1 June 2023

Full Year Results 2022/23

Susan Davy, Group Chief Executive, commented:

This has been an extraordinary year for Pennon in which extreme weather patterns have tested our operational resilience. At the same time, inflationary pressures have proven our financial resilience. We have been able to respond to both, with agility and pace, focusing on the things that matter right now, and tackling the biggest challenges head on. Whether it's the use of storm overflows, water resilience, the cost of living crisis or climate change, we are investing more than ever before. We are also investing for the future.

In a year in which the sector has been rightly challenged to clean up its act, we have delivered improvements in environmental performance, building on our sector leading 100% water quality for our 860 miles of coastline and on track to reduce our use of storm overflows by 50% by 2025. I am also clear that one pollution is one too many, and numbers are falling as we implement sustained change.

Water is essential for life. As one of only two regions officially in drought, and with the hottest, driest, weather on record, we are investing to break through the drought cycle, deploying innovative solutions such as desalination, repurposing ex quarries and mines into mini reservoirs to create more capacity in Cornwall and Devon as and when it's needed, and empowering customers to use less and save money.

At Pennon, we believe that every customer should benefit from what we do especially in this cost of living crisis. With over £85 million customer benefits delivered, we have kept bills as low as possible, with below inflationary increases, considerably lower than the sector average of c.7%. We continue to focus on eradicating water poverty in our region, with many more customers benefiting from affordability and support tariffs. At the same time, more customers than ever before are shareholders in our Group, with our socially responsible business model, Watershare+, giving customers both a stake and a say in their local water company.

And given the ongoing volatility of the energy markets, we have boosted the renewable energy pillar of our Net Zero strategy, with investments in energy generation well underway, and with more to come.

We can do all this, because of our robust balance sheet and financial resilience, supported by year on year increases in outperformance. In summary, we are tackling the biggest challenges head on, focusing on the things that matter most, investing more, and in building the capabilities for the future.

FINANCIAL PERFORMANCE

	2022/23	2021/22	Change
Underlying^ revenue	£825.0m	£792.3m	+4.1%
Underlying profit before tax	£16.8m	£143.5m	(88.3%)
Non-underlying items before tax[1]	(£25.3m)	(£15.8m)	-
Profit after tax	**£0.4m**	**£15.6m**	**(97.4%)**
Group RORE[2]	**10.5%**	**8.9%**	**+1.6%**
Earnings per share (EPS)			
• Adjusted EPS^	7.3p	50.2p	(85.5%)
• Statutory EPS	Nil p	4.9p	(100.0%)
Dividend per share[3]	42.73p	38.53p	+10.9%

- Underlying revenue increase includes growth in Non-household demand, supported by contract wins from Pennon Water Services[4], in areas outside of our wholesale supply regions, and a full twelve-month contribution from Bristol Water. The Group's statutory revenue for 2022/23 of £797.2 million includes non-underlying revenue reductions of £27.8 million
- £16.8 million underlying profit before tax – reduction compared to the prior year reflects the flagged near-term pressures on earnings from inflation driven power and financing costs
- Net non-underlying costs before tax of £25.3 million – delivering on our WaterShare+ commitments and helping to address the severe drought conditions
- Statutory profit after tax of £0.4 million (2021/22: £15.6 million profit after tax)
- Adjusted earnings per share of 7.3 pence, down from 50.2 pence in 2021/22
- Statutory earnings per share of nil pence after net non-underlying costs. Statutory earnings per share for 2021/22 were impacted by the significant non-underlying deferred tax charge in respect of the change in corporation tax rate
- Group RORE[2] for 2022/23 of 10.5% reflecting an increase of 1.6% on 2021/22
- Delivering on established K7 (2020-25) dividend policy – total dividend up 10.9% (CPIH +2%) to 42.73 pence.

A full reconciliation to the statutory reported results is included in item (i) in the Alternative Performance Measures on pages 58 to 63 of this announcement.

^ Measures with this symbol are defined in the Alternative Performance Measures (APMs) as outlined on pages 58 to 63.
[1] Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance
[2] Return on Regulated Equity^ Calculated on Ofwat basis, excluding re-investment in additional commitments
[3] Dividend policy of CPIH + 2%. The CPIH rate used is 8.9% as of 31 March 2023.
[4] 80:20 joint venture with South Staffs

MAKING PROGRESS AGAINST OUR KEY PRIORITIES

Improving environmental water quality

- c.50% reduction in pollution incidents since 2020, c.30% reduction delivered in 2022
- c.30% reduction in storm overflow use over 2022 to an average of 28[5] (2021: 39) and a c.50% reduction during the bathing season. This is supported by our WaterFit investment, which remains on track to reduce releases to an average of 20[5] by 2025
- Installation of monitors at 100% of storm overflows completed, one year ahead of target
- Achieved 100% bathing water quality, as assessed by the Environment Agency, for the second consecutive year, with 99% achieving good or excellent status
- Reduced our impact on rivers by almost one third to date, from 19% to 12.6%[6], well ahead of our target of 12% by 2025, and river water quality pilots underway

Water resilience and quality

- Investing c.£125 million to diversify water resources and secure future resilience – progressing desalination solutions, installing new pipelines and repurposing quarries
- Significant increase in water resources available by 2025 – Cornwall by c.45%[7] (c.25% delivered to date), Devon by c.30%[7] (c.12% delivered to date)

Climate change and Net Zero

- Delivering on our Net Zero 2030 plan, having already reduced our carbon footprint by c.40% since 2021
- c.£160 million investment to accelerate our Net Zero 2030 commitments - first site acquired in Dunfermline producing c.40 GWh for acquisition and build costs of c.£35 million, additional opportunity for 60 MW battery storage capacity totalling c.£25 million
- 80% of catchments improved, >110,000 hectares improved to date, 220,000 trees planted

Addressing customer affordability

- Keeping bills as low as possible – below inflation bill increases for South West Water and Bristol Water customers in 2023/24
- Over £85 million of customer benefits delivered in K7 to date
  - Second £20 million issuance of our unique customer sharing mechanism – WaterShare+, with Bristol Water customers also benefitting for the first time
  - Over 110,000 customers benefitting from our affordability initiatives
  - 23% increase in customers accessing our support tariffs

Financially resilient

- Year on year reduction in gearing[8] to 60.8%, broadly in line with Ofwat's notional assumption

[5] Average per asset, per calendar year
[6] As per latest published EA assessment – August 2022
[7] Calculated as a percentage of seasonal resources available as a percentage of demand
[8] Based on South West Water[28] net debt and shadow RCV^ at 31 March 2023

- Pension scheme c.£29 million surplus – 2022 valuation agreed, no ongoing deficit recovery
- Strong, double-digit RORE[2] for South West Water – 11.1%, Bristol Water – 4.6%
    - Outperformance supporting reinvestment in additional environmental initiatives

Delivering on our largest ever environmental investment programme

- c.50% increase in capital expenditure in 2022/23, investing over £750 million over the next two years to deliver our c.£1.5 billion K7 programme
- RORE outperformance and Pennon balance sheet strength supporting reinvestment in accelerated and additional initiatives totalling c.£300 million over K7
- Investment of c.£358 million in 2022/23 across our asset base to support the delivery of our environmental, water and wastewater service outcomes
    - c.70% of Outcome Delivery Incentives^ (ODIs) on track or ahead of target for SWW
    - c.65% of Outcome Delivery Incentives on track or ahead of target for Bristol Water

Driving long-term sustainable growth

- Sustainable, profitable B2B retailer growth
- On track to deliver a high quality, ambitious plan for PR24 – balancing a step change in investment with a continued focus on customer affordability
- Twin-track strategy for growth – delivering RCV growth of >50% over K7, positive outlook for RCV growth in K8 and beyond

Presentation of results

A presentation of these results hosted by Susan Davy, Group Chief Executive and Paul Boote, Group Chief Financial Officer, will take place at London Stock Exchange, 10 Paternoster Sq, London, EC4M 7LS at 09:00am (GMT), today, 1 June 2023.

The presentation will be immediately followed by a live Q&A which will also be available via conference call facility. Details are included below:

United Kingdom (Toll-Free):	+44 800 358 1035
All other locations:	+44 20 3936 2999
Conference passcode:	482295

For further information, please contact:

Paul Boote	Group Chief Financial Officer	01392 443 168
Jennifer Cooke	Group Head of Investor Relations	
James Murgatroyd	FGS Global	020 7251 3801
Harry Worthington		

Group Chief Executive's Review

As Chief Executive of Pennon and South West Water my priority is to ensure that there is an uninterrupted supply of high-quality drinking water, and effective wastewater services for our population of 3.5 million, every day. This includes the summer months, when our services rapidly scale up to supply over 10 million customers who visit the South West for the 860 miles of coastline and one third of the nation's bathing beaches. We are facing significant environmental challenges as a sector, and as a Group we need to move at pace to keep up with the change that is rightly demanded.

Tackling the sector's biggest challenges head on

Environmental water quality

When South West Water was privatised over thirty years ago, nearly half of all household and business' sewage in the region was untreated and discharged directly into the sea. Testing carried out to assess levels of harmful bacteria showed bathing water quality was low, with only 28% passing the most stringent tests. By investing over £13 billion through upgrades, like operation 'Clean Sweep', all sewage is now treated through one of our 653 treatment works. For the second year running we have achieved 100% bathing water quality, and no other water company has as many high-quality bathing waters in their area, but we recognise that there is still more to do.

Like all water companies in the UK, we have historically relied on storm overflows which are designed to prevent sewage filling our streets and flooding homes and businesses. We are acting now to accelerate investment to reduce their use, improve transparency and to benefit all of our communities. WaterFit Live details investment that we are making to reduce overflow spills across the region's coastline by 2025. It also gives customers and visitors live information about our region's bathing beaches and storm overflow operation. There will be more investment to come and through #YourBeachYourSayOurInvestment, we are empowering customers and communities to work with us to plan our next phase of improvements and investments.

Water quality and resilience

Water supply across our region is under immense and growing pressure. Over 90% of our water comes from the region's surface water sources which come from our river and reservoir systems. With the hottest, driest weather on record last year, we have seen the impact of climate change first hand, intensified by population growth and tourism. For the first time in over 25 years, we had to implement our drought plan, which also included introducing a hosepipe ban for the first time in as many years. We are doing everything possible to manage our water resources carefully, including reinvesting c.£125 million to diversify water resources across the region, boosting resilience for now and the long-term. Acting quickly and responsibly, we have already made good progress by creating new sources through repurposing quarries as well as developing new pipelines, alongside a range of demand-side initiatives, such as offering free customer leak repairs, but we need to do more. We recognise the need to do more, and our supply-side investments, including the development of innovative desalination solutions and additional sources and storage, combined with the interventions we're already underway with, will boost Cornwall's supplies by c.45% and c.30% for Devon by 2025.

