Summary of FAQs received from shareholders in advance of the General Meeting on 28 June 2021

Please note that the FAQs set out below are based on a number of questions received from our shareholders before the General Meeting held on 28 June 2021. In providing answers we are not giving financial or investment advice or recommendations and if you are in any doubt as to what action to take you should consult an appropriately authorised independent financial adviser.

I'm a Watershare + customer and would like to retain my shareholding of 2 shares. How do I do that?

You can do this by visiting www.signalshares.com before 6pm on 2 July 2021.

Please have your investor code handy.

Select Pennon and after logging in or registering:

1. Select Manage your account
2. Select Dividend payments
3. Select Reinvest my dividends
4. Select Confirm and change your preference in the pop-up window
5. Your preference will be changed on your manage your account page to 'dividends will be reinvested' once complete.

More information can be found on our website at https://www.pennon-group.co.uk/investor-information/return-of-capital-to-shareholders or you can contact Link Group on 0371 664 9272 (lines are open 08:30 a.m. to 5.30 p.m. Monday to Friday excluding public holidays in England and Wales) or +44 371 664 9234 (from outside the UK).

Can you explain in plain English what the options are for Watershare + customers with 2 shares?

Pennon has written to all shareholders, setting out plans to redistribute some of the net cash proceeds from the sale of Viridor in July 2020. This follows the Group's repositioning to focus on driving growth and excellence in the UK Water sector.

Some of the funds have already been used to reduce debt levels and increase pension contribution levels, setting Pennon on a solid foundation for the future.

A proportion has been reinvested for growth, acquiring Bristol Water at the beginning of June, and a commitment to invest in the regeneration of the South West, supporting 'build back better', creating up to 500 new jobs as part of Green Recovery plans, addressing issues that matter to customers most – improving public health, protecting the environment and addressing climate change.

The remainder of the proceeds are now proposed to be returned to shareholders, by way of a special dividend, together with a share consolidation.

This means that if you currently hold 2 shares as part of the original offer, you will receive a cash payment of £3.55 per share and a corresponding reduction of 1 share[1].

If the plans do go ahead, you will have 2 options.

[1] Using the consolidation ratio of 3 shares becoming 2, if a shareholder had 2 shares this will equate to 1.33 shares, meaning they will now have 1 share, plus (in addition to the £7.10 cash dividend) they will also get a cash payment for the remaining value (called fractional value) of 0.33 of a share being around £3.50

Option 1:

You can elect to have the special dividend and the fractional value[1] reinvested for you to effectively **maintain your shareholding.**

To do this please go to www.signalshares.com and select Pennon. Login or register and then follow the steps outlined in Q1:

Please complete this by 6pm on the 2nd July 2021.

Option 2:

If you would prefer to automatically receive the proposed special dividend as a cash payment of £3.55 per share and the fractional value, with an accompanying adjustment to the number of shares you hold, effectively reducing your shareholding, **you do not need to do anything further.**

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Instead of returning money to shareholders – couldn't it have been better utilised in the aging infrastructure to prevent pollutions?

The Board has carefully considered how best to use the proceeds from the sale of Viridor, as the Group has been repositioned to focus on driving growth and excellence in the UK Water Sector.

Setting the Group on a solid foundation, some of the funds have already been used to reduce debt levels, and increase pension contributions, ensuring a sustainable future.

A proportion has also been reinvested for growth, acquiring Bristol Water at the beginning of June, and additionally, a further £100m has been set aside to invest in the regeneration of the South West, supporting "build back better", creating up to 500 new jobs as part of Green Recovery plans, addressing issues that matter most to customers – improving public health, protecting the environment and addressing climate change.

The environment remains a key priority for the Board, and we are committed to protecting our rivers and coasts from pollution. In addition to the £100m for the Green Recovery, we are investing over £150m in our largest environmental programme for 15 years, which includes plans to reduce pollutions by 80%, and providing additional storage protection measures to enhance bathing waters further.

This builds on the work we have led since privatisation, where we have transformed bathing waters in the South West by investing over £2bn in sewerage and sewage treatment infrastructure, and our bathing waters are now amongst the cleanest in Europe.

How much is the Group spending on the costs of the share consolidation?

The costs involved in arranging the share consolidation and the other articles are mainly administrative in nature.

Firstly, there are costs involved in the preparation of the Circular sent to shareholders which include drafting, legal costs, printing and distribution.

The other proportion of costs are attributable to the registrar fees, for arranging the EGM, handling contacts from shareholders, and the electronic voting.

In total, this comes to just under £390k.

What are the tax implications for shareholders as a result of the consolidation and the special dividend?

The tax implications will vary depending on shareholder circumstances, and investors should obtain their own independent financial advice.

For UK private investors, the special dividend will be classed as dividend income and subject to income tax. Depending on your marginal tax rate (and whether the dividend falls within the annual dividend allowance) UK income tax may be payable.

The market value of your shareholding in Pennon is likely to reduce following payment of the special dividend – as the dividend will reflect a return of part of the value of the shareholding.

The capital gains tax base cost of the Pennon shares will not be affected. This is because the dividend is an income payment rather than a disposal or realisation of any part of the share.

Additionally, given the market value of the shareholding in Pennon should be reduced following payment of the dividend, any gain arising on a disposal of the shares at that market value should be correspondingly lower.

Will I be taxed if I apply to reinvest the dividend in a DRIP?

For UK resident individuals who choose the DRIP scheme, they may pay income tax on the dividend depending on their circumstances.

Under the DRIP a shareholder is in effect still receiving the dividend and using the proceeds to acquire additional shares.

Why can’t the share consolidation be structured in a way to be treated as a capital gain?

The Board has carefully considered the options and the best way to return proceeds to shareholders. The proposal does contain an element that is more likely to qualify for capital rather than income, through the share buy-back programme.

This dual approach to the return to shareholders is a balanced one which provides Pennon with ongoing financial flexibility.