3 June 2025

South West Water Limited

Full Year Results 2024/25

Pennon Group plc ("Pennon") announced its results for the full year ended 31 March 2025. Following this announcement South West Water Limited is providing an update on the South West Water performance for the same period. References to the "Group" in this announcement are to Pennon Group plc and its subsidiaries. References to "South West Water", "South West Water Group" or "SWW" are references to South West Water Limited and its subsidiaries. For the avoidance of doubt, Pennon does not provide any credit support in respect of any financial instruments guaranteed by South West Water Limited. South West Water Limited is a component part of, but not the totality of, the Group and the Group's results or SWW's results are not South West Water Limited's results.

Susan Davy, Group Chief Executive Officer, commented:

"South West Water has delivered a resilient operational performance during a demanding year, while building a robust platform for the future. We have reshaped and reset the cost base, delivered record levels of capital investment and - following a successful rights issue - maintained a strong balance sheet.

We are listening to our customers, who are quite rightly demanding water companies to do more for customers today and to step up investment for the future. We are doing both. We have worked diligently to help customers use less water and save more money with a range of campaigns and pilots. At the same time, our record year for investment has improved services that matter most to our customers. Whilst this has impacted profitability this year, it has been the right thing to do.

As the only water company to have received an outstanding rating for our business plan for the third consecutive time, we have a track record of setting and delivering on stretching business plans. Consistently around 70% of the stretching regulatory deliverables have been met which put us top quartile compared to the sector. Of course there is more to do, not least on those measures we didn't achieve, and our ambitious new plan includes a record £3.2bn of investment due to be completed by 2030.

We know customers are worried about rising bills to fund this level of investment. While we have made the tough decision to put bills up in 2025/26 – for the first time in over a decade – two thirds of our investments are being funded by our supportive investors and debt providers.

Ultimately everyone will benefit from the investments we are making – from building reservoirs, to fixing storm overflows, powering our net zero ambitions and helping to create economic growth. It's why we're able to make a £200m support package available to those who need it most. It's also why - as the dry weather persists - we're predicting that the South West won't need a hosepipe ban this summer. We could not do this without the 4,000 brilliant colleagues who walk in our customers shoes every single day, focusing on the priorities that matter most for customers."

FINANCIAL PERFORMANCE

SWW Group Results

	FY 2024/25	FY 2023/24	Change
Revenue	£737.7m	£729.8m	+1.1%
Operating costs	(£429.1m)	(£397.3m)	+8.0%
EBITDA	£308.6m	£332.5m	(7.2%)
Depreciation and amortisation	(£168.3m)	(£162.4m)	+3.6%
Operating profit	£140.3m	£170.1m	(17.5%)
Net interest charge	(£170.6m)	(£155.5m)	9.7%
(Loss)/profit before tax	**(£30.3)m**	**£14.6m**	**(307.5%)**
Non-underlying items before tax	(£32.4m)	(£15.6m)	-
Loss before tax	**(£62.7m)**	**(£1.0m)**	**(17.5%)**

Capital expenditure		
South West Water	**£588.7m**	£582.9m
	At 31 Mar 2025	**At 31 Mar 2024**
South West Water		
RCV[3]	**£5,617.8m**	£5,186.4m
Gearing[4]	**62.0%**	63.5%
SWW		
Cumulative RORE (real, notional)[5]	**6.0%**	7.6%
Cumulative RORE (nominal, notional[6])	**10.4%**	12.3%

Financial highlights

- Results for 2024/25 in line with management expectations
- Our successful water efficiency initiatives reducing customer demand has driven lower revenues in South West Water (‘SWW’) with regulatory revenue mechanisms in place to protect future recovery
- c.5% operational efficiencies have offset inflationary cost pressures, we have also invested in new technology, including our new customer platform and increased our front-line activities to drive improved outcomes
- Our continued capital investment programme at £588.7m this year has increased finance costs, which have moved from £155.6m to £170.6m

