	John Halsall[7]
Attendance	5/6	2/6	6/6	6/6	6/6	6/6	4/6	0/6	6/6	5/6	1/6	2/6
Skills												
Water sector	X	X	X						X	X	X	X
Regulation	X	X	X	X	X	X	X	X	X	X	X	X
Finance and Accounting					X		X	X	X	X	X	
Strategy	X	X	X	X	X	X	X	X	X	X	X	X
Transformation	X	X	X	X	X	X	X	X	X	X	X	X
Health, safety and wellbeing				X					X	X	X	X
ESG including climate change	X	X	X	X	X	X	X		X	X	X	X
Enterprise Risk Management	X	X	X	X	X	X	X	X	X	X	X	X
Data, technology and digital				X		X	X		X	X	X	
People	X	X		X	X	X	X		X	X	X	X
Governance	X	X	X	X	X	X	X	X	X	X	X	X
Remuneration	X	X						X	X	X	X	

1.Appointed 1 July 2024

2. Retired 24 July 2024

3. Retired 31 December 2024

4. Appointed 8 April 2025

5. Appointed 11 July 2024

6. Resigned 11 July 2024

7. Resigned 31 July 2025

CHAIR'S INTRODUCTION

The Board reaffirms its commitment to maintaining effective corporate governance and integrity that enable us to deliver for the long-term benefit of all our stakeholders.

I am very pleased to introduce, on behalf of the Board, the South West Water Corporate Governance Report for 2025, which sets out our governance practices and processes, and how we applied the principles of the UK Corporate Governance Code 2018 (the Code) throughout the year. The report covers our key focus areas and achievements during 2024/25 and explains how the Board continues to operate effectively and efficiently and to support the Company's strategy.

REVIEW OF THE YEAR

We continue to operate to the highest standards of corporate governance. Strong governance remains central to the successful management of the Company, providing the framework we need to deliver our strategy, fulfil our purpose, create value for all our stakeholders and continuously develop our business.

The table on page 135 will help you to navigate our reporting and evaluate our performance against the Principles of the Code. As we explain below, we also have processes and procedures in place to safeguard the independence of decision-making by the Board of South West Water.

More information on the Board's activities can be found on pages 152 to 153 and information on our PR24 framework can be found in Pennon Group plc annual report and accounts on pages 18 to 19.

CHANGES TO THE BOARD

There were a number of changes to the Board during the year. I joined the Board as Non-Executive Director on 1 July 2024. Gill Rider retired from the Board on 24 July 2024, after which I assumed the role of Chair.

Steve Buck stepped down from the Board in July 2024 as Group Chief Financial Officer for personal reasons, and we were very pleased to appoint Laura Flowerdew as his successor. Laura was previously the Chief Customer and Digital Officer of Pennon Group. She brings a strong understanding of our business, significant leadership experience and is well equipped for this new role. John Halsall resigned from the Board as Chief Operating Officer on 31 July 2024.

Claire Ighodaro retired from the Board and as Chair of the Remuneration Committee in December 2024, and we are pleased to appoint Andrea Blance as her successor in April 2025. Andrea brings extensive risk and regulation expertise gained within the financial services sector and works with businesses to develop customer focused commercial strategies.

Laura's, Andrea's and my biographies can be found on pages 139 to 141.

PROMOTING DIVERSITY

Diversity and inclusion (D&I) continued to be a top priority for the Board and the Company during the year. Our Board composition is substantially ahead of the diversity targets suggested by the Parker Review and the FTSE Women Leaders Review and Pennon is one of the rare FTSE-listed entities where women on the Board outnumber their male counterparts. During the year, we were incredibly proud that our parent Company, Pennon Group plc, achieved third position for best performers in Women on Boards within the entire FTSE 250.

Our commitment to diversity is also reflected right across the business; our widespread commitment and focused drive to recruit talent from all backgrounds has the heartfelt support of our strong and diverse leadership team. More information on our D&I initiatives can be found on pages 32 to 34 and in the Nomination Report on pages 163 to 164.

ENGAGING WITH OUR STAKEHOLDERS

Engaging with all our stakeholders has never been more essential, particularly in view of the national and global issues we are facing. All companies in the water sector face much scrutiny around their environmental impacts, so it is vital that we listen to and respond to our stakeholders' views. We make sure to carefully consider all decisions and their likely impacts on our stakeholders.

Engagement with customers is of particular interest to the Board and as part of the PR24 process, we were delighted that Lord Matthew Taylor, Chair of the WaterShare+ panel, and Peaches Golding OBE, Chair of the Bristol Water Challenge Group, regularly attended Board meetings to provide feedback from their discussions with our customers as part of their work with the WaterShare+ panel. Further information on the important work of the WaterShare+ panel can be found in Pennon Group plc annual report and accounts on page 15.

We continue to foster an open and transparent feedback culture within the business. All colleagues have the opportunity to share feedback with the Executive team and Board in several ways, including the Big Chat initiative and our Great Place to Work survey. You can read more on how we engage with our stakeholders on pages 154 to 155 and in our Section 172(1) statement on pages 158 to 160.

CULTURE

As a Board we pay particular attention to our Company's culture, ensuring it is fully aligned with our shared purpose, values, and strategy. We continue to monitor these essential properties and receive regular reports from management on the work being done to ensure their continuous improvement. During the year, the Board were delighted to see the development of the Company's new values which reflect the views of our wider stakeholders and culture.

ROLE OF THE BOARD AND ITS EFFECTIVENESS

It is my view that the Board continues to be highly effective with a deep understanding of the opportunities available to us and the threats facing the business. The results of this year's Board and Committee performance reviews support this view; see page 164 to 165 for further detail. We keep all identified threats to the future success of the business under constant review. Please see our risk report on pages 61 to 77 for a description of the risks we identify and review.

BOARD INDEPENDENCE - SOUTH WEST WATER, BRISTOL WATER AND PENNON

In accordance with Ofwat's principles on board leadership, transparency and governance, the Company maintains separate and independent boards for South West Water and our parent Company, Pennon.

Our system of governance remains appropriate and effective, while continuing to support the delivery of our strategy.

Our Board and Committee framework also allows us to remain efficient in our decision-making processes. The South West Water Board convenes on the same day as each Pennon Board meeting and considers all key relevant issues. This arrangement allows full operational oversight and governance by the boards over the Company's water interests, while the Pennon Board continues to focus on strategic forward-looking matters for the Company as a whole.

LOOKING AHEAD

I would like to take this opportunity to thank my Board colleagues, the management team and our wider workforce for their outstanding work over the year just gone.

The Board will continue to focus on delivering against our strategic priorities in the year ahead, ensuring the wellbeing of our workforce as we build on the work of the last year in creating a successful and sustainable business.

OUR BOARD AND EXECUTIVE TEAM

WORKING RESPOSIBLY TOGETHER

David Sproul
Chair

Appointment to the Board David was appointed to the Board on 1 July 2024 and became the Chair of South West Water on 24 July 2024.

David is Chair of the Nomination Committee and a member of the Environmental, Social and Governance Committee and Remuneration Committee.

Current external appointments Chair of Starling Bank Limited and non-executive director on Safanad Limited. David is also a senior adviser to Bridgepoint Europe, and he sits on the Board of Governors as chair designate of University of Hertfordshire.

Skills and experience David is a Chartered Accountant who has spent the majority of his career in professional services with Deloitte and prior to that, Andersen, serving a diverse range of UK and international clients.

David concluded his executive career at Deloitte in summer 2021 as Global Deputy CEO having previously been elected for two terms as Senior partner and Chief Executive of Deloitte UK and Northwest Europe from 2011 to 2019. During his leadership, the firm became the largest and most profitable professional services firm Globally and in the UK, driven in part by significant investments in technology services, as well as differentiating itself as the Audit quality leader with a strong inclusive culture.

Susan Davy
Chief Executive Officer of South West Water and Pennon Group plc

Appointment to the Board Susan was appointed to the Board as Pennon Chief Executive Officer on 31 July 2020. Having previously served as Chief Financial Officer since 2015.

Susan is a member of the Environmental, Social and Governance Committee, Health and Safety Committee and is Chair of the Pennon Executive Board.

Current external appointments. Senior Independent Non-Executive Director and Audit Chair of Restore Plc, President and Director of the Institute of Water, Director of Water UK, Director of CREWW (Centre for Resilience in Environment, Water and Waste) and was previously a member of the A4S Accounting for Sustainability CFO leadership network.

Skills and experience Susan brings extensive industry knowledge, backed by strong financial and regulatory expertise, which has been key to shaping and delivering South West Water's strategy. This includes value-enhancing acquisitions such as Bournemouth Water and Bristol Water. With over 28 years of experience in the listed utilities sector, Susan has held several senior positions in the water industry, including at Kelda Group plc. Her experience with FTSE-listed companies, combined with deep operational and corporate and financial knowledge, adds valuable diversity to South West Water's leadership.

Laura Flowerdew
Chief Financial Officer of South West Water and Pennon Group plc

Appointment to the Board Laura was appointed to the Board as Chief Financial Officer in July 2024.

Laura is a member of the Environmental, Social and Governance Committee, Health and Safety Committee and Pennon Executive Board.

Current external appointments None

Skills and experience Laura was appointed Chief Financial Officer of South West Water in July 2024. Laura held previous positions as Chief Customer and Digital Officer of Pennon Group and Chief Financial Officer of Bristol Water plc from October 2018. Laura previously worked in a number of executive positions in UK utilities and international natural resources business including Anglo American plc, De Beers, Tribal Group and Bristol Energy. Prior to that she worked with Deloitte and trained with Arthur Andersen. She is a Fellow of the Institute of Chartered Accountants for England and Wales.

Iain Evans CBE
Senior Independent Director

Appointment to the Board Iain was appointed to the Board on 31 July 2020, having served on the Pennon Board since 1st September 2018. He became Senior Independent Director on 1 September 2023.
He is Chair of the Environmental, Social and Governance Committee and a member of the Audit, Nomination, Remuneration and Health and Safety Committees.

Current external appointments Iain is a Non-Executive Director of Bologna Topco Limited and HSM Advisory Limited and continues to act as an independent corporate strategy consultant.

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 years as Chair.

Jon Butterworth MBE

Independent Non-Executive Director

Appointment to the Board Jon was appointed to the Board on 28 September 2017.
He chairs the Health and Safety Committee and is a member of the Nomination and Environmental, Social and Governance Committees.

Current external appointments Chief Executive Officer at National Gas. Jon is also President of the Pipeline Industries Guild and a director of E. Tapp & Co Limited, Shopfittings Manchester Limited and TMA Property Limited.

Skills and experience Jon has a distinguished track record and an immense depth of experience and knowledge within the utility sector, having begun his career over 40 years ago as an apprentice at British Gas. Jon was previously Managing Director of National Grid Ventures, driving growth across a range of commercial ventures outside the regulated energy sector in the UK and the US. He has also been the Managing Director of Northwest Gas, Global Environment and Sustainability Manager of Transco, National Operations Director of National Grid, Group safety, Resilience and Environmental Director of National Grid plc and formerly CEO of National Grid Ventures. Jon is an ex-Chair of the CORGI Board, an Ex-Ambassador of the HM Young Offenders Programme and a trustee of the National Gas Museum Trust.

Loraine Woodhouse
Independent Non-Executive Director

Appointment to the Board Loraine was appointed to the Board as Independent Non-Executive Director on 1 December 2022.
She is Chair of the Audit Committee and a member of the Nomination and Remuneration Committees.

Current external appointments Senior Independent Director and Chair of the Audit Committee for the British Land Company plc, Non-Executive director for Associated British Foods plc and a Trustee and Audit Committee member at the Zoological Society London.

Skills and experience Loraine is an experienced finance executive, with her experience focused in the retail and consumer sector, and more recently in real estate and infrastructure through her roles with Intu Properties plc and British Land Company plc.
Loraine was the Chief Financial Officer of Halfords Group plc until June 2022, before which, she spent five years in executive and senior finance roles within the John Lewis Partnership, including Waitrose.
Prior to that, Loraine was Chief Financial Officer of Hobbs, Finance Director of Capital Shopping Centres Limited (subsequently Intu Properties plc) and Finance Director of Costa Coffee Limited.

Dorothy Burwell Independent Non-Executive Director
Appointment to the Board Dorothy was appointed to the Board as Independent Non-Executive Director on 1 December 2022. She is a member of the Environmental, Social and Governance, Nomination, Health and Safety and Remuneration Committees.
Current external appointments Partner and Global Partnership Board member of FGS Global, non-executive director at Post Holdings, Inc.
Skills and experience Dorothy has over 20 years of experience in Banking and Communications, specialising in natural resources and advising clients around issues on sustainability, strategy, and corporate communications. She is well known for driving substantive diversity and inclusion agendas. Between 2002 and 2006, Dorothy held analyst and senior roles at Goldman Sachs in the Investment Banking Division in both London and New York as well as in the firmwide Strategy group, where she focused on proprietary mergers and acquisitions and new business development. Dorothy graduated from the Florida Agricultural and Mechanical University, USA with a Bachelor and Master of Business Administration, Finance and Management.

Andrea Blance Independent Non-Executive Director
Appointment to the Board Andrea was appointed to the Board as an Independent Non-Executive Director on 8 April 2025. She is Chair of the Remuneration Committee and is also a member of the Audit and Nomination Committee.
Current external appointments Non-Executive Director and Risk Committee Chair at Aviva plc.
Skills and experience Andrea brings extensive risk and regulation expertise gained within the financial services sector and works with businesses to develop customer focused commercial strategies. Andrea spent her executive career at Legal & General Group plc where she held a range of senior leadership roles including Group Chief Risk Officer and Strategy & Marketing Director. More recently, Andrea has been Risk Committee Chair at Hargreaves Lansdown plc, Senior Independent Director and Remuneration Committee Chair of Vanquis Banking Group plc, Senior Independent Director and Audit Committee Chair of ReAssure plc, and Risk Committee Chair of Scottish Widows plc and Lloyds Banking Group Insurance.

Andrew Garard Pennon General Counsel and Company Secretary
Appointment to the Board Andrew was appointed to the Board as Group General Counsel and Company Secretary on 1 December 2022.
Current external appointments Non-Executive Director at Zinc Media Group plc where he is Chair of the Remuneration Committee, co-founder and Chair of the Board of Trustees of the Social Mobility Business Partnership.
Skills and experience Andrew is a very experienced General Counsel having joined from Meggitt plc, where he was Group General Counsel and Director of Corporate Affairs, and member of the Group Executive responsible for legal, commercial, trade compliance, government relations, ethics and contract management. Previously, he was Group General Counsel and Company Secretary at ITV plc where he was a member of the Executive Board and led a global team responsible for legal and business affairs, secretariat, compliance, insurance, health & safety, rights management and corporate responsibility. Prior to this he was Group General Counsel at Cable & Wireless plc and Head of Legal at Reuters Group plc.

BOARD MEMBERS WHO STEPPED DOWN IN 2024/25:

- **Steve Buck:** stepped down from the Board on 11 July 2024
- **Gill Rider**: stepped down from the Board on 24 July 2024
- **John Halsall**: stepped down from the Board as Chief Operating Officer on 31 July 2024
- **Claire Ighodaro:** stepped down from the Board on 31 December 2024

THE SOUTH WEST WATER EXECUTIVE TEAM

- **Susan Davy** – Chief Executive Officer of South West Water and Pennon Group plc – see biography on page 139.
- **Laura Flowerdew** – Chief Financial Officer of South West Water and Pennon Group plc – see biography on page 139.
- **Andrew Garard** – Pennon General Counsel and Company Secretary – see biography on page 141.
- **Adele Barker** – Chief People Officer of South West Water and Pennon Group plc - Adele joined the Company in 2017 and was appointed Chief People Officer in 2020. Adele's role is to lead and execute the Company's people strategy, Health and Safety strategy and lead on Corporate Affairs. Her background includes senior executive roles and HR leadership across Utilities, banking and retail, including British Gas, Orange and Marks & Spencer.
- **Richard Price** – Managing Director of Wastewater Services – Richard was appointed Managing Director, Wastewater Services in July 2024. Previously, he held the position of Chief Engineering Director from 1 September 2022, having joined Bristol Water in February 2018. Richard is a Chartered Civil Engineer and Fellow of the Institution of Civil Engineers and Institute of Water. Mr. Price has over 30 years' experience engineering, constructing and operating water and wastewater infrastructure, having previously held senior roles at other water companies. Richard was instrumental in the transformation of Bristol Water as Chief Operating Officer. He is passionate about safety and customer excellence, embedding leading practices whilst transforming operating and delivery functions. Richard is also a director of Pelican Business Services (the trading name of Bristol Wessex Billing Services Limited), a joint venture, providing combined billing services to Bristol Water and Wessex Water customers.
- **David Harris** – Managing Director of Water – David joined the Company as Drought and Resilience Director in 2022. He was appointed as Managing Director, Water Services (National) in July 2024. With over 25 years of executive experience, he has successfully led performance and growth of large infrastructure businesses, both in the regulated water market and the competitive energy market in Australia. David brings experience from his time leading one of Australia's largest and fully vertically integrated water companies through the worst droughts in the country's history, ensuring a constant supply of water and the building of additional water resources.
- **Graham Murphy –** Chief Engineering Officer – Graham joined South West Water in 1991 and has held a number of positions within engineering, operations and HR. He was appointed to his current role as Chief Engineering Officer in July 2024 and has full responsibility for the timely and efficient delivery of the South West Water's capital investment programme. Prior to joining South West Water, he undertook a variety of operational management roles within British Gas.
- **Ian Cain –** CEO, Retail and Customer Markets – Ian is an experienced senior leader with a strong track record as a senior executive and CEO of businesses across the utilities, infrastructure, and retail sectors. He joined SES Water in February 2020 and has led the Group through a period of significant transformation. At Thames Water, Ian held senior roles including Managing Director for Retail and Chief Customer Officer. He was previously CEO of iSupplyEnergy, earlier in his career, he held a series of executive roles at British Gas and Centrica, ultimately serving as Managing Director of its largest consumer business.
- **Carolyn Cadman – Chief Sustainability and Natural Resources Officer –** Carolyn has recently been appointed Chief Sustainability and Natural Resources Officer, having joined South West Water as Director of Natural Resources in May 2022. Carolyn and her team are delivering projects to lower carbon emissions, increase nature recovery efforts and increase the sustainability of operations across the group. Carolyn is a Director of South West Water's partnership with Exeter University, CREWW. Carolyn also sits on the Boards of the Devon Local Nature Partnership, the Isles of Scilly National Landscape and is Chair of the Cornwall Catchment Partnership. Prior to joining South West Water, Carolyn was Chief Executive of Cornwall Wildlife Trust, and has served in national roles for Natural England and the Marine Management Organisation, and in the South West region for Cornwall Council.

- **Sarah Heald –** Chief Strategy, Regulatory Affairs and Investor Relations Officer – Sarah rejoined Pennon Group in July 2025 as Chief Strategy, Regulatory Affairs and Investor Relations Officer, having previously served as Group Director of Corporate Affairs and Investor Relations until 2020. Sarah brings extensive listed company experience in corporate affairs, stakeholder engagement, sustainability, and investor relations in regulated industries. Before returning to Pennon, Sarah was Chief Corporate Affairs and Sustainability Officer at Aberdeen plc. She also Chaired the Aberdeen Charitable Foundation and was a Non-Executive Director of the abrdn Financial Fairness Trust. She has also held senior roles at Finsbury (now FGS Global), Bank of America Merrill Lynch and BMO Capital Markets, and co-founded a sustainable investment start-up.

MONITORING PURPOSE AND CULTURE

PURPOSE, VALUES AND CULTURE

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

Our values:

As a purpose-led business, committed to the effective stewardship of the environment and our communities, we are shaped by our values and culture. We are a dedicated business, working 24 hours a day, 365 days a year to deliver our essential water services for our customers. We know that it's not only what we do, but how we do it that is really important for our customers, communities and ourselves. That's why we will keep our focus on living our values across South West Water, every day.

We want our values and our behaviours to be the golden thread across South West Water - all businesses within our Company to have the same values and therefore the same way of being.

Our values were developed after intensive involvement and listening sessions with the Executive Board, the larger leadership group, colleague organisations such as the employee forum, and comprehensive colleague listening groups.

HOW THE BOARD MONITORS CULTURE

The Board plays a vital role in monitoring and assessing the culture of the Company and its alignment with the Company's purpose, values and strategy. During the year, the Board considered a number of areas that helped them to assess the development of the Company's culture.

Area assessed	How the Board monitors the culture
Employee engagement	Great Place to Work survey - The Board reviews the results and feedback from the quarterly employee engagement survey and monitors how the areas of employees' focus are being addressed. Big Chat - The Executive team engages with all employees on all business topics and ensures that their views and opinions are shared with the Board.
Workforce policies and practices	The Board formally reviews the Company's workforce policies and practices to ensure these remain consistent with the Company's Purpose and Values and support the Company's long-term sustainable success. Gender and ethnicity pay gap - The Board monitors the culture on gender and ethnicity pay through review, assessment, and approval of the Gender and ethnicity pay gap report. Diversity and inclusion - The Nomination Committee monitors diversity and inclusion through regular updates and the Board fosters the Company's culture on diversity and inclusion through the review and approval of the Diversity, Respect and Inclusion policy. General pay conditions - The Board ensures that reward and pay arrangements support a culture that is transparent, fair, and consistent to ensure that employees' trust is maintained and that talent is attracted and retained.

Whistleblowing	Speak Up - Employees raise concerns anonymously without fear of reprisal. Any significant concerns, following formal investigation, are shared with the Audit Committee through the Ethics Management Committee and ultimately, shared with the Board.
Health and Safety	HomeSafe - This is monitored through regular updates on safety initiatives adopted for the achievement of the Company's 2025 strategic plan to be health and safety leaders in the water sector. Lost time injuries - Further updates on efforts to reduce injuries of our staff across the Company are assessed at the Health and Safety Committee and a reduction in the lost time injury frequency rate from 0.30 to 0.24 (employees and agency staff) was recorded in 2024/25, compared to the previous year.
Remuneration	The Remuneration Committee is regularly provided with feedback from shareholder consultations and customer engagement which helps the Committee and the Board to monitor the culture on wider workforce pay, and executive and CEO remuneration. The Committee reviews and approves the wider workforce Reward Framework and relevant policies, and ensures that incentives and rewards align with culture. CEO pay ratio - The Board ensures that the CEO pay ratio is fair, balancing stakeholder expectations while rewarding leadership success.

BOARD LEADERSHIP

GOVERNANCE STRUCTURE AND FRAMEWORK

South West Water Limited - Board of Directors
An independent, separate Board from the Pennon Group plc Board, responsible for decisions relating to the business and strategy of South West Water Limited.

The role of the Board is to promote the long-term success of the Company, generating value for all its stakeholders, customers, employees and the communities which it serves, by providing effective leadership and direction to the business as a whole. It sets the company's strategy and sustainability strategy, having regard to stakeholders, while maintaining a balanced approach to risk within a framework of effective controls. It has also established the Company's purpose and values and monitors culture to ensure alignment. Its sets the tone and approach to corporate governance and is responsible for the overall financial performance of the Company.

The Board Committees
The terms of reference for each Committee are agreed by Board and can be found at https://www.southwestwater.co.uk/about-us/governance/board-governance/.

Audit Committee
Ensure the quality and integrity of the Company's reporting, assesses the application of accounting policies given underlying standards, probes and tests the accounting judgements made in preparing financial reporting and evaluates whether the presentation of the Company's activities is fair, balanced and understandable.

Review and challenge the effectiveness of the internal control environment and the scope and adequacy of risk management processes across the Company.

Audit Committee Report on pages 165 to 175.

Nomination Committee
Regular review of the structure, size and composition (including the skills, knowledge, independence, diversity and experience) required of the Board, compared to its current position and the skills and expertise needed in the future.

Nomination Committee Report on pages 161 to 165.

Remuneration Committee
Ensures remuneration is aligned with the Company's strategy and reflects the values of the Company.

Advises the Board on the framework of executive remuneration for the Company and for the wider workforce.

Remuneration Committee Report on pages 182 to 184.

ESG Committee
Ensure robust scrutiny of key aspects of environmental, social and governance (ESG) performance and to oversee performance against our ESG strategy and strategic sustainability objectives.

ESG Committee Report on pages 176 to 179.

Health and Safety Committee
Provide a 'review and challenge' function to support the Board and the Executive on all matters connected to health and safety including the deployment of the health and safety strategy, resilience and process safety.

Health and Safety Committee Report on pages 180 to 181.

Group Chief Executive Officer and Executive Board
Responsible for defining and driving the business priorities that will achieve delivery of the Company's strategy and ensuring, to the extent of the authority delegated by the Board, the proper and prudent management of Company resources to create and maximise value while protecting the interests of the wider stakeholder group. Chaired by the Pennon Chief Executive Officer, the Executive Board meets regularly to receive reports from the management committees and to review and refine recommendations to be presented to the Board.

DIVISION OF RESPONSIBILITIES

There is a clear separation of responsibilities between the Chair and the Group Chief Executive Officer, divided between managing the Board and the business, while maintaining a close working relationship.

All the Directors are equally accountable for the proper stewardship of the Company's affairs and also have specific roles, which include those set out below:

Position	Director	Role
Chair	David Sproul	• Leading the Board and promoting a strong culture of openness and debate to facilitate constructive Board relations and effective contribution from all Non-Executive Directors • Promoting the highest standards of integrity and probity and ensuring the Board holds itself to standard of good and effective governance. • Managing Board composition, performance and succession planning, ensuring the Board continues to have the skill set and training it requires. • Setting the agenda and ensuring the timely dissemination of information to the Board, to ensure all relevant information is provided in a timely manner before constructive discussion and decision making. • Representing the high standards and values of the Company and ensuring the views of all stakeholders are understood and considered. • Facilitating an open relationship with the Group Chief Executive Officer by providing advice, support and guidance.
Group Chief Executive Officer	Susan Davy	• Managing the Company and providing executive leadership • Developing, proposing and implementing Company strategy, as agreed by the Board and in line with the strategic framework • Leading on all regulatory and policy decisions • Leading the operation of the Company in accordance with the decisions of the Board • Ensuring financial and operational leadership • Coordinating with the Chair on important and strategic issues of the company and providing input to the Board's agenda • Contributing to succession planning and implementing the organisational structure • Leading on acquisitions, disposals, and business development • Developing and managing relations with all stakeholders
Senior Independent Director	Iain Evans	• Assisting the Chair with stakeholder communications and being available as an additional point of contact for stakeholders • Being available to other Non-Executive Directors if they have any concerns that are not satisfactorily resolved by the Chair • Ensuring an annual performance evaluation of the Chair, with the support of the other Non-Executive Directors and ensuring effective succession planning for the Board
Group Chief Financial Officer	Laura Flowerdew	• Managing the Company's financial affairs and supporting the Group Chief Executive in providing executive leadership and implementing the Company strategy • Reporting accurate and detailed financial information to the Board on performance and developments across the business • Managing and balancing relationships with areas of the

Position	Director	Role
		Company, such as finance and treasury, as well as external stakeholders
Non-Executive Directors	Jon Butterworth Loraine Woodhouse Dorothy Burwell Andrea Blance	• Critically reviewing the strategies, operational performance and financial reporting for the Company • Evaluating proposals from management and constructively challenging its recommendations • Contributing to corporate accountability and good governance through being active members of the Committees of the Board • Play a key role in succession planning of the Board and the annual Board and Committees evaluations
General Counsel and Company Secretary	Andrew Garard	• Supports the Chair, CEO and Board in ensuring all policies, processes, information, and resources are in order to ensure the Board can operate effectively and efficiently. • Advises and keeps the Board updated on any changes to Listing and Transparency Rules and best corporate governance practices. • Facilitates a comprehensive induction for newly appointed directors, that is tailored to the Company's industry and strategy. • Co-ordinates the annual Board and Committees evaluations in conjunction with the Chair and CEO. • Provides advice and services to all Directors, as needed.

AN EFFECTIVE BOARD

MANAGING SOUTH WEST WATER

The South West Water Board continues to operate as a separate independent Board – albeit with Board members also serving on the Board of Pennon Group plc – in accordance with its schedule of matters reserved (see below) to ensure compliance with Ofwat's principles on Board leadership, transparency and governance.

The focus on UK water means the interests of the non-regulated and regulated businesses are more closely aligned and provide for more effective leadership and governance. The Company has a rigorous conflicts of interest process which safeguards the South West Water Boards' ability to set and have accountability for all aspects of the regulated business' strategy thereby ensuring and strengthening South West Water's regulatory ringfence.

While certain matters may be delegated to the Board Committees and to the Executive Directors, as appropriate, the matters reserved for the Board include:

- The approval of the Annual Report and Financial Statements
- All acquisitions and disposals
- Major items of capital expenditure
- Authority levels for other expenditure
- Risk management process and monitoring of risks
- Approval of the strategic plan and annual operating budgets
- Company policies, procedures and delegations
- Appointments to the Board and its Committees

The Pennon Group Board also endorses certain decisions taken by the South West Water Board's, including major capital projects and investments, long-term objectives and commercial strategy, the five-year regulatory plan, annual budgets and certain decisions relating to financing. This approach remains compatible with Ofwat's principles on board leadership, transparency and governance because such decisions are ultimately reviewed and approved by the South West Water Board. Approval of South West Water's dividend policy and the declaration of dividends to be paid by South West Water to Pennon also remain reserved for the South West Water Board.

HOW THE BOARD OPERATES

The South West Water Board, in discharging its duties, has a clear strategy for growth and ensures that its aims and objectives align with the Company's purpose and values which have been carefully considered. The Board maintains the highest standards of governance alongside taking decisions to ensure the long-term sustainability of the Company.

Thanks to the diverse skillset, independence of thinking and experience of the directors, decisions reached by the Board are fair, focussed and balanced and they demonstrate that constructive debate has occurred.

All possible outcomes for the mutual benefit of our shareholders, customers, employees, and the communities we serve, are at the heart of the Board decision making process.

The governance framework for the Board is clearly documented in the Company's Articles of Association, Division of Responsibilities, Schedule of Matters Reserved to the Board and Terms of Reference for each Committee, which are all available on our website.

The culture of the Board is one of openness and constructive dialogue with the senior management team. Regular and effective flow of information between the Non-Executive Directors and senior management, both in and out of the Boardroom, ensures that there is good understanding of the Company's business. Further information on the effectiveness of the Board is detailed in the 2025 Board performance review on page 165. As detailed on pages 147 to 148, there is a clear division of responsibilities between the roles of the Chair and Group Chief Executive Officer; however, to ensure that their responsibilities are discharged effectively, there is consistent communication on all areas of the business between them.

The Board held six scheduled meetings during the year. Directors' attendance at scheduled Board meetings held during the year is set out on page 136. Additional unscheduled Board meetings were held when circumstances

required the Board to meet at short notice. The Board also approved a number of matters during the year by written resolution.

Agendas for each scheduled Board and Committee meeting are prepared in advance and are aligned with the annual Board and Committee programmes. For each scheduled Board meeting there are a number of standing items such as the monthly performance reports from the Group Chief Executive Officer and Group Chief Financial Officer, operational reports, deep dives, and legal and governance updates. All matters are given due consideration by the Board and are reviewed at the appropriate point in the regulatory and financial cycles. Flexibility is retained in the programmes to include additional items requested by the Board, Committees, or senior management. The key activities of the Board can be found on pages 152 to 153 and the key activities of the Committees during the year can be found in the Committee Reports.

Directors are provided with papers at least five business days in advance of each Board or Committee meeting and meeting packs are provided on a secure Board portal.

The Chair has calls with each of the Non-Executive Directors in advance of each scheduled Board meeting to discuss the papers and the business of the meeting. If a Director is unable to attend a meeting because of exceptional circumstances, they will continue to receive all the material for the meeting and have an opportunity to have a briefing discussion with the Chair in advance. Feedback is provided to the Directors unable to attend on the decisions taken at the meeting.

Non-Executive Directors communicate directly with senior management between Board and Committee meetings, where required. Members of the Executive Board also present at the annual strategy Board meeting and at other times during the year on their areas of responsibility, along with members of their teams.

During the year, the Chair had catch-ups with the Group Chief Executive Officer and regular catchups with the General Counsel and Company Secretary, and Group Chief Financial Officer.

Meetings of the Non-Executive Directors, without the presence of the Executive Directors, are scheduled in the Board's annual programme. During the year, Non-Executive Directors met without the Executive Directors after every Board meeting. These meetings provide the Non-Executive Directors with the opportunity to share experiences and discuss wider business topics, fostering debate in Board and Committee meetings and strengthening working relationships.