Climate change and Net Zero

In addition to the drought conditions, this was also a year in which we experienced some of the worst storms on record, with freezing temperatures, followed by rapid thawing and flooding. It is clear to see that the impact of climate change is upon us, and that we all need to play our part in protecting the planet's precious resources. We continue to expect more extreme weather events, hotter drier summers, rising sea levels and flooding. As a result, delivering on our Net Zero 2030 commitment is more important than ever, and we are making good progress across all three pillars of our strategy – sustainable living, championing renewables and reducing carbon emissions. We are investing c.£160 million in renewable energy generation, and have improved 80% of the catchments we work in so far, through activities including peatland restoration and tree planting, and we will continue to deliver more.

Customer affordability

We know that we, and the broader sector need to step up investment to higher levels than we have seen since we took ownership thirty years ago, and it's critical that we balance investing in our network infrastructure whilst ensuring that bills remain fair and affordable for all. As a Group, we are different from others in the sector and have around 90,000 customer shareholders following the second c.£20 million issuance of our ground-breaking Watershare+ scheme. We are delighted that 1 in 14 households across the South West Water region have chosen to take a stake and a say in the future of their water company and we are pleased to have extended the offering to our customers in the Bristol Water region. We are committed to delivering for the long-term, whilst keeping bills fair and affordable for all. This year, bill increases were significantly less than inflation, and much lower than customers pay to other utility providers. We have over 3,000 talented employees who are committed to delivering for the environment, customers and communities every day. We are doing more than ever to support customers through the cost-of-living crisis, delivering more than £85 million of benefits at a time when many customers need it most.

MAKING PROGRESS AGAINST OUR KEY PRIORITIES

Improving environmental water quality

The quality of river and coastal water across the region is quite rightly centre stage for our customers and communities. We launched WaterFit in April 2022 and over the last year we have made significant strides in delivering on our commitments. We have invested to support bathing water quality all year round, increased our network capacity to reduce storm overflow releases into waterways, and upgraded works to enhance river water quality and unlock development and economic growth.

Reducing wastewater pollutions

Since 2020 we have delivered a c.50%[9] reduction in wastewater (category 1-3) pollutions, with c.30% reduction, including a 75% reduction in serious pollutions from 8 to 2, delivered in 2022, alongside our best-ever wastewater treatment works compliance at 99.4%. We continue to focus relentlessly on delivering further improvements to support the achievement of our 80% reduction target over K7, in line with our Pollution Incidents Reduction Plan. Key aspects of the plan include:

- A range of solutions, driven by the use of artificial intelligence and predictive technology, such as Innovyze to map catchments and target interventions, and Meniscus, utilising asset and weather data to predict potential pollution risks, enabling early intervention
- The roll-out of c.9,000 sewer depth monitors is well underway across our c.23,000km of sewer network, with 1,700 installed to date, to provide visibility of network performance, reduce blockages and enable proactive interventions, in addition to the deployment of region-wide predictive network burst detection technology
- 18 rising main replacements have been delivered alongside 50 ‘hotspot’ interventions during the year, bringing the K7 total to date to 260
- Rolling out telemetry across 100% of our pumping stations and improving alternative power supplies at 150 pumping stations.
- Utilising the Centre for Resilience, Environment, Water and Waste (CREWW), our innovative partnership with Exeter University, for root cause analysis, with this insight helping to shape our plans.

Looking beyond the headlines, our underlying performance across all Environmental Performance Assessment (EPA) metrics is improving, this includes:

- A continuation of the downward trend in overall pollution numbers including category 2 incidents, whilst maintaining zero category 1 incidents

[9] Reduction from 2020-2022 - wastewater pollutions are measured on a calendar year basis.

- Our best ever wastewater treatment works compliance – 99.4%
- Completion of 536 of 538 WINEP investigations and interventions
- 99.1% sludge compliance – a new measure on the EPA for 2022

We remain on a trajectory that would result in achieving our target of 4* EPA status for 2024[10], and based on performance data shared with the Environment Agency, we are forecasting the achievement of a 2 star rating[11] for 2022. Whilst that indicates the right direction of travel on the rating that we achieved for 2021, it also underpins our real focus on getting our performance metrics to where we want, and need, them to be over the next two years.

Reducing storm overflows

We are committed to sharing open information and undertaking transparent reporting with our numerous stakeholders, including our wider customer base, particularly regarding our environmental impact. We completed the installation of monitors at 100% of our c.1,600[12] storm overflows during 2022 – one year ahead of our 2023 target date. During the same year, releases from storm overflows reduced by c.30% to an average of 28 per asset (2021: 39 per asset). Releases during the 2022 bathing season (May – September 2022) reduced by c.50%. This is aligned with our goal and performance trajectory to reduce the average number of releases per overflow to 20 per year by 2025, which will be driven by the continued delivery of our WaterFit programme of investment. Part of this programme includes operational optimisation and targeted interventions to reduce infiltration and increase storm storage to date. This includes 19 storm storage schemes delivered during the year, as part of our wider programme to deliver 58 schemes, and 6 wastewater treatment flow schemes delivered in the year, as part of our plan to deliver 15 during K7.

Coastal and river water quality

2022 is the second consecutive year that we have achieved 100% bathing water quality across the region, with 99% achieving excellent / good status, as independently measured by the Environment Agency. Supporting this is the delivery of 19 bathing water quality schemes in K7 to date, and we are targeting to maintain this performance to 2025 through the delivery of all 22 bathing water schemes, alongside sewer separation and monitoring through our WaterFit programme.

We are using our expertise in coastal water improvements that has been learned over many years to inform and guide our river water quality pilots that are underway as part of our Green Recovery initiatives, including 3-year pilot schemes on the Rivers Dart and Tavy, where we are supporting

[10] Measures required for each star rating are as follows - 1: 3 or more red metrics, 2: 1 or 2 red metrics and/or 2 or less green metrics, 3: 3 or more green metrics and no red metrics, 4 : 6 or more green metrics and no red metrics, including core metric (numeric compliance) at green

[11] Provisional rating from the Environment Agency – final EPA expected in June/July 2023

[12] Storm and emergency overflows

communities seeking bathing water status, with a target to achieving this by 2025. We are well on track to reduce the impact that our own assets and processes have on river water quality by one third by 2025, from 19% to 12%, and have already reached 12.6%[13] as a result of our interventions to date, including sewer separation and 4 phosphorous removal schemes completed in K7 to date.

Water quality and resilience

2022 saw some of the hottest and driest weather on record across the region, with record demand and visitors and high soil moisture deficit levels leading to a situation beyond a one in 200 year event[14]. In August 2022, the Environment Agency officially declared a drought in the South West, which remains in place today. The significant demand on the network impacted water sources across the region with river flows and reservoir levels in Cornwall reaching historically low levels during the summer and autumn. Throughout this period our teams worked around the clock to ensure that water quality was maintained, delivering on our 'Quality First' principles, ensuring customers received a continuous supply of clean, safe drinking water.

Acting responsibly, we enacted our established drought plan and responded innovatively and at pace to changing demands. In line with our drought plan we introduced a temporary use ban (also known as a TUB or hosepipe ban) for the first time in 25 years, in parts of Cornwall and North Devon in August 2022, and extended this to the majority of Devon in April 2023.

Our operational response has been agile and has included a wide range of innovative demand side initiatives, supporting drought recovery, and supply-side investments. Over 90% of South West Water's supply comes from surface water sources – rivers and reservoirs, with the remainder coming from groundwater sources such as springs, wells and boreholes. With reservoir levels falling to record lows towards the end of 2022, to protect the region's natural water sources and build longer term resilience, we implemented our pioneering "Stop The Drop" initiative – our largest ever customer campaign, successfully incentivising customers to reduce their usage. This contributed to a c.4.6% reduction in demand with customers in the Cornwall region receiving a £30 reduction on their bill[15]. We are continuing to promote water efficiency across our customer base and have issued over 130,000 free water saving devices to date.

Leakage remains a key area of focus with elevated demand conditions leading to higher pressures across the network, and the hot, dry weather during the summer causing greater ground movement. Through this year we have repaired around 2,000 leaks each month, offered free customer leak repairs as part of our targeted campaign, and increased our use of network

[13] Based on Environment Agency August 2022 publication

[14] The combination of pressures experienced in 2022 resulted in a situation beyond currently applicable regulatory planning design requirements of 1 in 200 year resilience.

[15] Customers in Cornwall received a £30 bill reduction following the successful "Stop The Drop" initiative which helped to support the recovery of Colliford Reservoir (serving the majority of Cornwall) to 30% capacity by 31 December 2022.

monitoring and artificial intelligence, all of which has helped in keeping our leakage reduction plan on track. Alongside this, we have reduced consumption across our own sites, saving on average 6 Ml/day.

Diversifying our water resources is critical to building resilience across Devon and Cornwall, and ensuring a continuous supply for our customers, as we navigate the ever-increasing impact of climate change. Our target to 2025 is to increase water resources available in Cornwall by c.45%, and in Devon by c.30%, which is being delivered through our reinvestment of c.£125 million.

Our interventions so far have already delivered results, boosting resources by c.25% in Cornwall, and c.12% in Devon through investment in augmented supply and storage schemes, providing c.11% and c.12% to date, respectively[16]. The expansion of the treated water network in Cornwall has added c.3% and repurposing quarries, including Hawks Tor, purchased and operational in 2022, has added an additional c.11% in Cornwall.

Future resilience through additional resource volumes will be significantly bolstered following the development of desalination solutions in Cornwall, which alongside quarry re-purposing will add a further c.20%. To deliver our desalination facility, work will be undertaken to deliver infrastructure and marine works on site, with a purpose-built pipeline linking the facility to Restormel water treatment works. A modular solution will then be deployed providing the ability to flex and scale up in line with anticipated future population growth and the impact of climate change, enabling delivery for the long-term. In Devon, new storage sources will add an additional c.18% including winter pump storage from the River Tamar at Gatherley and utilising a reservoir at Challacombe.

Whilst 2023 remains a challenging year, the interventions we have delivered to date have already improved resilience from our position in 2022. Our plans are dynamic with scope to increase in response to changing situations.