- The resulting loss before tax on both an underlying and statutory basis reflects a point of inflection into K8 with an expected return to profitability in 2025/26 through increased revenue and a reset of our cost base
- Statutory loss before tax reflects the cost of interventions to return quality supplies following the Brixham water quality event (c.£21.0m) and the costs of restructuring to reshape the Group’s activities (c.£11.4m)
- Capital expenditure to drive our commitments and priorities as well as accelerating delivery from K8 has continued at the levels seen last year
- Following the successful rights issue at Group level, £1.1bn of funding raised in the year, the balance sheet for South West Water is robust with total RCV gearing of 62.0%.
- Strong investment grade credit rating with liquidity of c.£700m in place to support continued investment
- Return on regulated equity for SWW is relatively strong, equating to 10.4% on a nominal basis, and 6.0% on a real notional WaterShare basis (10.3% and 5.9% including Bristol Water)

Operational highlights

- Sector leading internal sewer flooding with a reduction in 2024/25 of 14% (68% over K7) and 11% in external sewer flooding in the year (20% over K7)
- One of only 5 companies to reduce storm overflows, down c.4% in 2024 compared with 2023 despite the exceptionally high rainfall and groundwater levels. Our focus on bathing waters has reduced spills by 20% over K7 (with 2024 and 2023 levels consistent)
- Investment in water resources, with Blackpool pit fully operational in 2024/25 and the new water treatment works at Rialton supplementing water available for use in Cornwall by c.34%, with the interventions already delivered in the previous year in Devon by 30% compared to the levels during the 2022 drought. As a result, despite the dry start to the year we are not predicting any water restrictions this summer
- Water quality investments are on track and we have already begun our planning and design for our K8 programme. Our quality first programme has delivered water quality improvements this year
- At the end of K7 100% of our South West and Bristol customers now find their bill affordable with c.£124m support benefiting over 150,000 customers over K7, including innovative tariffs driving water efficiency and affordability.

Outlook

- We are well positioned for the future and stand ready to implement government legislation
- As the only water company to have received an outstanding rating for our business plans for the 3rd consecutive time, we have a track record of setting and largely delivering on very stretching business plans.
- The foundations are in place and we are out of the blocks – already working on over 1,000 deliverables, representing around 1/3 of our £3.2bn investment.
- For 2025/26, we are anticipating a return to profitability, with EBIDTA expected to increase by 2/3rds through increased revenue and a reset of the cost base.
- Ultimately everyone will benefit from the investments we are making with a 34% growth in RCV over K8, as we drive efficiency and innovation as we build new reservoirs, fix storm overflows, power our net zero ambitions and deliver improved services for customers.
- In targeting 7% RORE – we will be delivering for all – and sharing that performance with customers through WaterShare.

Notes:

^ Measures with this symbol are defined in the Alternative Performance Measures (APM) section of this document, underlying measures are presented before non-underlying items

[1] Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance.

[3] Shadow RCV at 31 March 2025 based on PR24 pre-closing regulatory true-ups including in the PR24 Final Determination, adjustments for the levels of investment for Green Recovery, accelerated delivery, and transitional investment, alongside inflationary impacts and changes post the K8 Final Determination.

[5] Real cumulative RORE on underlying totex, financing and ODIs with notional gearing

[6] Nominal cumulative RORE based on underlying real RORE using actual gearing plus average inflation over K7 at 4.3%

[7] As set out in our Trading Statement in March 2025

South West Water

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

Ending K7 resiliently, reshaped and reset in 2024/25, secured a strong platform for the future

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

As a group 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 Group, whether you are a South West Water (SWW), Bristol Water (BW) or Sutton and East Surrey (SES) customer, was recognised in Ofwat's Water Company Performance Report in 2024. Alongside this, our Business to Business Retailers Pennon Water Services and W2B are consistently securing top ratings from Trustpilot.

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 group 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 waste water, drinking water, retail services and renewable energy. This new structure ensures there is a direct line of sight into the business 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 for our SWW business plan, we are well positioned to deliver on our plans for K8, with another period of significant growth.

Our capital delivery supply chain partnership 'amplify' has already been stood up delivering on over 1,000 schemes, representing one third of the £3.2 billion earmarked for investment to 2030.