SCHEDULE OF MATTERS RESERVED TO THE BOARD

The Board maintains oversight of the areas material to the delivery of the Company's strategy and purpose, and acts as the main governing body for the purpose of oversight for the Company. The Board undertakes an regular review of the Matters Reserved to the Board, with the latest review taking place in November 2023.

COMMITTEES

In accordance with the Code, the Board delegates certain responsibilities to its core committees, which monitor various subject matters in depth and gain greater understanding in detail. The Committees' responsibilities and mode of operation are guided by their respective terms of references which have been agreed by the Board and summarised on the Committee Report pages. In addition, each committee considers its calendar of business at every meeting to ensure responsibilities continually remain clear. Each Committee Chair provides an update on matters discussed at each Board meeting, reporting on decisions taken and where appropriate provides a recommendation to the Board on matters requiring its approval. The reports from each committee of the Board can be found on pages 161 to 184.

STRATEGY

The Board recognises its responsibility to create and oversee the framework for the delivery of the Company's strategic model, ensuring that the strategy and purpose continually deliver for our stakeholders. At the meetings the Board receive presentations from Managing Directors and senior management, deep diving into the performance of each business unit, including reviews into the financial outlook and opportunities for growth.

EXECUTIVE BOARD

The South West Water Board meet on a monthly basis and are responsible for executing the Company's strategy and the day-to-day management of the Company operations. Responsibilities and processes are designed to ensure effective management and oversight of Company affairs. Governance policies and terms of references

are reviewed in accordance with the demands of the business, changing regulation and emerging best practice. The Executive Board is led by the Group Chief Executive Officer. The biographies of the Executive Board can be found on pages 142 to 143.

WORKFORCE ENGAGEMENT

The Board has decided, at this time, not to adopt any of the three specific employee engagement methods referred to in the UK Code. Instead, our chosen method is to adopt a more enhanced approach which includes the conduct of a periodic 'Great Place to Work' engagement survey (including related management feedback sessions) and continuous employee feedback through our own in-house forums. These comprise our RISE people panel, a forum for employee engagement, and the 'Big Chat', hosted on a monthly basis by the Executive team. These forums not only give employees access to important up-to-date information on key business events; they also provide the opportunity to hear from the Directors, give feedback and ask questions. The Board believes South West Water's chosen approach is an effective way of communicating with employees and gathering essential feedback from across the business. This empowers the Board to consider the interests of all employees in its discussions and decision-making. There is further information on employee engagement on pages 21 to 23.

STAKEHOLDER ENGAGEMENT

In delivering our strategy and ensuring sustainable, long-term success of the Company, the Board places utmost importance on the interest of our stakeholders in its decision-making process. Further details on how the Board has fulfilled its duties under section 172(1) of the Companies Act 2006, to consider all stakeholders in its discussions and decisions and that each decision reached is in line with the company's purpose and culture, is set out on pages 158 to 160 and an explanation as to how we engaged with our different stakeholders during the year can be found on pages 154 to 155.

WORKFORCE POLICIES AND PRACTICES AND CONFLICTS OF INTEREST

In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. The Board considers this has operated effectively during the year. Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company.

This duty is in addition to the duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company. A register of Directors' conflicts is maintained and reviewed at each Board meeting.

WHISTLEBLOWING

The Board maintains overall responsibility for the Company's Whistleblowing Policy (the Policy). The Policy provides a clear procedure for employees and suppliers to report concerns, through the Speak Up service, either to their line manager or through a third-party whistleblowing hotline. The Policy is well communicated to employees across the Company. All whistleblowing cases are investigated by the Ethics Management Committee. The Board, through its Audit Committee, receives yearly whistleblowing updates which set out any whistleblowing issues raised during the period and interim updates on any significant matters. The updates provided are anonymous and summarise the result of any investigation. The Board is satisfied that the Policy and the work of the Ethics Management Committee remain effective.

KEY ACTIVITIES OF THE BOARD

In 2024/25, the Board considered a wide range of matters and the key activities that were carried out by the Board during the year, together with an indication of the stakeholders affected and whose interests the Board considered in its discussions and decision-making are set out below.

- **Inform** – the agenda for each meeting is discussed and agreed in advance with the Chair in conjunction with the Group Chief Executive Officer and General Counsel and Company Secretary, along with the matters arising from the previous meeting. Senior leaders and management prepare written reports for the Board meetings, based on the annual calendar of business, as well as deep-dive presentations on key areas of the business, to inform and make recommendations for the Board's consideration. In addition, regular performance reports are shared with the Board to ensure they are continuously informed.
- **Recommend and consider** – Recommendations and deep-dives from senior leaders, as well as external advisors to facilitate decision-making and accounting for stakeholder impact are presented to the Board for consideration.
- **Approve and action** – The Board will consider matters and agree and approve actions to take forward.

Area	Activity	Outcome	Stakeholders affected
Strategic	**PR24 Business Plan** Approved our PR24 business plan	Investments will benefit our customers, the environment and community.	**Customers** **People** **Suppliers** **Policy makers** **Regulators** **Environment** **Communities**
	Delivery of capital projects Reviewed and approved the delivery of capital projects in line with the framework model for capital delivery	Successfully deliver capital projects for the benefit of all stakeholders and foster long-term relationship with our suppliers.	**Suppliers** **Customers** **Communities**
Operational	**ODI improvements** Monitored our ODI improvements to meet regulatory requirements, ongoing regulatory/ innovation initiatives were monitored via ESG and Health and Safety reports and adapted plans where needed.	Successful regulatory outcomes, safe customer and employee experience, enhancing day to day operations.	**Customers** **People** **Regulators** **Environment**
	Storm overflows and Pollutions Reviewed and assessed measures tackling storms overflows at bathing waters and reducing spill rates across our sites and within our communities.	Delivery against our objective to ensure continuous supply of safe and clean water to our customers.	**Customers** **Environment**
	Water quality and resilience Approved the projects to upgrade treatments works and expanded capacity of our reservoir across the regions.	Successfully maintaining bathing water quality all year round. Reduction in pollution levels to industry leading low levels.	**Customers** **Regulators** **Environment**
Financial	**2023/24 APR and Statutory Accounts** Reviewed and authorised the APR and Statutory Accounts	Delivery against objectives to return capital where appropriate.	

Environmental	**Net Zero strategy plan, Green Recovery investment programmes** Implementation and alignment of plans with our strategic priorities by engaging in the following, to name a few: • Investments in bathing waters to reduce releases from storm overflows. • Desalination project being undertaken to secure long term water security in the region.	To accelerate our net Zero plans and the delivery to achieve more sustainable future for all.	**Customers** **People** **Suppliers** **Regulators** **Environment**
Social	**Supporting customers on low income** Monitored customer service levels and plans to deliver improved diversity mix and adapting where needed.	Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny.	**Customers**
	Investment in job opportunities and apprenticeships for local communities Reviewed and approved investments towards the benefit of the communities	Create job opportunities and improving career of our people and retaining talent.	**Customers** **Communities**
Risk	**Mitigation of key risks** Ongoing focus on key risks, with deep dives at Audit Committee meetings.	Continued alignment of plans to ensure appropriate risk mitigation.	**People**
	Deep dive on cyber security risk Reviewed our information security systems and assessed mitigating measures to avoid cyber attacks	Continued protection of sensitive data of our customers and our people and ensure business preparedness to tackle this risk.	**Customers** **People** **Suppliers** **Regulators** **Environment** **Communities**
Compliance, Governance, Legal and Regulatory	Regular updates on Corporate Governance and key legal developments during the year	Continued alignment of plans to ensure appropriate compliance/ best practice governance.	**Customers** **People**

HOW THE BOARD ENGAGES WITH STAKEHOLDERS

The Board understands the role the Company has to play in creating a more sustainable South West and UK as a whole. We are committed to carrying out our business in a responsible way and to continuously improving how we provide all our services for the benefit of all our stakeholders.

Our section 172(1) statement describes in more detail how the Board considers the interests of all our stakeholders when carrying out its duties. South West Water is committed to ensuring that its decision-making process takes into account the interests of all key stakeholders, including our customers, communities, people and suppliers. Our directors take their duties under this section seriously and carefully consider the long-term impact of their decisions.

In fulfilling their duties, our Board engage with stakeholders through a variety of channels to understand their views and priorities. This includes direct engagement with customers, employee feedback mechanisms, consultations with regulators, and community outreach programs. By integrating these perspectives into our decision-making, we aim to create value for both our shareholders and society, while also ensuring the sustainable use and protection of our water resources.

ENGAGING WITH OUR CUSTOMERS AND COMMUNITIES

The WaterShare+ customer meetings are an opportunity for our customers to provide direct feedback to our independent WaterShare+ Advisory Panel, who, in turn, provide direct feedback to our Board.

The Group Chief Executive Officer's monthly report, which is presented to the Board and discussed at every meeting, included updates on customer engagement sessions conducted as part of the PR24 Business plan process.

The WaterShare+ scheme was developed in direct response to feedback from our customers who said they would like to share in the success of the Company, alongside giving them a greater say in our business. The first WaterShare+ scheme was launched in 2020 and returned £20 million to customers as a reduction of £20 on their bill. Eligible customer had the option of choosing a minimum of £20 in our parent company, Pennon Group plc, shares. In November 2022, the second Watershare+ scheme was launched and returned c.£20 million to customers of South West Water (including Bournemouth Water) and for the first time, customers of Bristol Water. Eligible customers could choose between £13 reduction on their bill or to opt for a shareholding in the our parent company Pennon Group plc.

ENGAGING WITH OUR PEOPLE

The Board receive regular updates on our people from the Group Chief Executive Officer and Chief People Officer at its meetings. The Great Place to Work survey and feedback from RISE panel provided to the Board ensure that the decisions made consider employee interests and include what is of priority to our people. Further details on the engagement with our people can be found on pages 28 to 35.

ENGAGING WITH OUR REGULATORS AND POLICY MAKERS

The Board receives regular updates on our regulators and policy makers. The Board, through the Chair, Group Chief Executive Officer and Group Chief Financial Officer proactively engages with our regulators, particularly Ofwat and the Environmental Agency, and Government, both at a local and national level, including sharing platforms with local MPs at constituency meetings, and face-to-face discussions with Defra throughout the year.

In February 2025 the Group Chief Executive Officer attended the EFRA Select Committee to discuss South West Water's financial performance, environmental performance, service delivery and consumer satisfaction as part of the 'reforming the water sector' inquiry.

The Group Chief Executive Officer holds regular 1-2-1 meetings with regional MPs in Westminster to discuss strategic and overarching issues around performance and our plans for investment.

ENGAGING WITH ENVIRONMENTAL ORGANISATIONS

The Board regularly receive updates at meetings through the Group Chief Executive Officer on our engagement with environmental organisations particularly Defra, DWI and Water UK. The Group Chief Executive Officer and the Executive Team hosted site visits from the Minister for Water and Flooding, facilitating discussion on the strategic issues of particular importance in the South West.

As we head into K8 and reflect on what was achieved in K7, South West Water is committed to continued engagement with the Environmental Agency, with Alan Lovell and Mark Rice attending the South West Water March Board meeting to give valuable insights on the future approach of the Environmental Agency.

The CEO gave updates to the Board on engagements and collaborations with Water UK, and its Board, ensuring that the water industry's position on increased investments to improve the sector for the benefit of our stakeholders, remains a key government focus.

ENGAGING WITH OUR SUPPLIERS

The Board receives updates at Board meetings on our engagement with suppliers which is conducted through formal Request for Purpose processes and periodic supplier review meetings to ensure that our suppliers deliver outcomes that benefit all our stakeholders.

The Board is regularly informed and involved through the stages of tender processes which are undertaken to ensure that suitable and experienced suppliers are contracted to deliver our capital projects.

During the year, the Board received updates from the Group Chief Executive Officer on our engagement with the Cabinet Office on the drafting of the Procurement Act 2023 which is geared towards making procurement simpler, quicker and more transparent given the criticality of supply chain in the future delivery of our business.

The Executive team are actively engaging the wider industry supply chain directly and indirectly through organisations such as British Water, Future Water and the Civil Engineering Contractors Association to both understand and influence emerging trends and mobilise the best suppliers and innovation for the benefit of the Company. Updates are regularly provided to the Board.

COMPOSITION, SUCCESSION AND EVALUATION

TRAINING AND DEVELOPMENT

In fulfilment of the Directors' duties the Board has been supported by the advice and services of the Company Secretary and other functions of the business. An established procedure whereby Directors can seek independent professional advice at the Company's expense to fulfil their duties is in place. The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors and the Committees and between senior management and Non-Executive directors.

The training needs of Directors are reviewed as part of the Board's performance review process each year. Training may include attendance at external courses organised by professional advisors and internal presentations from senior management.

During the year, updates were provided to the Board and Committees via the General Counsel and Company Secretary and/or the Company's external advisors. These included updates on mandatory reporting and recent legal or governance changes. Specifically, the Board received updates on the Water (Special Measures) Act and Directors Duties under the Companies Act 2006.

BOARD INDUCTIONS

On their date of appointment to the Board, all new Directors receive a comprehensive and tailored induction programme coordinated by the General Counsel and Company Secretary. Our induction programmes include one-to-one meetings with each of the executive team and visits across our various sites.

BOARD COMPOSITION, INDEPENDENCE AND EXPERIENCE

As at the date of this report, our Board comprises the Chair, five Non-Executive Directors, two Executive Directors and the General Counsel and Company Secretary. As at 31 March 2025, female representation on the Board was at 57%, exceeding the Board's target of 33%.

All of the Non-Executive Directors are considered by the Board to be independent and are subject to re-election each year. All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 139 to 141 demonstrate collectively a broad range of business, financial and other relevant experience.

Loraine Woodhouse is Chair of the Audit Committee and, in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1A, has recent and relevant financial experience and competence in accounting and auditing (as set out in her biography on page 40. The Board is satisfied that the Audit Committee has financial literacy and competence relevant to the sector in which the Company operates.

TIME COMMITMENT

All Non-Executive Directors are required to devote sufficient time to meet their Board responsibilities and demonstrate commitment to their role. During the year, the Nomination Committee considered the time commitment of all the Non-Executive Directors and was satisfied that the required time dedicated by each of them remains appropriate.

EXTERNAL APPOINTMENTS

All Directors are required to consult with the Chair and obtain Board approval before taking on any additional appointments. Executive Directors are not permitted to take on more than one Non-Executive directorship of a FTSE 100 company or other significant appointment. As part of the selection process for any new Board candidates, any significant external time commitments are considered before an appointment is agreed.

Susan Davy continued as a Non-Executive director of Restore plc and Chair of Water UK throughout 2024/25. The Board is of the opinion that the experience gained from external appointments provides additional and different business experience and a fresh insight into the role of an Executive Director.

Further information on the other business commitments of the Chair and South West Water's Non-Executive Directors is on pages 139 to 141.

BOARD PERFORMANCE REVIEW

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. Having carried out an externally facilitated evaluation in 2023, this year the evaluation was carried out by means of an internally facilitated online questionnaire, prepared by the General Counsel and Company Secretary and in consultation with the Chair, Further information on the outcomes from the 2024 Board performance review and the recommendations from the 2025 review can be found on pages 164 to 165.

SECTION 172(1) STATEMENT

All of the Board's decisions are considered against the importance of acting in a sustainable, ethical and collaborative way, understanding the views of our different stakeholders and weighing their competing interests, whilst being mindful of regulatory obligations.

Our Board leads and sets the tone by carefully noting the priorities of our stakeholders during its discussions and when it makes decisions. We also know the importance of continually assessing the long-term impacts of our decisions, not only at Board level, but across the Company, this is embedded as part of our culture. This helps us live our purpose and our values, as a responsible, trusted and sustainable business acting in a way which benefits all our stakeholders as much as possible. Properly understanding the impact of what we are doing has become part of how we operate, and it permeates in everything we do at South West Water.

Each Director has a duty under section 172 (1) of the Companies Act (s.172), to act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of members and stakeholders as a whole, and in doing so, must have regard to a range of broader issues. Therefore, in performing their duties during the year, the Directors had regard to the each of the s.172 matters set out below:

s.172 duties	Read more	Page
The long-term consequences of our decisions	Strategic report Our business model Principal risks Sustainability reporting Our integrated approach to ESG Viability statement Key activities of the Board	1 to 132 15 61 to 77 Pennon Group annual report page 91 81 78 to 80 152 to 153
The interests of our employees	Strategic report Investing in our people How we listen Diversity, equity and Inclusion Whistleblowing policy and speak up Purpose, culture and our values	1 to 132 28 to 35 16 32 174 144
The importance of having excellent business relationships with suppliers, customers and anyone else who we impact	Our operational review How we listen How the Board engages with stakeholders	36 to 50 16 154 to 155
The impacts our operations have on our communities and our environment	Our approach to ESG and Net Zero TCFD and TFND disclosures ESG Committee Report	81 to 85 86 to 129 176 to 179
Ensuring we maintain our reputation for the highest standards of business conduct	Non-Financial Information Statement Purpose, culture and our values Modern Slavery Anti-financial crime framework Whistleblowing policy and speak up	130 to 132 144 203 174 174
The need to act fairly between our stakeholders	Stakeholder Engagement	154 to 155

HOW THE BOARD FULFILS ITS S.172 DUTY

To be able to fulfil their s.172 duty when making decisions, the Board is supported in carefully considering all the relevant factors to ensure the long-term success of the Company.

- **Board information** – all Board papers contain a s.172 information section to enable the Board to consider stakeholder interests as part of their discussions and decision-making. Our Board directly and indirectly engages with our stakeholders. Read more on pages 154 to 155.
- **Board strategic Discussion** – s.172 factors are considered in the Board's discussions on strategy, including how they underpin the Company's long-term success. The Company's culture helps ensure there is proper consideration of the impact of Board decisions on our stakeholders and the Board considers the quality of information it has received and seeks assurance where appropriate.
- **Board decision** – outcomes of the Board decision are assessed and further engagement with stakeholders is undertaken, where appropriate. As a result of the Board's engagement, the necessary actions are taken.

KEY STRATGIC DECISIONS CONSIDERED BY THE BOARD

Below are some of the key strategic issues considered and decisions made by the Board during the year and an explanation of how the Board considered the matters in Section 172(1) (a) – (f) when taking those decisions and how they link to our strategy.

Key decision	Board discussion and s.172 considerations	Outcome	Link to strategy
Acceptance of the Final Determination	As part of their considerations, the Board discussed the £2.6 billion investment plan, which involves engaging 250,000 of our stakeholders over a three-year period. The investment will be across a range of transformational projects that are focused on areas like tackling the use of storm overflows, bolstering water resources through a new reservoir in the South West, and expanding our programme of nature recovery. **Our People** The Board considered the impact of the Final Determination on the workforce. Around 2,000 jobs will be created, providing local people with rewarding careers in their home region, either directly employed by South West Water or within the wider supply chain. **Our Customers** The Board considered the relationship between the cost of the scheme, the impact on bills, and the need to ensure that these remain affordable for customers, particularly in the cost-of-living crisis. The Board judged that the impact of the four priorities within the plan would boost water resources for customers across the region. **Our Environment** The Board considered the impact of the plan on the environment, and the need to ensure that investments create a sustainable future and accelerate net zero and environmental gains through creation of climate-independent water sources, and restoration	Following Ofwat's PR24 Final Determinations in December 2024 in respect of the K8 period (2025-2030) for SWW, in January 2025 the Company accepted Ofwat's Final Determination.	**Water Quality and Resilience** **Storm overflows and Pollutions** **Net Zero and Environmental Gains** **Addressing Affordability and Delivering for our Customers**

Key decision	Board discussion and s.172 considerations	Outcome	Link to strategy
	schemes to boost natural habitats and nurture healthier rivers and seas. **Our Regulators** As part of their discussions, the Board engaged and considered our regulators and was pleased to accept Ofwat's Final Determination for South West Water following an outstanding business plan assessments.		
EMTN Programme	The Board approved the EMTN programme in July 2024, establishing a programme for access to the debt capital markets. This included the first public ratings for South West Water ahead of the appointee licence requirement for two ratings by April 2025. **Our Regulators** As part of their discussions, the Board considered our regulators and the appointee licence requirements. **Our Investors** As part of their discussions, the Board engaged and considered our parent company, Pennon Group plc, and the benefits of the EMTN programme being launched through the Company.	£650 million raised through our inaugural public bond issuances under the EMTN programme.	**Addressing Affordability and Delivering for our Customers**

THE NOMINATION COMMITTEE REPORT

THE NOMINATIONS COMMITTEE IS A CORNERSTONE OF THE CORPORATE GOVERNANCE, SAFEGUARDING THE BOARD'S INTEGRITY AND EFFECTIVENESS.

Membership	Role	Attendance
David Sproul[1]	Chair	2
Gill Rider[2]	Chair	1
Iain Evans	Non-Executive Director	3
Jon Butterworth	Non-Executive Director	3
Dorothy Burwell	Non-Executive Director	3
Loraine Woodhouse	Non-Executive Director	3
Claire Ighodaro[3]	Non-Executive Director	2
Andrea Blance[4]	Non-Executive Director	

1. Appointed 1 July 2024
2. Resigned 24 July 2024
3. Resigned 31 December 2024
4. From the 8 April 2025 Andrea Blance will be a member of the Nomination Committee

THE COMMITTEE'S FOCUS FOR 2024/25

- Ensured that the Board has the appropriate mix of skills, experience and diversity and oversaw the effectiveness of the Board's succession plan.
- Continuously reviewed the development and evolution of the Executive leadership team and succession planning.
- Conducted the annual review of Board effectiveness and Board composition.
- Oversaw the annual review and approval of the Company policy on Diversity, Respect and Inclusion and the Company's progress on diversity in line with the Parker Review, including the outcome of the FTSE Women Leaders Review and the Company's position on Gender and Ethnicity Pay.

ROLE OF THE NOMINATION COMMITTEE

- Regularly review the structure, size and composition (including skills, knowledge, independence, diversity and experience) required of the Board.
- Consider succession planning for the Board and Senior Management, overseeing the development of a diverse pipeline.
- Identify and nominate candidates to fill Board vacancies.
- Assist in the annual Board evaluation process to assess performance and effectiveness of the Board and its Committees.
- Evaluate the balance of skills, knowledge, independence, diversity and experience on the Board.
- Review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued success of the Company.
- Review the Group's policy on Diversity, Respect and Inclusion (see www.pennon-group.co.uk/about-us/governance-and-remuneration), including gender, and the progress against objectives.
- Review membership of the Board Committees.

This year, the Committee oversaw a number of planned changes to the Board, including the retirement of our previous Chair, Dr Gill Rider. It has been a great privilege to have taken on the role from Gill following her careful stewardship over many years, and at a pivotal point in South West Water's strategy. We also enacted our internal succession plan, appointing Laura Flowerdew to the role of CFO. Laura was perfectly placed to take on the role, with a strong understanding of the Company, having been Chief Customer and Digital Officer and previously Chief Financial Officer at Bristol Water.

A key focus for the Committee in 2024/25 has been in building complementary bench strength to the Board, as Claire Ighodaro, retired at the end of December 2024. We thank Claire for her dedication and wise counsel, and were delighted to welcome Andrea Blance as Remuneration Chair, bringing extensive risk and regulation expertise. Andrea will join us from 8 April 2025. We were supported during this search by the Lygon Group, experts in Board Advisory and Executive search, and with no previous association with the company.

Finally, as we look ahead in 2025, we will be bidding farewell to Iain Evans, Senior Independent Director and Chair of ESG, as he plans to retire. Having joined the Company in 2020, Iain has been a valued Board colleague. In preparation for this, we have appointed Heidrick and Struggles, as independent consultants, following a robust procurement process, to support the Nominations Committee with this appointment.

The Committee held three scheduled meetings during the year and also held a number of ad-hoc meetings, in person and by Teams call, to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the Committee meetings, but other regular invitees to Committee meetings during the year included the Group Chief Executive Officer, the General Counsel and Company Secretary and the Chief People Officer. Committee members are also excluded from participating when their own positions are under discussion.

BOARD DIVERSITY

Building a diverse and inclusive culture is a strategic imperative for South West Water. The Committee maintains its strong interest in the Company's progress in championing diversity, whether in relation to gender, ethnicity, or social mobility, and regularly reviews the demographics of the workforce as well as the leadership.

We believe having a diverse mix of minds has helped to deliver a step change in our culture, as a more caring and considerate business, that places significant focus on wellbeing.

At the time of signing this report, female representation on the Board stood at 56%. In the 2025 edition of the FTSE Women Leaders Report, our parent company, Pennon, emerges as a leader, proudly showcasing its commitment to diversity, and ranked as 3rd in the FTSE 250 for representation on boards, for the second year running. The report, independently conducted and backed by the Government, is a ringing endorsement of our relentless efforts to lead the charge in fostering equality and inclusivity. Despite progress across the FTSE, our parent company, Pennon, is still one of only a few businesses in the UK to have both a female Group Chief Executive Officer and Group Chief Financial Officer.

The Company is an advocate of Sir John Parker's review of ethnic board diversity, meeting the external targets required of a responsible and inclusive business ahead of the required dates. For the second year running, in line with our commitment to the Change the Race Ratio campaign, we have also voluntarily published our ethnicity pay gap of 8.89% (mean). The Committee will continue to monitor pay gaps. Building our representation across the Company is a focus, given the area we serve has lower representation than the national average, where ethnic representation is 6%. Our Company ethnic diversity has increased slightly in the year to 3.4%.

BOARD DIVERSITY, RESPECT AND INCLUSION POLICY

The Board requires the Committee to review and monitor compliance with the Board's diversity policy and report on the targets, achievement against those targets and overall compliance in the Annual Report each year. The policy was reviewed in March 2025.

The Board's diversity and inclusion policy confirms that the Board is committed to the search for Board candidates being conducted, and appointments made, on merit, against objective criteria whilst promoting diversity of gender, social and ethnic backgrounds.

In this context, the Board with endeavour to achieve and maintain:

- A minimum of 33% female representation on the Board
- Maintain one Board member as a minimum who is racially or ethnically diverse
- A minimum of 33% female representation on the Company's senior management team
- Satisfying itself that plans are in place for orderly succession of appointments of appointments to the Board and to senior management maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board.

The approach to Company-wide diversity is detailed on page 32 and is also fully applicable to our Remuneration, Audit and Nomination Committees, and as each Committee is comprised of members of the Board, the Board's Diversity, Respect and Inclusion policy detailed above, similarly applies. We exceed the policy.

Colleagues, including our Board and leadership, are asked to provide personal information for the purposes of monitoring equality and for statutory reporting purposes, including the FCA diversity disclosures and gender and ethnicity pay gap report. This is collected during recruitment and on-boarding and colleagues are asked to periodically review and update as necessary. Information is stored on the Company's HR management system, including the data used to populate the table below. Employees are encouraged to provide information on a voluntary basis.

FCA DIVERSITY DISCLOSURE TABLE

The Committee is pleased to report against the FCA's new diversity disclosure requirements, as set out in the table below. At South West Water 'executive management' is defined as the South West Water Executive Board. The figures in the table are stated as at 31 March 2025 and have been calculated based on diversity data provided upon employment.

TALENT MANAGEMENT AND SUCCESSION PLANNING

The Committee, supported by the Chief People Officer, regularly reviews both the Executive and Non-Executive leadership as part of its standing agenda, reviewing both short-and long-term skills requirements, opportunities for positive support to minority groups, and early identification of high potential. In line with our commitment to Change the Race Ratio, we have renewed stretching targets to develop diversity in our leadership levels below Executive Committee level, and the Committee will continue to review progress on this important goal. As part of the regular reports received by the Committee, rates of participation analysed by many characteristics are provided, noting however that this is also subject to employees' willingness to disclose certain characteristics or sensitive information.

THE ETHNIC REPRESANTATION OF OUR BOARD AND LEADERSHIP

	Number of Board Members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
White, British or other White (incl. minority white groups)	7	87	3	3	100
Mixed / multiple Ethnic Groups	-	-	-	-	-
Asian / Asian British	-	-	-	-	-
Black / African / Caribbean / Black British	1	13	-	-	-
Other ethnic group including Arab	-	-	-	-	-
Not specified / prefer not to disclose	-	-	-	-	-

THE GENDER REPRESANTATION OF OUR BOARD AND LEADERSHIP

	Number of Board Members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
Men	4	50	1	1	33
Women	4	50	2	2	67
Other categories	-	-	-	-	-
Not specified / prefer not to disclose	-	-	-	-	-

BOARD PERFORMANCE REVIEW

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

2024 BOARD PERFORMANCE REVIEW

The 2024 Board evaluation was carried out in March 2024 via an online questionnaire created internally by the General Counsel and Company Secretary in consultation with the Chair. The evaluation identified several recommendations and action points, an update on the outcomes of each action is set out below:

Action Points ("AP")/Recommendations from Board evaluations in 2023 and 2024	Update on Recommendations/Proposed Approach
Continue efforts to give the Board as much time as possible with the pack prior to Board meetings with five working days plus a weekend the aim.	The majority of Board and Committee papers are sent to the Company Secretarial team 5-7 working days prior to the meeting to allow for papers to be reviewed, and the meeting packs to be circulated in advance to Board and Committee members in the timescales set.
More work is needed on making the Board papers more "NED friendly", They need to be shorter, avoid repetition, and be transparent in terms of sign-posting the key facts. An executive summary should always appear, and it needs to be made plain what the Board is being asked to do: note; discuss; agree and signal where most attention is requested.	A new Board paper template has been introduced which contains a purpose and an executive summary in order to provide succinct details for the Board's consideration upfront. Papers are reviewed by the Company Secretarial team to ensure appropriate length. Whilst the new format has been adopted, the Secretarial team will strive to ensure that relevant issues are sufficiently clear. Executives have been reminded of the standard required and the Group Chief Executive and Company Secretary will drive further improvements.
Ensure that critical areas of Board oversight, for example, health and safety, are given the time they need.	Agendas have been reviewed. Health and safety matters are included as a standing item on every Board agenda and the Health and Safety Committee provide an update to the Board on their work.
The experience and skills required for Board succession should ideally reflect infrastructure experience.	The Nominations Committee will factor in to further recruitment of the diversity of skills required.
The Board should consider further succession planning for key Executive roles.	This will be key focus of the Nominations Committee for the coming year.
The Board should be reassured about the strength and succession potential of the Senior Management Team around the CEO.	Executive succession planning is considered by the Nomination Committee and further opportunities will

	be available to meet leaders who report to the Executive.
More site visits to be arranged.	The Chair had added site and location visits to the 2025 and 2026 calendar.
Consider whether the Company has the people resources that it will need to deliver.	HR are supporting organisational development activity across all areas of the Company.
Industry seminars and events to be highlighted.	The Corporate Affairs updates will contain these details going forwards.
Key financial updates/announcements to be sent to the NEDs to give appropriate time for review and input.	The Company's Investor Relations team will ensure this is done.
Progress on the up-weighting of the Company's principal controls to be shared with the Board.	This is a focus for the Audit Committee.
The linkage on KPIs to strategic delivery to be highlighted.	The KPI metrics are under review by the Chair, CEO and CFO.
More engagement with regulators, key stakeholders and the "outside in" perspective.	The Chair has built these events into the 2025 and 2026 calendars.
The Remuneration Committee is facing conflicting priorities from stakeholders and must stay focused on doing the right thing.	The Committee regularly consults with investors, regulators and advisors to ensure that relevant inputs are considered and factored into pay structures.

2025 BOARD PERFORMANCE REVIEW

This year the evaluation was carried out in March 2025 via questionnaires created internally by the General Counsel and Company Secretary in consultation with the CEO and Chair.

The questionnaires focused on the ongoing effectiveness of the Board during the year in setting the Company's strategy for the next regulatory period (2025-2030), the Board dynamics, ensuring that the Board has a clear understanding of the views of its stakeholders, ensuring the Board takes the lead in promoting a strong health and safety culture throughout the Company, and ensuring the Board has an appropriate level of focus on risk appetite and the internal control framework, and ensuring that the processes are in place to identify risk.

The review concluded that:

- There is an appropriate current focus on the Company's operational performance with the agenda developing to reflect the current stakeholder environment.
- The Board dynamics are developing but work well, with open, effective debate and appropriate challenge and good meeting preparation. There is good support for the Executive and a feeling the Board functions best when being totally transparent about the challenges the organisation is facing.
- The Board Committees are well run and have sufficient independent membership to ensure that they can make high quality decisions that address the diverse customer and stakeholder needs of the Company.

The 2025 Board and Committee performance reviews identified several recommendations and action points for the Board to consider, which were presented to the Board for discussion at its meeting in May 2025.

An update on the outcomes of the Board's discussions of the 2025 Board and Committee performance reviews will be provided in the 2025/26 Annual Report and Accounts.