Net Zero 2030 and environmental gains

Our Net Zero 2030 plan is well underway across the Group, with delivery focused across our three pillars:

- **Sustainable living** – reducing process emissions across the Group, with carbon capture and storage trials underway and monitoring in place, we have reduced our carbon emissions by c.40%[17] since 2021
- **Championing renewables** – investing in solar PV schemes, with the first site from a suite of potential assets acquired. The site, in Dunfermline will produce c.40 GWh, with acquisition and build costs of c.£35 million, alongside the additional opportunity for a 60MW

[16] Reservoir capacity in the South West Water region at c.80% as at 22 May 2023
[17] From 130,000 tonnes (2021) to 80,000 tonnes (2023)

battery storage capacity, for c.£25 million. We are in advanced discussions on a portfolio of 4 attractive assets, producing c.150 GWh of electricity. This investment, of a ringfenced c.£160 million, will increase the Group's energy security and resilience, and deliver returns ahead of regulatory earnings.

- **Reversing carbon emissions** – working in partnership to deliver natural Carbon sequestration through peatland restoration and tree planting and are making good progress towards our target of restoring 1,000 hectares of peatland, with 300 hectares delivered to date, and 220,000 trees planted, of our target to plant 250,000 by 2025. Alongside this, our award winning 'Upstream Thinking' programme has driven an increase in biodiversity across the region, with over 110,000 hectares cumulatively improved to date, and we remain on track to improve 123,000 hectares by 2025. We work closely with partners, including Natural England, National Trust and South West Lakes Trust to deliver initiatives across the South West including Exmoor, Dartmoor and Bodmin Moor.

Addressing customer affordability

We continue to work hard to deliver quality services as efficiently as possible, so that bills remain as low as possible. In all the areas we serve, average bill increases for 2023/24 will be well below the headline rates of inflation (South West Water – 0.8% and Bristol Water – 5.5%) and we are pleased that the vast majority of our customers find their bill affordable – with 97% of South West Water customers and 100% of Bristol Water customers citing their bills as being affordable. We are committed to eliminating water poverty across the region and have an extensive package of affordability and vulnerability measures across the water businesses, including specific tariffs and income maximisation schemes.

Building on the successful launch of our WaterShare+ initiative in 2020, we were pleased to have been able to accelerate the second issuance of our unique WaterShare+ scheme in 2022/23. This brings the total returned to customers over K7 to date through WaterShare+ to c.£40 million, during a time when customers need it most. As a result of this second issuance, one in 14 households in the South West region are now shareholders, with around c.90,000 customers in total now shareholders.

We believe that nobody should worry about their water bill, which is why we have an extensive package of affordability and vulnerability measures, including specific tariffs and income maximisation schemes. We also appreciate the broader cost of living pressures and understand that everyone is different, which is why the support we offer is different. The support we provide includes discounts to bills amongst other initiatives, and we are pleased to have increased the number of customers benefitting from one or more of our social tariffs by 23%.

Since the start of this regulatory period, we have delivered over £85 million[18] of support for our household customers. Alongside the financial support we provide, we work closely with a range of independent organisations and debt partners, who continue to be key in promoting the range of help available to customers.

We are passionate about contributing positively to the communities in the regions we serve. We continue to support community groups with funding available in all our regions including South West Water's Neighbourhood Fund and Water Saving Community Fund, and Bristol Water's Community Fund, supporting a range of initiatives across the Bristol region. In total, over 130,000 people have benefited directly from these projects to date in K7. Given the importance of our role in communities we are proud to be providing c.£1 million to local charities and good causes over the period to 2030.

Our school education programme is focused on teaching school children the importance of water conservation and environmental protection, illustrating the part they can play through being careful with what is discarded through the wastewater network. Through this programme we have directly taught almost 10,000 pupils in K7 to date about where our clean water comes from and how wastewater is treated.

At the heart of any great business are the people who work in it. We are passionate about creating a diverse and inclusive place to thrive and are proud to have increased gender diversity across the Group and to support the #10000blackinterns initiative and the Change The Race Ratio. Through our membership of 'The 5% Club' we are investing in the next generation, embracing an 'earn and learn' culture. We are delighted to be the only water company awarded Gold membership status this year as we have exceeded the 5% target and have almost 10% of our employees on these development programmes – with over 350 apprenticeships and graduates. We have also doubled our apprenticeship and graduate schemes to 1,000 by 2030, along with offering 5,000 work placement opportunities over the same period.

ODI performance impacted by challenging weather conditions

2022/23 has been a year of weather extremes, from an exceptionally hot, dry summer – resulting in the ongoing drought status in the South West, to the periods of extreme rainfall and the freeze/thaw conditions during the winter. This has impacted the achievement of our stretching suite of ODIs across the Group, with South West Water at c.70% and Bristol Water at 65% of ODIs on track or ahead of target[19].

For South West Water, ensuring quality and compliance is a key underpin. Our Compliance Risk Index (CRI) performance has improved, resulting in anticipated upper quartile performance and we

[18] Includes c.£40m WaterShare+, c.£10m Stop The Drop, c.£35m customer support unlocked

[19] On track or ahead of target, or within regulatory tolerances

have achieved our best ever wastewater treatment works compliance at 99.4%. Whilst drought conditions have driven the requirement to put in place water restrictions for the first time in 25 years, the reliability of our water treatment works is improving, despite the significant demand on the network.

The freeze/thaw conditions experienced in the winter illustrated how the improvements we put in place following the 2018 'Beast from the East' have delivered results, with supply interruptions this year c.85% better than 2018. Alongside this, our teams have focused on finding and fixing c.2,000 leaks a month, to support the achievement of our leakage target, with the strong performance in the first half of the year providing some headroom.

We are continuing to drive improvements in wastewater, as demonstrated through the deployment of our Pollution Incidents Reduction Plan, and our sector-leading internal sewer flooding performance. Our focus remains on improving external flooding incidents and sewer blockages, where we are investing in network monitoring to enable proactive intervention.

For Bristol Water, water quality is a key area of focus and we are expanding our 'Quality First' transformation programme, initially rolled out in South West Water, to Bristol Water. As with South West Water, the extreme weather conditions also placed pressure on the network with peak summer demand challenging water treatment works reliability, resulting in an increase in unplanned outages. Given the impact of the extreme weather on the network as a whole, ODIs associated with the water network, including leakage, mains repairs and supply interruptions did not hit their targets.

Bristol Water customer service measures remain strong, with C-MeX ranking 6th, supporting our sharing of best practice across our operating regions. In addition, total complaints also reduced during the year, outperforming their target. Our focus in this area is now on increasing meter penetration to drive water efficiency.

ODI performance across the Group in 2022/23 has resulted in a net financial penalty of c.£4.2 million for South West Water, and net financial penalty of c.£5.9 million for Bristol Water.

Delivering on our largest ever environmental investment programme

We are well underway with the delivery of our largest environmental investment programme for 15 years of c.£1.5 billion, which includes delivery of accelerated and additional investments such as WaterFit and Green Recovery, alongside our existing, extensive business plan commitments. During the year we have invested c.£358 million across environmental, customer, water and wastewater outcomes – a record level of spend for Pennon, and a c.50% increase on the prior year. Continuing this momentum, we plan to invest over £750 million over the next two years.

Our capital delivery model for K7 is well established. For South West Water and Bournemouth Water this is delivered through two Tier 1 construction partners, supported by regionally strong Tier 2 construction firms. For Bristol Water two regionally strong construction firms form part of Bristol Water's intelligent partnership. To meet the challenges head on, we are enhancing our supply chain capacity to deliver our accelerated investments, gearing up ready for the step change in our investment programme over the next regulatory period. We are currently underway with a full retender with excellent interest from Tier 1 partners, and an expectation to contract with at least four Tier 1 contractors in 2023.

Financial resilience enabling accelerated investment

Driving outperformance gives us the flexibility to deliver more within a regulatory delivery period – with reinvestment supporting additional and accelerated initiatives. Our RORE performance for 2022/23 continues to be strong, with South West Water achieving a RORE of 11.1%, and Bristol Water achieving 4.6%. This supports our cumulative Group RORE position of 8.7% equating to £192 million[20], an increase on £149 million in 2021/22. This is supporting our reinvestment across the Group in additional environmental initiatives including our WaterFit and water resilience investments.

This outperformance, combined with the strength of our balance sheet, is supporting c.£300 million[21] of additional and accelerated initiatives. c.£170 million of the cumulative outperformance of c.£192 million is being reinvested to deliver initiatives tackling some of the biggest challenges, including c.£45 million to fund the delivery of our WaterFit programme, enhancing coastal and river water quality, and c.£125 million investment supporting the diversification of our water resources, boosting resilience. In addition to this, c.£20 million funded the accelerated delivery of our second WaterShare+ issuance.

In April 2023, Ofwat announced further accelerated investment totalling c.£130 million for South West Water over the period to 2030. £52 million of this investment will be delivered over the period to 2025. Of the total £98 million wastewater accelerated investment outlined to 2030, £35 million will fund storm overflow and nutrient neutrality schemes to 2025, further supporting the delivery of our WaterFit plans, and benefitting the region's growth and development. £32 million of accelerated water efficiency investment has been outlined as part of these plans to 2030, of which £17 million will be delivered to 2025 to support customers in Cornwall and Bristol reduce their usage, alongside cutting leakage from customers' pipes. Given the ongoing drought across the South West, securing resilient water supplies for current and future generations remains of significant importance.

[20] This is made up of c.£13 million Totex^, c.£200 million financing, net of c.£21 million ODI penalty. Excludes the impact of the third-party Carland Cross event in 2021 which we are seeking to recover from the third-party

[21] Investment above K7 business plan commitments

This accelerated investment to 2025 of c.£52 million, combined with our Green Recovery £82 million investment, totals £134 million, which is being funded through the strength of Pennon's balance sheet, and providing incremental RCV growth.

Return on Regulated Equity

Our strong return on regulated equity for 2022/23 is driven by the Group's flexible financing strategy and diverse debt portfolio, with a comparatively lower level of index-linked debt relative to the industry average, allowing us to outperform the cost of debt allowances. Our efficient financing strategy continues to drive significant outperformance with South West Water's effective interest rate^ at 5.5% (2021/22 3.9%[22]). Given the current macro-environment, this strong financing outperformance has outweighed totex and net ODI penalty contributions.

The table below summarises the 2022/23 RORE position for both South West Water and Bristol Water.

	Ofwat RORE		**WaterShare RORE[23]**	
	South West Water	**Bristol Water**	**South West Water**	**Bristol Water**
Base return	3.9%	4.5%	3.9%	4.5%
Totex	(3.7)%	(0.6)%	(3.2)%	(0.8)%
ODI	(0.3)%	(2.8)%	(0.3)%	(2.7)%
Tax	1.5%	0.0%	N/A	N/A
Financing	9.7%	3.5%	7.1%	2.0%
Total RORE – 2022/23	**11.1%**	**4.6%**	**7.5%**	**3.0%**
K7 Cumulative RORE	**9.0%**	**5.7%**	**8.0%**	**5.2%**

Enhancement spend

In December 2022, Ofwat published their Water Company Performance Report 2021/22. Each company's performance is measured on 12 key performance and expenditure metrics as outlined in their respective Business Plans for 2020-2025. South West Water has met or exceeded its performance commitments in 7 out of 12 areas, and is a top performer in Internal Sewer Flooding. However, Ofwat found the performance in the remaining 5 areas in need of improvement and as a result, categorised South West Water as 'lagging behind'.