Expenditure for K8 was accelerated, and by April 2025 we had invested c.£85m (c.£65m 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 £588m, aligned with the step change run rate required for K8.

Financially, we have good liquidity and a strong balance sheet having raised £1.1bn in 2024/25 following the rights issue earlier this year, coupled with debt capital market funding. 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 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.£67m.

Making progress on what matters most to customers, delivering on our four priorities

We remain resolutely focused on our customer's key priorities, areas we know they truly value. With record levels of investment in 2024/25, we are focused on tackling the use of storm overflows at our beaches and reducing pollutions, protecting water quality and enhancing resilience, driving environmental gains and supporting 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 waste water 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 water courses, 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 water courses 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 2 to 4, 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 water course 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, the Isles of Scilly, and now with the recently acquired Sutton and East Surrey region.

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 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 SWW, 1% in Bristol and 19% in SES. Whilst we narrowly missed the stretching leakage targets for 2024/25 for SWW and Bristol the in-year leakage results for 2024/25 were an 9%, 4% improvement respectively on the prior year. In SES leakage reduced by 3% meeting our 2024/25 target.

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, with plans to extend to SES. 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. SWW the top performer for water and sewerage companies, we are confident that we can do even more as we share best practice[9]. 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've improved river water quality at 37 sites[10], with an 80% reduction in phosphorus, and improved the RNAGS over K7 from 19% to 12%. Our award-winning catchment management programme, delivering 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 150,000 across the group benefitting from our support tariffs. By unlocking over £124m 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.

[9] The exceptional events at Brixham and Cheam are recognised by the DWI as water quality events and therefore are not included in the CRI score.

[10] 33 sites complete, 4 under construction

That said, with the significant investment we will be making, bills are rising by on average c.28% in 2025/26 for SWW 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 £200m 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 water share plus scheme and will extend this scheme to SES customers for the first time. Through WaterShare plus, 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. 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 the AGM, their voice is always the loudest. At the 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 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 Group – 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 75% 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 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 SWW 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 investors as well as customers – 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 South West Water RCV gearing of 62.0%. 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. As a principle, 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 Pennon 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.4,000 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 Group, leadership is all about making this a great place to work, and a safe place to work. Our most recent employee engagement scores 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 Home Safe culture programme, and with our lowest ever LTIFR rate, which has halved over the last 5 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 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 a member of the 5% club with platinum status. With our 680 apprenticeship and graduate placements we are well on with our own target of 1,000 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.

I’d personally like to thank my brilliant colleagues who serve our communities 24/7 and are a credit to the business.

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, having delivered higher than base allowed regulatory returns and consistently been a top quartile performer against our regulatory outcome performance.

Following the successful oversubscribed rights issue earlier this year, we have a strong balance sheet.

In summary, whilst there is always more to do, we have successfully closed out this regulatory period to 2025.

As we look ahead, we are set to invest a record level of £3.2bn by 2030, having achieved a sector leading plan in SWW for 3 consecutive price reviews. With Managing Directors now in place for Water Services, Wastewater Services, Pennon Power and Retail Services, we are reshaping the Group 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.

GROUP CHIEF FINANCIAL OFFICER'S REVIEW

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 £30.3 million for the year (2023/24: underlying profit of £14.6 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.

We were pleased to receive an 'outstanding' assessment for South West Water's Business Plan. In their 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 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 £86 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 our 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 acquisition of Bristol Water have delivered savings of c.£20 million.

We have continued to invest record levels of capital to deliver enhancements and benefits for the environment and our customers. Our South West Water capital investment of £588.7 million in our South West Water 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.

At 31 March 2025, SWW's net debt/forecast shadow RCV gearing ratio was 62.0% (31 March 2024: 63.5%), reflecting 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.

We continue to outperform the regulatory cost of equity. Our RORE across the K7 period reflects a 6% real return to shareholders, 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.

South West Water performance.

South West Water's revenue for 2024/25 was £737.7 million (2023/24: £729.8 million). The revenue growth of £7.9 million has been explained previously.