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE IS FOCUSSED ON ENSURING SOUND FINANCIAL AND RISK MANAGEMENT TO SUPPORT THE COMPANY'S STRATEGY

Membership	Position	Attendance
Loraine Woodhouse	Chair	5
Iain Evans	Non-Executive Director	5
Claire Ighodaro[1]	Non-Executive Director	3
Andrea Blance[2]	Non-Executive Director	

1. Retired 31 December 2024
2. Appointed 8 April 2025

For the period between Claire Ighodaro stepping down to the appointment of Andrea Blance, the committee composition was not in compliance with Provision 24, however for meetings during the relevant period another independent Non-Executive Director was in attendance, along with the Chair, to ensure all decisions were made with the correct oversight of the institution's control, governance and risk management.

ROLE OF THE AUDIT COMMITTEE

- Ensure the quality and integrity of the Company's financial and regulatory reporting
- Monitor and review the effectiveness of the internal control environment
- Challenge the scope and adequacy of the Company's risk management processes
- Review the Company policies on Risk Management, Treasury, Tax and Delegated Authorities schedule
- To monitor the independence, effectiveness and remuneration of the external auditor.

THE COMMITTEE'S FOCUS FOR 2024/25

- Ensure the 2025 Annual Report and Financial Statements are fair, balanced and understandable.
- In depth review of the key financial reporting judgements.
- Oversight of the transition of the Company External Audit to PwC.
- Ensuring readiness for UK Corporate Governance Code reforms.
- Stewardship of the Assurance Framework and Data Assurance Plan.
- Oversight of cyber security risks, priorities and planned actions.
- Risk "deep-dive" in key focus areas.
- Approval of revised Internal Audit Charter.

This report is intended to provide stakeholders with an insight into the work of the Audit Committee ('the Committee') together with details of how the Committee has discharged its responsibilities throughout the year and overseen the process of assurance over the integrity of the 2024/25 Annual Report and Accounts ('the 2024/25 Annual Report').

We have focused on the following key priority areas:

- Ensuring the quality and integrity of the Company's financial reporting through the assessment of the application of accounting policies given underlying standards, challenging management through the review of the use of accounting judgements made in preparing financial reporting and the Committee's assessment of whether the financial reporting of the Company is presented in a fair, balanced and understandable manner.
- Ensuring the 2025 Annual Report is aligned with the requirements and guidance from regulators, and that all matters reported on and disclosed meet the needs of our various stakeholders.
- Oversight of the transition of the Company External Audit to PwC following the tender of the External Audit in 2023/24.
- Monitoring and reviewing the ongoing effectiveness of the Company's risk management and internal control environment, including the effectiveness and independence of the Internal Audit function.

- Challenging the scope and adequacy of risk management processes across the Company. In doing this, we monitor the expression of the Company's risk appetite and undertake "deep dive" reviews of higher risk areas.
- Approval of the revised internal audit charter.

The Committee uses its collective expertise, with input from the External Auditor, to provide a robust challenge to the approach and judgements made by management in the treatment of financial matters and their resulting disclosures within the financial statements. PwC were appointed External Auditors for the current financial year following a competitive tender process in 2023/24. We welcome the fresh perspectives and insight that they bring in their first year audit, to ensure a robust and effective audit of our financial results.

One of our key roles is to advise the Board that we are satisfied that the 2025 Annual Report is fair, balanced and understandable and that it provides the information necessary for stakeholders to assess the Company's position, trends in performance, business model and strategy. In doing so, we ensure that management's disclosures reflect the supporting detail, or challenge them to explain and justify their explanation and, if necessary, re-present the information. As part of fulfilling these commitments, we carefully consider the key financial reporting judgements of management as set out on pages 169 to 170. Significant matters considered by the Committee both during the year and in relation to the year end financial statements are laid out in this report. The External Auditor supports this process in the course of the statutory audit.

The Committee discharges its responsibilities throughout the year in accordance with a schedule of business reflecting the annual external reporting cycle of the Company, allowing for appropriate consideration at the right point. This scheduling also allows for consideration on an ad-hoc basis of events as they have arisen.

The Committee formally considers the effectiveness of the Company's risk management and internal control systems. This is achieved through updates on the operation of risk management processes during the year and the outcomes of key assurance activities, including from the Company's independent internal audit function. Additionally, the Audit Committee undertake risk deep dives focused on aspects of the Company's principal risks.

During 2024/25, the Audit Committee have performed risk deep dives on the following areas:

- Incident Management
- Cyber Security
- Wastewater processes and controls

More detail on our risk management processes, principal risks and their associated mitigations can be found on pages 61 to 77.

The Audit Committee has also been actively engaged and received regular updates during the year on the Company's preparations for meeting the enhanced requirements set out within the 2024 UK Corporate Governance Code, in particular those aspects in respect of Audit, Risk and Internal Control. Good progress has been made with the initial phase focused on financial reporting related processes and controls. The scope of these preparations during 2025/26 will expand to cover non-financial elements alongside the financial reporting related processes and controls.

Alongside this focus on our risk processes, we formally reviewed the output of the Company's financial resilience and health assessments throughout the year: with the receipt of the Final Determination providing greater clarity on the next five years, this activity was critical for the long term success and viability of the business. The Audit Committee considers a 18-month 'look forward' period through our assessment of the Company's going concern status, and over a period of seven years to assess the Company's continuing viability. This viability assessment has considered a range of financial projections arising from the current challenging and complex external environment with ongoing uncertainties in relation to economic growth, inflation prospects and the impact of the PR24 Final Determination on our business. These are modelled through internal scenarios around the deployment of Company cash reserves across the full scope of the Company. The Company now uses a seven-year viability assessment period, which in the current year aligns with the confidence provided through the PR24 Final Determination for our water businesses, given the visibility of future cash flows it brings to our regulated businesses. Our viability statement is reported on pages 78 to 80.

Throughout the year, the Company has remained focused on delivering a resilient performance in UK water, despite a difficult period of cost inflation and scrutiny of the water industry as a whole. We are focused on delivering sustainable results for all stakeholders.

AUDIT COMMITTEE COMPOSITION

All members of the Committee are Independent Non-Executive Directors of the Board. In accordance with the UK Code, the Board is satisfied that Loraine Woodhouse and Claire Ighodaro, all of whom served on the Committee during the year under review have recent and relevant financial experience and also have competence in accounting or auditing.

Only members of the Committee have the right to attend Committee meetings. Other regular attendees at meetings, at the invitation of the Committee, include the Chair of the Board, the Group Chief Executive, the Group Chief Financial Officer, the General Counsel and Company Secretary, Director of Risk and Assurance, Financial Controller and the External Auditors.

The Committee regularly holds private discussions with the External Auditor without management present. Further, the Committee Chair regularly communicates with the Group Chief Financial Officer, the External Auditor and with Committee members outside the meetings to better understand any issues or areas for concern.

MATTERS OF SIGNIFICANCE IN 2024/25

Financial reporting	• Reviewed and discussed reports from management on the financial statements, considered managements significant accounting judgements and policies being applied, and assessed the findings of the statutory audit in respect of the integrity of the financial reporting of full and half year results and as subsequent interim review of the results to November to support our parent company, Pennon Group plc, rights issue • Reviewed the internal assessment of Going Concern and longer-term viability on behalf of the Board • Reviewed in detail the 2024/25 Annual Report and advised the Board that the presentation of the 2024/25 Annual Report is fair, balanced and understandable in accordance with reporting requirements, including the consideration of climate risk in the preparation of the financial statements, and recommended the Board give approval for publication
External auditor	• Oversaw the 2024/25 statutory audit, including the key audit risks and level of materiality applied by the External Auditors • Agreed the statutory audit fee for the year ending 31 March 2025 • Reviewed and approved the non-audit services and related fees provided by the External Auditors for 2024/25 Note, in line with the structure of the Group, certain activities such as recommending reappointment of the External Auditor and assessment of effectiveness of the External Auditor are performed by the Pennon Group Audit Committee. The responsibilities of the Pennon Group Audit Committee are described in the Pennon Group annual report (pages 151 to 157).

Internal Controls and Risk management	• Reviewed the effectiveness of the Company's risk management framework and its integration into Board and Committee Reporting. • Reviewed the Company's Risk Appetite statement prior to making a recommendation to the Board. • Monitored fraud reporting and incidents of whistleblowing, including a review of the Company's whistleblowing processes and procedures and reporting to the Board on this. • Reviewed the Company risk register as part of the Annual Report process and considered appropriate areas of focus and prioritisation for the internal audit work programme for the financial year . • Carried out deep dives at Committee meetings on principal risk areas. • Approved the revised Internal Audit Charter in line with latest guidance and updated standards. • Reviewed updated Legal Compliance Policies to progress for approval.
Governance	• Considered and approved Company accounting policies, including the impact of new accounting standards, used in the preparation of the financial statements, including any required alignments of Bristol Water's accounting policies • Reviewed and considered internal financial policies. • Confirmed compliance with the UK Corporate Governance Code. • Held regular meetings with the external auditor without members of management being present. • Reviewed updates on the Company's preparations for the UK Corporate Governance Code reforms.

Regarding monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2025 are set out in the following table, together with details of how each matter was addressed by the Committee.

At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant matters arising in respect of financial reporting during the year, together with the areas of particular audit focus, as reported on in the independent auditor's report on pages 206 to 213. In addition to the significant matters set out in the table below, the Committee considered presentational disclosure matters including the use on non-underlying performance metrics disclosures, and ensuring a fair presentation of statutory and non statutory performance and financial measures.

During the year, the Committee's areas of focus included:

Area of focus	How the matter was addressed by the Committee
Revenue recognition	Given the nature of the Company's revenue, the key areas of income statement judgement for South West Water and Bristol Water continue to be in respect of revenue recognition relating to income from water services. The Committee undertook a deep dive into the measured income accrual to ensure a robust and accurate position in the current year, as well as a further streamlining of the methodologies and judgements applied. The Committee continues to scrutinise the track record of accuracy by comparing actual outturns with accruals at previous year ends to form a judgement about the quality of decision making and to ensure any learnings are further embedded in the calculation to improve accuracy going forward. The Committee also closely considered the work in respect of these areas at year end by the external auditor as well as reviewing disclosures around revenue recognition accounting policies.

Bad and doubtful debts	Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly across the Company against historical standards and compared to the track records of other companies in the relevant sectors. The Committee was particularly mindful of the ongoing impacts of affordability on the assessment of expected credit losses in determining the bad debt provision, noting the significant increases in inflation arising from macroeconomic developments. At the year end, the external auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for expected credit losses were reasonable.
Going concern basis for the preparation of the financial statements and viability statement	A report from the Group Chief Finance Officer on the financial performance South West Water, including forward-looking estimates of covenant compliance and funding levels under different scenarios, including inflationary scenarios, is provided to the Committee on a periodic basis. Rolling seven-year strategy projections, and the resultant headroom relative to borrowings, are also regularly reviewed by the Committee, including the application of scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Committee receives for consideration a report focusing on the Company's liquidity over the 15-month period from the date of signing of either the Annual Report or half-year results. The Committee also reviewed a report on the Company's financial viability over an appropriate period, in connection with the UK Corporate Governance Code's requirement for a viability statement to be given by the Board. The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Company's viability should be increased to seven years, previously until the end of K8, which recognises the longer-term visibility in the regulatory environment of the Water business. Similarly, this report also considered the viability of the Company, taking into account the potential manifestation of other adverse events modelled from the Company's principal risks and resultant sensitivity scenarios. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Company to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on pages 78 to 80.

STATUTORY AUDITOR APPOINTMENT FOR THE YEAR ENDING 31 MARCH 2025

The 2024/25 year end audit has been PwC's first year in office as auditor, they were appointed after the committee conducted a formal tender process in February 2024, as reported by the committee in the 2023/24 Pennon Group plc Annual Report.

EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to monitor carefully the effectiveness of our external auditor as well as their independence, while recognising there is a need to use our external auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The External Auditor produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditor in delivering the timely audit of the Company's Annual Report and which was shared with, and discussed by, the Committee in advance. As this was the first year of appointment, the External Auditor also prepared a transition plan, which included monitoring of the 2023/24 Audit process as well as additional work in the current year to enable them to provide their audit opinion on the 2024/25 Annual Report.

The effectiveness review of the External Auditor is considered as part of the Committee's annual performance evaluation, which also examines the relationship and communications between the Committee and the external auditor. Given this reflects the first year of the External Auditor's appointment, the evaluation will take place in due course, after completion of the current year audit.

The Committee Chair has also met privately with the External Auditor to discuss key matters on a number of occasions.

AUDITOR INDEPENDENCE

The Committee regards independence of the External Auditor as absolutely crucial in safeguarding the integrity of the audit process and takes responsibility for ensuring the three-way relationship between the Committee, the External Auditor and management remains appropriate.

The External Auditor reported on their independence during the year and again since the year end, confirming to the Committee that, based on their assessment, they were independent of the Company.

PROVISION OF NON-AUDIT SERVICES

The Committee continues to have a robust policy for the engagement of the external auditor's firm for non-audit work. The Committee receives a regular report covering the auditor's fees including details of non-audit fees incurred.

Recurrent fees typically relate to agreed procedures in relation to annual regulatory reporting obligations to Ofwat; work which is most efficiently and effectively performed by the statutory auditor. The policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee chair to approve all non-audit work performed by the statutory auditor.

The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditor's firm to carry out such work, and only grants approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be safeguarded. If another accounting firm could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the External Auditor.

The level of non-audit fees payable to the external auditor for the past year is 27.9%, which is within the Company's 70% non-audit fee limit.

The Group Chief Financial Officer regularly reports to the Committee on the extent of services provided to the Company by the External Auditor and the level of fees paid. The fees paid to the External Auditor's firm for non-audit services and for audit services are set out in note 8 to the financial statements on page 235.

INTERNAL AUDIT

The internal audit activities of the Company are a key part of the internal control and risk management framework. There is a long-standing and effective centralised internal audit service at Pennon Group plc which supports the Committee in delivering its responsibilities and has continued to operate effectively. The internal audit charter was updated during the year to reflect the requirements of the new Global Internal Audit Standards. The Internal Audit Plan is set on a rolling six-month basis and was approved in March 2024 and September 2024, following a thorough review to ensure it provided adequate coverage over the Company's key risks for the year ahead and was sufficiently flexible to respond to emerging risks. In developing the plan, account is taken of the principal risks, the activities to be undertaken by the External Auditor, and the Company's annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Company.

The Director of Risk and Assurance reported regularly through the year to the Committee on the outcomes and findings of internal audit activity. There were regular discussions, correspondence and private meetings between the Director of Risk and Assurance and the Committee Chair. The Committee continues to monitor the performance of the internal audit function as part of its annual assessment of the effectiveness of the function. As required by IIA standards, the next cyclical external review of the internal audit function will take place before the end of 2026/27 (the last having been undertaken in 2021/22).

FAIR, BALANCED AND UNDERSTANDABLE ASSESSMENT

To enable the Committee to advise the Board in making its statement that it considered that the Company's annual report is fair, balanced and understandable (FBU) on pages 204 to 205, the Committee has applied a detailed FBU review framework that takes account of the Company's well-documented verification process undertaken in conjunction with the preparation of the 2025 annual report. This is in addition to the formal process carried out by the External Auditor to enable the preparation of the independent auditor's report, which is set out on pages 206 to 213.

In preparing and finalising the 2024/25 Annual report, the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the Executive. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the annual report & accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

LOOKING FORWARD

During the forthcoming year, the Committee will remain focused on the key areas of responsibility delegated to it by the Board, ensuring that standards of good governance are maintained and that appropriate assurance is obtained across all areas of the business Particular focus will be given to the Group's principal risks, internal control environment and approach to financial reporting, noting the start of the new regulatory period, special measures Bill and ongoing volatility in the global economy. Developments in reporting responsibilities, including those recommended by the Task Force on Climate-related Financial Disclosures (TCFD), the consideration of climate risk in preparation of the financial statements and the changes in the UK Corporate Governance Code, including the pending requirements of provision 29, will be considered throughout the year.

INTEGRATED ASSURANCE FRAMEWORK

Throughout the year South West Water had in place an effective integrated assurance framework which identifies and monitors all types of assurance to enable a full evaluation of the conclusions drawn by all auditors, inspectors and reviewers from both internal and external providers.

The framework utilises a risk-based approach to ensure an appropriate balance of varied providers of assurance dependent on the assessed risk and complexity of assurance requirements.

(i) Group independent internal audit

South West Water utilises the Pennon Group's independent Internal Audit function, to provide effective risk-based coverage over the internal control environment. The Audit Committee's interactions and engagement into internal audit, including input into the annual plan is summarised above.

(ii) Annual assurance (financial and technical audit)

Alongside the statutory external auditor, South West Water also engages a technical auditors to provide assurance over key areas of regulatory performance reporting. This assurance considers our reported performance against key regulatory outputs and measures.

(iii) Quality assurance and ISO Internal Reviews

The South West Water Audit Committee also considers the resources for carrying out internal audits and reviews in key Company specific areas and endorses and acts on findings from these reviews carried out within the Company. There is a programme of internal audits coordinated by the Risk and Compliance Department as part of the Company's ISO certifications.

South West Water has the following accreditations/certifications:

- ISO 9001: 2015 (quality management)
- ISO 14001: 2015 (environmental management)
- ISO 27001: 2013 (information security)
- ISO 17025: 2005 (laboratories and sampling)
- ISO 45001: 2018 (occupational health and safety)
- ISO 50001: 2011 (energy management)
- ISO 55001: 2014 (asset management)
- BS ISO 22458: 2022 (customer vulnerability)

These specific areas are also subject to periodic external reviews (such as ISO external reviews). Certain standards above were not held by Bristol Water when acquired by South West Water and we have an ongoing programme to incorporate the Bristol Water area of operation within the above accreditations/certifications, where relevant.

SOUTH WEST WATER'S 2023/24 BOARD ASSURANCE STATEMENT

In July 2025, South West Water will publish its annual performance report which will detail assurance work which has been performed in areas which it has identified following consultation as significant areas for assurance, which includes annual reporting. This report will be available as part of South West Water's annual reporting publications– available at www.southwestwater.co.uk/report2025.

AUDIT, RISK AND INTERNAL CONTROL

RISK MANAGEMENT AND THE COMPANY'S SYSTEM OF INTERNAL CONTROL

The Board is responsible for maintaining the Company's system of internal control to safeguard the Company's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Company has been in place throughout the year and up to the date of the approval of this Annual Report and Accounts and is regularly reviewed by the Board.

The Company's system of internal control is consistent with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (FRC Internal Control Guidance).

The Board confirms that it applies procedures in accordance with the UK Code and the FRC Internal Control Guidance which brings together elements of best practice for risk management and internal control by companies. The Board's risk framework described on pages 61 to 77 of the strategic report provides for the identification of key risks, including ESG risks, in relation to the achievement of the business objectives of the Company, monitoring of such risks and ongoing and annual evaluation of the overall process. Details of the key risks affecting the Company are set out in the Strategic Report on pages 1 to 132.

Key Performance Indicators are in place to enable the Board to measure the Company's ESG performance shown in the Pennon Annual report on pages 83 to 87. A number of these are linked to remuneration incentives (see page 185). A full breakdown of performance during the year against these KPIs is provided in South West Water's Annual Performance Report, which will be published in July (see www.southwestwater.co.uk/report2025).

As part of the review of the effectiveness of the system of risk management and internal control under the Company risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Company procedures.

The Company's processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout the Company and that the Company is in a position to react appropriately to new risks as they arise. New and emerging risks are identified in further detail in the risk management section on pages 61 to 77.

CODE OF CONDUCT AND POLICIES

South West Water has adopted the Pennon Group's Code of Conduct. The Code of Conduct and related policies set out the Company's commitment to promoting and maintaining the highest level of ethical standards. Areas covered in the Code of Conduct include our impact on the environment and our communities, our workplace and our business conduct.

The Code of Conduct sets out the values and principles by which we operate and provides a framework for ethical business practices. It is further supported by a number of policies that guide our workforce and suppliers, so that we may identify and deal with suspected wrongdoing, fraud or malpractice, maintain the highest standards of compliance, and to apply consistently high standards of ethics. We aim to maintain a culture that fosters the reporting of any concerns and trust that we will act on them.

Our Code of Conduct and other key compliance policies can be found here: https://www.pennon-group.co.uk/about-us/policies

ANTI-FINANCIAL CRIME POLICY

The anti-financial crime policy outlines the requirements of the Company's compliance with relevant legislation, ethical standards and best practice on preventing financial crime (including acts of bribery, fraud, money laundering and tax evasion) and provides information and guidance to those working for and on the Company's behalf on how to spot 'red flags' that could indicate a risk of financial crime.

The policy is at the heart of the new Code of Conduct published in February 2025. The Code of Conduct was launched to employees together with a bespoke interactive e-learning module which steps employees through different financial crime scenarios asking the learner to identify red flags which are set out in the policy. The training is mandatory for all employees and is delivered through the Company's learning management platform to track completion. Employees will be obligated to complete an annual refresher, and the course is part of the induction of all new employees irrespective of job function.

The Legal Compliance function ensures compliance with the policy and Code of Conduct in line with our risk-based approach by conducting ad hoc checks on completion of the mandatory training set out above, providing specific training to areas of potential higher risk as part of our Bribery and Fraud Risk Assessment programme (e.g. Procurement and Commercial & Estates), and carrying out detailed investigations into allegations of potential wrongdoing (whistleblows) received from employees, customers and suppliers.

The potential consequences for colleagues and the Company itself are clearly set out in the policy as are the processes for raising concerns. Any breaches or failure to adhere to the Company's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Company. All employees are required to report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Group's confidential whistleblowing service Speak Up.

The Legal Compliance team (in conjunction with the Internal Audit function and Group Tax team) created a revised financial crime risk assessment framework in April 2024. This was delivered in 2024/25 and included:

- Combined business-wide bribery and fraud risk assessment process, which included a training session on the law governing financial crime and a risk assessment completion workshop.
- Tax evasion risk assessment.

The framework is complemented by the regular review of corporate policies relating to financial crime prevention. In addition to the Code of Conduct, a new simplified Gifts and Hospitality policy was introduced and approved by the Board at their September meeting.

Allegations of financial crime are reported to the Audit Committee together with investigation outcomes and details of any action taken, which are disclosed to our external auditors. There were no confirmed cases of bribery, corruption, fraud, or business ethics violations during the year.

TRAINING AND COMMUNICATIONS

Our comprehensive programme of training and internal communications continues with targeted messaging and interactive training sessions. This programme addresses the business's key compliance risk areas and has been designed to increase resilience, heighten awareness and promote a culture of doing the right thing. From 2024, colleagues will be required to complete a refresher compliance training (focussed on the Code of Conduct which sign posts to all Company policies) on a yearly basis to ensure that continuous knowledge and understanding of our policies are maintained.

WHISTLEBLOWING POLICY – SPEAK UP

The Speak Up service encourages employees to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how any such concerns should be raised and ensures that employees are able to do so without fear of reprisals. The Company's whistleblowing policy specifically includes and encourages reporting of:

- Endangering someone's health and safety
- Anything that is against the law
- Stealing or fraud
- Corrupt or dishonest activity

- Damage to the environment
- Covering up wrongdoing
- Abuse of authority
- Intentionally misreporting to a regulatory body
- Bullying, harassment and/or victimisation
- Tax evasion or the facilitation of tax evasion

The Speak Up service comprises telephone and web-based reporting channels operated for South West Water by independent provider NAVEX Global.

Following receipt of a report, the allegation will be triaged to assess if the issue is a personal grievance or has a wider public interest element, and an investigation started promptly if in the public interest to do so. The investigation process is overseen by the Ethics Management Committee and will be undertaken fairly, impartially, and thoroughly by appropriately trained investigators, with strict confidentiality being maintained at all stages of the investigation.

After each investigation, a confidential review is undertaken to identify any lessons learnt, or organisational improvements or training requirements. Other improvements identified are always acted upon, while ensuring the paramount requirement of operating a whistleblowing process that protects the identity of individuals and the independence and integrity of the process. Our whistleblowing process is designed to support our staff, reflect shared responsibility, promote a positive culture and provide unique insights, and is central to our system of checks and balances.

To emphasise our commitment to transparency and continuous improvement, we have led on the creation of a Water Industry Whistleblowing Best Practice Forum consisting of 12 water and waste companies across England and Wales.

ESG COMMITTEE REPORT

The ESG committee (the Committee) supports the company's ongoing commitment to environmental stewardship, social responsibility, and strong governance, ensuring that sustainability remains embedded across the company.

Membership	Role	Attendance
Iain Evans	Chair	4
Gill Rider[1]	Chair	1
David Sproul[2]	Non-Executive Director	3
Jon Butterworth	Non-Executive Director	4
Dorothy Burwell	Non-Executive Director	4
Susan Davy	Group Chief Executive Officer	4
Laura Flowerdew[3]	Group Chief Finance Officer	4
Steve Buck[4]	Group Chief Finance Officer	1
Andrea Blance[5]	Non-Executive Director	

From the 1 April 2025 Dorothy Burwell will be Chair of the ESG Committee and membership will be Jon Butterworth, Loraine Woodhouse, Susan Davy and Laura Flowerdew.

1. Resigned 24 July 2024
2. Appointed 1 July 2024
3. Appointed 11 July 2024
4. Resigned 11 July 2024
5. Appointed 8 April 2025

ROLE OF THE ESG COMMITTEE

- Review the policies, management, initiatives and performance of the Company with respect to the environment, workplace policies, Company governance and corporate policies relating to responsible and ethical business practices, the role of the Company in society and customer service and engagement.
- Review the overarching environmental performance of the business, ensuring a focus on key areas of improvement.
- Review the actions of the Company to determine the suitability of the workplace environmental policies and practices of key suppliers and contractors.
- Review the extent and effectiveness of the Company's external reporting of sustainability performance and its participation in relevant external benchmarking indices.
- Regularly report to the Board.
- Advise the Audit Committee of any material non-financial risks.

THE KEY SUCCESS OF THE COMMITTEE'S FOCUS FOR 2024/25

- Achieved 13 out of 16 of our ESG targets for 2025.
- Refreshed our materiality assessment, following double materiality principles in line with best practice to complete our first Double Materiality Assessment (DMA) to highlight SWW's priority ESG topics areas.
- Established new ESG targets for 2025-2030 informed by the outputs of our DMA.
- Enhanced our social strategy informed by a deep dive into our Social Performance.
- Continued to successfully integrate ESG principles across the Company, with a strong focus on our supply chain leading to an exciting partnership with the Supply Chain Sustainability School.
- Successful progress made against our four priorities for 2024/25, including greenhouse gas emissions reductions and water quality and resilience.
- Continued development of our TCFD and TNFD reporting, including key physical and transition risks, and scenario analysis, aligned with SWW's Climate Adaptation Report published in January 2025.
- Reviewed our ESG reporting and assessments in line with incoming legislation - including UK Sustainability Reporting Standards (UK SRS).

Our approach to ESG ensures that everything we do supports our commitment to providing environmental stewardship and supporting our local communities and customers. A broad range of ESG topics were considered by the Committee during the year while fulfilling its duties in accordance with our latest terms of reference and governance structures. The Committee closely monitored its wide range of ESG measures, targets and environmental KPIs alongside compliance and assurance activities, which showed strong performance throughout the year. This performance has been underlined by our continued improvement on greenhouse gas emissions reduction targets, achieving our 2025 target for Scope 2 market-based emissions.

A strategic leadership approach has been implemented to address areas of improvement, particularly across renewable energy generation, storm overflows, pollution, and water quality. Remediation activities are currently underway to ensure continued improvements in performance for 2025/26. Our strong progress on existing regulatory commitments and group ESG targets to 2025 have been further identified in “Our Integrated Approach to ESG” on page 81, and the key focus areas for the Committee in 2025/2026 are noted in the “Focus areas for 2025/26” below.

As we conclude our 2025 ESG targets, this year has provided a valuable opportunity to reflect on our performance and shape our future ambitions. The Double Materiality Assessment (DMA) conducted in alignment with best practice has provided critical insights into stakeholder views, building on our four strategic priorities as a business. This assessment has formed the foundation of our next phase of ambitious ESG targets, spanning 2025-2030. These refreshed targets take into account our ever-changing environment and ensure focus on the highest-priority issues for our stakeholders, driving performance above and beyond our current regulatory commitments. As we enter this next chapter, we remain committed to driving our performance against these targets, driving long-term value for our stakeholders and environment, enhancing our sustainability performance across the Company.

Following on from our supply chain deep dive in 2023/24, we remain committed to ensuring that ESG principles are inherent within the Company activities and across our supply chain. Driven by our ESG improvement programme, we are partnering with the Supply Chain Sustainability School (SCSS) to upskill both suppliers and internal colleagues across all sustainability-related topics. This is part of our wider commitment to continue endorsing the assessment of supplier ESG measures against stakeholder, regulatory, and investor requirements to ensure alignment with our sustainability ambitions activities.

In line with our TCFD requirements, we have disclosed climate-related financial information on pages 86 to 129. These disclosures evidence our strategy to reduce emissions within our operations to achieve our Net Zero commitments. The Committee oversaw our climate-related governance, with climate change management treated as one of the Company’s principal risks. The Committee has also continued to oversee TCFD and TNFD recommendations, including key physical and transition risks and scenario analysis, aligned with the Climate Adaptation Report published for South West Water in January 2025.

This Annual Report provides an integrated assessment to show how a responsible approach to sustainability helps us to balance the immediate and longer-term needs of society with the delivery of sustained commercial success.

ESG PERFORMANCE

The ESG Committee continues to provide assessment and oversight of the Company’s entities’ performance against sustainability-related targets that are core to the successful delivery of its five-year business plan. This is consistent with Ofwat’s requirement for independent governance of the regulated business.

As of 31 March 2025, we have achieved 13 out of 16 ESG targets, representing strong progress against our challenging ESG goals. Whilst we continue to consistently outperform in our greenhouse gas reductions, renewable energy generation as a proportion of total usage is lower than our target for the year. This is due to increased energy usage driven by reinforced pumping and treatment in response to extreme wet weather throughout the year.

As detailed above, we have now set ambitious ESG targets to drive sustainable outcomes for the period 2025-2030. This have been disclosed in our parent company, Pennon’s annual report on pages 86 to 87.

ENHANCED REPORTING AND ASSURANCE

As a key topic identified in this year's Double Materiality Assessment, we continue to evolve our ESG reporting and disclosures with our integrated reporting found throughout our parent company Pennon's Annual Report and Accounts, alongside a refreshed ESG Data Book to drive transparency throughout our ESG data. Our SASB disclosures can now be found within our ESG Databook which is available to view at www.pennon-group.co.uk/sustainability.

South West Water's ESG reporting is integrated throughout the strategic report and specifically in the following sections:

Section	**Page**
Chair's letter	7
Our CEO review	9
Our business model	15
Stakeholder engagement overview	16
Our people and culture	28
Our Operational review	36
Key performance indicators	51
Our ESG performance	81
Governance performance	149

Other related reporting including our Gender Pay Gap report, Climate Change Adaptation Report and Net Zero plan can be found on our parent company's website www.pennon-group.co.uk/sustainability.

Our ESG performance and reporting is now assured by Jacobs, an independent consultancy with expertise in technical assurance for the utility sector. Jacobs uses a controls-based approach, assessing the processes, systems, and governance frameworks that underpin ESG data to ensure accuracy, consistency, and reliability. The assurance statement can be found on our parent company's website at www.pennon-group.co.uk/sustainability.

Jacobs are engaged to independently audit South West Water and Bristol Water's technical (non-financial) data relating to our Outcome Delivery Incentives published in its Annual Performance Report (APR), this includes all regulatory targets, including a suite of environmental performance indicators. This year, Turner and Townsend have conducted an independent audit of other non-financial also included in the APR. This includes all South West Water regulatory targets, including the suite of environmental performance indicators. Jacobs provide a report on this audit within South West Water's APR.

As we enter the new regulatory period to 2030, we are reassessing our assurance requirements and will retender for technical (non-financial) audit activities to be consistent across all of the regions.

BENCHMARKING

It's important to us to ensure we are regularly benchmarked against the expected industry standards. This ensures we are continuing to provide up to date disclosure for our stakeholders. Certain leading indices assess companies on their disclosures relating to stringent environmental, social and governance criteria, and their capacity to capitalise on the benefits of responsible business practice. Pennon is a constituent within the FTSE4Good Index, Sustainalytics, CDP Climate and Water, GRESB, S&P Global CSA, and a number of other leading external ESG assessments.

Our latest external assessment scores as of 31 March 2025, in our parent company, Pennon's annual report on page 86, show our improved performance across all assessments, building on our status as an ESG leader within our industry.