Whilst, South West Water has underspent the enhanced allowances to March 2023, this excludes the significant increase in investment to reduce leakage and pollution incidents, improve sewer flooding and maintain a resilient supply – all of which are included within base capital or operating

[22] 2021/22 water business comparator of 3.7% re-analysed to provide comparative performance under post-integration South West Water Limited group of companies' structure.
[23] Watershare RORE - financing outperformance is based on the outturn effective interest rate translated into a real rate using a forecast average inflation assumption of 4.8% CPIH.

expenditure. Overall, South West Water has spent c.112% of our total expenditure allowances (across water and wastewater) for the first three years of this regulatory period, with enhanced expenditure at c.70% of allowances (enhancement spend represents just c.20% of totex). While this may be below the expected level in the Final Determination, investments are being delivered in line with Environment Agency expectations and deadlines, different to the profile in the Final Determination – with some delivered ahead of this, and therefore delivering accelerated benefits for customers and for the environment.

We have delivered efficiencies and savings across the programme in the first two years which is enabling investment in other areas including our WaterFit programme – with £45 million reinvested to reduce spills and deliver improvements for our rivers and beaches and our drought resilience investments of c.£125 million.

For wastewater South West Water is committed to delivering our WINEP (Water Industry National Environment Programme) obligations and other commitments whilst remaining dynamic to changes in the environment. Given the increasing profile of enhanced investments we are forecasting to over-spend our allowances by 2025 (including WaterFit enhanced investment), and have substantially recovered our position in 2022/23 with c.120% of annual allowance spent in the year representing c.65% cumulatively.

Developing a robust plan for 2025-2030

As we develop our plans for 2025-2030 we remain focused on delivering exceptional outcomes for customers, communities and the environment, building a plan for a sustainable future. Customer priorities form the basis of our plans, through extensive stakeholder engagement including wide-reaching campaigns and robust data analysis with c.20,000 customers engaged directly in the last two years.

Included within our plans are significant environmental investments, driven by new legislative requirements, and an increasing need for resilience informed by our long-term planning, ensuring flexibility in delivering the right plan for the communities in the regions we serve. We are anticipating a step change in investment to ensure we are able to tackle the most significant challenges so that we are able to deliver long-term benefits for all stakeholders.

Our plans reflect the unique needs of our region and include ambitious programmes to tackle some of the biggest challenges we face.

Storm overflows and pollutions

- Prioritising beaches – making water fit for recreational use all year round
- Protecting ecologically sensitive sites – halving our negative impact
- Using sustainable solutions to boost and protect nature

- Upgrade 90 WWTW to meet tighter environmental standards – protecting rivers and wildlife
- Innovation to address micro plastics and forever chemicals

Water quality and resilience

- Major upgrades at 16 water treatment works
- Replace up to 50,000 lead pipes
- Reduce leakage by up to 15%
- Investing in new sources – equivalent to water used by 150,000 people
- Start building new regional sources – including new reservoir at Cheddar
- Install half a million smart meters

Net Zero and environmental gains

- Improvement to the treatment of biosolids to reduce nutrient run off into rivers
- 125,000 hectares of habitat creation, including peatland and seagrass restoration
- 1,000 smart ponds to protect river flows and prevent flooding
- 50% renewable energy generation, creating enough energy to power 20,000 homes
- Saving 11,000 tonnes of carbon each year

Addressing customer affordability

- Developing progressive charging options and tariffs – ensuring fair and affordable charging for all
- Extending our affordability toolkit – ensuring all customers can access the right support, especially the most vulnerable

Finding the balance between service performance, financeability, deliverability and affordability will be key. Ensuring that the way in which we charge customers is fair will be critical and in response we are working to develop progressive charging options and tariffs. Alongside, we will continue to ensure that customers have access to our suite of affordability initiatives

Our plans are built for the long-term – ensuring flexibility in delivering the right plan for the communities in the regions we serve. We will continue to challenge ourselves to develop innovative and sustainable solutions to deliver on our commitment to protect and enhance the natural environment, both now and for generations to come – driving significant value for all.

We look forward to sharing more on our plans for PR24 on 5 October 2023 at our Spotlight presentation and Q&A.

Group Chief Financial Officer's Review

During 2022/23, volatility in the global economy, reflecting the geopolitical situation and economic difficulties arising from the global pandemic, has continued. We started to experience the impact of this in the second half of the financial year ended 31 March 2022 and, as expected, the impact of elevated inflation on power and interest costs has reduced our near-term earnings. The second half of this financial year has also been impacted by the drought in the South West, which has resulted in increased levels of operating costs and capital expenditure. Where appropriate, specifically identifiable operating costs have been treated as non-underlying given the unprecedented summer weather conditions with 2022 being one of the hottest, driest years on record.

Over the long term the elevated inflationary environment provides the Group with additional growth in sustainable value with revenues and RCV linked to November and March CPIH inflation, respectively.

Bristol Water has contributed to the Group's financial results since 3 June 2021 with full clearance for the merger of our wholesale water businesses granted on 7 March 2022. The merger of South West Water and Bristol Water completed on 1 February 2023 with the combined water business now operating under one licence held by South West Water Limited. Within this report, to aid comparability both now and ongoing, the results of South West Water include the operating performance of Bristol Water in the current year and in the prior year. The results in the comparative financial year ended 31 March 2022 only include Bristol Water for ten months from the date of acquisition.

Underlying	2022/23	2021/22	Change
Revenue	£825.0m	£792.3m	+4.1%
Operating costs	(£517.2m)	(£408.4m)	(26.6%)
EBITDA^	£307.8m	£383.9m	(19.8%)
Depreciation and amortisation	(£154.7m)	(£146.7m)	(5.5%)
Operating profit	£153.1m	£237.2m	(35.5%)
Net interest charge	(£136.6m)	(£93.7m)	(45.8%)
Share of associated companies PAT	£0.3m	-	+100.0%
Profit before tax	**£16.8m**	**£143.5m**	**(88.3%)**
Non-underlying items before tax[1]	(£25.3m)	(£15.8m)	-
(Loss) / Profit before tax	**(£8.5m)**	**£127.7m**	**(106.7%)**
Underlying tax credit/(charge)	£3.6m	(£13.9m)	+125.9%
Non-underlying tax credit/(charge)	£5.3m	(£98.2m)	-
Profit for the period	**£0.4m**	**£15.6m**	**(97.4%)**
Earnings per share			
Adjusted EPS	7.3p	50.2p	(85.5%)
Statutory EPS	Nil p	4.9p	(100.0%)
Dividend per share - dividend policy[3]	42.73p	38.53p	+10.9%
Capital investment			
Total Group	£358.3m	£240.9m	+48.7%
South West Water	£358.2m	£240.4m	+49.0%
Other	£0.1m	£0.5m	(80.0%)
	31 March 2023	**31 March 2022**	
Total Group net debt	(£2,965.4m)	(£2,682.9m)	

The Group's statutory revenue for 2022/23 of £797.2 million included non-underlying revenue reductions of £27.8 million in respect of the second issuance under WaterShare+ (£20.2 million) and our "Stop The Drop" demand reduction incentive (£7.6 million).

The Group's underlying revenue has increased from £792.3 million to £825.0 million, an increase of 4.1%, with South West Water increasing by £13.5 million and Pennon Water Services delivering further external revenue growth, predominantly outside South West Water's regions, of c.£19 million.

Overall, underlying EBITDA has reduced 19.8% from £383.9 million to £307.8 million with the increase in power costs being the most significant contributing factor to this reduction.

Further details of the performance of South West Water and Pennon Water Services is outlined below.

We recognise the pressure the cost of living crisis poses to our customers and we are focused on providing a broad range of affordability measures to support those in financial need. Across all Group businesses, 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 throughout the Group have remained robust during the financial year. Underlying expected credit loss charges for 2022/23 of £7.0 million for South West Water (1.0% of revenue) are in line with previous levels (2021/22 0.8%[24]). For Pennon Water Services, the expected credit loss charge of £0.8 million (0.4% of revenue) is also in line with previous levels (2021/22 0.3% of revenue).

The Group reported a statutory loss before tax of £8.5 million (2021/22 profit £127.7 million) after net non-underlying costs of £25.3 million (2021/22 £15.8 million). Group underlying profit before tax decreased to £16.8 million from £143.5 million in 2021/22. This outturn reflects the significant near-term pressures on earnings from elevated power pricing, financing costs and revenue reductions in the water business through lower customer demand as a result of continued water efficiency promotion and mechanistic regulatory adjustments[25].

SOUTH WEST WATER

Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. The Bristol Water brand will continue as a trading name of South West Water. As noted above the financial performance of South West Water includes the performance of Bristol Water in both this financial year and the comparative year.

South West Water underlying	**2022/23**	**2021/22**	**Change**
Revenue	£701.3m	£687.8m	+2.0%
Operating Costs	(£392.9m)	(£303.0m)	(29.7%)
EBITDA	£308.4m	£384.8m	(19.9%)
Depreciation and amortisation	(£149.0m)	(£141.0m)	(5.7%)
Operating profit	£159.4m	£243.8m	(34.6%)
Net interest charge	(£145.3m)	(£98.0m)	(48.3%)
Profit before tax	**£14.1m**	**£145.8m**	**(90.3%)**
Non-underlying items before tax	(£43.7m)	(£1.8m)	-
(Loss) / Profit before tax	**(£29.6m)**	**£144.0m**	**(120.6%)**

Underlying revenue of £701.3 million for 2022/23 has increased by 2.0% (£13.5 million) compared with the prior year (2021/22 £687.8 million). Adjusting for the additional two months of revenue in

[24] Includes full 12-month Bristol Water performance during 2021/22
[25] Includes ODI penalties and revenue forecast incentive adjustment

this financial year from the Bristol Water region (£22.5 million), revenue on a like for like basis has reduced by £9.0 million, with the inflationary impact on tariffs being more than offset by the reduction in demand and regulatory adjustments to revenue, including in-year ODI penalties from 2020/21. South West Water's statutory revenue for 2022/23 includes a non-underlying reduction of £27.8 million in respect of the second WaterShare+ issuance and our "Stop The Drop" demand reduction incentive.