Underlying operating costs of £429.1 million (2023/24: £397.3 million) have increased year-on-year by £31.8 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 7.2% to £308.6 million. Underlying operating profit has decreased by 17.5% reflecting the weakened 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 £170.6 million (2023/24: £155.5 million), reflect an effective interest rate of 5.4%[11] (2023/24: 5.6%) The year-on-year increase of £15.1 million was as a result of higher debt, funding the capital programme.

South West Water's statutory loss before tax was £62.7 million (2023/24: loss of £1.0 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

[11] Based on South West Water group, including Bristol Water excluding SES

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.

Following the Rights Issue in February 2025, £330.0 million of equity was passed down to South West Water.

South West Water finance costs (net)

The increase of £15.0 million resulted from; £43.4 million from new and renewed debt facilities, offset by lower inflation and interest rates (£20.3 million), increased interest receivable as a result of the Rights Issue (£3.4 million) and higher levels of capitalised interest as we continue to invest record levels of capital in our water businesses (£9 million).

The Group 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.

Robust liquidity and flexible funding strategy

As at 31 March 2025, South West Water had c£700m million of cash and committed facilities (31 March 2024: £601.4 million). This consists of cash and cash deposits of £334.2 million (31 March 2024: £28.6 million), including £46.6 million (31 March 2024: £26.0 million) of restricted funds representing deposits with lessors against future lease obligations, and £630.0 million (31 March 2024: £360.0 million) of undrawn committed facilities.

Since 31 March 2024, the Group has secured c.£905 million of new and renewed 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[12] 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 £3,815.9 million (31 March 2024: £3,287.8 million). The debt has a maturity of up to 32 years with a weighted average maturity of 14 years.

[12] Euro Medium Term Note

South West Water[13] net debt at 31 March 2025 is a mix of fixed/swapped (£2,460.7 million, 71%), floating (£243.7 million, 7%) and index-linked borrowings (£777.3 million, 22%), which reflects our diverse debt portfolio and compares to a 2024 industry average[14] 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[15] stood at 62.0% (31 March 2024: 63.5%). 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 5.4%[16] (2023/24: 5.6%), continues to benefit from the diverse portfolio of debt.

Strong investment grade ratings

During the first half of the year the Group, through 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.

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

Creating economic value in the regulated business

Regulatory Capital Value (RCV)

31 March 2025	
SWW	4,900.1
BRL	717.7
SWB	**5,617.8**

[13] Based on South West Water Group, including Bristol Water excl. SES.
[14] UK water position as at 31 March 2023 as per published Annual Performance Reports – weighted average.
[15] Based on South West Water group including Bristol Water net debt/shadow RCV.

South West Water RCV of £5,617.8 million includes the benefit of regulatory reconciliation items in the PR24 Final Determination, inflation of 3.4% at March 2025, as well as additional accelerated investment and expenditure to drive outcomes in 2024/25.

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.

WaterShare RORE	**South West Water**	**Bristol Water**
Base return	4.0%	4.5%
Financing	4.2%	1.2%
Totex	(1.6%)	0.6%
ODI	(0.6%)	(1.2%)
Cumulative RORE	**6.0%**	**5.1%**

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 the South West Water group 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). ODI performance for SES is on track to achieve c.52% of its ODIs and has resulted in a net financial penalty of c.£2 million.

Across K7, South West Water has created c.£910 million of value for the Group 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 c.£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.

Overall capital expenditure is expected to increase in 2025/26, as required under our capital programme for K8 delivery, and the associated front-loaded profile to ensure early benefits delivered to customers and communities across our regions. The build-out of our Pennon Power renewable energy sites will continue across the year. This is expected to lead to Group capital expenditure in the range of £710 million to £740 million.

We remain in a strong position from a liquidity perspective with additional facilities already raised during the year, the successful Rights Issue in 2025/26, and with further programmes planned, supported by our strong investment grade credit ratings.

The Group's RCV is expected to increase in line with K8 business plan levels of investment. We target a RORE over K8 of 7% delivered through totex and financing efficiencies, coupled with strong operational performance. In 2025/26 we expect outperformance to be focused on financing and cost efficiencies, with a target to achieve a neutral ODI position in terms of financial reward or penalty.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks

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 Group's principal risks in the context of the Group's strategic objectives and priorities as well as the external environment within which it operates. This has included:

- Confirming that the Group's risk appetite statements remain appropriate.
- Receiving and reviewing updates on the Group'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, confirming the effectiveness of the risk management and internal control framework.