FOCUS AREAS FOR 2025/26

- Embed and progress against our refreshed ESG targets for 2025-2030.
- Develop our Social approach to embed social value within our community investment.
- Continue to review our ESG assessments in line with incoming legislation - UK Sustainability Reporting Standards (UK SRS).
- Development of supply chain improvements, embedding benefits through our partnership with the Supply Chain Sustainability School (SCSS).
- Engage in diverse deep dive sessions across the ESG areas.
- Review of external ESG benchmarking to refocus reporting to channels used most by our stakeholders.

HEALTH AND SAFETY COMMITTEE REPORT

THE HEALTH AND SAFETY COMMITTEE PROMOTES A CULTURE OF SAFETY WITHIN THE COMPANY.

Membership	Role	Attendance
Jon Butterworth	Chair	2
Iain Evans	Non-Executive Director	2
Dorothy Burwell	Non-Executive Director	2
Susan Davy	Group Chief Executive Officer	2
Laura Flowerdew	Group Chief Financial Officer	2

From April 2025, membership of the Health and Safety Committee will be Jon Butterworth, Iain Evans, Loraine Woodhouse, Susan Davy and Laura Flowerdew.

THE COMMITTEE'S FOCUS FOR 2024/25

During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Half yearly comprehensive reviews of the Company's Health & Safety performance.
- A review of the tactical interventions to deliver in year improvements in incident reduction.
- A review of the HomeSafe 2025 strategy and evolution to HomeSafe 2030.
- A review and challenge of high potential near-miss events to ensure themes are identified and pragmatic solutions implemented.
- Visiting operational sites to engage with front-line colleagues and the wider Health and Safety teams.

ROLE OF THE HEALTH & SAFETY COMMITTEE

- Review and challenge to support the Board and Executive on all matters connected to Health and Safety
- Review the extent and effectiveness of the Company's reporting of health and safety performance and compare to external benchmarks
- Regularly report to the Board
- Advise the audit committee of any material non-financial risks

At South West Water, we are passionate about health and safety. Everyone is empowered to take responsibility for both safety and wellbeing, feeling able to call out anything that makes us better. Safety is about taking accountability and brave leadership, which leads to the journey of a world-class culture.

HomeSafe, our flagship initiative to drive enduring and sustained change - has played a pivotal role across the Company. Our dedicated Board Committee, focused purely on Health and Safety, ensures the Board continues to support our HomeSafe strategy and the Compnay's vision that everyone goes home safe every day. We continue to strive to improve our health and safety performance, and leadership from the top is critical. The Board has dedicated time to visit operational sites, discuss and review performance, offer support, encourage learning, and meet department and site leaders and employees from across the business.

The Board recognises the improvements across the Company through HomeSafe and supports the evolution of the strategy to drive improvements across all aspects of health, safety and wellbeing through to 2030.

I was delighted that the Committee was able to support the HomeSafe live event this year and visit multiple operational sites. The event, which changed formats from previous years, was brought to life with engaging workshops delivered over six days at six different venues within the Southwest. The interactive workshops had core health and wellbeing messages featured throughout and allowed employees to engage directly with senior leadership.

Importantly, the Committee reviews deep dives of High Potential Incidents with a particular focus on lessons learned, getting to the root cause, encouraging a learning mindset. These reviews highlight the improvements in culture, leadership and accountability through open and honest investigations seeking to learn and improve whilst deliver pragmatic solutions.

HEALTH AND SAFETY COMMITTEE COMPOSITION
All Board members are attendees and served throughout the year, with support from the Chief People Officer and South West Water's Health and Safety Director.

REPORTING
In addition to the regular Board report by the Group Chief Executive Officer, detailed performance is reviewed quarterly by the Executive team, and six-monthly by this Committee, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health, critical safety controls and working environment.

Engagement through all levels of the organisation has demonstrably increased and has supported the incremental improvements, and once again seen the lowest ever Lost Time Injury Frequency Rate (LTIFR), for employees and agency, excluding contractors, achieving the original HomeSafe ambition of 0.24.

The evolution of HomeSafe will continue to drive improvements and will be regularly reviewed to ensure it drives us towards our 2030 aims, and beyond.

The Committee will continue to review and challenge plans and performance to support our HomeSafe ambitions.

HOMESAFE STRATEGY
The Company's flagship Health and Safety programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities and impacts. The evolution of HomeSafe is an important progression to deliver continuous improvement throughout K8, and is focused on the four cornerstones of:

- **Occupational Safety**: focusing on the Individual
- **Process Safety**: focusing on the high consequence processes within our water and wastewater treatment process.
- **Occupational Health and Wellbeing**: focusing on physical and mental health
- **Security**: focusing on physical and personnel security

Read more on page 32.

REMUNERATION COMMITTEE REPORT

EVOLVING REMUNERATION IN A CHANGING ENVIRONMENT

Membership	Role	Attendance
Andrea Blance[1]	Chair	
Claire Ighodaro[2]	Chair	3
Iain Evans[3]	Non-Executive Director	4
Loraine Woodhouse[4]	Non-Executive Director	4
Dorothy Burwell	Non-Executive Director	4

1. Andrea Blance was appointed to the Board as Remuneration Committee Chair on 8 April 2025.
2. Claire Ighodaro retired from the Board as at 31 December 2024
3. Iain Evans acted as Chair of the Committee for the March meeting
4. Loraine Woodhouse stepped down from the Remuneration Committee on 1 April 2025.

ROLE OF THE REMUNERATION COMMITTEE

- Ensure remuneration is aligned with the Company's strategy and reflects the values of the Company.
- Determine the Remuneration Policy to ensure it remains appropriate, considering stakeholder's views and best practice and supports attraction, retention and motivation of Executive Directors.
- Advise the Board on the framework of executive remuneration for the Company.
- Set the remuneration for the Executive Directors and senior executives of the Company and reviewing the remuneration arrangements of the wider workforce.
- Approve the design and determine targets for any performance-related pay schemes.
- Determine the appropriate outturn of any incentive arrangements.

THE COMMITTEE'S FOCUS FOR 2024/25

- Considered the remuneration and terms of engagement of the Executive Directors, senior executives and Chair of the Company and the remuneration of the wider workforce.
- Determined targets that remain stretching, relevant to the Company's strategy and values and reflect best practice and wider stakeholders' views.
- Considered incentive arrangements for 2025-30 reflecting Ofwat guidance and expectations for K8.

Long term stewardship is at the heart of our strategy. Our values and culture shape how we act in a way that supports the interests of our various stakeholders. This applies at all levels of the organisation, including the activity of the Remuneration Committee.

All of our stakeholders – customers, communities, employees and the environment in which we operate – have a shared interest in ensuring water companies are performance driven, sustainable, financially resilient, mindful of our impact on the environment and able to make the substantial capital investment required in infrastructure in order to ensure the long-term viability of the sector.

With this in mind, it is essential that the approach to executive pay is able to attract and retain the high-quality talent required to lead a large, complex, infrastructure organisation, by incentivising and fairly rewarding management teams for outcomes achieved. These principles underpin our approach to executive remuneration.

EXTERNAL CONTEXT
This has been a year in which many of the foundations underpinning effective regulation of the water sector have been under review, with a new Government, new legislation and a renewed focus on the transformation of the Sector. The Water (Special Measures) Act, passed in February 2025, has strengthened the power of water industry regulators, with Ofwat consulting on the prohibition of performance-related pay in certain circumstances.

As a principle, we always strive to ensure we maintain constructive working relationships with the Government and our regulators. As a responsible business, we fully support the legislation and want to work constructively with Ofwat to ensure that everyone can have the clarity required to enact the Act in full. That said, we are mindful that the Act will fundamentally change how incentives are operated by water companies in comparison to other sectors.

Noting that the consultation on the prohibition rules was still underway at the time the Remuneration Committee met in May 2025 to agree incentive outcomes, and given a remuneration review is under way, no annual bonus has been paid to executives.

INCENTIVE OUTCOMES

Following guidance from Ofwat, we have taken steps to ensure that performance related pay outcomes for executive directors meet the following principles:

1) Ensuring customers do not pay – performance related pay is paid for at a Group level.
2) Ensuring that the proportion of the annual bonus is substantially linked to stretching outcomes for customers, communities and the environment. For the Group CEO and CFO, 90% of remuneration has been set to link to the water company performance, with 10% at a Group level.
3) Considering formulaic outcomes of performance related pay against the 4 standards under consultation by Ofwat (consumer matters, environment, financial resilience and criminal liability).

The Committee considered the Boil Water notice for customers and businesses in and around Higher Brixham, Hillhead and Kingswear in May last year, and for which, no annual bonus was paid for 2023/2024.

For 2024/25, the annual bonus performance outcome for the year was assessed, but no annual bonus has been paid to executives. The final outcome will be determined by the Committee in the coming months given Ofwat have published their final rules and guidance, and as we review remuneration arrangements across the Group to ensure they are aligned with the stretching business plan delivery.

The 2022 LTIP has vested and will be paid for by shareholders. This long-term share award is subject to a further two year hold period. As an inflight scheme, awarded in 2022, Ofwat has confirmed that this scheme is not subject to the Water Special Measures Act. However, the Committee considered the time period (2022-2025) and that annual bonuses had been waived in 2023 and 2024 before agreeing that the LTIP should vest.

Following feedback from the EFRA committee to ensure that remuneration arrangements contain measures around affordability, the customer basket of measures were adjusted to contain relevant KPIs.

REMUNERATION REVIEW

This is a critical phase for the Group, as we seek to deliver what matters most to our stakeholders, transforming the water sector in a period of unprecedented and well-documented challenges. During such a period it is crucial that we are able to retain and motivate our extremely strong team of senior leaders in order to drive delivery of our transformational business plan.

The Water (Special Measures) Act will fundamentally change how incentives are operated by water companies in comparison to other sectors. The Committee is also acutely aware of the need for external stakeholders to have trust and transparency in the way remuneration is determined in the water sector.

In this context, the Remuneration Committee has been considering how best to evolve remuneration arrangements, seeking views from a range of stakeholders to ensure we can continue to motivate, retain and attract talent, alongside responding to the new regulations and challenges in the sector. The focus has been on ensuring remuneration supports stewardship and sustainability of the business, aligned with long-term objectives of our customers and in complying with the relevant legislation.

Over the past year we have debated a number of alternative solutions to how pay can be structured in the future.

Although this review process is ongoing, we have debated how remuneration can help to rebuild trust in the sector by supporting long-term stewardship and aligning remuneration with execution of the long-term strategy.

EXECUTIVE BOARD CHANGES

Laura Flowerdew was appointed as Group Chief Financial Officer and was appointed to the South West Water Board effective 11 July 2024. Steve Buck stepped down from the Board on 11 July 2024. Steve's departure terms are consistent with the shareholder approved Remuneration Policy, and further detail is set out in the Pennon Group Annual Report on page 177. Also, during the year John Halsall stepped down from the Board on 31 July 2024, as we realigned the Group around our four strategic priorities.

WIDER WORKFORCE REMUNERATION

We are committed to ensuring remuneration for our front-line colleagues is competitive, understanding that this is the right priority when the financial landscape is changing. We are proud that we have been an accredited Living Wage Foundation payer since 2021, and in practice we had aligned our pay rates to these recommended levels for some time prior to accreditation.

The 2025 pay award, whilst still under ballot with our trade union partners, reflects a competitive award which continues to focus on front line roles with a proposed increase valued at 3.9% inclusive of one day additional holiday for the majority of colleagues. We are proud that our employees will earn a minimum of £13.10 per hour, exceeding the real living wage by almost £1,000 annually, underscoring our dedication to being an employer of choice.

Our Group Reward principles continue to reflect the broader strategy, evolving composition of the Group and in recent years acquisition activity which has expanded our workforce across multiple locations. Key areas of focus included the embedding of the Group Values, strengthening wellbeing and incorporating greater employee flexibility through work patterns or choices of lifestyle benefits. We also offer highly competitive retirement benefits to our colleagues, and enhanced life assurance protection.

We also took time to reflect on our variable pay for colleagues, linking any variable pay to our Group Values, and ensuring clear line of sight between their objectives and the Group strategy, our customers and their communities. For senior managers there is a continued focus to build colleagues shareholding in the business through any variable pay outcomes.

Our HMRC-approved share schemes continue to be popular with colleagues with c.40% of colleagues participating in either the ShareSave or Share Incentive Plan. We have once again provided expanded disclosure on our approach for the wider workforce, and this is set out on page 186.

DIRECTORS' REMUNERATION REPORT

REMUNERATION ALIGNED TO DELIVERY FOR OUR CUSTOMERS

Significant portion of executive remuneration is linked to performance:

- Incentive linked to underlying performance
- Performance pay – appropriately aligned with customer interests with bonus and LTIs having a substantial link to stretching performance delivery for customers
- Focus on customer and operational metrics assessed by Ofwat, our customer, communities, and wider stakeholders
- Incentives designed to motivate delivery of sustainable performance
- Safeguard mechanisms in place to ensure outcomes reflect underlying performance.

AT A GLANCE

For further detail on the structure of executive pay for Pennon Group Executives, please see page 167 of the Pennon Group Annual Report and Accounts 2025. In summary there are six key elements of the structure of executive pay:

Element
Base Salary
Benefits
Retirement Benefits – 10% of salary
Annual Bonus – 50% deferred into shares for three years and 50% paid in cash
Long-term Incentive Plan (LTIP) – subject to three-year performance period and further two-year holding period
Shareholding – Executive Directors are expected to build up a shareholding equivalent to 200% of salary

What safeguards are in place?

Robust performance conditions	Variable pay linked to a rounded assessment of performance against stretching targets
Robust framework	Holistic review of performance to consider if formulaic incentive outcomes are fair and appropriate
Deferral and holding period	Bonus (50%) and LTIP awards are deferred for a further period to provide long-term alignment
Malus and clawback	Provisions in place for variable pay to safeguard against payments for failure

ANNUAL REPORT ON REMUNERATION

For 2024/2025 the statutory directors included in this report are as follows:

Susan Davy, Chief Executive Officer is an Executive Director of Pennon Plc and South West Water Ltd.

Laura Flowerdew who joined the Pennon Board on 11 July 2024, succeeding Steve Buck as Chief Financial Officer of Pennon Plc and South West Water Ltd.

The apportionment of fixed pay included in this report for Pennon Group Executives in 2024/25 is 90% for the water businesses, with 70% for South West Water, covering South West Water, Bournemouth Water and Bristol Water.

Incentives are not included in this apportionment for any Executive with Pennon Group funding any incentive payments with no cost to customers.

Remuneration is set by the Pennon Group Remuneration Committee and in accordance with the Pennon Group remuneration policy, approved by shareholders on 22 July 2023 in line with the normal three-year review process. The policy was approved with 93.6% shareholder support and is detailed in the Pennon Group Annual Report 2023. Full details of the implementation for 2025/26 can be read in the Pennon Group Annual Report 2025 on pages 163 to 165.

John Halsall, Chief Operating Officer, joined the Board of South West Water Ltd on 10 July 2023 and stepped down from the Board on 31 July 2024.

All remuneration arrangements relating to John Halsall's departure were consistent with the Remuneration Policy and the Company's incentive plan.

John received a payment in lieu of notice (in respect of his salary) for his contractual notice period (£190k). In addition to standard benefits, he was entitled to legal support.

Entitlement to the LTIP granted during 2023/24 will be pro-rated for time and will remain subject to performance assessed at the end of the performance period. The award remains subject to the two-year post-vesting holding period and remains subject to malus and clawback. John also has a number of outstanding AIBP shares which will remain subject to their holding period and remain subject to malus and clawback.

THE SOUTH WEST WATER DIRECTORS' REMUNERATION POLICY AND IMPLEMENTATION IN 2024/25

The current South West Water Directors' remuneration policy was set in 2023. The full policy is contained in the 2023 South West Water Annual Performance Report on the Company's website at South West Water Annual Report and Financial Statements 2023.

For the Executive Directors of Pennon Group Plc, the policy can be found in full in the Pennon Group Annual Report and Accounts 2023 and a summary of the policy and implementation for 2025/26 in the Pennon Group Annual Report and Accounts 2025.

REMUNERATION APPROACH FOR WIDER EMPLOYEES

The Remuneration Committee considers oversight of remuneration for the wider workforce as a key element of its remit and considers this when making decisions regarding remuneration for the Executive Directors. The Committee reviews a report on employee remuneration twice a year, either through a pay dashboard, which contains information on elements of financial and nonfinancial reward, the wider labour market, demographics and pay statistics across the organisation or through a subject specific paper. This detail provides important context to ensure that a consistent approach is adopted across the Group workforce including the Executive Directors. Developments in the financial and non-financial elements of the employee proposition are reviewed regularly, as well as share scheme participation and emerging reward trends. The Committee reflects on the position of our gender and ethnicity pay. Feedback to the Committee from employees is through 'Be The Future Forum' - our employee engagement forum through the Executive Directors on matters concerning remuneration arrangements.

Reward strategy

Our well-established People Strategy across the Group is centred around talented people doing great things for customers and each other and creating the best place to work. The Reward strategy and framework which was established in 2019 has been reviewed and updated during 2023/24. The framework reflects our changed Group composition, our latest business strategy and plans and changing employee expectations. The Group values (see

pages 28 to 29) are incorporated. The framework will continue to set our approach for future developments in the reward landscape for colleagues. Pennon's Group Reward Strategy continues to have three aims:

Aim 1	Ensure reward decisions will support: • Our business strategy for delivering to customers and communities, and promoting long-term sustainable growth • Our People strategy and values • Our alignment to stakeholder expectations (e.g. investors and regulators)
Aim 2	Ensure the reward package offered to employees is: • Designed and delivered fairly • Set up to enable the business to attract and retain the talent that it needs to be successful • Supports employee engagement and motivation • Allows employees to hare in Company success
Aim 3	Clearly communicate to relevant stakeholders our employee reward and recognition principles and framework

REWARD FRAMEWORK

Our reward framework supports our people strategy.

The role of reward underpins our people strategy, proactively supporting our ambition to be an employer of choice, able to retain top talent and drive business success, rather than a stand-along strategic element.

Total Reward at Pennon incorporates:

- Base Pay
- Variable Pay and Allowances
- Saving for the Future
- Benefits

All elements are supported by reward strategy and governance, job evaluation and benchmarking and systems and data.

REWARDING OUR COLLEAGUES

Salary increases for wider workforce

As in 2024, we have focused our pay spend on those colleagues who have needed most support during the ongoing increases to cost-of-living. The 2025 pay award continues to focus on front line roles with an increase valued at 3.9% inclusive of one day additional holiday for the majority of colleagues. We are proud that our employees will earn a minimum of £13.10 per hour (with the exception of apprentices who are on a formal training plan), which not only aligns with, but exceeds the real living wage by almost £1,000 annually, underscoring our dedication to being an employer of choice. For colleagues covered by collective pay bargaining, the award remains subject to ballot.

We will continue to evaluate work patterns for the mutual benefit of customers, colleagues and operational needs during 2025/26.

Wider workforce bonus arrangements

All colleagues across the Group are eligible to participate in variable pay schemes. Senior bonus arrangements follow the model applied to the Executive Directors for their annual bonus incentive. For the wider workforce, variable pay has been aligned with the Group Values, and has stretching targets which support delivery of our Business Plan for 2025-2030, focusing on water quality and resilience, storm overflows and pollution, our net zero agenda and customer service and affordability. The scheme maintains a measure for our imperative of all colleagues going HomeSafe each and every day.

Financial wellbeing and wider benefits

We offer a comprehensive range of benefits which have been extended over the past two years to include the roll out of a financial well-being and education partner for colleagues and their families. This includes an ill-health income protection policy which has provided support to a number of colleagues in 2024/25. We continue to operate a range of discounts, green initiatives and services to enhance our employee proposition.

Saving for the future
We know that our colleagues value our responsible approach to pension contributions. We are pleased that despite the cost-of-living crisis, 93% of colleagues continue to participate in the defined contribution schemes. Our ShareSave scheme was again opened for applications in 2024, continuing to support our belief that employees should have a stake and say in the business. The ShareSave sits alongside our evergreen Share Incentive Plan providing employees with monthly share purchase from pre-tax salary. The 2024 ShareSave scheme received strong support from our colleagues, with over 23% of colleagues joining the scheme.

Living Wage Foundation
We continue to pay above the Living Wage Foundation rates for all roles excluding those colleagues who are on our apprenticeship arrangements. Our accreditation as a Living Wage Foundation employer has been maintained since 2021. We continue to focus our pay spend on lower paid roles.

Wider workforce remuneration dashboard
In accordance with the 2018 UK Corporate Governance Code, the Committee reviews the level of information provided on pay matters in the wider organisation. The Wider Workforce papers provide the Remuneration Committee with an overview of the approach to pay across the Group, supplemented with topic specific papers:

- Helps support the Committee in reviewing workforce remuneration and related policies which continually evolves to provide greater insight.
- Provides an overview of pay arrangements across the business and key statistics on pay in different areas of the business.
- Updates on progress on our Reward Strategy implementation.
- Has oversight of the wider remuneration landscape to provide external context and industry specifics to inform on our benefits.
- Provides information on workforce demographics, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas.

The Committee intends to keep the content of the dashboard under review to ensure it remains suitable.

Highlights	
Base Pay	The Company's overarching principles for basic pay are as follows: • Base pay should reflect the level of skills, responsibilities and accountabilities of the job, plus the market and region in which the business area operates. • We should maintain a market competitive edge to attract and retain talent. Market benchmarking against recognised surveys is conducted regularly. • We should maintain our status as an accredited Real Living Wage Employer, guaranteeing base pay at or above the Living Wage Foundation rates. • We should review pay annually with any resulting award being subject to affordability and business performance. • We should engage with Be The Future Forum, the WaterShare Customer Panel and Recognised Trade Unions on pay decisions. • We should undertake equal pay and gender/ethnicity pay analysis from time to time to ensure we comply with current equality legislation and provide equal total reward opportunities for roles of equal value.
Variable pay	South West Water operates variable pay schemes, including annual bonus and incentive arrangements and all employees and temporary workers are eligible to participate. Throughout variable pay schemes, there is strong correlation in the targets, to align the whole organisation on goals linked to customer, communities and the environment. The maximum bonus levels are based on seniority and level of responsibility. At leadership level a portion of the bonus is deferred into shares for three years.

	Long-term incentive share awards are available to senior executives and Executive Directors, consistent with market practice. Our front-line teams receive overtime, call-out and standby payments, ensuring that when workloads are high, employees are fairly compensated. We remain mindful of the need to balance working hours, customer demand and available resource against the health, safety, wellbeing of our colleagues, our overarching principles on variable pay are as follows: • Provide every colleague with the opportunity to earn an element of variable reward using appropriate mechanisms for different colleague populations, as agreed by each business area. • Have clear communication on rationale, purpose, performance measures, pay-out calculation and other rules for the variable pay schemes, to ensure colleagues fully understand their total reward opportunities. • Ensure the performance measures included in the balanced scorecard are aligned to our business strategy, values and take into consideration the views of customers, regulators and other key stakeholders. • Encourage colleagues to have share ownership through variable pay. • Remuneration Committee or relevant Executive Committee can apply appropriate discretion to bonus outturn, considering the 'how' as well as the 'what'.
Saving for the future	We offer highly competitive retirement benefits to our employees, which include additional life assurance protection. Membership of the Group pension scheme remains high with c.93% participation rate in our Defined Contribution (DC) scheme. As part of our Saving for the Future, all employees can participate in our HM Revenue and Customs-approved Sharesave and Share Incentive Plan, with a strong emphasis on employee buy-in and ownership. Not only do our share schemes provide a mechanism for sharing in the long-term success of the Group but mean that colleagues and customers have a say and stake in the business. Our overarching principles on Saving for the future are as follows: • Provide every colleague with the opportunity to build up share ownership. • Clearly communicate and promote the existing share schemes to ensure maximum participation. • Ongoing exploration of HRMC approved tax advantaged share scheme opportunities for broader offerings. • Provide every colleague with the access to our Defined Contribution pension scheme with the choice of employee/employer contribution levels. • Provide company matching in our Defined Contribution pension scheme to further support our colleagues saving for retirement. • Provide access to a fully interactive pension administrative platform and drop in sessions to ensure employees understand the offering and implications to make informed decisions. • Comply with the government required pension enrolment requirements.
Benefits	We operate a range of benefits of which the majority are available to all colleagues. These are selected for their ability to enable colleagues to get the best value from their salary such as discounts, to ensure a work life balance which supports both family life and outside interests through generous holiday entitlements or those designed to bring financial security such as income protection or life assurance. A range of advisory services are available to support colleagues on occasions where additional support is needed, including financial support, health and wellbeing, legal advice and a range of employee led support groups. From time to time, there may be necessary exceptions that apply to our core benefits, reflecting TUPE transfers or preserved contractual benefits. The principles for our benefits are as follows:

	• Operate a set of core Group-wide benefits for all colleagues, and a wide range of other additional offerings to enable colleagues select the most appropriate benefits tailored to their needs. • Ongoing evaluation of the effectiveness of the benefits offering, ensuring we take full advantage of our Group-wide purchasing power with benefits providers, and we are aligned with our Fair Tax Strategy and HRMC guidelines. • Actively engage with employees to understand their needs to continue shaping our benefits proposition. • Adopt technology to enable easy access to our benefits from home or work. • Continue to focus on developing our wellbeing and flexible working provisions, and explore additional benefits provision opportunities to support our broader ESG agenda (e.g. green voluntary benefits, volunteering days etc.).

Gender and Ethnicity pay reporting

We recognise our duty to contribute positively to society by cultivating an environment that promotes social mobility, prioritises diversity and inclusion, and ensures equitable treatment for all employees. Our aspiration is to become the Employer of Choice across our region, where trust is paramount, and every individual is valued for their contributions. Transparency lies at the heart of our commitment to diversity and inclusion. Reporting serves as a vital instrument in our journey towards openness, allowing us to candidly assess the gender and ethnic diversity within our workforce. Moreover, it enables us to share the proactive measures we have implemented and will continue to pursue to enhance diversity across all levels and roles within our organisation. We understand that fostering an inclusive workplace is imperative not only for attracting talent but also for retaining our valued colleagues and because it is the right thing to do.

During 2022/23, in line with our Change the Race Ratio commitments, we voluntarily published our Ethnicity Pay Gap data for the first time. The results reflect our journey in building representation of ethnic minority groups and gender diversity, noting that the South West, where a large proportion of our business is based, has a lower diversity mix than other parts of the UK. Our mean ethnicity pay gap is 8.89% for South West Water as at the snapshot date 6 April 2024, an improvement of 11.05% compared to the prior year. Across the Company we have been working hard to attract a greater number of ethnically diverse candidates to apply for job vacancies, and we offer dedicated support to new employees through our graduate programme and support the 10,000 Black Interns Programme. We will continue to work to progress our diversity actions to build greater representation.

The mean gender pay gap for South West Water was 3.53% on the snapshot date of 6 April 2024 a decrease from 6.72% in the 2023 report. There has been a notable rise in female representation in more senior roles within South West Water with female representation in the upper quartile now at 24.9%, improving over 1% for South West Water since the prior year. The median gender pay gap which compares the remuneration of the 50-percentile female and male colleague, also shows significant progress at 8.28%.

During the year the Group has been recognised for our progression in gender equality by external bodies. Our placement in the FTSE Women Leaders Review reflected our high participation of female Board members resulting in our parent company, Pennon Group plc, ranking third for Women on Boards in the FTSE 250.

We are committed to deliver on our ambitions to build diversity and inclusion across the Company and the water industry.

Colleague engagement

RISE was renamed ‘Be The Future’ forum in 2024, reflecting the Company values. The forum has now been in place for three years, providing a two-way dialogue for all colleagues across the Group. This is regularly attended by senior leadership including the Group Chief Executive Officer, the Group Chief People Officer and South West Water Director of People and Culture, and other members of the senior leadership. The forum is an established group provoking healthy debate and discussion on areas that matter to employees, including reward.

Engagement survey results and action planning are a discussion area for this Company and representation remains strong across the business divisions. This group continues to be a key source of dialogue and employee views for shaping future reward developments. The Committee is kept informed of themes and feedback from 'Be The Future' forum discussions.

HomeSafe

Making sure our colleagues and contractors get HomeSafe every day is fundamentally more important than remuneration. However, how we measure our performance, reward colleagues living by our values and the culture we create, has a direct influence on the health and safety of each other and we will continue to support this important initiative through our wider workforce remuneration principals and Executive Remuneration policy.

SINGLE TOTAL FIGURE OF REMUNERATION TABLES (AUDITED INFORMATION)

	John Halsall[1] (£000)		Susan Davy[2] (£000)		Laura Flowerdew[2] (£000)		Steve Buck[2] (£000)	
	2024/25	2023/24	2024/25	2023/24	2024/25	2023/24	2024/25	2023/24
Base salary	126	366	358	344	223	-	97	82
Benefits[3] (including Sharesave)	6	30	34	14	10	-	3	3
Pension-related benefits[4]	12	37	36	34	22	-	10	8
Total fixed pay	144	433	428	392	255	-	110	93
Annual bonus (cash and deferred shares)[5]	Nil	Nil	Nil	Nil	Nil	-	Nil	Nil
Long-Term Incentive Plan[5]	n/a	n/a	Nil	Nil	Nil	-	Nil	Nil
Total variable pay	Nil	Nil	Nil	Nil	Nil	-	Nil	Nil
Total remuneration	144	433	428	392	255	-	110	93

(1) John Halsall was appointed to the South West Water Board as Chief Operating Officer effective 10 July 2023. John Halsall received a bonus in respect of 2022/23 of £43,556. £36,512 was the amount forfeited from prior employment which was honoured as part of the joining arrangements and the balance was earned in John's role during 2022/23 and prior to his appointment to the Board in July 2023. This was not awarded until confirmation of the bonus amount was received from his previous employer, with the cash portion settled in December 2023 and the share portion in November 2023. Of the total amount, 50% was settled in Pennon Group shares, with a deferral of three years and 50% awarded in cash. This is not included in the single figure table as it does not relate to his services a Director of South West Water Ltd. John Halsall stepped down from the Board on 31 July 2024 and has not been replaced.

(2) Susan Davy was appointed as Chief Executive Officer of Pennon Group plc and South West Water as of 31 July 2020. Laura Flowerdew was appointed as Chief Financial Officer of Pennon Group plc on 11 July 2024 and South West Water from the same date succeeding Steve Buck who served as Chief Financial Officer of Pennon Group plc from 27 November 2023 and South West Water from 1 January 2024 until he stepped down from his Board appointments on 11 July 2024. The fixed pay figures shown in the table are those re-chargeable to South West Water through Group re-charges (70% of fixed remuneration). Reflecting the nature of their Group position all subsidiaries receive a cross-charge for fixed remuneration. All variable incentives are fully funded by Pennon Group. The full single total figure of remuneration table is shown on page 173 of the Pennon Group plc Annual Report and Accounts 2025 as well as Laura's joining arrangements and Steve's departure arrangements on page 173 and 177. These arrangements are funded by Pennon Group.

(3) Benefits comprise a car allowance, fuel allowance and medical insurance and for John Halsall temporary accommodation support for four months of 2023/24, agreed as part of his joining arrangements.

(4) Retirement benefits for the Chief Operating Officer are shown on page 194 of this report, with details for the Group

Executive Directors shown on page 177 of the Pennon Group Plc Annual Report and Accounts 2025.

(5) For 2023/24, in recognition of the current external environment, the Committee determined that no bonus would be paid to Executive Directors (of both Pennon Group and South West Water Ltd) in respect of the year. This was consistent with managements recommendation for a zero bonus outturn. Further details of the annual bonus and LTIP awarded to the Pennon Group Executive Directors are shown on page 174 to 177 of the Pennon Group plc Annual Report and Accounts 2025. John Halsall was not a participant of the 2021 LTIP.

Notes to the single figure table

No annual bonus has been paid to the Executive Directors of South West Water or Pennon Group in respect of 2024/2025 and no bonus was paid in respect of 2023/24. Incentive arrangements for the Executive Directors, when paid, are funded by the Pennon Group and are not re-charged to South West Water customers. The decision on bonus payments will be considered and reviewed by the Remuneration Committee in due course now further clarity has been provided on the application of the Water (Special Measures) Act.

ANNUAL BONUS OUTTURN FOR 2024/25

The formulaic outturn for FY25 has been reviewed.

In assessing performance, we have noted the robust relative performance on common ODIs, with cumulative ODI performance at c.70%.

Performance under the scorecard is summarised in the outcome table. The scorecard focuses on areas that mean most to customers and environmental performance. The targets are directly aligned to the stretching business plan, and with 70% of the bonus linked to customer and environmental performance.

The Committee also considered the formulaic outcomes of performance related pay against the four standards under consultation by Ofwat (consumer matters, environment, financial resilience and criminal liability). The boil water notice in May 2024 for Brixham customers, was considered by the Committee in the forgoing of the 2023/24 annual bonus by all members of the executive team.