Underlying operating costs of £392.9 million increased by £89.9 million (2021/22 £303.0 million) reflecting the following significant factors:

- Inflationary and other macro-economic impacts on wholesale energy market prices and transmission costs (£48.6 million)
- Additional two months of operating costs (not including power) for Bristol Water (£10.0 million)
- Responding to operational drivers including continued elevated demand prolonging high production volumes, supporting improvements to leakage and pollutions performance, and underlying cost increases to address the extreme operating conditions including the freeze/thaw event to ensure resilience of water supply (£5.9 million)
- Increased costs relating to the price review for the next regulatory period
- Pay increases of between 3-5% across the Group, with the majority at 5%.

South West Water's underlying EBITDA and underlying operating profit reduced by 19.9% and 34.6% respectively. Despite the level of inflation in tariffs lagging behind actual cost inflation in the year, overall increases in operating costs excluding power were carefully managed to remain broadly in line with the inflation embedded in tariffs.

The net interest charge of £145.3 million is £47.3 million higher than prior year (2021/22 £98.0 million) primarily reflecting the impact of higher RPI and CPI rates on index-linked debt. The Group's efficient funding mix which includes a relatively low proportion of index-linked debt, and hedging strategy, minimises these market effects resulting in an effective interest rate of 5.5% (2021/22 3.9%[22]).

South West Water's capital expenditure was £358.2 million, an increase of £117.8 million (49.0%) on the prior year (2021/22 £240.4 million), primarily due to water resources investments to boost supplies including repurposing disused quarries, and investments in GAC schemes to increase water quality, along with development work at the new Alderney and Knapp Mill water treatment works in the Bournemouth region. Wastewater investments included the roll out of our WaterFit programme, targeted investments in wastewater pollutions hotspots and the installation of event duration monitors on our storm overflows to achieve 100% coverage in 2022. The increase also includes the additional two months of capital expenditure in the Bristol Water region in this year compared to last.

PENNON WATER SERVICES

Pennon Water Services - statutory and underlying	**2022/23**	**2021/22**	**Change**
Revenue	£218.0m	£195.3m	+11.6%
Water segment wholesale elimination	*(£94.7m)*	*(£90.9m)*	*+4.2%*
Revenue excluding elimination	*£123.3m*	*£104.4m*	*+18.1%*
Operating Costs[26]	(£213.7m)	(£191.9m)	(11.4%)
Water segment wholesale elimination	*£94.7m*	*£90.9m*	*(4.2%)*
Operating costs excluding elimination	*(£119.0m)*	*(£101.0m)*	*(17.8%)*
EBITDA	£4.3m	£3.4m	+26.5%
Depreciation and amortisation	(£0.7m)	(£0.8m)	+12.5%
Operating profit	£3.6m	£2.6m	+38.5%
Net interest charge	(£1.8m)	(£1.6m)	(12.5%)
Profit before tax	£1.8m	£1.0m	+80.0%

Pennon Water Services has once again performed strongly this financial year through its disciplined approach to winning new business and benefitting from higher demand.

Non-household demand has continued to recover, up 5.8% on 2021/22 and consumption is approaching pre-covid levels, with recovery predominantly in the hospitality, tourism and manufacturing sectors. New contract wins have contributed £11.2 million of additional revenue compared to last year. The overall growth rate in this financial year was 11.6% and compares to 2021/22 levels of 19.9%.

Underlying operating costs have grown marginally behind the improving revenues and the business has boosted its underlying EBITDA by 26.5% to £4.3 million (2021/22 £3.4 million). This strong performance has resulted in the business reporting a profit before tax of £1.8 million (2021/22 £1.0 million), a significant 80% increase on the previous year.

The business continues to maintain its focus on targeting high-quality, sustainable customers who will benefit from the value-added services that form part of Pennon Water Services' differentiated service proposition, with new annualised contract wins of c.£14 million secured during the year.

Group net finance costs

Total net finance costs for the Group of £118.2 million include £18.4 million non-underlying gain resulting from the repayment of the Bristol Water plc index-linked bond due 2041. Underlying net finance costs for the Group of £136.6 million are £42.9 million higher than last year (2021/22 £93.7

[26] Includes wholesale costs for non-household customers

million), driven largely by the current high levels of inflation impacting index-linked debt charges but also includes an additional two months' finance cost contribution from Bristol Water in 2022/23. Whilst the Group benefits from a lower proportion of index-linked debt compared to the water industry average, following the Bristol Water acquisition c.30% of Pennon's regulated water businesses' gross debt was index-linked. Actions have been taken during the second half of the year to both smooth inflation volatility over the period to 2025 and lower our level of index-linked debt over the long-term to around 20-25%. The non-cash element of our finance charges, which accretes to the debt principal, was c.£84 million (2021/22 c.£36 million).

The Group continues to efficiently secure funding for South West Water 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 through issuing both fixed rate debt and effective interest rate hedging, with a further element being index-linked. Prior to the acquisition of Bristol Water, the index-linked proportion of debt had been maintained at a relatively stable proportion of c.25%.

In the second half of the year, the Group reduced its proportion of index-linked debt by repaying the Bristol Water plc index-linked bond due 2041 and entered into £300 million of RPI to fixed rate swaps to fix the interest charge over the period to 2025 to smooth the impact of inflation over K7. These changes have helped to manage the Group's exposure to the current volatility in its finance costs.

Share of post-tax profit from associated companies

As part of the acquisition of Bristol Water in June 2021, we obtained a 30% interest in Water 2 Business Limited (W2B), a water retailer joint venture with Wessex Water. This investment is accounted for under the equity method and following a period of losses as the business reached scale, we are pleased to recognise £0.3 million of profit after tax from associated companies in this year's results.

Non-underlying items and acquisition accounting

Non-underlying items for 2022/23 total a charge before tax of £25.3 million (2021/22 charge of £15.8 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 of £25.3 million consists of:

- £20.2 million reduction in revenue being the recognition in full of the second issuance of our WaterShare+ scheme, which has been extended to include Bristol Water customers and £2.2 million of associated costs.

- 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 issued 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 has instigated a series of mitigating measures and one-off expenditure to address the situation. Due to the exceptional combination of these events and the significance of the mitigating actions this has resulted in the recognition of £7.6 million revenue reduction from the “Stop the Drop” discount incentive to reduce water consumption and £9.4 million of specific costs relating to the measures being treated as non-underlying.
- £4.3 million of costs in connection with the merger, statutory licence transfer and integration of Bristol Water into South West Water.
- £18.4 million gain resulting from the repayment of the Bristol Water plc index-linked bond due 2041, as part of rebalancing the proportions of index-linked debt in the Group debt portfolio.

The non-underlying charges in 2022/23 give rise to a net tax credit of £5.3 million in relation to the above items. In 2021/22 the total non-underlying tax charge was £98.2 million, including a credit of £1.3 million in connection with non-underlying pre-tax items and a £99.5 million non-underlying deferred tax charge, recognised for the change in future tax rate which was substantively enacted during the previous financial year.

As part of the requirements of acquisition accounting, we have finalised the fair values of the acquired balance sheet of Bristol Water. The provisional values reported in the Group’s results to 31 March 2022 have been revised to reflect a £5.5 million increase in the fair value of the acquired deferred tax liabilities with a corresponding increase in Goodwill.

Goodwill arising from the acquisition of £121.6 million has been recorded in the Group consolidated balance sheet and is attributed to the synergies expected to be derived from the combination and the value of the workforce which cannot be recognised as a separately identifiable intangible asset.

Responsible approach to tax

The Group is pleased to confirm it has once again maintained the Fair Tax Mark accreditation for the year. This is the fifth year in succession that the Group has been awarded the accreditation and we are proud of our responsible approach to tax.

The overall 2022/23 tax credit for the Group is £8.9 million (2021/22 charge of £112.1 million). On an underlying basis, the net tax credit for 2022/23 for the Group of £3.6 million (2021/22 charge of £13.9 million) consists of:

- Current tax credit of £2.7 million, reflecting an effective tax credit rate of 16.1% (2021/22 charge of £5.0 million, 3.5%). This reflects a £2.7 million current tax credit in respect of the prior year as a result of additional super-deductions and lower non-deductible expenditure following the preparation and submission of the 2022 corporate tax computations.
- Deferred tax credit of £0.9 million (2021/22 charge of £8.9 million). This reflects a current year deferred tax credit of £1.6 million in relation to capital allowances in excess of depreciation charged across the Group, largely due to super-deductions, offset by tax losses carried forwards for utilisation in later periods. A £0.3 million credit also arises as a result of the change in tax rate, on current year items (including tax losses generated in the year carried forward for future relief) which will crystalise at 25% rather than 19%. It also includes a deferred tax charge in respect of the prior year of £1.0 million which arises largely due to additional super-deductions.

There is also a non-underlying deferred tax credit of £5.3 million in 2022/23 relating to the non-underlying items set out above. This includes a current tax credit of £2.8 million in relation to losses to be carried back to relieve against prior year profits and a deferred tax credit of £2.5 million which relates to losses carried forward for utilisation in later years and the unwind of the fair value adjustment in relation to the Bristol Water bond terminated in the year

The Chancellor announced in the March Budget, that the 130% super-deduction on plant and machinery will be replaced with full expensing deductions for the next three years from 1 April 2023 to 31 March 2026, with a plan to make this permanent when fiscal conditions allow. Without this change, the writing down allowance would have reverted to the previous rate of 18% on plant and machinery (where the expected life is less than 25 years). The 50% first year allowance on long life assets and integral features has been extended for the same three-year period, again with the aim to make this a permanent change. Without this, relief would have reverted to 6% per annum on a reducing balance basis. Given the Group’s continued capital investment programme, these changes mean that the Group anticipates generating tax losses in the remaining years of K7, and therefore does not expect to make any corporation tax payments during this time.

Earnings per share

The Group has recorded a statutory earnings per share of nil pence per share for the year ended 31 March 2023 (2021/22 4.9 pence per share). This includes a net non-underlying charge before tax of £25.3 million and a net non-underlying tax credit of £5.3 million. Statutory earnings per share for 2021/22 were impacted by the significant non-underlying deferred tax charge in respect of the change in corporation tax rate and also the average number of shares used to derive the earnings per share were impacted by the share consolidation in July 2021.

Our adjusted earnings per share excludes the impact of deferred tax charges and non-underlying items. For the Group, we have generated adjusted earnings per share for 2022/23 of 7.3 pence (2021/22 50.2 pence), with this reduction in earnings reflecting the significant impacts from higher power costs and the impacts of inflation on finance costs and operating costs more generally.

Sustainable net debt position

The Group's cash flow from operating activities for 2022/23 was £313.7 million (2021/22 £334.2 million). Cash collections have remained robust and we continue to monitor cash collections closely and are focused on providing a broad range of affordability measures to support those in need of support.