This has resulted in the following material changes to the Group's principal risks compared with those previously reported:

- The risk of failure to receive CMA approval for the acquisition of Sutton and East Surrey has been removed as a principal risk following approval being received from the CMA.

The Group's principal risks are:

Law, Regulation and Finance

1. Changes in Government policy

2. Changes in regulatory frameworks and requirements

3. Non-compliance with laws and regulations

4. Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments

5. Non-compliance or occurrence of an avoidable health and safety incident

6. Failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase

Market and Economic Conditions

7. Macro-economic near-term risks impacting on inflation, interest rates and power prices

Operating Performance

8. Failure to secure, treat and supply clean drinking water

8. Failure to improve wastewater performance resulting in environmental commitments not being delivered

9. Failure to provide excellent service or meet the needs and expectations of our customers and communities

9. Inability to attract and retain staff with the skills to deliver the Group's strategy

Business Systems and Capital Investment

10. Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes in K8

11. Inadequate technological control or cyber-attack results in a breach of the Group's assets, systems and data

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements relating to the South West Water operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, South West Water management which may constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", “outlook”, "plan", “probably”, "project", “remain”, "seek", "should", "target", "will", “would” and related and similar expressions, as well as statements in the future tense. All statements other than of historical fact may be forward-looking statements and represent SWW's belief regarding future events, many of which, by their nature, are inherently uncertain and outside SWW's control. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation, development or performance of SWW and the estimates and historical results given herein. Important risks, uncertainties and other factors that could cause actual results, performance or achievements of South West Water to differ materially from any outcomes or results expressed or implied by such forward-looking statements include, among other things, changes in Government policy; regulatory and legal reform; compliance with laws and regulations; maintaining sufficient finance and funding to meet ongoing commitments; non-compliance or occurrence of avoidable health and safety incidents; tax compliance and contribution; failure to pay all pension obligations as they fall due and increased costs to SWW should the defined benefit pension scheme deficit increase; non-recovery of customer debt; poor operating performance due to extreme weather or climate change; macro-economic risks impacting commodity and power prices and other matters; poor customer service and/or increased competition leading to loss of customer base; business interruption or significant operational failure/incidents; difficulty in recruitment, retention and development of skills; non-delivery of regulatory outcomes and performance commitments; failure or increased cost of capital projects/exposure to contract failures; failure of information technology systems, management and protection, including cyber risks; and all other risks in the South West Water Annual Report published in June 2025. Such forward looking statements should therefore be construed in light of all risks, uncertainties, and other factors, including without limitation those identified above, and undue reliance should not be placed on them. Nothing in this report should be construed as a profit forecast.

Any forward-looking statements are made only as of the date of this document and no representation, assurance, guarantee or warranty is given in relation to them including as to their accuracy, completeness, or the basis on which they are made. SWW accepts no obligation to revise or update publicly these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

SOUTH WEST WATER

Alternative performance measures

Alternative performance measures (APMs) are financial measures used in this report that are not defined by International Financial Reporting Standards (IFRS). The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group as well as enhancing the comparability of information between reporting periods.

As the Group defines the APMs they might not be directly comparable to other companies' APMs. They are not intended to be a substitute for, or superior to, IFRS measurements.

(i) Underlying EBITDA

Underlying EBITDA (earnings before interest, tax, depreciation and amortisation and non-underlying items) is used to assess and monitor operational underlying performance.

(ii) Effective interest rate

A measure of the mean average interest rate payable on net debt associated with South West Water Limited's group of companies, including Bristol Water plc, which excludes interest costs not directly associated with net debt. This measure is presented to assess and monitor the relative cost of financing for South West Water.