The Committee carefully considered the formulaic outcome of the South West Water annual bonus of 38.7% of maximum and debated this at length.

The Water (Special Measures) Act was passed in February 2025, and the Act will be applicable to 2024/25 annual bonuses. In light of the ongoing consultation by Ofwat on how the Water (Special Measures) Act will be operated in practice, the Committee noted the formulaic out turn of the 2024/25 bonus.

However, no payments will be made to the Executives until there is further clarity on the new legislation framework to assess performance and the additional performance criteria need to be achieved before a bonus can be paid.

The Committee will review outcomes and determine if and how any award is delivered and potential interaction with any future incentive framework.

SUMMARY OF BONUS OUTCOME

Measure	Weighting	Targets	Achievement	Outcome
Financial resilience				
Underlying PBT	30%	£46m	Outcome (£35m)	0%
Customer and environment				
Basket of SWW / BW environmental and customer metrics	28%	Various – *see below for further details*		16.2%
EPA	7%	Towards 4*	Below hurdle (2*) – nil payout	0%
Pollutions Cat 1-2	5%	2 (A)	4 (R)	0%

Pollutions Cat 1-3	5%	89	Below hurdle (189) – nil payout	0%
Water Resource & Resilience	3%	Water resource storage to achieve 90%	Ahead of schedule (93.3%)	3%
Enabling Biodiversity (catchment management)	3%	14,000 ha	Above target (17,487 ha)	3%
Bathing Water Quality	4%	98% - 100%	100%	4%
Responsible business				
Social and governance	15%	Sustainalytics - 80% Fair Tax - maintain Sustainable Financing - 75% Health and Safety, LTIFR – 0.25 GHG emissions - 70% Renewables generation - 13%	Sustainalytics – 84.5% Fair Tax – maintain Sustainable Financing – 100% Health & Safety, LTIFR – 0.24 GHG emissions – 70% Renewables generation – below range (8%)	12.5%
			Formulaic outturn	38.7%

South West Water and Bristol Water Industry Metrics

Measure	Target - South West Water	Achievement - South West Water	Target - Bristol Water	Achievement - Bristol Water
C-Mex	Median	Not met target	Median	Above target
PSR - Reach	3 measures	Above target	3 measures	Above target
Leakage (3 year) (ml/d)	105.6	Not met target	32.1	Not met target
PCC (3 year) (l/p/d)	136.9	Not met target	139.5	Not met target
Supply interruptions	5m 0s	Not met target	5m 0s	Not met target
CRI	2	Above target	1.5	Not met target
Mains Repairs (/000km)	134.6	Above target	130.7	Above target
Unplanned outage	2.34%	Above target	2.34%	Above target
Internal Flooding (/no/10,000properties)	1.34	Above target	-	-
Sewer collapses (/no/10,000km)	13.99	Above target	-	-
Numerical compliance	Maintain high performance 98% (A)	Met target	-	-

LONG-TERM INCENTIVE OUTTURN FOR 2024/25

The Executive directors are members of the Pennon Group Long Term Incentive Plan. The cost of this is not cross charged to South West Water customers and is met in full by Pennon.

The Long-Term Incentive Plan arrangements and vesting outcome for the Executive Directors of Pennon and South West Water are detailed in the Pennon Group Annual Report and Accounts 2025 on page 176-177. The awards in the single figure table relate to the awards granted on 13 June 2022, which vested on 12 June 2025. The performance measures applicable to these awards reflect the nature of their Group roles and are based on Sustainable Dividends (33%), RORE (33%) and Customer Experience (33%). The vesting level for the awards is 41.1%.

The 2022 LTIP for the Group CEO and Group CFO has vested at 41.4% and will be paid for by shareholders. This long-term share award is subject to a further two-year hold period. As an inflight scheme, awarded in 2022, Ofwat has confirmed that this scheme is not subject to the Water (Special Measures) Act. However, the Committee considered the time period (2022-2025) and that annual bonuses had been waived in 2023 and 2024 before agreeing that the LTIP should vest.

RETIREMENT BENEFITS AND ENTITLEMENTS (AUDITED INFORMATION)

Details of the retirement benefits for the Executive Directors are shown on page 177 of the Pennon Group Annual Report and Accounts 2024. Both receive a maximum of 10% of salary, in line with the level available for the wider workforce.

Details of the South West Water Chief Operating Officer's pension entitlements and pension related benefits during the year are as follows.

	Contributions to defined contribution arrangements (£000)	Cash allowances in lieu of pension (£000)	Total value for the year	Normal retirement age and date (for pension purposes)
John Halsall[(1)]	3	9	12	65 (29 April 2031)

(1) John Halsall received an overall pension benefit from the Company equivalent to 10% of his salary for the year. For 2024/25 this comprised an employer's contribution of £3,333 and a cash sum of £9,114. He is a member of Pennon Group's defined contribution pension arrangements.

ARRANGEMENTS FOR THE OUTGOING EXECUTIVE DIRECTOR

John Halsall, Chief Operating Officer, joined the Board of South West Water Ltd on 10 July 2023 and stepped down from the Board on 31 July 2024.

All remuneration arrangements relating to John Halsall's departure were consistent with the Remuneration Policy and the Company's incentive plan.

John received a payment in lieu of notice (in respect of his salary) for his contractual notice period (£190k). In addition to standard benefits, he was entitled to legal support.

Entitlement to the LTIP granted during 2023/24 will be pro-rated for time and will remain subject to performance assessed at the end of the performance period. The award remains subject to the two-year post-vesting holding period and remains subject to malus and clawback. John also has a number of outstanding AIBP shares which will remain subject to their holding period and remain subject to malus and clawback.

NON-EXECUTIVE DIRECTORS' REMUNERATION

SINGLE FIGURE OF REMUNERATION (AUDITED)

	2024/25			2023/24		
	Fees[1] (£000)	Taxable benefits (£000)	Total Fees (£000)	Fees[1] (£000)	Taxable benefits (£000)	Total Fees (£000)
Gill Rider[2]	58	-	**58**	168	-	168
David Sproul[3]	131		**131**	-	-	-
Iain Evans[4]	65	-	**65**	59	-	**59**
Claire Ighodaro[5]	43	-	**43**	55	-	**55**
Jon Butterworth	51	-	**51**	49	-	**49**
Loraine Woodhouse[6]	59	-	**59**	52	-	**52**
Dorothy Burwell	47	-	**47**	45	-	**45**

(1) 70% of fees are recharged through Pennon Group plc.
(2) Gill Rider resigned from the Board on 24 July 2024.
(3) David Sproul was appointed as Chair Designate on 1 July 2024 and assumed the role as Chair on 24 July 2024.
(4) Iain Evans was appointed as Senior Independent Director 1 September 2023.
(5) Claire Ighodaro retired from the Board on 31 December 2024.
(6) Loraine Woodhouse was appointed as Chair of Audit Committee effective 1 September 2023.

Non-Executive Director fee information is disclosed in the Pennon Group Annual Report and Accounts on page 178.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Directors service contracts are set at Pennon Group plc, the dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown below:

Executive Directors	Date of Appointment	Notice Period
Susan Davy[1]	31 July 2020	12 months
Laura Flowerdew[2]	11 July 2024	12 months
Non-Executive Directors	**Date of Appointment**	**Expiry date of Appointment**
David Sproul[3]	1 July 2024	30 June 2027
Iain Evans	31 July 2020	31 August 2027
Jon Butterworth	28 September 2017	31 July 2026
Loraine Woodhouse	1 December 2022	30 November 2025
Dorothy Burwell	1 December 2022	30 November 2025
Andrea Blance[4]	8 April 2025	7 April 2028

(1) Susan Davy held a previous service contract dated 1 February 2015 in respect of her appointment as Group Chief Financial Officer, Pennon.
(2) Laura Flowerdew was appointed to the Board of South West Water on11 July 2024 following her appointment as Group Chief Financial Officer, Pennon Plc 11 July 2024.
(3) David Sproul was appointed to the Board as Chair Designate on 1 July 2024 and assumed the role as Chair on 24 July 2024.

(4) Andrea Blance was appointed to the Board of South West Water on 8 April 2025.

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side.

The policy is for Non-Executive Directors' letters of appointment to contain a three-month notice period from either side. All Non-Executive Directors are subject to annual re-election and letters of appointment are for an initial three-year term.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

OUTSIDE APPOINTMENTS

Executive Directors may accept one Board appointment in another company. Board approval must be sought before accepting an appointment. Fees may be retained by the Director. Susan Davy remained a Non-Executive Director of Restore plc throughout 2024/25. Laura Flowerdew does not hold any additional appointments. No other outside Company appointments are held by the Executive Directors other than with industry bodies or governmental or quasi-governmental agencies.

ADDITIONAL CONTEXTUAL INFORMATION

PERCENTAGE CHANGE IN DIRECTORS' REMUNERATION
Comparison of Directors' remuneration to employee remuneration

The table below shows the percentage change between 2020/21, 2021/22, 2022/23, 2023/24 in base salary, benefits and annual bonus of the South West Water Chief Operating Officer. Percentage changes in remuneration for the Pennon Executive Directors and Non-Executive Directors are disclosed in full in the Pennon Group Annual Report on page 180.

	Percentage change in salary/fees					Percentage change in benefits					Percentage change in bonus				
	2024/25	2023/24	2022/23	2021/22	2020/21	2024/25	2023/24	2022/23	2021/22	2020/21	2024/25	2023/24	2022/23	2021/22	2020/21
John Halsall[1]	-	3.5%	-	-	-	-	0%	-	-	-	-	-100%	-	-	-
South West Water	1.85%	5.45%	3.8%	2.2%	4.28%	24.83%	-24.4%	-18.7%	-10.1%	4.38%	103.0%	-7.59%	-18.1%	2.8%	-0.08%
UK employees	4.2%	6%	3.9%	2.0%	1.22%	29.3%	-21%	-20.3%	-19.5%	5.7%	78.8%	-2.2%	-45.4%	-14.3%	-17.8%

1 John Halsall stepped down from the Board and his role as Chief Operating Officer on 31 July 2024 and therefore we are not able to show the comparison for 2024/25.

RELATIVE IMPORTANCE OF SPEND ON PAY

	2024/25 £m	2023/24 £m	Percentage change (%)
Overall expenditure on pay(1)	132	120	9.7%
Distributions to Parent Company	-	-	-
Net interest charges	170	155	9.9%
Purchase of property, plant and equipment (cash flow)	603.5	540.6	11.6%

(1) Excludes employer's social security costs and non-underlying items.

The above table illustrates the relative importance of spend on pay compared with distributions to shareholders and other Company outgoings. The distributions to Parent Company, interest charges and the purchase of property, plant and equipment (cash flow) have been included as these were the most significant outgoings for the Company in the last financial year.

CHIEF EXECUTIVE OFFICER PAY RATIO

Our Group CEO pay ratio stands at 19:1 for the median employee across the wider Pennon Group. The ratio is slightly lower than in 2023/24 due to differences in the LTIP as the only variable pay element for the CEO. It continues at this lower level than the ratio in preceding years, partially due to our strategy for developing pay for front line roles including our commitment to paying above the Real Living Wage, which has led to an increase in median pay.

Year	Method	25th percentile (P25) pay ratio	50th percentile (P50) pay ratio	75th percentile (P50) pay ratio
2024/25	**Option A**	**26:1**	**19:1**	**15:1**
2023/24	Option A	27:1	21:1	16:1
2022/23	Option A	19:1	14:1	11:1
2021/22	Option A	56:1	43:1	36:1
2020/21	Option A	93:1	69:1	55:1
2019/20	Option A	91:1	64:1	53:1

Option A has been used for the calculations as per the disclosure regulations. The employees at the lower quartile, median and upper quartile (P25, P50, and P75, respectively) have been determined based on a calculation of total remuneration for the financial year 1 April 2024 to 31 March 2025.
Basic salary for part-time employees and new joiners within the applicable period have been converted to full-time equivalents for the purpose of the calculations.

The total remuneration of 2024/25 for the employees identified at P25, P50 and P75 is £31,337, £41,363, and £53,093, respectively. The base salary of 2024/25 for the employees identified at P25, P50 and P75 is £27,061, £33,344, and £38,000, respectively. The individual at P75 received a large amount of variable pay during the year, including call-out and standby allowances.

The CEO pay ratio calculation to the median employee, on the same compensation elements as the wider workforce stands at 15:1.

SHARE AWARD AND SHAREHOLDING DISCLOSURES (AUDITED INFORMATION)

Share awards granted during 2024/25

No share award was made to John Halsall during 2024/25 due to his exit from the business on 31 July 2024.

Details of the share awards for the Group Chief Executive Officer and Group Chief Financial Officer are detailed in the Pennon Annual Report and Accounts 2024/25 on pages 181.

Directors' shareholding and interest in shares

The Remuneration Committee believes that the interests of Executive Directors and senior management should be closely aligned with the interests of Pennon Group plc shareholders.

To support this, the Committee operates shareholding guidelines. For 2024/25, this guideline was 100% of salary for the Chief Operating Officer and 200% for the Group Chief Executive Officer and Group Chief Financial Officer. In line with best practice guidelines, deferred bonuses and LTIP awards subject to a holding period may only count towards the guidelines on a net tax basis.

The Executive Directors are expected to build up a shareholding in the Company within the first five years of joining the Company, or appointment to a new role.

The beneficial interests of the Pennon Group Executive Directors in the ordinary shares (61.05p each) of Pennon Group plc as at 31 March 2025 and 31 March 2024, together with their shareholding guideline obligation and interest are shown in the Pennon Group Annual Report and Accounts on pages 181 to 182.

The Shareholding of the South West Water Chief Operating Officer is shown below:

	Share interests (including connected parties) at 31 March 2024	Share interests (including connected parties) at 31 March 2025	Vested LTIP awards in holding period[(1)]	Deferred Bonus shares	SAYE	Performance shares (subject to performance conditions)	Share-holding guideline	Share-holding guideline met?
John Halsall	341	1,521	0	2,997	-	23,164	100%	No

[(1)]These share awards are not subject to further performance criteria and may therefore count towards the guideline on a net-of-tax basis.

Between 1 April 2025 and 15 May 2025 there have been no other changes in the beneficial or non-beneficial interests of the above Directors in the ordinary shares of the Company.

Details of Director share awards

Director	Year of grant	Options outstanding as at 31 March 2024	Granted in year	Lapsed in year	Exercised in year	Options outstanding as at 31 March 2025	Exercise Price	Expected date of release
John Halsall								
	July 2023 LTIP[1)]	41,008	-		0	23,164	-	20/07/2028
	November 2023 AIBP	2,997	-	-	-	2,997	-	28/11/2026

(1) The performance measures applicable to the LTIP award is detailed in the APR in the year of grant, or subsequently on the Company's website if the performance measures are finalised after the APR. In line with the plan rules, the outstanding LTIP award has been pro-rated due to John Halsall leaving the business and has been adjusted to reflect the rights issue.

Non-Executive Directors' shareholding

The beneficial interests of the Non-Executive Directors, including the beneficial interests of their spouses, civil partners, children and step-children, in the ordinary shares of the Pennon Group, are shown in the Pennon Group Annual Report and Accounts on page 182.

Malus and Clawback

Malus and Clawback provisions are embedded in the employment contracts of Executive Directors and relevant scheme documentation. Malus and clawback provisions apply to all incentive awards. These provisions enable awards to either be forfeited prior to delivery, repaid or made subject to further conditions where the Committee considers it appropriate in the event of any significant adverse circumstances. For awards granted under the term of this policy, the circumstances in which malus and clawback may be applied include a financial misstatement, error in calculation, material failure of risk management, serious reputational damage, serious corporate failure or misconduct.

In respect of the annual bonus, clawback may be applied for the period of three years following determination of the cash bonus. Under the LTIP, clawback may be applied until the end of the holding period. The Committee have not applied any action under the provisions of malus and clawback during 2024/25.

THE REMUNERATION COMMITTEE AND ITS ADVISERS

Claire Ighodaro, Loraine Woodhouse, Iain Evans and Dorothy Burwell were members of the Remuneration Committee through the year, with Claire Ighodaro stepping down on 31 December 2024. Gill Rider (who stepped down on 24 July 2024), David Sproul (who joined on 1 July 2024 and succeeded Gill Rider as Chair), Jon Butterworth and Susan Davy attend by invitation as required. During the year, the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from Adele Barker (Chief People Officer) and from Deloitte LLP.

During 2018/19, Deloitte LLP was reappointed directly by the Committee with a refreshed advisory team, following a comprehensive retendering process. Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte LLP has been objective and independent.

BOARD OF DIRECTORS AND COMPANY INFORMATION

CHAIR	D Sproul
GROUP CHIEF EXECUTIVE OFFICER	S Davy
GROUP CHIEF FINANCIAL OFFICER	L Flowerdew
SENIOR INDEPENDENT DIRECTOR	I Evans CBE (Non-Executive)
NON-EXECUTIVE DIRECTORS	D Burwell J Butterworth L Woodhouse A Blance
COMPANY SECRETARIES	A Garard
REGISTERED OFFICE	Peninsula House Rydon Lane Exeter Devon EX2 7HR
INDEPENDENT AUDITOR	PricewaterhouseCoopers LLP 2 Glass Wharf Bristol BS2 0FR
COMPANY'S REGISTERED NUMBER	02366665
PRINCIPAL ACTIVITIES	The principal activities of the Company are the provision of water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and Dorset and water only services in parts of Dorset, Hampshire, Wiltshire and Bristol.

DIRECTORS' REPORT

INTRODUCTION

The Directors present their Annual Report and Accounts for the year ending 31 March 2025. The Directors' Report comprises this report and the entire Governance section Including the Chair's Governance Statement. It has been prepared in accordance with the provisions of the Companies Act 2006 and regulations made under it. In accordance with the Financial Conduct Authority Listing's Rules, the information to be included in the 2025 Annual Report and Accounts, where applicable (under Listing Rule 9.8.4), is set out in this Directors' Report. Other information relevant to this Report, and which is incorporated by reference, can be located as follows:

Information	Page number
Particulars of important events affecting the Company and/or its subsidiaries which have occurred since the year end	n/a
Likely future developments of the Company	Pennon Group plc annual report and accounts pages 18-19
Risk management systems	61 to 77
Certain employee and employee engagement matters as well as the disclosures below	21 to 22
How the Board have engaged with employees and had regard for employee interests	21 to 22, 28 to 35 and 154
Business relationships/engagement with suppliers, customers and others	16 to 24 and 154 to 155
Carbon and greenhouse gas emissions, energy consumption and energy efficiency action	Pennon Group plc annual report and accounts pages 91 to 93
Financial risk management	228 to 231
Financial instruments	225 to 226 and 242

This Directors' report (including pages 133 to 205, which form part of this report) fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules.

CAUTIONARY STATEMENT

This Annual Report has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Company in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

CORPORATE

AUDITORS

The External Auditor for the 2024/25 financial year was PricewaterhouseCoopers LLP. The Independent Auditors' Report starting on page 206 sets out the information contained In the Annual Report which has been audited by the External Auditor. The Audit Committee considered the performance and audit fees of the External Auditors and the level of non-audit work undertaken.

CHANGE OF CONTROL

No person holds securities in the Company carrying special rights with regard to control of the Company. All of the Company's share schemes contain provisions relating to a change of control. Outstanding awards and

options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions proration for time where appropriate.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as bank loan agreements, Eurobond documentation, hybrid capital securities documentation, private placement debt and employees' share plan. This may result in certain funding agreements being altered or repaid early. The impact of employees' share plans is not considered significant.

FINAL DIVIDEND
A total dividend for the year of £nil was paid during the year (2023/24: £nil). The Report of the Chief Financial Officer on pages 54 to 60 analyses the Company's financial results in more detail and sets out other financial information.

POLITICAL CONTRIBUTIONS
The Company has authority, in accordance with Section 366 of the Companies Act 2006, to make political donations to political parties, political organisations and incur political expenditure subject to limits approved by shareholders. No political donations were made or political expenditure incurred and no contributions were made to a non-UK political party (2023/24: nil)

OTHER CONTRIBUTIONS
During the year, the Company provided a total of £50,000 in charitable donations (2023/24: £35,000) and £267,000 in sponsorships (2023/24: £105,000).

DIRECTORS

APPOINTMENTS
Details of the Directors who were in office during in the year and up to the date of the signing of the financial statements can be found on pages 136. Biographies for Directors currently in office can be found on pages 139 to 141 and on our website. During the year, Steve Buck resigned as a Director of the Company on 11 July 2024, Gill Rider resigned as a Director of the Company on 24 July 2024, Claire Ighodaro resigned as Director of the Company on 31 December 2024, Laura Flowerdew was appointed as a Director of the Company on 11 July 2024 and David Sproul was appointed as a Director of the Company on 24 July 2024.

CONFLICTS OF INTEREST
The Board has adopted a Conflicts of Interest Policy. The Board has considered in detail the current external appointments of the Directors that may give rise situational conflicts and, where appropriate, has authorised potential conflicts. Such authorisation can be reviewed at any time but is always subject to annual review.

DIRECTORS' INSURANCE AND INDEMNITIES
The Company has maintained Directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers throughout the year. The Company has entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope that complies with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

DISCLOSURES

FINANCIAL RISK MANAGEMENT
The Directors have carried out a robust assessment of the principal and emerging risks facing the Company, including in relation to its business model, future performance, solvency and liquidity. Details of our principal risks and association mitigations are set out on pages 61 to 77. Note 3 to the Financial Statements gives details of the Company's financial risk management policies and related exposures. This note is incorporated by reference and deemed to form part of this Report.

GOING CONCERN
The going concern basis has been adopted in preparing these financial statements. At 31 March 2025 the Company has access to undrawn committed funds and cash and cash equivalents totalling £650.6 million, including cash and other short-term deposits of £280.6 million and £370.0 million of undrawn facilities. Cash and other short-term deposits exclude £46.1 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. The Company has an expected headroom of £148.4 million at 31 October 2026.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's going concern status, to do this the Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 61 to 77, individual sensitivities against these risks have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Company's annual budget for FY 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 31 October 2026. The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macroeconomic impacts such as inflation and interest rate increases and operational impacts such as ensuring adequate water resources and failure of operational assets. . A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Company collectively. The combined weighted impact of the risks occurring is a cash outflow of c.£101 million; this value is considered equivalent to an extreme one-off event that could occur by 31 October 2026, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Company over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants.

In the combined scenario to ensure that the Company was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. In the combined stress test scenario, the company has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Company. However, if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

We have considered the Company's funding position and financial projections which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Having considered these factors, the Directors have a reasonable expectation that that the Company will meet the requirements of its covenants and has adequate resources to continue in operational existence for the period to at least the end of the going concern assessment period of 31 October 2026, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

DATA

As part of our business activity, the Company processes large amounts of personal data. The Company recognises that to enable this use of personal data it is critical that we continue to build on our approach to applying privacy in a lawful and ethical way. A programme of work to support this has been led by our data governance team. The work includes making improvements to our data governance framework and delivering our data privacy function. We have a number of policies, procedures and tools to support this. Compliance with these policies is mandatory. All colleagues undergo regular training to remind them of their responsibilities under these policies.

EMPLOYMENT POLICIES AND EMPLOYEE INVOLVEMENT

CONTINUOUS IMPROVEMENT

South West Water has a culture of continuous improvement through investment in people at all levels within the Company. It is committed to pursuing equality and diversity in all its employment activities including recruitment, training, career development and promotion and ensuring there is no bias or discrimination in the treatment of people. In particular, applications for employment are welcomed from persons with disabilities, and special arrangements and adjustments as necessary are made to ensure that applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible the opportunity is taken to retrain people who become disabled during their employment in order to maintain their employment within the Company.

POLICIES

The Company has policies in place covering health and safety, equal opportunities, diversity and inclusion, ethics and employee relations. Further detail of the contents of the diversity and inclusion policy are set out in the report of the Nomination Committee on page 161 to 165. Also, information regarding the employee diversity is provided

on page 32. The Board's activities in relation to assessing and monitoring culture can be found in the Corporate Governance Statement on page 144.

FREEDOM OF ASSOCIATION
South West Water respects the right to freedom of association and employees are consulted regularly about changes which may affect them either through their trade union-appointed representatives, through consultation groups or by means of their elected representatives at the Employee Engagement Forum. These forums, together with regular meetings with particular groups of employees, are used to ensure that employees are kept up to date with the business performance of their employer and the financial and economic factors affecting the performance of the Company. South West Water also cascades information monthly to all employees to provide them with important and up to date information about key events and to obtain feedback from them on a monthly basis. Further information about workforce engagement and employment matters relating to the Company are set out on pages 21 to 22 and 28 to 35 of the Strategic Report.

SHARE OWNERSHIP
South West Water and the Pennon Group as a whole encourages share ownership among its employees in Pennon Group plc by operating an HM Revenue & Customs approved ShareSave scheme and Share Incentive Plan. Following Pennon shareholder approval at the 2014 AGM, these were amended to provide for the increased savings limits approved by Government. At 31 March 2025, approximately 40% (2024: approximately 50%) of the Company's employees were participating in these plans.

MODERN SLAVERY ACT
Our people are fundamental to our business, and we remain committed and passionate about supporting our staff, customers and communities to thrive in creating an environment where everyone can feel safe and supported. We have a clear zero-tolerance approach to modern slavery and are committed to playing our part in helping eradicate it by having systems and processes to monitor, assess and reduce the risk of forced labour and human trafficking.

We remain focused on improving our risk assessment and the widening of our engagement. We have continued to engage and raise awareness, through internal training, and by continuing as a member of Slave Free Alliance. We are part of a utilities sector working group which shares best practice across our industry. We will continue to work hard to tackle this issue collaboratively with our partners, employees, suppliers, and peers, to evolve our approach to ensure it remains effective. Our latest Modern Slavery Statement can be found here: www.pennon-group.co.uk/sites/default/files/attachments/pdf/pennon-modern-slavery-statement-2023.pdf.

ENERGY USAGE
Details of our Energy usage can be found in the Pennon Group Annual report on page 91 to 93.

RESEARCH AND DEVELOPMENT
Research and development within the Company involving water and wastewater treatment processes amounted to £1.1 million during the year (2023/24: £0.6 million).

OVERSEAS BRANCHES
The Company has no overseas branches.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

The Directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

DIRECTORS CONFIRMATIONS

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the directors whose names and functions are listed in the governance report confirm that, to the best of their knowledge:

i) The company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the company; and

ii) the Strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

i. so far as each of the Directors in office at the date of signing of the report is aware, there is no relevant audit information of which the Company's auditor is unaware; and
ii. each of the Directors has taken all the steps that each Director ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' report consisting of pages 133 to 205 was approved by the Board on 10 July 2025.

On behalf of the Board

LAURA FLOWERDEW
Group Chief Financial Officer
10 July 2025

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH WEST WATER LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, South West Water Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2025 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 March 2025; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 8 to the Financial Statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

OUR AUDIT APPROACH

CONTEXT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the accounting processes and controls and the industry in which the Company operates.

OVERVIEW

AUDIT SCOPE

- Following our assessment of the risk of material misstatement of the Company financial statements, we identified two divisions where we performed a full scope audit of their complete financial information, either due to size or risk characteristics.

KEY AUDIT MATTERS

- Revenue recognition in relation to the accrued income for measured water services
- Valuation of the expected credit loss provision for household customer trade receivables

MATERIALITY

- Overall materiality: £11,088,000 based on 1.5% of Revenue.
- Performance materiality: £8,316,000.

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	**How our audit addressed the key audit matter**
Revenue recognition in relation to the accrued income for measured water services The Company's revenue streams include the provision of water and wastewater services. Revenue from measured water services requires an estimation of the level of usage/ consumption of water and/ or wastewater services between the last meter read date and the balance sheet date. The directors apply judgment through manual adjustments for factors such as seasonality and operational data trends regarding consumption, which are adjusted on top of the system generated information covering volume usage and the last meter reading. We focused on this area because the manual adjustments are judgmental and therefore the position adopted is subjective. Refer to Notes 4 and 5 to the financial statements and the Matters of Significance for 2024/25 section of the Audit Committee Report.	As part of our audit of the directors' judgment over the level of manual adjustments required: • We have performed walkthrough procedures to understand the process for calculating the measured water services accrual, with a specific focus on the directors' methodology, including reviewing accounting papers supporting the estimation; • We reviewed the report produced by the directors' expert, who were engaged to review the processes and systems used to calculate the measured water services accrual; • We performed lookback procedures over the directors historical forecasting to assess the accuracy of the manual adjustments applied; and • We developed an independent range estimate to assess the reasonableness of the estimate generated by the directors. Based on our procedures, the conclusion that the level of manual adjustments applied was reasonable is consistent with the evidence obtained.

Valuation of the expected credit loss provision for household customer trade receivables The expected credit loss provision for household customer balances is calculated using a combination of system generated information on historic debt recovery rates and the directors' judgement of whether manual adjustments are necessary to reflect the future likely level of future cash collections where these are expected to not be represented by historic losses. We focused on this area because the key assumptions driving whether manual adjustments are required are subjective and require the directors to apply judgment. The key assumption related to these manual adjustments is whether historic level of collections is indicative of the ability to collect at the same levels in the future. The risk of non-recovery from customers varies, depending on a number of factors which include, but are not limited to; increases to future rates, discontinuation of customer support programmes such as GC50, whether the household customer no longer occupies a property in the area and the level of expected leakage. Refer to Notes 4 and 20 to the financial statements and the Matters of Significance for 2024/25 section of the Audit Committee Report.	As part of our audit of the directors' judgment over the level of manual adjustments required: • We have performed walkthrough procedures to understand the process for calculating the expected credit loss provision, with a specific focus on the directors' methodology for applying manual adjustments; • We have considered external macroeconomic data such as Real Household Disposable Income reports, as well as employment, inflation, interest rate trends and the post balance sheet collections data for April 2025 to assess the impact on the provision held; • We developed an independent range estimate to assess the reasonableness of the estimate generated by the directors; and • We have understood the nature and relevance of the manual adjustments posted validating the basis of the adjustment to supporting evidence. Based on our procedures, the conclusion that the level of manual adjustments applied was reasonable is consistent with the evidence obtained.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The financial statements of the Company are an aggregation of two operating divisions, these divisions maintain their own accounting records and controls. We will perform an audit of their complete financial information due to their size or risk characteristics.