Net interest payments were £154.8 million (2021/22 £72.0 million) within the increase driven by £51.5 million of interest paid on lease settlements relating to interest accreted to the lease principal and a full 12-month impact of Bristol Water. A significant element of the increased income statement finance charges arises from our index-linked debt, and is non-cash, as the indexation element accretes to the debt principal repayable on maturity.

Our accelerated environmental investment programme has resulted in an increase in capital investment cash outflows of £102.9 million to £330.5 million (2021/22 £227.6 million).

Other significant movements in net debt in 2022/23 include the final tranche of the share buy-back programme of c.£40 million, payment of our interim and final dividends for 2021/22 and £84.3 million of non-cash indexation on our loan instruments. Other movements of £116.4 million arise in the main from a reduction of debt associated with historically accreted lease interest (£51.5 million), the unwinding of fair value adjustments on acquired debt (£44.3 million), notably following the repayment of the Bristol Water plc index-linked bond due 2041, and VAT recovered on lease repayments (£21.5 million).

The Group's IFRS net debt at 31 March 2023 was £2,965.4 million (31 March 2022 £2,682.9 million), which is also referred to as sustainable net debt. This includes fair value adjustments on acquired debt of £124.0 million[27] which are released over the life of the related debt instruments. The Group's net debt position excluding these adjustments is £2,841.4 million.

Agile and efficient financing

The Group has made several changes to its financing since the end of the last financial year to ensure we can efficiently support the needs of our business strategy and are agile to address the changes in the macro-economic environment.

[27] Carrying value of fair value acquisition adjustments to net debt as at 31 March 2023 - £36.4 million Bournemouth Water, £87.6 million Bristol Water

Since 31 March 2022, the Group has secured and completed c.£825 million of new and renewed facilities, including:

- Our first syndicated £300 million private placement with an average maturity of 12 years
- £205 million of new term loans and leasing with an average maturity of 9 years
- £25 million 20-year private placement
- £295 million of new and renewed revolving credit facilities.

During 2022/23 all new and renewed facilities were raised under our Sustainable Financing Framework.

Our lease portfolio will continue to deliver long-term benefits as part of our diverse range of facilities as we look to further diversify our portfolio going forward, as a strand of our Sustainable Financing Framework. During the year, we continued our programme of repayment and restructuring of the portfolio to ensure its continued efficient and effective management with a further c.£167 million (including interest on leases) repaid during 2022/23.

The Group has taken steps during the year to re-balance the proportion of index-linked debt to align with previously maintained levels for the longer-term. In November 2022, we reduced our index-linked debt proportion by repaying the £40 million Bristol Water plc index-linked bond due 2041, generating an £18.4 million non-underlying gain.

The statutory transfer of the Bristol Water business to South West Water completed in February 2023, including outstanding debt being transferred on an unsecured basis.

Resulting from the changes above and drawing of new debt during the year, South West Water[28] gross debt at 31 March 2023 was £2,918 million (31 March 2022 £2,848 million). The debt has a maturity of up to 34 years with a weighted average maturity of c.15 years.

At 31 March 2023, South West Water's[28] net debt to RCV ratio[29] stood at 60.8% (31 March 2022 62.3%). This is broadly in line with Ofwat's notional structure of 60%.

South West Water's cost of finance, with an effective interest rate in 2022/23 of 5.5% remains among the lowest in the industry, continuing to benefit from the diverse portfolio of debt.

Financing portfolio – strategic positioning

The Group has a strong liquidity and funding position with £420 million of cash and committed facilities as at 31 March 2023. This consists of cash and cash equivalents of £165 million (including £22 million of restricted funds representing deposits with lessors against lease obligations) and

[28] Based on South West Water Limited's group of companies, including Bristol Water plc
[29] Based on South West Water net debt and shadow RCV

£255 million of undrawn facilities. £104 million of the cash holdings are held at the Pennon company level.

Following the successful transfer of Bristol Water to South West Water, this has meant changes to the regulatory licence and we are targeting to obtain a strong investment-grade rating for South West Water for the start of the next regulatory period.

South West Water[28] net debt at 31 March 2023 is a mix of fixed / swapped (£1,854 million, 65%), floating (£609 million, 21%) and index-linked borrowings (£402 million, 14%), which reflects our diverse debt portfolio and compares to an industry average[30] of fixed / swapped 42%, floating 4% and index-linked 54%. New debt raised during this regulatory period has been fixed to align to iBoxx indices in line with Ofwat's approach to allowed cost of debt. Where appropriate, derivatives are used to fix the rate on floating rate debt.

As we progress through the remainder of K7, we expect the mix of our debt portfolio to evolve and are strategically targeting index-linked debt to represent 20-25% of our portfolio in the long term. This will enable the Group to maintain its financing flexibility, whilst remaining within our treasury policy of at least 60% fixed rate debt.

As the Group continues to develop, and we see our funding requirements grow, we expect the Group to manage its portfolio with larger, and more diverse debt instruments, taking advantage of the public ratings once established in 2025, in line with Ofwat's final PR24 methodology requirements.

We will continue to maintain a diverse portfolio of debt to support flexibility and growth opportunities. We expect that our reinvestment of our outperformance in environmental enhancements will be financed through debt, resulting in increased net debt to RCV gearing in the short-term. In the long-term this investment will provide returns though K8 revenues and a higher RCV. We now expect RCV to reach £5.2 billion at the start of K8.

Contingencies

Ofwat and the Environment Agency announced an industry-wide investigation into sewage treatment works on 18 November 2021. In June 2022, as part of its ongoing investigation, Ofwat announced enforcement action against South West Water Limited, alongside the five companies which received enforcement notices in March 2022.

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.

[30] UK water position as at 31 March 2022 as per published Annual Performance Reports – weighted average

All company data is subject to extensive process checks, which include both internal and external assurance. All data disclosed in South West Water's Annual Performance Report is subject to rigorous checks and balances carried out by South West Water's external technical auditor.

The company continues to work openly and constructively with regulators to comply with the formal notices as part of these ongoing investigations by engaging and providing information as required.

Pensions

At 31 March 2022, the surplus on retirement obligations of £66.3 million comprised a surplus on the Group's principal pension scheme, Pennon Group Pension Scheme (PGPS), of £59.5 million and a surplus of £6.8 million in respect of Bristol Water's defined benefit pension obligations.

The overall surplus at 31 March 2023 has reduced to c.£29 million reflecting the following principal movements:

- £23 million net reduction in surplus from the movement in financial actuarial assumptions with significant reductions in liabilities, from the increasing discount rate, offset by the reduction in asset values (reflecting market volatility and the greater level of hedging in the schemes).
- £16 million reduction in surplus with the change in other actuarial assumptions reflecting the impact of inflation on immediate term pension increases, and other changes in actuarial assumptions from the March 2022 triennial valuation.

The triennial valuation of PGPS as at 31 March 2022 has been agreed and no deficit recovery payments are required. The valuation recorded an actuarial technical provision surplus of c.£8 million, representing c.101% funding. The valuation reflects the improvements in the funding of PGPS over recent years supported by the responsible payments made by the Group. The ongoing funding requirements for the Company to the scheme are limited to the continuing administration expenses.

As funding of PGPS has improved the investment portfolio has been de-risked through increasing the scheme's real gilts hedging position through Liability Driven Investments (LDIs), which are commonly used by UK pension schemes. Whilst LDIs remain a critical part of the hedging strategy, further risk management and monitoring strategies have been implemented to help protect against the potential for rapid movements in yields, given what was seen in gilt markets last autumn.

Bristol Water's pension surplus relates to the Bristol Water Section of the Water Companies Pension Scheme (WCPS). The liabilities of the scheme are fully insured, securing the pension promises made to the benefit of members through a bulk annuity policy. Changes in actuarial assumptions have little impact on the surplus recognised as the change in liabilities is materially matched by the change in asset values through the bulk annuity policy. As a result the net surplus of c.£7 million remains largely unchanged. The surplus recognised is restricted by a tax deduction of 35% under UK tax legislation.

Dividends

The Group continues to strive to deliver on its commitments to customers, shareholders and stakeholders as our investments drive strong and sustainable results. Around two thirds of Pennon's shareholders are UK pension funds, savings, charities and individuals with almost half of the Group's employees, now including Bristol Water, also being shareholders. Following the second issuance of our unique WaterShare+ initiative, customers now make up more than four times the number of institutional shareholders.

Pennon's sector-leading 2020-2025 dividend policy of growth of CPIH +2% reflects the Board's ongoing confidence in the Group's strategy and is underpinned by continued RORE outperformance in South West Water.

The Board has recommended a final dividend of 29.77 pence per share for the year ended 31 March 2023. Together with the interim dividend of 12.96 pence per share paid on 5 April 2023 this gives a total dividend for the year of 42.73 pence. This represents an increase of 10.9% (March 2023 CPIH + 2%) on 2021/22. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

The proposed dividends totaling £111.7 million are covered 2.8 times by underlying EBITDA (2021/22 3.8 times). The reduction in EBITDA dividend cover^ was expected given the significant near-term pressures on earnings from elevated power pricing. Pennon Group plc has substantial retained earnings and a sustainable balance sheet to support its stated dividend policy. The strong fundamentals of its principal operating subsidiary, South West Water Limited, underpin this policy with its strong RORE and growing RCV. Dividends are charged against retained earnings in the year in which they are paid.

Investing for sustainable growth – renewable energy generation

In line with both our long-term sustainable growth strategy in UK environmental infrastructure and our desire to accelerate on our Net Zero target by 2030, we have allocated £160 million for investment in renewable energy generation. This strategy will also benefit the Group by reducing our exposure to future volatility in wholesale power markets, that we have experienced this year, and will provide commercial returns ahead of those earned from our regulatory water business.

In May 2023 Pennon Power Limited, a direct subsidiary to Pennon Group plc, acquired a c.40 GWh site in Dunfermline for an expected total acquisition and build cost of around £35 million. This is an attractive ready to build site, with consents in place, and is expected to commence generation in 2024. This site also has capacity for further investment of around £25 million for a 2-hour 60 MW battery storage facility that will support the UK's transition to renewable energy and earn further healthy returns.

In addition, we are in advanced discussions on a further four sites that could provide a further 150 GWh generation, potentially bringing our total generation to c.190 GWh from these projects. This amount equates to around 45% of our electricity usage and would be a big step forward towards our 2030 target of 50% self-generation, which we have accelerated to 2025.

Financial outlook

Looking to 2023/24, there are some signs of inflation stabilisation before it recedes to more normal levels, whilst the global economy continues to be volatile and reactive to a range of ongoing geopolitical dynamics.

We recognise the pressure that inflationary pricing increases may pose to our customers, and customer bill affordability continues to remain a key consideration for us. Our broad range of affordability measures ensures we are able to support those in need of support, and we continue to focus on delivering improvements efficiently and effectively.