	2025	2024
	£m	£m
Net finance costs before non-underlying items (note 5)	**184.4**	150.2
Remove: net finance income before non-underlying items not associated with South West Water Limited's group of companies	**(13.8)**	5.3
Net finance costs before non-underlying items associated with South West Water Limited's group of companies	**170.6**	155.5
Net interest on retirement benefit obligations associated with South West Water Limited's group of companies	**1.1**	1.4
Capitalised interest	**23.1**	14.1
Non-debt related interest	**(4.5)**	-
Net finance costs for effective interest rate calculation	**190.3**	171.0
Group net debt / (cash) (opening) (note 11)	**3,844.8**	3,001.8
Remove: Unamortised hedging adjustment	**(34.3)**	(36.4)
Remove: opening net debt not associated with South West Water Limited's group of companies	**(515.8)**	(100.1)
Opening net debt for calculation	**3,294.7**	2,865.3
Group net debt (closing) (note 11)	**4,078.2**	3,844.8
Remove: Unamortised hedging adjustment	**(32.2)**	(34.3)
Remove: closing net debt not associated with South West Water Limited's group of companies	**(564.3)**	(515.8)
Equity injection on 31 March 2025	**330.0**	-
Closing net debt for calculation	**3,811.7**	3,294.7
Average net debt (opening net debt + closing net debt divided by 2)	**3,553.2**	3,080.0
Effective interest rate (%)	**5.4**	5.6

(iii) Effective cash cost of interest

Effective cash cost of interest is calculated on the same basis as the effective interest cost calculation above, but excludes finance costs that are not paid in cash, but accrete to the carrying value of debt (principally the inflationary impact of indexation on index-linked debt).

	2025	2024
	£m	£m
Net finance costs for effective interest rate calculation (as above)	**190.3**	171.0
Remove non-cash interest accrued (income statement indexation charge)	**(26.3)**	(55.5)
Net finance costs for effective cash cost of interest calculation	**164.0**	115.5
Opening net debt (as above)	**3,294.7**	2,865.3
Closing net debt (as above)	**3,811.7**	3,294.7
Average net debt (opening net debt + closing net debt divided by 2)	**3,553.2**	3,080.0
Effective cash cost of interest (%)	**4.6**	3.8

(iv) Return on Regulated Equity (RoRE)

This is a key regulatory metric which represents the returns to shareholders expressed as a percentage of regulated equity.

Returns are made up of a base return (set by Ofwat, the water business regulator, at c.3.9% for South West Water and c.4.4% for Bristol Water for the period 2020-25) plus totex outperformance, financing outperformance and ODI outperformance. Returns are calculated post tax and post sharing (only a proportion of returns are attributed to shareholders and shown within RoRE). The three different types of return calculated and added to the base return are:

- Totex outperformance – totex is defined below and outperformance is the difference between actual reported results for the regulated business compared to the Final Determination (Ofwat published document at the start of a regulatory period), in a constant price base
- Financing outperformance – is based on the difference between a company's actual effective interest rate compared with Ofwat's allowed cost of debt
- ODI outperformance – the net reward or penalty a company earns based on a number of different key performance indicators, again set in the Final Determination.

Regulated equity is a notional proportion of regulated capital value (RCV which is set by Ofwat at the start of every five-year regulatory period, adjusted for actual inflation). For 2020-25, the notional equity proportion is 40.0%.

References are made to Ofwat RoRE and Watershare RoRE which utilise differing inflation assumptions and the disclosure of tax.

Further information on this metric can be found in South West Water and Bristol Water's annual performance report and regulatory reporting, published in July each year.

(v) Totex

Operating costs and capital expenditure of the regulated water and wastewater business (based on the Regulated Accounting Guidelines).

Alternative performance measures (continued)

(vi) Outcome Delivery Incentive (ODIs)
ODIs are designed to incentivise companies to deliver improvements to service and outcomes based on customers' priorities and preferences. If a company exceeds these targets a reward can be earned through future higher revenues. If a company fails to meet them, they can incur a penalty through lower future allowed revenues.

(vii) Regulatory Capital Value (RCV)
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.

Shadow RCV reflects the addition of anticipated regulatory adjustments which amend RCV at the end of a regulatory period. These changes are accrued due to performance through ODIs, changes in levels of totex expenditure, changes in inflation rates and other regulatory adjustments.