THE IMPACT OF CLIMATE RISK ON OUR AUDIT

In planning our audit, we considered the potential impact of climate change on the financial statements. We made enquiries of the directors to understand the process for assessing climate-related risks, opportunities and the extent of the potential impact of climate change risk on the financial statements. The TCFD statement describes and explains how climate change could have an impact on the company. Using our knowledge of the business we considered whether the risks identified are consistent with our knowledge of the business and remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any additional risks of material misstatement, or material inconsistencies between the financial statements and the other climate related information presented.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£11,088,000.
How we determined it	1.5% of Revenue
Rationale for benchmark applied	Based on the benchmarks included in the annual report and accounts, revenue is considered a key metric for the users of the financial statements that represents a generally acceptable auditing benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £8,316,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £554,400 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical integrity of the cash flow forecasts and the models supporting these forecasts and reconciling them to Board approved budgets. The directors' assessment covered the period of 15 months from the date of approval of the Annual Report and Accounts to October 2026, we focused on this period and also considered the subsequent five months to March 2027;
- Understanding the key assumptions the directors have applied in developing their base case and severe but plausible downside scenarios. We challenged various aspects of the directors' base case and downside scenarios including consideration of other potential downside risks that were not factored into the directors' downside scenario;
- Assessing the accuracy of the cash flow forecast prepared in the prior years so as to obtain assurance of the ability of the directors to prepare accurate forecasts;
- Obtaining and understanding the terms of the Company's financing and available credit facilities and in particular the financial covenants that the Company is subject to. We have verified the existence of the facilities in place on which the directors have based their liquidity forecast;
- Reviewing the directors' analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period;
- Assessing the extent of mitigating actions that could be taken by the directors, if necessary, to increase liquidity or to prevent a trigger or default event arising against the covenants in place; and
- Assessing the appropriateness of the disclosures within the financial statements as disclosed in the accounting policies, relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

STRATEGIC REPORT AND DIRECTORS' REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2025 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

CORPORATE GOVERNANCE STATEMENT

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by the auditor. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and

- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the audit committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Environmental regulations and Ofwat regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the

financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries that improve financial performance and management bias in significant accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions among the engagement personnel covering the potential for material misstatements due to error or fraud, the risks associated with related parties and emphasis on the need to maintain professional scepticism throughout the engagement;
- Inquiries of the directors and others within the entity, including those outside of finance, as to their knowledge, awareness and concerns regarding fraud, or breaches in laws and regulations;
- Identification and testing of journal entries that met our risk criteria, in particular any journal entries posted with unusual account combinations that hit our risk criteria and incorporating an element of unpredictability in the nature, timing and extent of audit procedures performed;
- Testing significant accounting estimates and judgements made by the directors;
- Reading the minutes of the Board meetings to identify any inconsistencies with other information provided by management;
- Reviewing internal audit reports insofar as they related to the financial statements; and
- Reviewing legal expense accounts and other correspondence to identify items which may indicate the existence of material legal claims.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

OTHER VOLUNTARY REPORTING

DIRECTORS' REMUNERATION

The company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
10 July 2025

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2025

	Notes	Before non-underlying items 2025 £m	Non-underlying items (note 7) 2025 £m	Total 2025 £m	Before non-underlying items 2024 £m	Non-underlying items (note 7) 2024 £m	Total 2024 £m
Revenue	5	739.2	-	739.2	731.3	-	731.3
Other operating income	6	-	-	-	148.3	-	148.3
Operating costs	8						
Employment costs		(95.0)	(8.6)	(103.6)	(82.2)	(0.6)	(82.8)
Raw materials and consumables		(44.0)	(0.2)	(44.2)	(35.8)	-	(35.8)
Other operating expenses		(282.2)	(23.6)	(305.8)	(273.8)	(15.0)	(288.8)
Trade receivables impairment		(8.2)	-	(8.2)	(6.3)	-	(6.3)
Impairment in investment in subsidiary	18	-	-	-	(146.3)	-	(146.3)
Earnings before interest, tax, depreciation and amortisation		**309.8**	**(32.4)**	**277.4**	**335.2**	**(15.6)**	**319.6**
Depreciation and amortisation	8	(168.3)	-	(168.3)	(162.4)	-	(162.4)
Operating profit		**141.5**	**(32.4)**	**109.1**	**172.8**	**(15.6)**	**157.2**
Finance income	9	6.0	-	6.0	3.3	-	3.3
Finance costs	9	(176.3)	-	(176.3)	(158.3)	-	(158.3)
Net finance costs		**(170.3)**	**-**	**(170.3)**	**(155.0)**	**-**	**(155.0)**
(Loss)/profit before tax		**(28.8)**	**(32.4)**	**(61.2)**	**17.8**	**(15.6)**	**2.2**
Taxation credit/(charge)	10	4.5	8.1	12.6	(3.6)	3.9	0.3
(Loss)/profit for the year		**(24.3)**	**(24.3)**	**(48.6)**	**14.2**	**(11.7)**	**2.5**

The above results were derived from continuing operations.

The notes on pages 219 to 262 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2025

	Notes	Before non-underlying items 2025 £m	Non-underlying items (note 7) 2025 £m	Total 2025 £m	Before non-underlying items 2024 £m	Non-underlying items (note 7) 2024 £m	Total 2024 £m
(Loss)/profit for the year		**(24.3)**	**(24.3)**	**(48.6)**	**14.2**	**(11.7)**	**2.5**
Other comprehensive income/(loss)							
Items which will not be reclassified to profit or loss							
Re-measurement of defined benefit obligations	26	3.3	-	3.3	(7.5)	-	(7.5)
Deferred Income Tax on items that will not be reclassified	10, 28	(0.8)	-	(0.8)	1.9	-	1.9
Total items that will not be reclassified to profit or loss		**2.5**	**-**	**2.5**	**(5.6)**	-	**(5.6)**
Items that may be reclassified subsequently to profit or loss							
Loss on cash flow hedging*		(19.5)	-	(19.5)	(34.3)	-	(34.3)
Hedging losses recycled to profit or loss*		15.1	-	15.1	18.0	-	18.0
Deferred Income Tax credit on items that may be reclassified	10, 28	2.4	-	2.4	4.1	-	4.1
Total items that may be reclassified subsequently to profit or loss		**(2.0)**	**-**	**(2.0)**	**(12.2)**	-	**(12.2)**
Other comprehensive income/(loss) for the year net of tax		**0.5**	**-**	**0.5**	**(17.8)**	-	**(17.8)**
Total comprehensive loss for the year		**(23.8)**	**(24.3)**	**(48.1)**	**(3.6)**	**(11.7)**	**(15.3)**

*Movements on cash flow hedges were presented net in 2024, the presentation has been restated to present as gross, see note 2 for further detail

The notes on pages 219 to 262 form part of these financial statements.

BALANCE SHEET
AS AT 31 MARCH 2025

	Notes	2025 £m	Restated* 2024 £m
Assets			
Non–current assets			
Goodwill	14	299.6	299.6
Other intangible assets	15	13.9	14.2
Property, plant and equipment	16	5,005.0	4,571.1
Derivative financial instruments	21	22.3	17.3
Investment in subsidiary undertakings	18	21.7	21.7
Retirement benefit asset	26	14.7	10.8
		5,377.2	**4,934.7**
Current assets			
Inventories	19	10.7	10.2
Derivative financial instruments	21	9.3	22.4
Trade and other receivables	20	267.8	250.2
Current tax asset	27	3.2	8.0
Cash and cash equivalents	22	280.6	-
Restricted funds	22	46.1	26.0
		617.7	**316.8**
Liabilities			
Current liabilities			
Borrowings	24	(137.2)	(259.2)
Derivative financial instruments	21	(0.4)	(5.2)
Trade and other payables	23	(265.1)	(294.7)
Provisions	29	(5.1)	-
		(407.8)	**(559.1)**
Net current assets/(liabilities)		**209.9**	**(242.3)**
Non–current liabilities			
Borrowings	24	(3,747.1)	(3,136.1)
Other non–current liabilities	25	(191.7)	(175.9)
Derivative financial instruments	21	(1.6)	(3.2)
Deferred tax liabilities	28	(453.3)	(466.0)
		(4,393.7)	**(3,781.2)**
Net assets		**1,193.4**	**911.2**
Equity			
Called up share capital	30	625.9	295.9
Share premium account	32	413.0	413.0
Retained earnings and other reserves	33	154.5	202.3
Total Equity		**1,193.4**	**911.2**

*The 2024 balance sheet has been restated, see note 2 for further detail.

The notes on pages 219 to 262 form part of these financial statements.

The financial statements on pages 214 to 262 were approved and authorised for issue by the Board of Directors on 10 July 2025 and were signed on its behalf by:

L Flowerdew
Group Chief Financial Officer
Registered office: Peninsula House, Rydon Lane, Exeter, Devon, England EX2 7HR
Registered Number: 02366665

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2025

	Notes	Called up share capital (note 30) £m	Share Premium account (note 32) £m	Retained earnings and other reserves (note 33) £m	Total Equity £m
At 01 April 2023		**295.9**	**413.0**	**263.0**	**971.9**
Profit for the year		-	-	2.5	2.5
Other comprehensive loss for the year		-	-	(17.8)	(17.8)
Total comprehensive loss for the year		-	-	(15.3)	(15.3)
Transactions with owners					
Dividends deferred	11	-	-	(45.0)	(45.0)
Share based payments (net of tax)		-	-	(0.4)	(0.4)
Total transactions with owners		-	-	(45.4)	(45.4)
At 31 March 2024		**295.9**	**413.0**	**202.3**	**911.2**
Loss for the year		-	-	(48.6)	(48.6)
Other comprehensive income for the year		-	-	0.5	0.5
Total comprehensive loss for the year		-	-	(48.1)	(48.1)
Transactions with owners					
Issue of ordinary shares		330.0	-	-	330.0
Share based payments (net of tax)		-	-	0.3	0.3
Total transactions with owners		330.0	-	0.3	330.3
At 31 March 2025		**625.9**	**413.0**	**154.5**	**1,193.4**

The notes on pages 219 to 262 form part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2025

	Notes	2025 £m	2024 £m
Cash flows from operating activities			
Cash generated from operations	34	218.8	261.9
Interest paid		(118.2)	(102.3)
Tax recovered		3.3	4.2
Net cash generated from operating activities		**103.9**	**163.8**
Cash flows used in investing activities			
Interest received		5.9	2.2
Purchase of property, plant and equipment		(603.5)	(540.6)
Purchase of intangible fixed assets	15	(2.2)	(3.6)
Proceeds from sale of property, plant and equipment		1.6	0.7
Net deposit of restricted funds	22	(20.1)	(3.2)
Dividend received		-	4.0
Net cash used in investing activities		**(618.3)**	**(540.5)**
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	30	330.0	-
Proceeds from new borrowings		345.8	441.8
Repayment of borrowings		(354.7)	(158.7)
Proceeds from intercompany borrowings		650.0	170.0
Repayments of intercompany borrowings		(103.5)	(146.3)
Cash inflows from lease financing arrangements		25.0	64.8
Lease principal repayments		(96.8)	(20.2)
Net cash from financing activities		**795.8**	**351.4**
Net increase/(decrease) in cash and cash equivalents		**281.4**	**(25.3)**
Cash and cash equivalents at beginning of the year	22	(0.8)	24.5
Cash and cash equivalents at end of the year	22	**280.6**	**(0.8)**

The notes on pages 219 to 262 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

South West Water Limited is a company limited by shares and registered in the United Kingdom under the Companies Act 2006. The address of the registered office, the nature of the Company's operations and its principal activities are set out on page 199.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented.

(a) Basis of preparation

These financial statements have been prepared on the historical cost accounting basis (except for fair value items, principally transfers of assets from customers and certain financial instruments as described in accounting policy notes (b), (u) and (n) respectively and in accordance with the provisions of the Companies Act 2006.

The Company meets the definition of a qualifying entity as defined in FRS 100 'Application of Financial Reporting Requirements', accordingly the Company has elected to apply FRS 101 'Reduced Disclosure Framework'. Therefore, the recognition and measurement requirements of United Kingdom adopted International Financial Reporting Standards have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
    - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements);
    - Paragraph 79(a)(iv) of IAS 1,
    - Paragraph 73(e) of IAS 16, 'Property, plant and equipment', and
    - Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
- 16 (statement of compliance with all IFRS),
- 38B-D (additional comparative information), and
- 134-136 (capital management disclosures).
- The requirements of paragraphs 88C and 88D of IAS 12 Income Taxes.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.
- The following paragraphs of IFRS 15, 'Revenue from contracts with customers':
    - 110 (disclosure requirements)
    - 113(a) (separate sources of revenue)
    - 115 (disaggregated of revenue)
    - 118 (explanation of changes in contract assets and liabilities)
    - 120 to 121 (transaction price allocated to the remaining performance obligations)
    - 129 (practical expedients).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

These financial statements are presented in pounds sterling and all values rounded to the nearest one-hundred thousand pounds, except when otherwise indicated.

Restatements

In the prior year 'Cash and cash deposits' consisted of 'Cash and cash equivalents' and 'Restricted funds'. As restricted funds do not form part of cash and cash equivalents this has been re-presented in the 2024 balance sheet. Cash and cash equivalents totalled £nil and Restricted funds £26.0 million at 31 March 2024.

In the prior year movements on cash flow hedges were presented net in the statement of comprehensive income, the presentation has been amended to show the gross values in relation to the loss on cash flow hedging (2024: £34.3 million) and hedging losses recycled to profit or loss (2024: £18.0 million).

A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

Going concern

The going concern basis has been adopted in preparing these financial statements. At 31 March 2025 the Company has access to undrawn committed funds and cash and cash equivalents totalling £650.6 million, including cash and other short-term deposits of £280.6 million and £370.0 million of undrawn facilities. Cash and other short-term deposits exclude £46.1 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. The Company has an expected headroom of £148.4 million at 31 October 2026.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's going concern status, to do this the Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 61 to 77, individual sensitivities against these risks have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Company's annual budget for FY 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 31 October 2026. The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macroeconomic impacts such as inflation and interest rate increases and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Company collectively. The combined weighted impact of the risks occurring is a cash outflow of c.£101 million; this value is considered equivalent to an extreme one-off event that could occur by 31 October 2026, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Company over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. In the combined scenario to ensure that the Company was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. In the combined stress test scenario, the company has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Company. However, if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

We have considered the Company's funding position and financial projections which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Having considered these factors, the Directors have a reasonable expectation that that the Company will meet the requirements of its covenants and has adequate resources to continue in operational existence for the period to at least the end of the going concern assessment period of 31 October 2026, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

In preparing the financial statements, management has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosure. The expected environmental impact of climate change on the water business has been modelled noting that the physical risks are increasing. It is likely that the Company will need to invest to protect certain assets such as sewage works and pumping stations against sea level inundation and these considerations form part of the planning process for new capital expenditure. Longer term investment, outlined in the strategic plans, will be needed to manage future risks. To achieve this, combined regulatory and government support within their policy frameworks will be essential. Whilst it is estimated additional spend will be required to manage future risks, the current available information and assessment did not identify any risks regarding the sufficiency of funds available to the Company to support this additional spend or any risk that would require the useful economic lives of assets to be reduced in the year or identify the need for impairment that would impact the carrying values of such assets or have any other impact on the financial statements. The impact assessments will be continuously updated to reflect the latest available information on the impact of climate change.

New standards

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2024 did not have a material impact on the net assets or results of the Company. Existing borrowing covenants were not impacted by changes in accounting standards.

New standards or interpretations due to be adopted from 1 April 2025 are not expected to have a material impact on the Company's net assets or results.

(b) Exemption from consolidation

The Company is exempt under the provisions of section 400 of the Companies Act 2006 from the requirement to produce group financial statements as it is a wholly-owned subsidiary of Pennon Group plc which is registered within the United Kingdom and which itself produces consolidated financial statements. Accordingly consolidated financial statements have not been prepared and the financial information presented is for the Company as an individual undertaking. Group financial statements are included in the Annual Report of Pennon Group plc which is available from Peninsula House, Rydon Lane, Exeter, EX2 7HR.

(c) Revenue recognition

Revenue is recognised following delivery of performance obligation and an assessment of when control over the product or service is transferred to the customer. Revenue is only recognised when collection of consideration is highly probable.

Revenue is recognised either when the performance obligation in the contract has been performed (point in time recognition) or 'over time' as the performance obligations to the customer are satisfied. For each obligation satisfied over time, the Company applies a revenue recognition method that accurately reflects performance in transferring control of the services to the customer.

Where a contract with a customer includes more than one performance obligation, revenue is allocated to each obligation in proportion to a fair value assessment of the total contract sales value split across the services provided.

At the inception of a contract, the total transaction price is estimated, being the fair value to which the Company expects to be entitled under the contract, including any variable consideration. Variable consideration is based on the most likely outcome of the performance obligations.

Revenue excludes value added tax.

For most of the services provided to domestic customers, contract terms are implied through statute and regulation in the absence of formal, written contracts. South West Water has a duty under legislation to provide domestic customers with services regardless of payment and is not permitted to disconnect domestic customers for non-payment of bills. Charges are set via the periodic review price-setting process, regulated by Ofwat.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition (continued)

In respect of ongoing, continuous services to customers, such as the provision of drinking water and wastewater services, revenue is recognised over time.

Customers with an unmeasured supply are billed at the start of the year for the full amount of the annual charge but typically take advantage of a choice of payment arrangements to pay by regular instalments. The performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue is recognised under IFRS15 as the stand-ready obligation is fulfilled over time.

Customers with a metered supply are sent up to four bills per year, based either on actual meter readings or estimated usage. For these customers, revenue includes an estimation of the amount of unbilled usage at the period end. Payment options for domestic customers include an annual meter payment plan where customers agree to pay a fixed amount per month which is adjusted to reflect actual consumption at the end of the year. Revenue is recognised as water is supplied, based on estimate usage for unbilled elements.

A range of regulated services is offered to property developers and owners who require connection to the water and sewerage networks or need the networks to be extended or altered. Typically, these customers pay an estimate of the charges in advance as a deposit, which is treated as a contract liability and are billed or refunded the difference between the estimate and actual costs on completion of the work.

The principle components of these contributions are as follows:

i. Where the performance obligation relates solely to a connection to the network, revenue is recognised at the point of connection when the customer is deemed to have obtained control

ii. Where assets are constructed or provided by the Company or assets transferred to the Company, it is considered that there is an explicit or implied performance obligation to provide an ongoing water and/or wastewater service, with the result that revenue is recognised over time no longer that the economic life of assets provided by or transferred to the Company.

Contract assets and liabilities

A trade receivable is recognised when the Company has an unconditional right to receive consideration in exchange for performance obligations already fulfilled. A contract asset is recognised when the Company has fulfilled some of its performance obligations but has not yet obtained an unconditional right to receive consideration. The amounts of contract assets, when applicable, are disclosed within note 20 (Trade and other receivables - current) as appropriate. A contract liability is recognised when consideration is received in advance of the Company performing its performance obligations to customers, including, when appropriate, transfers of assets from customers (per paragraph (u) below). The value of contract liabilities is disclosed within note 23 (Trade and other payables - current) and note 25 (Other non-current liabilities) as appropriate.

(d) Segmental reporting

The Directors believe that the whole of the Company's activities constitute one single segment. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Board of Directors.

The Company's country of domicile is the United Kingdom and is the country in which it generates all of its revenue. The Company's non-current assets are all located within the United Kingdom.

In accordance with IFRS 15, revenue has been disaggregated based on the services of supplying clean water, removal and treatment of wastewater and retail and other services. Further details are contained in note 5.

(e) Goodwill

Goodwill arising on consolidation from the acquisition of subsidiary undertakings represents the excess of the purchase consideration over the fair value of net assets acquired, less any subsequent impairment charges.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs) or group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill (continued)

goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (i).

When a subsidiary undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of goodwill.

(f) Other intangible assets

Other intangible assets include capitalised software development costs. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful lives, with the expense charged to the income statement through operating costs.

(g) Property, plant and equipment

i) Infrastructure assets (being water mains, sewers, impounding and pumped raw storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS and subsequent additions are recorded at cost less accumulated depreciation and impairment charges. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured and it is probable that incremental future **2.** economic benefits will flow to the Company. The cost of day to day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their estimated useful economic lives and are principally:

Dams and impounding reservoirs	100 - 200 years
Water mains	60 - 180 years
Sewers	75 - 150 years

Assets in the course of construction are not depreciated until commissioned.

ii) Other assets (being property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated useful economic lives to their residual value and are principally:

Land and buildings - freehold buildings	10 - 80 years
Land and buildings - leasehold buildings	Over the estimated useful life or the lease period, whichever is shorter
Operational properties	15 - 100 years
Fixed and moveable equipment	4 - 30 years

Assets in the course of construction are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. Assets transferred from customers are recognised at fair value as set out in accounting policy (u).

The assets residual value and useful lives are reviewed annually.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognised within the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Leased assets

All are accounted for by recognising a right-of use-asset and a lease liability except for:

- Low value assets; and
- Leases with a duration of 12 months or less.

Contracts are initially measured at the present value of contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. After initial measurement, lease payments are allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The interest element of cash payments in respect of these leases is included within interest payments in determining net cash generated from operating activities. The capital element of the cash payment is included within cash flows from financing activities. Right-of-use assets are amortised on a straight line basis over the remaining term of the lease or the remaining economic life of the asset if shorter.

Assets are included as property, plant and equipment as right-of-use assets at the present value of the minimum lease payments and are depreciated over their estimated economic lives or the lease period, whichever is the shorter.

The Company uses sale and lease back transactions to finance its capital programme. A sale and leaseback transaction is where the Company sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. If the sale criteria are met, a lease liability is recognised, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the right retained. Any gain or loss arising relates to the rights transferred to the buyer. If the criteria for a sale under IFRS 15 have not been met the asset is not derecognised and no sale is recorded.

(i) Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Assets subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Value-in-use represents the present value of projected future cash flows expected to be derived from a CGU, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the CGU. Impairments are charged to the income statement in the year in which they arise.

Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Where a previously impairs asset or CGU's recoverable amount is in excess of its carrying amount, previous impairments are reversed to the carrying value that would have expected to be recognised had the original impairment not occurred.

(j) Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment which provide the customer with ongoing access to the water and sewerage networks, are treated as contract liabilities and released to revenue over the economic life of those elements of property, plant and equipment. Grants and contributions receivable in respect of expenses charged against profits in the year have been included in the income statement.

Government grants are recognised where there is reasonable certainty that the grant will be received and all

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Grants and contributions (continued)

attached conditions will be complied with. When the grant relates to an expense item, it is recognised on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. The income from such grants is presented in the financial statements as a deduction from the expense to which it relates.

(k) Investment in subsidiary undertakings

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid. Subsequently, investments are reviewed for impairment on an individual basis annually or if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress includes raw materials and the cost of bringing stocks to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price less cost to sell. The costs of items of inventory are determined using weighted average costs.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short-term deposits held at banks. Bank overdrafts are offset against cash balances where there is a legally enforceable right to offset and there is an intention to settle the balances on a net basis. Otherwise, overdrafts are included within current borrowings.

(n) Financial instruments

Financial instruments are recognised and measured in accordance with IFRS 9. The Company classifies its financial instruments in the following categories:

i) Debt instruments at amortised cost

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through amortisation.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for expected credit losses (ECLs). In accordance IFRS 9, the Company performs an impairment analysis at each reporting date to measure the ECLs. The Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

iii) Trade payables

Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method**.**

iv) Derivative financial instruments and hedging activities

The Company uses derivative financial instruments, principally interest rate swaps, cross-currency interest rate swaps and inflation swaps to hedge risks associated with interest rate and exchange rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value for the reported balance sheet.

The Company designates certain hedging derivatives as either:

- a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge); or
- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Financial instruments (continued)

The gain or loss on re-measurement is taken to the income statement except for cash flow hedges which meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are subsequently recognised in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

In order to qualify for hedge accounting, the Company is required to document in advance the relationship between the item being hedged and the hedging instrument. The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at the end of each reporting period to ensure that the hedge remains highly effective.

The full fair value of a hedging derivative is apportioned on a straight-line basis between non-current and current assets or liabilities based on the remaining maturity of the hedging derivative.

Derivative financial instruments deemed held for trading which do not qualify for hedge accounting are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

The Company uses cross-currency swaps for some of its foreign currency denominated private placement borrowings. The swaps either have the effect of (i) converting variable rate foreign currency borrowings into fixed rate sterling borrowings, (ii) converting fixed rate foreign currency borrowings into fixed rate sterling borrowings, or (iii) converting fixed rate foreign currency borrowings into floating rate sterling borrowings.

v) Receivables due from fellow subsidiary undertakings

Amounts owed by fellow subsidiaries are classified and recorded at amortised cost and reduced by allowances for ECLs. Estimated future credit losses are first recorded on initial recognition of a receivable and are based on estimated probability of default, for receivables with a low credit risk then a 12 month ECL model is used, for receivables with higher risk then the lifetime ECL model is used. Individual balances are written off when management deems them not to be collectible.

(o) Taxation including deferred tax

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity as appropriate.

Current tax

The current tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The amount is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the position is uncertain. The Company is part of the Pennon Group for tax purposes and accordingly may use the tax group relief provisions whereby current tax liabilities can be offset by current tax losses arising within the same tax group. Payments for group relief are included within the current tax disclosures.

Deferred tax

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date, and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised. Deferred tax liabilities are recognised for all temporary differences, with the following exceptions:

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Taxation including deferred tax (continued)

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures where the timing of the reversal of temporary differences can be controlled and it is probably that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(p) Provisions

Provisions are made where there is a present legal or constructive obligation as a result of a past event and it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made. Where the effect of the time value of money is material, the current amount of a provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as notional interest within finance costs.

(q) Contingent liabilities

The Company is subject to litigation from time to time as a result of its activities. The Company establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

There are contingent liabilities that arise in the normal course of business which, if realised, are not expected to result in a material liability to the Company.

(r) Dividend distributions

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholder. Interim dividends are recognised when paid; final dividends when approved by the shareholder at the Annual General Meeting.

(s) Employee benefits

i) Retirement benefit obligations

The Company operates defined benefit and defined contribution pension schemes through its parent company.

Defined benefit pension schemes

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the year less the fair value of plan assets. If the value of the plans assets exceeds the present value of its obligations, the resulting surplus is only realised if the Company has an unconditional right to that surplus.

The defined benefit obligation is calculated by independent actuaries who advise on the selection of Directors' best estimates of assumptions, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation. The increase in liabilities of the Company's defined benefit pension schemes, expected to arise from employee service in the year, is charged against operating profit.

Changes in benefits granted by the employer are recognised immediately as past service cost in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits (continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period to which they arise.

Defined contribution scheme

Costs of the defined contribution pension scheme are charged to the income statement in the year in which they arise. The Company has no further payment obligations once the contributions have been paid.

ii) Share-based payment

The Company participates in a number of equity-settled share-based payment plans for employees operated by its parent company Pennon Group plc. The fair value of the employee services acquired in exchange for the grant is recognised as an expense over the vesting period of the grant.

Fair values are calculated using an appropriate pricing model. Non-market-based vesting conditions are considered in the assumptions as to the number of shares which are expected to vest.

(t) Fair values

The fair value of the interest rate, inflation and cross currency swaps is based on the market price to transfer the asset or liability at the balance sheet date in an ordinary transaction between market participants. The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of non-current bank loans and other loans, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

(u) Transfers of assets from customers

Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised as a contract liability on the balance sheet. The contract liability reduces and revenue is recognised in the income statement as the performance obligations are satisfied. The period over which the credit is recognised depends upon the nature of the service provided, as determined by the agreement with the customer. Where the service provided is solely a connection to the network, the credit is recognised at the point of connection. If the agreement does not specify a period, revenue is recognised over a period no longer than the economic life of the transferred asset used to provide the ongoing service.

The fair value of assets on transfer from customers is determined using a cost valuation approach allowing for depreciation.

(v) Foreign exchange

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the closing balance sheet rate. The resulting gain or loss is recognised in the income statement.

(w) Non-underlying items

Non-underlying items are those that in the Directors' view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Company's financial performance.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Company's activities expose it to a variety of financial risks; liquidity risk; market risk (interest rate and foreign currency risk), credit risk and inflation risk.

The Company receives treasury services from the treasury function of Pennon Group plc, the parent company, which seeks to ensure that sufficient funding is available to meet foreseeable needs and to maintain reasonable headroom for contingencies and manages inflation and interest rate risk.

The principal financial risks faced by the Company relate to liquidity, interest rate and credit counterparty risk.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

These risks and treasury operations are managed by the Pennon Chief Financial Officer in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance, manage risk, optimise the use of surplus funds and manage overall interest rate performance. The Company does not engage in speculative activity.

i) Liquidity risk

The Company actively maintains a mixture of long-term and short-term committed facilities which are designed to ensure the Company has sufficient available funds for operations and planned expansions equivalent to at least one year's forecast requirements at all times. Details of undrawn committed facilities and short-term uncommitted facilities are provided in note 24.

Refinancing risk is managed under a Company policy that requires that no more than 20% of Company net borrowings should mature in any financial year.

The Company has entered into covenants with lenders. While terms vary, these typically provide for limits on gearing (primarily based on the water business's regulatory capital value and EBITDA) and interest cover. Existing covenants are not impacted by subsequent changes to accounting standards.

Contractual undiscounted cash flows including interest payments, at the balance sheet date were:

31 March 2025	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	104.9	57.8	196.7	2,479.3	2,838.7
Interest payments on borrowings	159.1	140.4	470.3	1,745.7	2,515.5
Lease liabilities including interest	156.2	60.8	297.9	1,095.5	1,610.4
Trade and other payables	221.7	-	-	-	221.7
Derivative financial liabilities					
Derivative contracts – net payments/(receipts)	(6.9)	(5.0)	(14.0)	(5.2)	(31.1)

31 March 2024	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	208.3	107.7	246.6	1,716.2	2,278.8
Interest payments on borrowings	84.3	76.4	213.0	767.4	1,141.1
Lease liabilities including interest	89.8	153.6	215.5	1,192.6	1,651.5
Trade and other payables	286.7	-	-	-	286.7
Derivative financial liabilities					
Derivative contracts – net payments/(receipts)	(19.1)	(6.5)	(9.3)	(3.8)	(38.7)

ii) Market risk

The treasury policy states at least 60% of the Company's debt should be fixed, this is managed through fixed rate debt and the use of derivatives to ensure these levels are met. Of the Company's net borrowings a proportion is RPI index-linked. The interest rate for index-linked debt is based mainly upon an RPI measure; due to current Ofwat methodology the Company has considered other borrowings linked to other indices, which are also used in determining the amount of revenue from customers. The Company uses a combination of fixed rate, index-linked

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

borrowings and fixed rate interest swaps as cash flow hedges of future variable interest payments to achieve this policy. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not therefore an exposure for the Company. These instruments are analysed in note 21.

The Company has no significant interest-bearing assets upon which the net return fluctuates from market risk. Deposit interest receivable is expected to fluctuate in line with interest payable on floating rate borrowings. Consequently the Company's income and cash generated from operations (note 34) are independent of changes in market interest rates.

For 2025 if interest rates on variable net borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £3.5 million (2024 £7.4 million), for the equity sensitivity fair value, with derivative impacts excluded. This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the range of expected volatility is within the range of 0%-2%.

For 2025 if the indices on index-linked borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £5.8 million (2024 £4.8 million). This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the range of expected volatility is within the range of 0%-2%.

Foreign currency risk occurs at transactional and translation level from borrowings and transactions in foreign currencies. These risks are managed through forward contracts, which provide certainty over foreign currency risk.

iii) Credit risk

Credit counterparty risk arises from cash and cash equivalents, derivative financial instruments and exposure to customers, including outstanding receivables. Further information on the credit risk relating to trade and other receivables is given in note 20.

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. The Board has agreed a policy for managing such risk, which is controlled through credit limits, counterparty approvals, and rigorous monitoring procedures.

The Company has no other significant concentration of credit risk. The Company's surplus funds are managed by the Company's treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet a Board approved minimum criteria based on their short-term credit rating and therefore be of good credit quality.

iv) Inflation risk

Market inflation has caused inflationary pressures across the Company, the Company has index linked facilities which are predominately Retail Price Index (RPI) linked.

Inflation risk arises if the indexes increase meaning the Company will either be paying or accreting the inflation, this could put pressure on the gearing or interest cover ratios.

Inflation risk is mitigated through the index linked nature of our revenues and RCV calculations.

(b) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

The Company's policy is to have a minimum of 12 months pre-funding of projected capital expenditure. At 31 March 2025 the Company had cash and facilities, including restricted funds, of £696.7 million (2024 £321 million), meeting this objective.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Capital risk management (continued)

by total capital. Net borrowings are analysed in note 35 and is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net borrowings. The Company currently manages a net borrowings position of £3,557.6 million (2024 £3,369.3 million).

The gearing ratios at the balance sheet date were:

	Note	2025 £m	2024 £m
Net borrowings	35	3,557.6	3,369.3
Total equity		1,193.4	911.2
Total capital		**4,751.0**	**4,280.5**
Gearing Ratio		**74.9%**	**78.7%**

Consistent with the industry peer group, the Company is also monitored on the basis of the ratio of its net borrowings to Regulated Capital Value (RCV). South West Water's net debt to RCV has decreased to 63.3% which is higher than Ofwat's notional gearing target for the K7 (2020-25) regulatory period is set at 60.0%.

	Note	2025 £m	2024 £m
Shadow Regulatory Capital Value		5,617.8	5,186.4
Net borrowings	35	3,557.6	3,369.3
Net borrowings / Shadow Regulatory Capital Value		**63.3%**	**65.0%**

The Company has entered into covenants with lenders and, whilst terms vary, these typically provide for limits on gearing and interest cover. The Company has been in compliance with its covenants during the year.

When considering the South West Water sub-group, including the wholly owned subsidiaries of South West Water Finance plc and Bristol Water plc, the net borrowings are £3,516.9 million (2024 £3,294.7 million), providing effective South West Water group gearing of 62.6% (2024 63.5%).

(c) Determination of fair values

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Company's financial instruments are valued principally using level 2 measures as analysed in note 21.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value, less expected credit losses, of trade receivables and payables are assumed to approximate their fair values

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However, given the judgemental nature of such estimates, actual results could be different from the assumptions used.

Estimates

Provision for doubtful debts

The Company has a material level of exposure to collection of trade receivables. Provisions in respect of these balances are calculated based on assumptions of historical credit loss experience, adjusted for forward-looking factors which by their nature are subject to uncertainty. Analysis of actual recovery compared with provisioning levels have not, to date, resulted in material variances.

Under its regular review procedures, at the balance sheet date, the Company applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables and contract assets. Therefore, the Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. South West Water has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment. The Company policy is to write-off trade receivables where the expectation of recovery is considered highly unlikely.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2025 the Company's current trade receivables were £282.4 million (2024: £288.3 million), against which £96.5 million (2024: £102.8 million) had been provided for ECLs (note 20). Whilst the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently the charge or credit to the Income Statement. In determining the allowance for ECLs a provisioning matrix is applied to the debt of customers in Devon, Cornwall and Bournemouth, as set out in note 20. An increase/decrease in the provision rates for current occupiers of 1% would lead to an increase/decrease in the level of provision by £1.4 million (2024: £1.4 million).