We expect overall revenues to increase with the combined impact of inflation on our 2023/24 tariffs (net of the year-on-year impact of regulatory adjustments and ODI penalties) and ongoing expected growth in our non-household retail business.

Whilst wholesale cost levels remain elevated, we anticipate power costs to remain broadly flat year on year[31] compared to 2022/23 total power costs of c.£103 million (wholesale costs £67 million, non-commodity costs £36 million). We have recognised the pressure sustained high levels of inflation place on our colleagues and pay increases of c.5-7% have been agreed across the Group with a greater allocation towards lower income bands. In other areas the sustained elevated levels of inflation continue to place upward pressure on our input costs. Despite these upward cost pressures we are targeting to maintain total operating costs in South West Water at 2022/23 levels, whilst growth in the retail business outside our region will increase wholesale water costs.

We have reduced the level of volatility on our interest costs by reducing our exposure to index-linked debt with £300 million of RPI swaps to smooth the impact of inflation over the remaining years of K7. Whilst the changes we have made in our financing remain efficient, the increased borrowing rates on variable debt and increased debt levels to support our capital investment profile are expected to result in an overall increase in net finance costs.

Overall, these impacts are expected to result in improvements in near-term earnings and, in the longer term, the elevated inflationary environment provides the Group with additional growth in

[31] Based on current market pricing and current hedged position of c.75% for 2023/24 (and c.30% for 2024/25).

long-term sustainable value, with revenues and RCV linked to November and March outturn inflation, respectively.

Technical Guidance – full year 2022/23

Pennon Group		**FY 2022/23**	**Change**
Revenue*	• Inflation reflected in 2023/24 tariffs in South West Water partially offset by in-year impact of regulatory adjustments and ODI penalties • Ongoing growth in our retail businesses	£825.0m	▲
Net debt	• Continued delivery of accelerated environmental capital investment across the Group • Accretion on index-linked debt	£2,965.4m	▲
Current tax	• 2022/23 effective credit rate reflects prior year credit as a result of additional super-deductions and lower non-deductible expenditure following the submission of the 2022 corporate tax computations • Higher capital allowances from the Group's continued capital investment programme together with full expensing means that the Group anticipates generating tax losses in the remaining years of K7 resulting in effective tax rate around 0%	16.1% (credit rate)	▲
Operating costs*	• Ongoing inflationary increases on input costs • Power costs expected to be flat year on year[31]. We anticipate consumption to remain elevated while we recover from the drought conditions. • Pay increases between c.5-7% agreed • Growth in retail businesses leading to higher wholesale supply charges external to our regions • Continued delivery of efficiencies	£517.2m	◆
Depreciation*	• Expanded capital programme driving increases in depreciation	£154.7m	▲
Net interest*	• RPI swaps over K7 to smooth the impact of inflation • Increased variable rates on floating rate debt – c.65% of debt fixed • Increased levels of debt to support capital investment profile	£136.6m	▲
Capex	• Capital expenditure reflects K7 existing profile of investment along with additional and accelerated environmental investment	£358.3m	▲
RORE (Underlying Ofwat measure)	• Expected year on year reduction in line with lower inflation expectations. • Continued doubling of Group cumulative base returns	10.5%	▼
RCV[32]	• Increase in line with K7 business plan levels of investment in addition to additional and accelerated investment, regulatory true-ups and inflationary impact	£4.7bn	▲

*All measures on an underlying basis

[32] Based on South West Water (South West Water Limited group of companies including Bristol Water plc) net debt and shadow RCV

Board Matters

On 1 December 2022 the Group welcomed Dorothy Burwell and Loraine Woodhouse to the Boards of Pennon Group plc and South West Water Limited.

Dorothy currently sits on the Group's ESG, Nomination, Remuneration and Health and Safety Board Committees and Loraine sits on the Audit, Nomination and Remuneration Committees.

In light of these appointments, the Group has reviewed its Committee membership. Neil Cooper, Senior Independent Director and Audit Committee Chair will be stepping down later this year after serving nine years on the Board. Loraine will be replacing Neil as Audit Committee Chair and a process has commenced to appoint a new Senior Independent Director.

Andrew Garard was also appointed Group General Counsel and Company Secretary following the retirement of Simon Pugsley.

Susan Davy

Group Chief Executive

31 May 2023

Financial Timetable

01 June 2023	Full Year Results 2022/23
June 2023	Annual Report and Accounts published
20 July 2023	Annual General Meeting
20 July 2023*	Ordinary shares quoted ex-dividend
21 July 2023*	Record date for final dividend
10 August 2023*	Final date for receipt of DRIP applications
04 September 2023*	Final dividend payment date
02 October 2023	Submission of PR24 Business Plans
05 October 2023	Trading Statement
05 October 2023	PR24 Spotlight presentation
29 November 2023	Half Year Results 2023/24
25 January 2024	Ordinary shares quoted ex-dividend
26 January 2024	Record date for interim dividend
08 March 2024	Final date for receipt of DRIP applications
28 March 2024	Trading Statement
05 April 2024	Interim dividend payment date
21 May 2024	Full Year Results 2023/24

* Subject to obtaining shareholder approval at the 2023 Annual General Meeting.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks

During the year the Board have carried out a detailed review of the of the current and emerging risks in the context of the Group's strategic objectives and priorities, the Group's risk appetite and the external environment within which it operates. This includes the impact of changes to the external macro-economic, legal and regulatory environment within which the Group operates. This has resulted in changes to the Group's principal risks compared with those reported within the Pennon 2022 Annual Report. The Group's principal risks are:

Law, Regulation and Finance

1. Changes in Government Policy
2. Regulatory reform
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 avoidable health and safety incidents
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 deliver the Group's 2030 Net Zero Commitment to respond to the impact of climate change
9. Availability of sufficient water resources to meet current and future demand
10. Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water
11. Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions
12. Non-delivery of customer and environmental commitments
13. Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities

Business Systems and Capital Investment

14. Insufficient capacity and resilience of the supply chain to deliver the Group's operational and capital programmes
15. Inadequate technological security 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 Pennon Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group 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 the Group's belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Group'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 the Group and the estimates and historical results given herein. Important risks, uncertainties and other factors that could cause actual results, performance or achievements of Pennon Group 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 the Group 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 Pennon Group Annual Report to be published in June 2023. 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. The Group 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.

UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

A number of companies, including Pennon Group plc, continue to be aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters which imply a connection to the company concerned. If shareholders have any concerns about any contact they have received, then please refer to the Financial Conduct Authority's website www.fca.org.uk/scamsmart. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

PENNON GROUP PLC

Consolidated income statement for the year ended 31 March 2023

	Notes	**Before non-underlying items 2023 £m**	**Non-underlying items (note 4) 2023 £m**	**Total 2023 £m**	Before non-underlying items 2022 £m	Non-underlying items (note 4) 2022 £m	Total 2022 £m
Revenue	3	**825.0**	**(27.8)**	**797.2**	792.3	-	792.3
Operating costs							
Employment costs		**(102.2)**	**-**	**(102.2)**	(90.4)	(1.7)	(92.1)
Raw materials and consumables used		**(33.6)**	**-**	**(33.6)**	(22.9)	-	(22.9)
Other operating expenses		**(373.6)**	**(15.9)**	**(389.5)**	(289.5)	(14.1)	(303.6)
Trade receivables impairment		**(7.8)**	**-**	**(7.8)**	(5.6)	-	(5.6)
Earnings before interest, tax, depreciation and amortisation	3	**307.8**	**(43.7)**	**264.1**	383.9	(15.8)	368.1
Depreciation and amortisation		**(154.7)**	**-**	**(154.7)**	(146.7)	-	(146.7)
Operating profit/(loss)	3	**153.1**	**(43.7)**	**109.4**	237.2	(15.8)	221.4
Finance income	5	**9.2**	**18.4**	**27.6**	2.6	-	2.6
Finance costs	5	**(145.8)**	**.**	**(145.8)**	(96.3)	-	(96.3)
Net finance costs	5	**(136.6)**	**18.4**	**(118.2)**	(93.7)	-	(93.7)
Share of post-tax profit from associated companies		**0.3**	**-**	**0.3**	-	-	-
Profit/(loss) before tax	3	**16.8**	**(25.3)**	**(8.5)**	143.5	(15.8)	127.7
Taxation credit/(charge)	6	**3.6**	**5.3**	**8.9**	(13.9)	(98.2)	(112.1)
Profit/(loss) for the year		**20.4**	**(20.0)**	**0.4**	129.6	(114.0)	15.6
Attributable to:							
Ordinary shareholders of the parent				**0.1**			15.4
Non-controlling interests				**0.3**			0.2
Earnings per ordinary share	7						
(pence per share)							
- Basic				**-**			4.9
- Diluted				**-**			4.9

The above results were derived from continuing operations.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the year ended 31 March 2023

	Before non-underlying items 2023 £m	**Non-underlying items (note 4) 2023 £m**	**Total 2023 £m**	Before non-underlying items 2022 £m	Non-underlying items (note 4) 2022 £m	Total 2022 £m
Profit/(loss) for the year	**20.4**	**(20.0)**	**0.4**	129.6	(114.0)	15.6
Other comprehensive income / (loss)						
Items that will not be reclassified to profit or loss						
Remeasurement of defined benefit obligations	**(39.0)**	**-**	**(39.0)**	24.9	-	24.9
Income tax on items that will not be reclassified	**9.8**	**-**	**9.8**	2.4	-	2.4
Total items that will not be reclassified to profit or loss	**(29.2)**	**-**	**(29.2)**	27.3	-	27.3
Items that may be reclassified subsequently to profit or loss						
Cash flow hedges	**29.1**	**-**	**29.1**	40.6	-	40.6
Income tax on items that may be reclassified	**(7.3)**	**-**	**(7.3)**	(6.5)	-	(6.5)
Total items that may be reclassified subsequently to profit or loss	**21.8**	**-**	**21.8**	34.1	-	34.1
Other comprehensive (loss) / income for the year net of tax	**(7.4)**	**-**	**(7.4)**	61.4	-	61.4
Total comprehensive income/(loss) for the year	**13.0**	**(20.0)**	**(7.0)**	191.0	(114.0)	77.0
Total comprehensive income/(loss) attributable to:						
Ordinary shareholders of the parent			**(7.3)**			76.8
Non-controlling interests			**0.3**			0.2