Retirement benefit obligations

The Company operates defined benefit pension schemes, through its parent company, for which actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The most recent triennial valuation of the main scheme was as at 31 March 2022, the outcome of which is summarised in note 26.

The pension cost and liabilities under IAS 19 are assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on CMI 2019 actuarial tables with an allowance for future longevity improvement. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in those assumptions and future funding obligations are set out in note 26.

Useful economic lives of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made on the useful lives of the assets. The estimates are based on engineering data and the Company's experience of similar assets. Asset lives are reviewed annually and amended where changes are made to assumptions relating to the expected life of the asset from judgement around usage and performance experience, technological advancement and other relevant factors. Overall assessments on the impact of climate change on long life assets have been completed and will be continuously updated for the latest available information. The most recent assessment of the impact on climate change, which includes the potential to mitigate adverse impacts, has not identified any specific impact on the useful economic lives of long-life assets. Environmental factors and climate change form part of the planning process for new capital expenditure, where the Company continues to apply a consistent policy on capitalisation. The depreciation charge is sensitive to amendments of the useful economic lives of these assets, a significant change in the estimated life of these assets could have a material impact on depreciation, this is therefore noted as a material other estimate.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements

Non-underlying items

In establishing which items are disclosed separately as non-underlying, to enable a full understanding of the Company's financial performance, the Directors exercise their judgement in assessing the size, nature or incidence of specific items. See note 7 for further details.

Capitalisation of property, plant and equipment

The property, plant and equipment of the Company relates primarily to infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls) as well as other assets which include fixed plant and operational properties. Given the nature of these assets, the Company incurs expenditure including both asset enhancement as well as repairs and maintenance, which involves judgement in allocation of costs between operating and capital expenditure. The Company continues to apply a consistent policy and approach on capitalisation of property, plant and equipment.

Other estimates

Revenue recognition

Management assessed and resolved that the level of estimation for revenue recognition of accrued revenue relating to water and wastewater should not be considered critical as the estimates are largely calculated on a systematic basis. However, management consider the total level of estimation of accrued revenue relating to water and wastewater to be material and highlight this as a material other estimate.

5. REVENUE

Revenue has been disaggregated based on the services of supplying clean water, removal and treatment of wastewater and other services.

	2025 £m	2024 £m
Water	415.2	413.1
Wastewater	278.0	278.0
Other services	46.0	40.2
Total	**739.2**	**731.3**

6. OTHER OPERATING INCOME

During the prior year, the Company received dividends of £148.3 million. A dividend in specie of £143.0 million was received from Bristol Water Plc and a dividend of £5.3 million was received from Peninsula Properties (Exeter) Limited, of which £4.0m was received in cash. No dividends were received in the current year.

7. NON-UNDERLYING ITEMS

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable full understanding of the Company's financial performance in the year and business trends over time. The presentation of results is consistent with internal performance monitoring.

	Note	2025 £m	2024 £m
Operating Costs			
Brixham water quality incident[1]		21.0	-
Restructuring and Transformation costs[2]		11.4	13.8
Drought costs[3]		-	1.8
Earnings before interest, tax, depreciation and amortisation		**32.4**	**15.6**
Net tax credit arising on non-underlying items[4]	10	(8.1)	(3.9)
Net non-underlying charge		**24.3**	**11.7**

1. On 15 May 2024 an outbreak of cryptosporidium was detected in the water supply in the Brixham area of Devon, causing South West Water to issue a notice to customers in the area to boil water before consuming. £21.0 million (2024: £nil) of costs have been incurred which include enhanced customer compensation, provision of bottled water over an eight-week period, and extensive interventions to clean and filter the network. £0.8m of the costs incurred were employment costs.
2. £11.4 million (2024: £13.8 million) of costs were incurred in connection with the business transformation of the Company, £7.8 million (2024: £0.6 million) of which were employment costs. These restructuring and transformation costs are one-off in nature and incidence, with the benefits from incurring these costs expected to endure into the future on a recurring basis. Further costs are not expected to arise in the year ended 31 March 2026.
3. In financial year 2022/23, a combination of elevated demand from increased tourism and record-breaking extremes of prolonged dry and hot weather led to extremely low water storage levels in the Cornwall region. Drought permits were issued allowing increased extractions, and water-saving measures for the South West Water region were implemented for the first time since 1995. To ensure the region could be supplied with water over the summer and continuing into 2023, South West Water instigated a series of mitigating measures and one-off expenditure to address the situation. £1.8 million of specifically identifiable costs were recognised in the first eight months of 2023/24.
4. The net tax credit of £8.1 million arising on non-underlying items relates to a deferred tax credit in respect of tax losses carried forwards. The prior year credit reflected a £3.9 million tax credit also in respect of transformation losses carried forwards.

8. OPERATING COSTS

	Note	2025 £m	2024 £m
Employment costs (underlying)	12	95.0	82.2
Raw materials and consumables		44.0	35.8
Other operating expenses include:			
Profit on disposal of property, plant and equipment		(1.3)	(0.5)
Short term/low value asset lease expense		6.0	3.0
Research and development expenditure		1.1	0.6
Trade receivables impairment	20	8.2	6.3
Depreciation of property, plant and equipment:			
Owned assets		129.4	125.0
Under leases		36.4	34.3
Amortisation of other intangible assets		2.5	3.1

Operating costs include a charge of £32.4 million (2024: £15.6 million) relating to non-underlying items, as detailed in note 7.

Fees payable to the Company's auditors' in the year were:

	2025 £000	2024 £000
Fees payable to the Company's auditors and its associates for the audit of the financial statements	530	593
Fees payable to the Company's auditors and its associates for other services:		
Audit related assurance	-	68
All other services	148	64
Total fees	**678**	**725**

A description of the work of the Audit Committee is set out in its report on page 166 to 175 which includes an explanation of how the auditor's objectivity and independence are safeguarded when non-audit services are provided by the auditor's firm.

9. NET FINANCE COSTS

	2025			2024		
	Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	(66.2)	-	(66.2)	(79.9)	-	(79.9)
Interest element of lease payments	(49.8)	-	(49.8)	(44.0)	-	(44.0)
Other finance costs	(9.2)	-	(9.2)	(2.6)	-	(2.6)
Interest receivable	-	5.5	5.5	-	2.5	2.5
Intercompany interest to other Pennon Group companies	(51.1)	-	(51.1)	(31.8)	-	(31.8)
	(176.3)	**5.5**	**(170.8)**	**(158.3)**	**2.5**	**(155.8)**
Notional interest						
Retirement benefit obligations (note 26)	-	0.5	0.5	-	0.8	0.8
Finance (costs)/income	**(176.3)**	**6.0**	**(170.3)**	**(158.3)**	**3.3**	**(155.0)**

In addition to the above, finance costs of £23.1 million (2024: £14.1 million) have been capitalised on qualifying assets included in property, plant and equipment at an average borrowing rate of 5.7% (2024: 6.4%).

10. TAXATION CREDIT/(CHARGE)

	Before non-underlying items 2025 £m	Non-underlying items (note 7) 2025 £m	Total 2025 £m	Before non-underlying items 2024 £m	Non-underlying items (note 7) 2024 £m	Total 2024 £m
Analysis of (credit)/charge in year						
Current year tax credit	(1.5)	-	(1.5)	(0.7)	-	(0.7)
Deferred tax (credit)/charge	(3.0)	(8.1)	(11.1)	4.3	(3.9)	0.4
Tax (credit)/charge for year	**(4.5)**	**(8.1)**	**(12.6)**	**3.6**	**(3.9)**	**(0.3)**

UK Corporation tax is calculated at 25% (2024: 25%) of the estimated assessable profit for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £0.2 million (2024: £nil) and a prior year deferred tax charge of £2.0 million (2024: £0.7 million credit). These items relate to prior year adjustments in respect of capital allowances claimed in accordance with UK tax legislation.

The tax for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 25% (2024: 25%). The differences are explained below:

Reconciliation of total tax credit	**2025 £m**	**2024 £m**
(Loss)/profit before tax	(61.2)	2.2
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 25% (2024: 25%)	(15.3)	0.5
Effects of:		
Expenses not deductible for tax purposes	0.3	0.1
Adjustments to tax charge in respect of prior years	1.8	(0.7)
Depreciation charged on non-qualifying assets	1.3	0.9
Non-deductible loss on impairment of subsidiary	-	36.6
Dividends receivable not taxable	-	(37.1)
Other	(0.7)	(0.6)
Tax credit for year	**(12.6)**	**(0.3)**

Reconciliation of current tax credit	**2025 £m**	**2024 £m**
(Loss)/profit before tax	(61.2)	2.2
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 25% (2024: 25%)	(15.3)	0.5
Effects of:		
Relief for capital allowances in place of depreciation	(25.0)	(37.2)
Disallowance of depreciation charged in the accounts	36.3	35.7
Expenses not deductible for tax purposes	0.3	0.1
Adjustments to tax charge in respect of prior years	(0.2)	-
Depreciation charged on non-qualifying assets	1.3	0.9
Relief for capitalised interest	(5.8)	(3.5)
Losses carried forward	7.9	3.8
Non-deductible loss on impairment of subsidiary	-	36.6
Dividends receivable not taxable	-	(37.1)
Other timing differences	(1.0)	(0.5)
Current Tax credit	**(1.5)**	**(0.7)**

10. TAXATION (CONTINUED)

South West Water's current tax credit is lower than the UK headline rate of 25% (2024: higher) for a variety of different reasons as explained below. Capital allowances provide tax relief when a business incurs expenditure on qualifying capital items such as plant and machinery used by the business. As an infrastructure business, these allowances help the Company to plan major investment and consequentially to maintain lower customer bills, as corporation tax relief is given against the investments made.

The Company benefits from the 100% full expensing and 50% enhanced allowances in respect of qualifying spend (largely plant and machinery). The Company incurs significant capital expenditure each year as it maintains and enhances it assets for the benefit of its customers, communities and the environment. These enhanced allowances have increased capital allowance claims for the year and contributed significantly to the current tax credit for the year. There is also a consequently higher deferred tax liability and charge due to the additional capital allowance deductions.

Certain types of expenditure are not deductible for tax purposes. These types of expenditure are set out in tax legislation. The main categories of expenditure not deductible is made up of share-based payments, entertaining and other sundry items.

Depreciation charged on non-qualifying assets generates a permanent adjustment which increases the tax charge. Non-qualifying assets are those which do not qualify for writing down tax allowances including certain fixed assets typically in relation to older buildings and premises where tax relief is not available.

Tax losses generated in the year and carried forward generate a deferred tax rather than current tax credit, hence the adjustment to current tax. When utilised, the adjustment will be reflected through a movement from deferred to current tax.

Other differences relate to the timing of relief for items including pensions, general provisions and financial derivatives. The reduction in the year relates mainly to additional pension contributions made to fund deficits in the scheme.

Dividends receivable are not taxable in accordance with UK tax legislation as they qualify for exemption.

The impairment loss on subsidiaries is non-deductible in accordance with UK tax legalisation.

Immediate tax relief is available in respect of capitalised interest and foreign exchange gains/losses.

In addition to the amounts recognised in the income statement the following tax charges and credits were also recognised:

	2025 £m	2024 £m
Amounts recognised directly in other comprehensive income		
Deferred tax charge/(credit) on defined benefit pension schemes	0.8	(1.9)
Deferred tax credit on cash flow hedges	(2.4)	(4.1)
Amounts recognised directly in equity		
Deferred tax charge on share-based payments	-	0.1

OECD Pillar 2

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing the Pillar Two global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. Under the legislation, the group will be required to pay, in the UK, top-up tax on profits of its subsidiaries that are taxed at a Pillar Two effective tax rate of less than 15%. 2024/25 is the first accounting period where the Company is within scope of the Pillar Two rules. The UK is the only jurisdiction in which the Company operates therefore an assessment of any potential Pillar Two tax exposure for 2024/25 has been performed focusing solely on the application of the UK domestic top-up tax rules. The assessment performed by the Company is based on country-by-country reporting principles and financial statements information for 2024/25. Based on that information, the UK is expected to meet the conditions of the transitional safe harbours such that no top-up tax arises. The Company is continuing to assess the impact of the Pillar Two income taxes legislation and related updates on its future financial performance.

11. DIVIDENDS

	2025 £m	2024 £m
Amounts recognised as distributions to equity holders in the year:		
Declared and approved:		
Declared dividend of 15.2p per ordinary share in respect of 2023/24	-	45.0
	-	**45.0**

Dividends of £nil were paid to the parent undertaking (2023/24: £nil). A dividend of £45.0 million was approved by the Board during the year ended 31 March 2024. This is to be paid in 2025/26. On 4 July 2025 a dividend of 20.0p per share, totalling £125.0 million, was approved by the Board.

12. EMPLOYMENT COSTS

	Note	2025 £m	2024 £m
Wages and salaries		127.9	108.7
Social security costs		12.3	11.2
Pension costs	26	11.6	11.6
Share-based payments		0.3	(0.3)
Total employment costs		**152.1**	**131.2**
Charged as follows:			
Employee costs		95.0	82.2
Capital schemes		48.2	47.8
Employment costs (non-underlying items)	7	8.6	0.6
Research and development		0.3	0.6
Total employment costs		**152.1**	**131.2**

Details of Directors' emoluments are set out in note 13.

The average monthly number of persons (including Executive Directors) employed by the Company was:

	2025 £m	2024 £m
Operations	1,921	1,910
Support functions	856	857
Total	**2,777**	**2,761**

13. DIRECTORS' EMOLUMENTS

	2025 £000	2024 £000
Executive Directors:		
Salary	805	901
Other emoluments, including payments in lieu of pension provision	100	121
Non-Executive Directors (including Chair)	454	454
Total emoluments	**1,359**	**1,476**

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) is shown in the Annual Report on Remuneration on pages 186 to 198. This report also details arrangements with Pennon Group plc for the payment and recharging of emoluments relating to Directors who serve as Directors of both Pennon Group and South West Water. All variable incentives are fully funded by Pennon Group plc. The full single total figure of remuneration table is shown on page 173 of the Pennon Group plc Annual Report and Accounts 2025. These arrangements are fully funded by Pennon Group plc.

14. GOODWILL

	2025 £m	2024 £m
Cost		
At 1 April	299.6	299.6
At 31 March	**299.6**	**299.6**

In the 2022/23, goodwill of £248.3 million was recognised on acquisition of Bristol Water. Goodwill of £51.3 million was recognised on acquisition of Bournemouth Water in 2016/17.

The Company's operations compromise the regions of South West Water, Bournemouth Water and Bristol Water. The Company operates under one management structure with functional integration across the operating segment generating the synergies of the combination. The recoverable amount is the higher of fair value, less costs to sell, and the value-in-use. Value-in-use represents the present value of projected future cash flows expected to be derived from the Company, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the Company. Impairments are charged to the income statement in the year which they arise.

Impairment testing of goodwill
The Company tests goodwill for impairment annually or more frequently if there are any indications that impairment may have arisen.

Impairment testing is carried out based on the fair value less costs of disposal method. The recoverable amount of the water business segment is assessed using level 2 fair value hierarchy techniques, with reference to the market value of the water business, using a market-based observable premium, based on historical water industry merger and acquisition activity, to regulated capital value (RCV) as defined by Ofwat. Costs to sell are calculated using the sale of Viridor by the parent company, Pennon Group plc in 2020, as an estimate. RCV for the water business is disclosed in note 3, historical water industry transactions provide a range of premia that could be used in the calculation, for the current financial year applying a premium to RCV was not required to maintain impairment headroom.

The results of tests performed during the year demonstrate significant headroom in the water CGU, and it is judged that no reasonable change in the key assumptions would cause the carrying amount of the CGUs to exceed the recoverable amount.

15. OTHER INTANGIBLE ASSETS

	Total £m
Cost:	
At 01 April 2024	**18.4**
Additions	2.2
At 31 March 2025	**20.6**
Accumulated amortisation:	
At 01 April 2024	**4.2**
Charge for year	2.5
At 31 March 2025	**6.7**
Carrying amount:	
At 01 April 2024	**14.2**
At 31 March 2025	**13.9**

Other intangible assets relate to software development. The carrying values of other intangible assets are reviewed annually or when events or changes in circumstance indicate that the carrying amounts may not be fully recoverable.

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and moveable plant and equipment £m	Construction in progress £m	Total £m
Cost:						
At 01 April 2023	**119.1**	**2,600.2**	**960.5**	**2,323.4**	**290.5**	**6,293.7**
Additions	1.4	65.0	14.3	118.4	380.2	579.3
Assets adopted at fair value	-	10.6	-	-	-	10.6
Disposals	-	(1.5)	-	(3.2)	-	(4.7)
Transfers/reclassifications	1.6	33.3	12.3	78.8	(126.0)	-
At 31 March 2024	**122.1**	**2,707.6**	**987.1**	**2,517.4**	**544.7**	**6,878.9**
Additions	1.2	68.3	8.9	98.4	409.7	586.5
Assets adopted at fair value	-	17.4	-	-	-	17.4
Disposals	(0.1)	(1.6)	(0.9)	(13.7)	-	(16.3)
Transfers/reclassifications	1.0	43.3	13.1	63.8	(117.1)	4.1
At 31 March 2025	**124.2**	**2,835.0**	**1,008.2**	**2,665.9**	**837.3**	**7,470.6**
Accumulated depreciation:						
At 01 April 2023	**24.5**	**369.1**	**319.6**	**1,436.1**	**-**	**2,149.3**
Charge for year	3.7	36.5	21.4	101.4	-	163.0
Disposals	-	(1.5)	-	(3.0)	-	(4.5)
At 31 March 2024	**28.2**	**404.1**	**341.0**	**1,534.5**	**-**	**2,307.8**
Charge for year	3.9	41.2	21.4	103.3	-	169.8
Disposals	-	(1.6)	(0.9)	(13.6)	-	(16.1)
Transfers/reclassifications	-	-	0.9	1.8	1.4	4.1
At 31 March 2025	**32.1**	**443.7**	**362.4**	**1,626.0**	**1.4**	**2,465.6**
Net book value:						
At 01 April 2023	**94.6**	**2,231.1**	**640.9**	**887.3**	**290.5**	**4,144.4**
At 31 March 2024	**93.9**	**2,303.5**	**646.1**	**982.9**	**544.7**	**4,571.1**
At 31 March 2025	**92.1**	**2,391.3**	**645.8**	**1,039.9**	**835.9**	**5,005.0**

Out of the total depreciation charge for the Company of £169.8 million (2024: £163.0 million), the sum of £1.6 million (2024: £1.6 million) has been charged to capital projects, £2.4 million (2024: £2.2 million) has been offset by deferred income and £165.8 million (2024: £159.2 million) against profits. During the year borrowing costs of £23.1 million (2024: £14.1 million) have been capitalised on qualifying assets, at an average borrowing rate of 5.7% (2024: 6.4%).

Groups of assets forming cash generating units are reviewed for indicators of impairment. No indicators of impairment were identified during the year.

Asset lives and residual values are reviewed annually. No significant changes were required in 2024/25.

An adjustment has been made to reclassify cost and accumulated depreciation in relation to assets transferred from Bristol Water Plc to South West Water Limited following the transfer of trade and significant majority of assets and liabilities of Bristol Water Plc in February 2023 totalling £4.1 million.

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets subject to secured financing arrangements

When the Company enters into sale and leaseback arrangements, the accounting for the arrangement depends on whether the transaction meets the criteria within IFRS 15 for a sale to have occurred. If the sale criteria are met, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the right retained. If the criteria for a sale under IFRS 15 have not been met the asset is not derecognised and a liability to make ongoing payments is recognised as part of the leases liability included within borrowings. The table below shows amounts held within property, plant and equipment for assets subject to these arrangements:

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Total £m
Cost:					
At 01 April 2024	**5.3**	**404.0**	**336.9**	**425.7**	**1,171.9**
Additions	-	22.0	0.8	2.1	24.9
Disposals	-	-	-	-	-
At 31 March 2025	**5.3**	**426.0**	**337.7**	**427.8**	**1,196.8**
Accumulated depreciation:					
At 01 April 2024	**0.6**	**75.1**	**96.4**	**209.9**	**382.0**
Charge for year	0.1	6.2	5.8	21.5	33.6
Disposals	-	-	-	-	-
At 31 March 2025	**0.7**	**81.3**	**102.2**	**231.4**	**415.6**
Net book value:					
At 01 April 2024	**4.7**	**328.9**	**240.5**	**215.8**	**789.9**
At 31 March 2025	**4.6**	**344.7**	**235.5**	**196.4**	**781.2**

IFRS 16 – Right of Use Assets

Right-of-use assets classifying as leases under IFRS included in property, plant and equipment above were:

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Total £m
Cost:					
At 01 April 2024	**31.9**	**-**	**-**	**5.1**	**37.0**
Additions	0.8	-	-	2.2	3.0
Disposals	-	-	-	(0.1)	(0.1)
At 31 March 2025	**32.7**	**-**	**-**	**7.2**	**39.9**
Accumulated depreciation:					
At 01 April 2024	**5.7**	**-**	**-**	**1.7**	**7.4**
Charge for year	1.3	-	-	1.5	2.8
Disposals	-	-	-	(0.1)	(0.1)
At 31 March 2025	**7.0**	**-**	**-**	**3.1**	**10.1**
Net book value:					
At 01 April 2024	**26.2**	**-**	**-**	**3.4**	**29.6**
At 31 March 2025	**25.7**	**-**	**-**	**4.1**	**29.8**

17. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items as below:

	Note	Fair value Derivatives used for cash flow hedging £m	Amortised cost Loans and receivables £m	Trade receivables and trade payables £m	Total £m
31 March 2025					
Financial assets					
Trade and other receivables	20	-	19.0	185.9	204.9
Cash and cash equivalents	22	-	326.7	-	326.7
Derivative financial instruments	21	31.6	-	-	31.6
		31.6	**345.7**	**185.9**	**563.2**
Financial liabilities					
Borrowings	24	-	(3,884.3)	-	(3,884.3)
Trade and other payables	23	-	(77.5)	(144.3)	(221.8)
Derivatives	21	(2.0)	-	-	(2.0)
		(2.0)	**(3,961.8)**	**(144.3)**	**(4,108.1)**

	Note	Fair value Derivatives used for cash flow hedging £m	Amortised cost Loans and receivables £m	Trade receivables and trade payables £m	Total £m
31 March 2024					
Financial assets					
Trade and other receivables	20	-	14.4	185.5	199.9
Cash and cash equivalents	22	-	26.0	-	26.0
Derivatives	21	39.7	-	-	39.7
		39.7	**40.4**	**185.5**	**265.6**
Financial liabilities					
Borrowings	24	-	(3,395.3)	-	(3,395.3)
Trade and other payables*	23	-	(54.2)	(232.5)	(286.7)
Derivatives	21	(8.4)	-	-	(8.4)
		(8.4)	**(3,449.5)**	**(232.5)**	**(3,690.4)**

*Trade and other payables have been restated to include other payables and accruals.

18. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2025 £m	2024 £m
At 01 April	21.7	168.0
Impairment in investment in subsidiary	-	(146.3)
At 31 March	**21.7**	**21.7**

Principal subsidiary companies	**Registered office address**	**Country of incorporation, registration and principal operations**
Bristol Water Plc	Bridgwater Road, Bristol, BS13 7AT	England
South West Water Finance Plc	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South West Water Customer Services Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Dormant companies	**Registered office address**	**Country of incorporation**
Avon Valley Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Properties (Exeter) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England

Joint ventures	**Registered office address**	**Country of incorporation**	**Stake (%)**
Bristol Wessex Billing Services Limited	1 Clevedon Walk, Nailsea, Bristol, BS48 1WA	England	50%
CREWW Executive Board Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England	50%
Searchlight Collections Limited	PO BOX 930 Galmington Office, Galmington Trading Estate, Cornishway West, Taunton, Somerset, TA1 9LQ	England	50%

The Company also has minority shareholding in Landlord Tap Limited, which is incorporated, registered and operates in England.

During the year the Company acquired a 50% stake in Bristol Wessex Billing Services Limited and its subsidiary, Searchlight Collections Limited, from Bristol Water Holdings Limited, a subsidiary of the parent company, Pennon Group plc. The investment was transferred at the book value of £1.

Consolidated financial statements have not been prepared, as explained in note 2(b).

There are no indicators of impairment in the current year.

19. INVENTORIES

	2025 £m	2024 £m
Raw materials and consumables	10.7	10.2

20. TRADE AND OTHER RECEIVABLES – CURRENT

	2025 £m	2024 £m
Amounts receivable from customers	282.4	288.3
Less: provision for expected credit losses	(96.5)	(102.8)
Net trade receivables	**185.9**	**185.5**
Amounts owed by Pennon Group companies	19.0	14.4
Interest receivable	-	7.9
Other receivables	39.8	26.0
Prepayments	12.7	10.6
Accrued income	10.4	5.8
Trade and other receivables – current	**267.8**	**250.2**

Trade receivables include accrued income relating to customers with water budget payment plans.

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value.

There is no concentration of credit risk in trade receivables. The Company has a large number of customers who are dispersed and there is no significant loss on trade receivables expected that has not been provided for.

The Company applies the simplified approach in calculating the expected credit losses for trade receivables allowing a provision matrix to be used which is based on the expected life of trade receivables, default rates for different customer categories within the collection process and forward looking information.

As at 31 March, an analysis of the aging of gross trade receivables is as follows:

	2025 £m	2024 £m
Not due	64.5	47.8
Past due 1 - 30 days	12.4	32.3
Past due 31 - 120 days	14.8	13.9
More than 120 days	190.7	194.3
Total trade receivables	**282.4**	**288.3**

The Company specifically reviews separate categories of debt to identify an appropriate allowance for expected credit losses as outlined in note 2 (n) ii. South West Water has a duty under legislation to continue to provide domestic customers with services regardless of payment. The provision matrix adopted for household customers in the most significant operating region of Devon, Cornwall and Bournemouth is outlined in the table below, showing the range of provision rates dependent on phase of collection. The table also includes the gross debt and provision rates for other customer areas:

	2025		2024	
	Trade Receivables £m	Allowance for ECL's £m	Trade Receivables £m	Allowance for ECL's £m
Devon, Cornwall and Bournemouth (household customers)				
• Current occupier < 12 months: 1% - 30%	68.7	0.4	44.8	0.2
• Current occupier 12 – 24 months: 10% - 60%	12.4	2.8	23.1	3.2
• Current occupier 24 – 36 months: 15% - 80%	10.9	3.0	11.5	2.8
• Current occupier > 36 months: 20% - 100%	91.6	39.9	89.2	48.2
• Previous occupier: 55% - 100%	51.3	32.1	53.3	31.3
Bristol	38.1	18.3	46.4	17.1
Other	9.4	-	20.0	-
	282.4	**96.5**	**288.3**	**102.8**

No material expected credit loss provision has been recognised in respect of amounts owed by fellow subsidiary undertakings.

20. TRADE AND OTHER RECEIVABLES – CURRENT (CONTINUED)

The movement in the allowance for expected credit losses in respect of trade receivables was:

	2025 £m	2024 £m
At 1 April	**102.8**	**104.0**
Provision for expected credit losses	8.2	6.3
Net Receivables written-off during the year as uncollectable	(14.5)	(7.5)
At 31 March	**96.5**	**102.8**

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and where a failure to make payments on overdue invoices indicate the debt is unrecoverable.

21. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives used for cash flow hedging:	2025 £m	2024 £m
Assets		
Current assets	9.3	22.4
Non-current assets	22.3	17.3
Total assets	**31.6**	**39.7**
Liabilities		
Current liabilities	(0.4)	(5.2)
Non-current liabilities	(1.6)	(3.2)
Total liabilities	**(2.0)**	**(8.4)**

The Company's financial risks and risk management policies are set out in note 3. The fair value of derivatives is split between current and non-current assets or liabilities based on the maturity of the cash flows. The ineffective portion recognised in the income statement arising from hedging relationships was £nil (2024: £nil).

A net £4.4 million debit (2024: £16.3 million debit) was recognised in other comprehensive income for cash flow hedges, including a £15.2 million credit (2024: £18.1 million credit) recognised in profit and loss relating to cash flow hedges previously recognised through other comprehensive income and recorded in the hedging reserve.

Interest rate swaps, primarily cash flow hedges, and fixed rate borrowings are used to manage the mix of fixed and floating rates to ensure at least 60% of Company net borrowings are at fixed rate.

At 31 March 2025 the company had interest rate swaps to swap from floating to fixed rate and hedge financial liabilities with a notional value of £636 million and a weighted average maturity of 5.3 years (2024: £939 million, with 3.5 years). The weighted average interest rate of the swaps for their nominal amount was 2.9% (2024: 1.85%).

At 31 March 2025 the Company had interest rate swaps to swap from RPI Linked to fixed rate and hedge financial liabilities with a notional value of £nil (2024: £300 million with a weighted average maturity of 0.8 years). The weighted average interest rate of the swaps for their nominal amount was nil% (2024: 7.98%).

The Company had cross currency swaps and hedged financial liabilities with a notional value of £40 million (2024: £40 million) and a weighted average maturity of 5.1 years (2024: 6.1 years). The weighted average interest for the swaps for their nominal amount was 5.3% (2024: 0.8%).

The Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the swaps are identical to the hedged risk components. To test the hedge effectiveness, the Company uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item

The impact of the hedging instrument on the balance sheet is as follows:

	Notional Amount £m	Carrying Amount £m	Line item in the statement of financial position £m	Change in fair value used for measuring ineffectiveness for the period £m
31 March 2025				
Interest Rate Swaps	363.0	27.7	Derivative financial instruments	(9.9)
Cross Currency Swaps	40.1	(1.6)	Derivative financial instruments	(1.6)
31 March 2024				
Interest Rate Swaps	939.4	37.6	Derivative financial instruments	(14.8)
RPI Swaps	300.0	(4.5)	Derivative financial instruments	(0.1)
Cross Currency Swaps	40.1	(1.9)	Derivative financial instruments	(1.9)

The periods for which cash flow hedges are expected to affect future profit or loss as follows:

	<1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
31 March 2025					
Assets	9.3	5.3	12.6	4.4	31.6
Liabilities	(0.4)	(0.3)	(1.0)	(0.3)	(2.0)
31 March 2024					
Assets	22.4	3.9	9.2	4.2	39.7
Liabilities	(5.2)	(0.6)	(1.9)	(0.7)	(8.4)

Valuation hierarchy

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Company's financial instruments are valued using level 2 measures:	2025 £m	2024 £m
Assets		
Derivatives used for cash flow hedging	31.6	39.7
Liabilities		
Derivatives used for cash flow hedging	(2.0)	(8.4)

22. CASH AND CASH EQUIVALENTS AND RESTRICTED FUNDS

	2025 £m	Restated 2024 £m
Cash at bank and in hand	30.6	-
Short-term bank deposits	250.0	-
Cash and cash equivalents	280.6	-
Restricted funds	46.1	26.0
Total	**326.7**	**26.0**

Cash and cash deposits have been re-presented on the balance sheet to separately disclose cash and cash equivalents and restricted funds. See note 2 for further explanation.

Company short-term deposits have an average maturity of 1 working days (2024: nil working days). Company other deposits have an average maturity of 92 days (2024: 92 days).

Restricted funds comprise £46.1 million (2024: £26.0 million) to settle long-term lease liabilities (note 24). Restricted funds are available for access, subject to being replaced by an equivalent valued security.

For the purposes of the cash flow statement, cash and cash equivalents comprise:

	2025 £m	2024 £m
Cash and cash equivalents as above	280.6	-
Overdraft	-	(0.8)
Cash and cash equivalents	**280.6**	**(0.8)**

23. TRADE AND OTHER PAYABLES – CURRENT

	2025 £m	2024 £m
Trade payables	87.5	191.1
Amounts owed to subsidiary companies	28.6	6.8
Amounts owed to parent undertaking	48.9	47.4
Other tax and social security	3.8	3.7
Other payables	21.7	23.0
Accruals	35.1	18.4
Contract liabilities	39.5	4.3
	265.1	**294.7**

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Included in the amounts owed to parent undertaking is £45.0m relating to payment of the dividend based which was approved by the Board in March 2024, and will be paid in the financial year ending 31 March 2026.

23. TRADE AND OTHER PAYABLES – CURRENT (CONTINUED)

The movement in the current and non-current contract liabilities was:

Contract liabilities	2025 £m	2024 £m
At 1 April	180.2	179.2
Revenue recognised in the year	(5.1)	(5.2)
Consideration received in advance of completion of performance obligations*	56.1	6.2
At 31 March	**231.2**	**180.2**

*The Company previously presented cash received in advance from customers within trade debtors in the balance sheet and some contributions received from developers in trade payables. These have been reclassified to contract liabilities in the current year.

The analysis of contract liabilities between current and non-current is:

	2025 £m	2024 £m
Current	39.5	4.3
Non-current (note 25)	191.7	175.9
	231.2	**180.2**

Performance obligations related to the current contract liabilities closing balance above are expected to be satisfied, and revenue will be recognised, within the financial year ended 31 March 2026.

24. BORROWINGS

	2025 £m	2024 £m
Current		
Bank overdraft	-	0.8
Bank and other external loans	101.3	104.0
Loan from parent company	-	100.0
Loan from subsidiary company	3.6	3.5
	104.9	**208.3**
Leases	32.3	50.9
Total current borrowings	**137.2**	**259.2**
Non-current		
Bank and other external loans	772.2	911.5
Private Placements	656.2	507.8
Fixed Rate Bonds	57.0	57.0
Loan from subsidiary company	1,248.4	594.3
	2,733.8	**2,070.6**
Leases	1,013.3	1,065.5
Total non-current borrowings	**3,747.1**	**3,136.1**
Total borrowings	**3,884.3**	**3,395.3**

The loan from subsidiary company represents a loan from South West Water Finance plc of £1.2 billion (2024: £571.2 million), a UK company whose purpose is to raise borrowings for South West Water Limited, and a loan from Bristol Water plc of £26.6 million (2024: £26.6 million).

24. BORROWINGS (CONTINUED)

The fair value of the non-current borrowings, valued using level 2 measures (set out in note 21) were:

	2025 Book value £m	2025 Fair value £m	2024 Book value £m	2024 Fair value £m
Current				
Bank overdraft	-	-	0.8	0.8
Bank and other external loans	101.3	101.3	104.0	104.0
Loan from parent company	-	-	100.0	100.0
Loan from subsidiary company	3.6	3.6	3.5	3.5
	104.9	**104.9**	**208.3**	**208.3**
Leases	32.3	-	50.9	-
Total current borrowings	**137.2**	**104.9**	**259.2**	**208.3**
Non-current				
Bank and other external loans	772.2	872.8	911.5	926.4
Private Placements	656.2	659.1	507.8	528.9
Fixed Rate Bonds	57.0	61.6	57.0	64.6
Loan from subsidiary company	1,248.4	1,059.2	594.3	584.0
	2,733.8	**2,652.7**	**2,070.6**	**2,103.9**
Leases	1,013.3	-	1,065.5	-
Total non-current borrowings	**3,747.1**	**2,652.7**	**3,136.1**	**2,103.9**
Total borrowings	**3,884.3**	**2,757.6**	**3,395.3**	**2,312.2**

Under IFRS 7 the disclosure relating to the fair value of leases is not required.

Where market values are not available, fair values of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates.

During the year ended 31 March 2025, as part of an ongoing programme to renew and raise new financing, the group entered into £800 million of new Public Bonds issuances and Private placements with an average maturity of 12.3 years. £650 million of bond issuances were through the EMTN programme in South West Water Finance plc.

During the year ended 31 March 2024, as part of its ongoing programme to renew and raise new financing, the Company entered into £150 million of new terms loans and leasing facility arrangements, with an average maturity of 8 years, £325 million of private placements.

The maturity of non-current borrowings, excluding leases, was:

	2025 £m	2024 £m
Between 1 and 2 years	57.8	107.7
Over 2 and less than 5 years	196.7	246.6
Over 5 years	2,479.3	1,716.3
	2,733.8	**2,070.6**

The weighted average maturity of non-current borrowings, excluding leases, was 14 years (2024: 14.0 years).

Undrawn committed borrowing facilities at the balance sheet date were:

	2025 £m	2024 £m
Floating rate:		
Expiring within one year:	-	40.0
Expiring after one year:	370.0	255.0
	370.0	**295.0**

24. BORROWINGS (CONTINUED)

Information on leases

The Company has leases for various assets as shown in note 16.

The maturity of lease liabilities was:

	2025 £m	2024 £m
Within 1 year	32.3	50.9
Over 1 year and less than 5 years	168.1	176.1
Over 5 years	845.2	889.4
	1,045.6	**1,116.4**

Analysed as:

	2025 £m	2024 £m
Current	32.3	50.9
Non-current	1,013.3	1,065.5
	1,045.6	**1,116.4**

Lease liabilities includes liabilities of £1,007.4 million (2024: £1,078.5 million) that are subject to secured financing arrangements (see note 16) and lease liabilities under IFRS 16 of £38.2 million (2024: £37.9 million).

The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the treasury function.

The discount rate used to calculate the lease liabilities above involves estimation. Where the Company cannot readily determine the rate implicit in the lease the Company uses an estimated incremental borrowing rate (IBR). At 31 March 2025 the range of IBRs used was between 6.1% and 6.8% (2024 between 6.1% and 6.8%) and the weighted average IBR across all leases was 6.3% (2024 6.3%). If the weighted average rate used increased or decreased by 10bps, this would result in a c.1.0% increase or reduction in the present value of lease liabilities recognised at 31 March 2025 (2024 c.1.0%).

The period for repayment of certain leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £46.1 million at 31 March 2025 (2024: £26.0 million), are currently being held to settle the lease liability subject to rights to release by negotiation with the lessor. The deposits are subject to a registered charge given as security to the lessor for the balance outstanding.

Cash outflows in respect of leasing relate to principal repayments of £96.8 million (2024 £20.2 million) and interest repayments of £64.3 million (2024 £53.9 million), in addition to inflows from lease financing arrangements of £25.0 million (2024 £64.8 million).

Other information required to be disclosed under IFRS 16 is included in note 16.

25. OTHER NON-CURRENT LIABILITIES

	2025 £m	2024 £m
Contract liabilities	191.7	175.9

Non-current contract liabilities relate to consideration received in advance of the Company performing its performance obligations to customers where performance obligations will not be completed within twelve months of the balance sheet date. The overall movement in total contract liabilities is disclosed in note 23. Contract liabilities reflect the fair value of assets transferred from customers. The majority of the contract liabilities included above are expected to unwind after five years.

26. RETIREMENT BENEFIT OBLIGATIONS

The Company's employees are eligible to participate in a defined contribution scheme, operated by the parent company, Pennon Group plc. The Company is also a member of the Pennon Group defined benefit scheme which was closed to new members on or before 1 April 2008. The principal plan within the Group is the Pennon Group Pensions Scheme (PGPS), which is a funded defined benefit, final salary pensions scheme in the UK.

The Pennon Group's pension schemes are established under trust law and comply with all relevant UK legislation. The assets of the scheme are held in separate trustee-administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of the schemes' trustees is determined by the schemes' trust documentation. The Pennon Group has a policy for the PGPS that one-half of all trustees, other than the Chair, are nominated by members of the schemes, including pensioners. PGPS is closed to future accrual.

In June 2023, the High Court handed down a decision (Virgin Media Limited v NTL Pension Trustees II Limited and others) which potentially has implications for the validity of amendments made by schemes, including the PGPS and other Pennon Group defined benefit schemes, which were contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. This decision was upheld by the Court of Appeal in August 2024. There is potential for legislative intervention following industry lobbying efforts that may retrospectively validate certain rule amendments that would otherwise be held void where the requirements of section 37 were not met. However, the parent company has engaged with the relevant Trustee for PGPS and other Pennon Group defined benefit schemes who have confirmed that based on the governance processes in place and reviews of significant deed changes during the period in question, these bodies have no reason to believe that the relevant requirements were not complied with in relation to the Schemes with regard to the relevant period in question. Given that there is no indication of non-compliance with the relevant requirements, the PGPS and other Pennon Group defined benefit schemes' valuation as at 31 March 2025 does not reflect potential additional liabilities arising from the Virgin Media case.

Defined contribution schemes

Pension costs for defined contribution schemes were £10.3 million (2024: £9.1 million).

Defined benefit schemes

The principal actuarial assumptions at 31 March were:

	2025 %	2024 %
Rate of increase in pensionable pay	2.5	2.6
Rate of increase for current and future pensions	2.7	2.8
Rate used to discount schemes' liabilities and expected return on scheme assets	5.8	4.8
Inflation	3.1	3.2

Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2023 actuarial tables with an allowance for future longevity improvement.

The average life expectancy in years of a member having retired at age 62 on the balance sheet date is projected at:

	2025	2024
Male	23.6	23.9
Female	26.4	26.6

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2025	2024
Male	24.4	25.0
Female	27.4	27.9

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The sensitivities regarding the principal assumptions used to measure the schemes' liabilities are:

	Change in assumption	Impact on schemes' liabilities
Rate of increase in current and future pensions	+/- 0.5%	+/-4.6%
Rate used to discount schemes' liabilities	+/- 0.5%	+/- 5.9%
Inflation	+/- 0.5%	+/- 4.4%
Life expectancy	+/- 1 year	+/- 3.4%

The sensitivity analysis shows the effect of changes in the principal assumptions used for the measurement of the pension liability. The method used to calculate the sensitivities is approximate and has been determined taking into account the duration of the liabilities and the overall profile of each scheme's membership. This is the same approach as has been adopted in previous years.

The amounts recognised in the balance sheet were:

	2025 £m	2024 £m
Present value of financial obligations	(402.3)	(461.2)
Fair value of plan assets	417.0	472.0
Net asset recognised in the balance sheet	**14.7**	**10.8**

The movement in the net defined benefit obligation over the accounting period is as follows:

	2025			2024		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	**(461.2)**	**472.0**	**10.8**	**(466.8)**	**484.3**	**17.5**
Current service cost	(1.3)	-	(1.3)	(1.4)	-	(1.4)
Interest (expense)/income	(21.6)	22.1	0.5	(21.4)	22.2	0.8
Past service cost and gains and losses on settlements	-	-	-	(0.2)	-	(0.2)
	(484.1)	**494.1**	**10.0**	**(489.8)**	**506.5**	**16.7**
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	-	(52.3)	(52.3)	-	(10.2)	(10.2)
Gain from change in demographic assumptions	4.0	-	4.0	3.9	-	3.9
Gain from change in financial assumptions	52.6	-	52.6	9.2	-	9.2
Experience loss	(1.0)	-	(1.0)	(10.4)	-	(10.4)
	55.6	**(52.3)**	**3.3**	**2.7**	**(10.2)**	**(7.5)**
Contributions:						
Employers	-	1.4	1.4	-	1.6	1.6
Payments from plans:						
Benefit payments	24.9	(24.9)	-	24.6	(24.6)	-
Administration costs	1.3	(1.3)	-	1.3	(1.3)	-
	26.2	**(24.8)**	**1.4**	**25.9**	**(24.3)**	**1.6**
At 31 March	**(402.3)**	**417.0**	**14.7**	**(461.2)**	**472.0**	**10.8**

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Recognition of surplus on principal pension scheme
In accordance with IAS 19 'Employee Benefits', the value of the net pension scheme surplus that can be recognised in the statement of financial position is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. In respect of the principal pension scheme, PGPS, the surplus has been recognised as the Company believes that ultimately it has an unconditional right to a refund of any surplus assuming the full settlement of the plan's liabilities in a single event, such as a scheme wind up.

Employer contributions are made into the scheme by South West Water and other companies within the Pennon Group based upon pensionable pay of employees in each section of the scheme. Full details of the scheme are included within the Pennon Group plc financial statements (see note 30).

The assets in the schemes at year end were:

	2025		2024	
	Quoted prices in active market £m	Fund %	Quoted prices in active market £m	Fund %
Equities	71.0	17	126.0	27
Property	38.5	9	56.8	12
Bonds	192.8	47	217.6	46
Diversified Growth Fund	12.6	3	29.9	6
Insurance linked securities	88.0	21	34.0	7
Other	14.1	3	7.7	2
	417.0	**100**	**472.0**	**100**

Through the Pennon Group defined benefit pension plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility: The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long-term but can give risk to volatility and risk in the short term. As the funding of the schemes improves, an increasing proportion of the schemes' assets are invested in less volatile asset classes such as cash and bonds which more closely reflect market movements in the schemes' liabilities. The allocation to growth assets is monitored such that it is aligned with the scheme's long-term objectives.

Changes in bond yields: A decrease in corporate bond yields will increase the value placed on the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.

Inflation risk: The majority of the scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation).The scheme uses LDI's ('Liability Driven Investment Funds') within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rate and inflation expectations. The structure allows the scheme to both hedge against the risks and retain capital investment in assets that are expected to generate higher returns. Whilst LDI's are an integral part of the hedging strategy, risk management and monitoring strategies are in place to ensure that the collateral requirements to maintain these structures are closely managed.

Life expectancy: The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

In conjunction with its investment advisors, the trustees have structured the scheme's investments with the objectives of balancing investment returns and levels of risk. The asset allocation has three principal elements:

- holding of cash funds and bonds which is expected to be less volatile than most other asset classes and reflects market movements in the scheme's liabilities
- A proportion of assets with fund managers having freedom in making investment decisions to maximise returns, and
- Investment of a proportion of the schemes' assets in alternative asset classes which give the potential for diversification (currently property, insurance linked securities and diversified growth).

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected increases in pensionable pay.

As funding of our principal pension scheme has improved the investment portfolio has been de-risked through increasing the scheme's real gilts hedging position through LDIs (Liability Driven Investments), which are commonly used by UK pension schemes.

The weighted average duration of the defined benefit obligation is 10 to 12 years (2024: 12 to 13 years).

The 2022 triennial actuarial valuation of the principal defined benefit scheme was agreed in 2024 with an actuarial valuation surplus of £7.6 million. No deficit recovery contributions are required as a result of the 2022 valuation. Additional contributions of £1.4 million were paid into the scheme in respect of scheme expenses (2024: £1.6 million). Pennon Group plc monitors funding levels on an annual basis, the Company expects to pay total contributions of around £1.4 million during the year ending 31 March 2026.

27. CURRENT TAX ASSET

	2025 £m	2024 £m
Current year asset	3.2	0.4
Prior year tax items	-	7.6
At 31 March	**3.2**	**8.0**

28. DEFERRED TAX

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates. Movements on deferred tax were:

	2025 £m	2024 £m
Liabilities at 1 April	**466.0**	**471.5**
Underlying charge to the income statement	(3.0)	4.3
Non underlying credit to the income statement	(8.1)	(3.9)
Credited to equity/other comprehensive income	(1.6)	(5.9)
Liabilities at 31 March	**453.3**	**466.0**

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The Company has applied the exception to recognised and disclosing deferred tax related to Pillar Two income taxes.

The majority of the Company's deferred tax assets and liabilities are expected to be recovered over more than one year. All deferred tax assets and liabilities within the same jurisdiction are offset where it is appropriate to do so.

28. DEFERRED TAX LIABILITIES (CONTINUED)

The movements in deferred tax assets and liabilities were:

Deferred tax liabilities

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Derivatives £m	Total £m
At 01 April 2023	**474.2**	**4.2**	**12.0**	**490.4**
Charged/(credited) to the income statement	5.9	0.2	(0.1)	6.0
Credited to other comprehensive income/equity	-	(1.9)	(4.1)	(6.0)
At 31 March 2024	**480.1**	**2.5**	**7.8**	**490.4**
Charged to the income statement	40.6	0.1	0.1	40.8
Charged/(credited) to other comprehensive income/equity	-	0.8	(2.4)	(1.6)
At 31 March 2025	**520.7**	**3.4**	**5.5**	**529.6**

Deferred tax (assets)

	Provisions £m	Tax Losses £m	Share based payments £m	Total £m
At 01 April 2023	**(0.4)**	**(18.2)**	**(0.3)**	**(18.9)**
Charged/(credited) to the income statement	0.1	(1.9)	0.1	(1.7)
Non-underlying credit to the income statement	-	(3.9)	-	(3.9)
Charged to other comprehensive income/equity	-	-	0.1	0.1
At 31 March 2024	**(0.3)**	**(24.0)**	**(0.1)**	**(24.4)**
Charged/(credited) to the income statement	0.1	(43.9)	-	(43.8)
Non-underlying credit to the income statement	-	(8.1)	-	(8.1)
At 31 March 2025	**(0.2)**	**(76.0)**	**(0.1)**	**(76.3)**

Deferred tax credited to other comprehensive income/equity during the year was:

	2025 £m	2024 £m
Remeasurement of defined benefit obligations	(0.8)	1.9
Cash-flow hedges	2.4	4.1
Share-based payments	-	(0.1)
	1.6	**5.9**

Capital allowances are available when a business incurs qualifying expenditure on capital items such as infrastructure assets. Capital allowances provide tax relief on these items in place of accounting depreciation which is not tax deductible. Over the period of ownership of an asset, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates typically vary from 3% up to 100%. Due to the Company's continuing capital expenditure programme, it is unlikely that the deferred tax liability will crystallise in the near future.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Company is not the same as the profit reported in the financial statements. The adjustments for this are reflected in the current tax reconciliation. This provides an increase in current tax relief for the Company with a consequently higher deferred tax liability and charge due to the additional capital allowance deductions.

28. DEFERRED TAX LIABILITIES (CONTINUED)

Short term temporary differences arise on items such as retirement benefit obligations, derivatives, fair value adjustments and share based payments because the treatment of such items are different for tax and accounting purposes. These differences reverse over future years following that in which they arise, as is reflected in the deferred tax charge in these financial statements. Specifically, retirement benefit obligations will crystallise over the life of the pension scheme and/or the period when spreading applies (this can be up to three years for spreading purposes), whilst share based payments will crystallise over the remaining life of the share schemes which are up to five years. Short term liabilities including provisions will typically crystallise in the following year.

Where interest charges or other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

Derivatives reflect the fair value movements on treasury derivatives, these can fluctuate considerably each year. The balance will crystallise when derivative items are either terminated or mature, the life of these items can be up to ten years.

Tax losses relate to trading losses and non-trade deficits carried forwards in relation to the UK's corporate interest restriction rules. These are available indefinitely. With respect to both items, these are recognised on the basis the UK Group has taxable temporary differences that are expected to reverse in the same periods as the unused tax losses and there is a right of offset.

29. PROVISIONS

	Restructuring £m	Other £m	Total £m
At 01 April 2023	0.4	-	0.4
Utilised	(0.4)	-	(0.4)
At 01 April 2024	**-**	**-**	**-**
Charge	8.2	0.4	8.6
Utilised	(3.5)	-	(3.5)
At 31 March 2025	**4.7**	**0.4**	**5.1**

A provision for restructuring of £8.2 million was created in the year in connection with the business transformation of the Company; the majority of the provision relates to employment costs. Additionally, a provision of £0.4 million for other costs was created in the year, both the restructuring provision and other provision are expected to be utilised within one year.

30. CALLED UP SHARE CAPITAL

	2025 £m	2024 £m
Authorised		
900,000,000 Ordinary shares of £1 each (2024: 500,000,000)	900.0	500.0
Allotted and fully paid		
625,923,001 Ordinary shares of £1 each (2024: 295,923,000)	**625.9**	**295.9**

During the year, the Company issued 330,000,000 shares at a nominal value of £1 per share.

31. EMPLOYEE SHARE SCHEMES

The Company participates in a number of share plans for the benefit of employees operated by Pennon Group plc. Details of each plan are:

i) Sharesave Scheme

An all-employee savings related plan is operated that enables employees to invest up to a maximum of £500 per month for three or five years. These savings can then be used to buy ordinary shares, at a price set at a discount to the market value at the start of the savings period, at the third or fifth anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Pennon Group before the option exercise period commences.

31. EMPLOYEE SHARE SCHEMES (CONTINUED)

Outstanding options to subscribe for ordinary shares of 61.05pence each under the Company's share option scheme are:

Date granted	Subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March	
			2025	2024
09 July 2019	501p	2022 – 2024	-	66
16 July 2020	750p	2023 – 2025	23	27
06 July 2021	710p	2024 – 2026	53	290
06 July 2022	669p	2025 – 2027	183	273
04 July 2023	536p	2026 – 2028	433	658
02 July 2024	406p	2027 – 2029	1,095	-
			1,787	**1,314**

The number of shares and, where relevant, the exercise subscription prices above have been adjusted to reflect the impact of the Pennon Group plc rights issue which took place on 17 February 2025. The options outstanding at 31 March 2025 have been updated at the time of the rights issue and the options outstanding at 31 March 2024 remain at the pre rights issue value.

The number and weighted average exercise price of Sharesave options are:

	2025		2024	
	Number of Ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of Ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	1,314	748	1,323	835
Granted	1,035	406	741	663
Additional options awarded as part of rights issue	410	492	-	-
Forfeited	(650)	684	(530)	829
Exercised	(3)	620	(71)	639
Expired	(295)	798	(149)	858
Transferred to other Group companies	(24)	-	-	-
At 31 March	**1,787**	**591**	**1,314**	**748**

The weighted average share price at the date of exercise of Sharesave options during the year was 612p (2024: 689p). The options outstanding at 31 March 2025 had a weighted average exercise price of 591p (31 March 2024: 748p) and a weighted average remaining contractual life of 2.3 years (31 March 2024: 2.0 years). The number of exercisable Sharesave options at 31 March 2025 was 2,277 (2024: 1,000) and the weighted average exercise price of exercisable Sharesave options was 710 pence (2024: 799 pence).

The aggregate fair value of Sharesave options granted during the year was £0.8 million (2024: £0.6 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model, at the date of issue of the options, were:

	2025	2024
Weighted average share price	564p	700p
Weighted average exercise price	406p	663p
Expected volatility	27.5%	25.6%
Expected life	3.5 years	3.4 years
Risk free rate	5.3%	4.5%
Expected dividend yield	7.8%	6.1%

Expected volatility was determined by calculating the historical volatility of the Pennon Group’s share price over the previous three years.

31. EMPLOYEE SHARE SCHEMES (CONTINUED)

ii) Long Term Incentive Plan

Executive Directors and Senior Management receive a conditional award of Ordinary shares in Pennon Group plc. Share awards vest subject to the achievement of specific performance conditions measured over a performance period of not less than three years. details concerning LTIPs, including performance conditions, is shown in the Directors' remuneration report on page 194.

The number and price of shares in the LTIP are:

	2025		2024	
	Number of Ordinary shares (thousands)	Weighted average award price per share (p)	Number of Ordinary shares (thousands)	Weighted average award price per share (p)
At 1 April	158	922	163	1,007
Granted	171	646	51	714
Additional options awarded as part of rights issue	90	-	-	-
Lapsed	(13)	1,335	(35)	1,071
Released	(23)	753	(21)	790
At 31 March	**383**	**756**	**158**	**922**

The number of shares above have been adjusted to reflect the impact of the Pennon Group plc rights issue which took place on 17 February 2025. The granted shares outstanding at 31 March 2025 have been updated at the time of the rights issue and the granted shares outstanding at 31 March 2024 remain at the pre rights issue value.

The awards outstanding at 31 March 2025 had a weighted average award price of 756p (31 March 2024: 922p) and a weighted average remaining contractual life of 2.7 years (31 March 2024: 2.7 years).

The aggregate fair value of awards granted during the year was £0.4 million (2024: £0.1 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depend on non-market performance vesting conditions.

iii) Annual Incentive Bonus Plan – Deferred Shares

Awards under the plan to Executive Directors and Senior Management involve the release of Ordinary shares in Pennon Group plc to participants. There is no performance condition since vesting is conditional upon continuous service with the Pennon Group for a period of three years from the award.

The number and weighted average price of shares in the Incentive Bonus Plan are:

	2025		2024	
	Number of Ordinary shares (thousands)	Weighted average award price per share (p)	Number of Ordinary shares (thousands)	Weighted average award price per share (p)
At 1 April	38	904	43	1,056
Granted	-	700	17	988
Vested	(9)	1,141	(15)	1,079
Lapsed	(3)	876	(7)	1,149
At 31 March	**26**	**830**	**38**	**904**

The awards outstanding at 31 March 2025 had a weighted average price of 830p (31 March 2024: 904p) and a weighted average remaining contractual life of 1.4 years (31 March 2024: 1.4 years). The Company's share price at the dates of the awards ranged from 665p to 1,141p (2024: 700p to 1,141p).

The aggregate fair value of awards granted during the year was £nil (2024: £0.1 million), determined from market value. No option pricing methodology is applied since dividends declared on the shares are receivable by the participants in the scheme.

31. EMPLOYEE SHARE SCHEMES (CONTINUED)

Further details of the plans and options granted to Directors, included above, are shown in the Directors' remuneration report.

32. SHARE PREMIUM ACCOUNT

	2025 £m	2024 £m
At 1 April and 31 March	**413.0**	**413.0**

33. RETAINED EARNINGS AND OTHER RESERVES

	Note	Hedging reserve £m	Retained earnings £m	Total £m
At 01 April 2023		**38.5**	**224.5**	**263.0**
Profit for the year		-	2.5	2.5
Other comprehensive loss for the year		(12.2)	(5.6)	(17.8)
Dividends paid/payable	11	-	(45.0)	(45.0)
Share-based payments (net of tax)		-	(0.4)	(0.4)
At 31 March 2024		**26.3**	**176.0**	**202.3**
Loss for the year		-	(48.6)	(48.6)
Other comprehensive (loss)/income for the year		(2.0)	2.5	0.5
Share-based payments (net of tax)		-	0.3	0.3
At 31 March 2025		**24.3**	**130.2**	**154.5**

34. ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Reconciliation of (loss)/profit for the year to cash generated from operations:

	2025 £m	2024 £m
(Loss)/profit for the year	(48.6)	2.5
Adjustments for:		
Share based payments	0.3	(0.3)
Profit on disposal of property, plant and equipment	(1.3)	(0.5)
Depreciation charge	165.8	159.3
Amortisation of intangible fixed assets	2.5	3.1
Finance income	(6.0)	(3.3)
Finance costs	176.3	158.3
Taxation	(12.6)	(0.3)
Dividend received	-	(148.3)
Impairment of investment	-	146.3
Changes in working capital:		
Increase in inventories	(0.5)	(0.2)
Increase in trade and other receivables	(22.5)	(52.5)
Decrease in trade and other payables	(39.6)	(1.8)
Decrease in retirement benefit obligations	(0.1)	-
Increase/(Decrease) in provisions	5.1	(0.4)
Cash generated from operations	**218.8**	**261.9**

35. NET BORROWINGS

	2025 £m	2024 £m
Cash and cash equivalents	**326.7**	**26.0**
Borrowings – current		
Other current borrowings	(104.9)	(208.3)
Lease obligations	(32.3)	(50.9)
Total current borrowings	**(137.2)**	**(259.2)**
Borrowings – non-current		
Other non-current borrowings	(2,733.8)	(2,070.6)
Lease obligations	(1,013.3)	(1,065.5)
Total non-current borrowings	**(3,747.1)**	**(3,136.1)**
Total net borrowings	**(3,557.6)**	**(3,369.3)**

The movement in net borrowings during the periods presented were as follows:

	Net borrowings at 1 April 2023 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2024 £m
Cash and cash equivalents	46.1	(22.0)	-	1.9	26.0
Bank and other current borrowings	(313.4)	19.2	(58.9)	144.8	(208.3)
Current lease obligations	(32.0)	74.1	(34.2)	(58.8)	(50.9)
Bank and other non-current borrowings	(1,759.0)	(326.0)	58.9	(44.5)	(2,070.6)
Non-current lease obligations	(1,033.0)	(64.8)	34.2	(1.9)	(1,065.5)
Total net borrowings	**(3,091.3)**	**(319.5)**	**-**	**41.5**	**(3,369.3)**

The movement in net borrowings for the prior year has been corrected to show the gross cash flows and other non-cash movements relating to lease obligations whereby interest accrues to and is paid from net borrowings, these amounts were previously shown net within other non-cash movements. Transfers between non-current and current for these items has also been corrected.

Other non-cash movements on cash and cash equivalents includes £0.8 million overdraft position presented in borrowings (note 24).

	Net borrowings at 1 April 2024 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2025 £m
Cash and cash equivalents	26.0	300.7	-	-	326.7
Bank and other current borrowings	(208.3)	209.0	(108.3)	2.7	(104.9)
Current lease obligations	(50.9)	100.9	(20.4)	(61.9)	(32.3)
Bank and other non-current borrowings	(2,070.6)	(745.8)	108.3	(25.7)	(2,733.8)
Non-current lease obligations	(1,065.5)	35.2	20.4	(3.4)	(1,013.3)
Total net borrowings	**(3,369.3)**	**(100.0)**	**-**	**(88.3)**	**(3,557.6)**

36. CONTINGENCIES

	2025 £m	2024 £m
Guarantee of borrowings of subsidiary undertaking	1,188.5	525.9

Guarantees in respect of performance bonds, the last of which expire in 2057 and which will be reduced in line with repayments of the borrowings of the subsidiary undertaking, are entered into in the normal course of business.

Other contractual and litigation uncertainties

On 23rd May 2023 Ofwat announced an investigation into South West Water's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to assurance processes which include independent checks and balances carried out by an external technical auditor. The Company continues to work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation. The Group has undertaken its own internal investigation into the data and third party experts have concluded the calculations are within a tolerance as reported, as a result there were no detrimental impacts to customers through Outcome Delivery Incentives (ODIs). The Company recognises opportunities to enhance data quality to improve the estimation process and these have been shared with Ofwat. Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply from closing the investigation with no further action, agreeing to formal S.19 undertakings through to fining the Group up to 10% of its revenue in relation to the regulated drinking water business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty.

On 2nd February 2024 summons were received by South West Water Limited from the EA in relation to alleged non permitted discharges at 7 locations with a total of 30 charges. The EA have since withdrawn 6 of these charges relating to 1 site. At a hearing on 14th November 2024, South West Water pleaded guilty to 5 of the charges and the sentencing hearing for all 24 charges will take place in the third quarter of 2025 with judgment following at a later date.

On 15th May 2024, cryptosporidium was detected in South West Water’s water network and, in response, boil water notices were issued for certain customers in the Brixham area that were lifted in a phased manner completing on 8th July 2024. South West Water continues to assist the Drinking Water Inspectorate in their ongoing investigation, the outcome of which is not known at this time.

The Company establishes provisions in connection with contracts and litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where it is uncertain that these conditions are met, a contingent liability is disclosed unless the likelihood of the obligation arising is remote or the matter is not deemed material.

37. CAPITAL COMMITMENTS

	2025 £m	2024 £m
Contracted but not provided	133.4	174.0

38. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with associates and joint ventures which were not members of the Pennon Group plc's group of companies. Bristol Wessex Billing Services Limited is a joint venture investment of the Company and Water 2 Business Limited is an associate investment of Pennon Group plc.

The following transactions with associates and subsidiaries which were not wholly owned by the parent company, Pennon Group plc, occurred in the year:	2025 £m	2024 £m
Joint ventures and associates		
Purchase of goods and services		
– Management charges	3.7	3.5
– Capital expenditure	0.3	0.4
– Other	0.1	0.1
– Non-household services	28.6	19.0
Year end balances		
Receivables		
– Joint venture and associates	2.2	-
Payables		
– Joint venture and associates	1.6	3.0

The receivables due from related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made, or are considered necessary, for doubtful debts in respect of these amounts due.

On 31 January 2025, the investment in BWBSL, a joint venture with Wessex Water limited, was transferred from Bristol Water Holdings Limited, a fellow subsidiary of Pennon Group plc, to the Company.

39. PARENT COMPANY

The parent company, and ultimate controlling party, is Pennon Group plc which is registered in England. The smallest and largest group in which the Company is consolidated is Pennon Group plc which is registered in England and copies of its consolidated annual report are available from Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR.

40. POST BALANCE SHEET EVENT

Ofwat and the Environment Agency (EA) announced an industry-wide investigation into sewage treatment works on 18 November 2021. On 10 July 2025, Ofwat announced its findings for South West Water and its proposed decision to accept South West Water's enforcement package, in lieu of a financial penalty. In doing so, Ofwat recognised the work South West Water has done to improve systems, process and controls and the investments already made to address the historical findings. The agreed undertakings result in investment and funding worth £24million[1] to be delivered over the period to 2030 including:

- £20 million accelerating investment from K9 to reduce the number of spills at environmentally sensitive locations or within a focused community
- £2 million fund for customers to tackle sewer misuse and misconnections to address environmental pollution, infrastructure strain and public health issues caused by improper connections to the sewer system
- £2 million Nature Recovery Fund to support environmental groups to deliver measurable environmental gains

These investments will provide improvements for both customers and the environment alongside our K8 plans to tackle all storm overflows at our bathing and shellfish waters and our highest spilling sites.

[1] The enforcement package proposed is in lieu of a penalty of £19.0 million, which equates to c.6.5% of wastewater revenue (below the 10% maximum possible for such enforcement).