PENNON GROUP PLC

Consolidated balance sheet at 31 March 2023

	Notes	2023 £m	2022* £m
ASSETS			
Non-current assets			
Goodwill		**163.9**	163.9
Other intangible assets		**14.9**	13.9
Property, plant and equipment		**4,476.9**	4,264.0
Other non-current assets		**23.2**	9.6
Financial assets at fair value through profit		**1.3**	-
Derivative financial instruments		**33.2**	14.8
Investments in associated companies		**0.3**	-
Retirement benefit obligations		**29.3**	66.3
		4,743.0	4,532.5
Current assets			
Inventories		**10.0**	7.7
Trade and other receivables		**238.0**	270.9
Current tax receivable		**8.4**	1.5
Derivative financial instruments		**20.7**	5.6
Cash and cash deposits	11	**165.4**	519.0
		442.5	804.7
LIABILITIES			
Current liabilities			
Borrowings	11	**(124.7)**	(240.2)
Financial liabilities at fair value through profit		**(2.6)**	(2.5)
Derivative financial instruments		**(2.4)**	-
Trade and other payables		**(225.4)**	(171.5)
Provisions		**(0.4)**	(1.0)
		(355.5)	(415.2)
Net current assets		**87.0**	389.5
Non-current liabilities			
Borrowings	11	**(3,006.1)**	(2,961.7)
Other non-current liabilities		**(155.3)**	(137.2)
Financial liabilities at fair value through profit		**(34.0)**	(36.1)
Derivative financial instruments		**(2.4)**	-
Deferred tax liabilities		**(507.0)**	(512.4)
		(3,704.8)	(3,647.4)
Net assets		**1,125.2**	1,274.6
Shareholders' equity			
Share capital	9	**159.5**	161.7
Share premium account		**237.6**	235.5
Capital redemption reserve		**157.1**	154.7
Retained earnings and other reserves		**570.6**	722.6
Total shareholders' equity		**1,124.8**	1,274.5
Non-controlling interests		**0.4**	0.1
Total equity		**1,125.2**	1,274.6

*An adjustment to the preliminary accounting for the Bristol Water acquisition has been made within the measurement period ending 2 June 2022, this adjustment is presented retrospectively and the 31 March 2022 balance sheet figures have been adjusted accordingly.

PENNON GROUP PLC

Consolidated statement of changes in equity for the year ended 31 March 2023

	Share capital (note 9) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Non-controlling interests £m	Total equity £m
At 1 April 2021	171.8	232.1	144.2	2,436.8	(0.1)	2,984.8
Profit for the year	-	-	-	15.4	0.2	15.6
Other comprehensive profit for the year	-	-	-	61.4	-	61.4
Total comprehensive income for the year	-	-	-	76.8	0.2	77.0
Transactions with equity shareholders:						
Dividends paid	-	-	-	(1,590.3)	-	(1,590.3)
Shares purchased for cancellation (including related expenses)	-	-	-	(201.7)	-	(201.7)
Shares cancelled (note 9)	(10.5)	-	10.5	-	-	-
Adjustments in respect of share-based payments (net of tax)	-	-	-	2.2	-	2.2
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(1.2)	-	(1.2)
Proceeds from shares issued under the Sharesave Scheme	0.4	3.4	-	-	-	3.8
Total transactions with equity shareholders	(10.1)	3.4	10.5	(1,791.0)	-	(1,787.2)
At 31 March 2022	161.7	235.5	154.7	722.6	0.1	1,274.6
Profit for the year	-	-	-	0.1	0.3	0.4
Other comprehensive loss for the year	-	-	-	(7.4)	-	(7.4)
Total comprehensive (loss) / income for the year	-	-	-	(7.3)	0.3	(7.0)
Transactions with equity shareholders:						
Dividends paid	-	-	-	(101.6)	-	(101.6)
Shares purchased for cancellation (including related expenses)	-	-	-	(40.0)	-	(40.0)
Shares cancelled (note 9)	(2.4)	-	2.4	-	-	
Adjustments in respect of share-based payments (net of tax)	-	-	-	1.9	-	1.9
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(5.0)	-	(5.0)
Proceeds from shares issued under the Sharesave Scheme	0.2	2.1	-	-	-	2.3
Total transactions with equity shareholders	(2.2)	2.1	2.4	(144.7)	-	(142.4)
At 31 March 2023	**159.5**	**237.6**	**157.1**	**570.6**	**0.4**	**1,125.2**

PENNON GROUP PLC

Consolidated statement of cash flows for the year ended 31 March 2023

	Notes	**2023 £m**	2022 £m
Cash flows from operating activities			
Cash generated from operations	10	**313.7**	**334.2**
Interest paid	10	**(159.7)**	**(74.6)**
Tax paid		**(1.4)**	**(7.3)**
Net cash generated from operating activities		**152.6**	**252.3**
Cash flows from investing activities			
Interest received		**4.9**	**2.6**
Movement of restricted deposits		**146.1**	**89.1**
Purchase of property, plant and equipment		**(326.6)**	**(225.6)**
Acquisition of subsidiaries, net of cash acquired		**-**	**(421.2)**
Proceeds on disposal of subsidiaries, net of cash disposed and transaction costs		**-**	**9.2**
Purchase of intangible assets		**(4.6)**	**(3.4)**
Proceeds from sale of property, plant and equipment		**0.7**	**1.4**
Net cash used in investing activities		**(179.5)**	**(547.9)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**2.3**	**3.8**
Purchase of ordinary shares by the Pennon Employee Share Trust		**(5.0)**	**(1.2)**
Proceeds from new borrowing		**233.0**	**61.0**
Repayment of borrowings		**(210.3)**	**(49.4)**
Cash inflows from lease financing arrangements	10	**40.2**	**15.0**
Lease principal repayments (including net recoverable VAT paid/recovered)		**(99.2)**	**(258.9)**
Dividends paid	8	**(101.6)**	**(1,590.3)**
Repurchase of own shares and associated fees		**(40.0)**	**(201.7)**
Net cash used in financing activities		**(180.6)**	**(2,021.7)**
Net (decrease) / increase in cash and cash equivalents		**207.5**	**(2,317.3)**
Cash and cash equivalents at beginning of year	11	351.2	2,668.5
Cash and cash equivalents at end of year	11	143.7	351.2

Notes

1. General information

Pennon Group plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 57. Pennon Group's business is operated through two principal subsidiaries. South West Water Limited, providing water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire, Wiltshire and Bristol. Following the statutory licence transfer from Bristol Water plc to South West Water Limited on 1 February 2023 the regulated water business of Bristol Water plc transferred to South West Water Limited. Pennon Group is the majority shareholder of Pennon Water Services Limited, a company providing water and wastewater retail services to non-household customer accounts across Great Britain. Bristol Water Holdings UK Limited owns a 30% share in Water 2 Business Limited, a joint venture with Wessex Water, operating in the same sector as Pennon Water Services Limited.

The financial information for the years ended 31 March 2023 and 31 March 2022 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The Annual Report and Accounts for the year ended 31 March 2023, including the financial statements from which this financial information is derived, will be delivered to the Registrar of Companies after the AGM on 20 July 2023. The independent auditor's report on the 2023 financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The full financial statements for the year ended 31 March 2022 were approved by the Board of Directors on 30 May 2022 and have been delivered to the Registrar of Companies. The independent auditor's report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006. This final results announcement and the results for the year ended 31 March 2023 were approved by the Board of Directors on 31 May 2023.

2. Basis of preparation

The financial information in this announcement has been prepared on the historical cost accounting basis (except for fair value items, principally acquisitions, transfer of assets from customers and certain financial instruments as described in the 2023 Annual Report and Accounts) and in accordance with UK-adopted international accounting standards. The accounting policies adopted are consistent with those followed in the preparation of the Group's 2023 Annual Report and Accounts which have not changed significantly from those adopted in the Group's 2022 Annual Report and Accounts (which are available on the Company website www.pennon-group.co.uk).

The going concern basis has been adopted in preparing these financial statements. At 31 March 2023 the Group has access to undrawn committed funds and cash and cash deposits totalling £420 million, including cash and other short-term deposits of £165 million and £255 million of undrawn facilities. Cash and other short-term deposits include £22 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Group's going concern status, to do this the Group's business plan has been stress-tested. Whilst the Group's risk management processes seek to mitigate the impact of principal risks, 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 Group's annual budget for FY 2023/24 and longer-term strategic business plan for the remainder of the going concern period to 30 June 2024. The forecast includes our new syndicated £300 million private placement. During the year we also agreed updated covenant terms on the majority of our facilities and the Directors are confident that the covenant update process for the remaining small number of lenders will be concluded satisfactorily in the very near term. For facilities where changes to covenant terms are not finalised at the date of approval of the financial statements, we have modelled the impact on the Group's solvency, using existing terms, under a stress-tested scenario, and concluded this does not compromise the going concern of the Group over the assessment period. The risks and sensitivities include consideration of; legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic 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 Group collectively. The combined weighted impact of the risks occurring is c.£120m, this value is considered equivalent to an extreme one-off event that could occur within a year, the probability of such an event happening is deemed unlikely.

Notes (continued)

2. Basis of preparation (continued)

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 Group 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 Group was able to continue as a going concern, 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.

In addition, we have modelled a reverse engineered scenario that could possibly compromise the Group's solvency over the going concern assessment period. This scenario builds on the factors above and additionally assumes all the Group's principal risks are incurred within the going concern period, with no probability weightings attached. The Board considered the likelihood of this scenario on the Group's solvency over the going concern period, as remote, given this would require all of the principal risks to be incurred at maximum impact within the same time frame, without implementing controllable mitigations, as noted above, or raising additional funding.

Having considered the Group's funding position and financial projections, which take into account a range of possible impacts, as described in this report, the Directors have a reasonable expectation that that the Group 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 30 June 2024, 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.

Notes (continued)

3. Segmental information

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker (CODM), which has been identified as the Pennon Group plc Board. The earnings measures below are used by the Board in making decisions.

The Group is organised into two operating segments. The water segment comprises the regulated water and wastewater services undertaken by South West Water. The Non-household retail business reflects the services provided by Pennon Water Services.

	2023	2022
Revenue	**£m**	£m
Water	**701.3**	687.8
Non-household retail	**218.0**	195.3
Other	**8.6**	8.5
Less intra-segment trading[(1)]	**(102.9)**	(99.3)
Total underlying revenue	**825.0**	792.3
Water non-underlying revenue (note 4)	**(27.8)**	-
	797.2	792.3
Operating profit/(loss) before depreciation, amortisation and non-underlying items (underlying EBITDA)		
Water	**308.4**	385.0
Non-household retail	**4.3**	3.4
Other	**(4.9)**	(4.5)
	307.8	383.9
Operating profit/(loss) before non-underlying items		
Water	**159.4**	244.0
Non-household retail	**3.6**	2.6
Other	**(9.9)**	(9.4)
	153.1	237.2
Profit/(loss) before tax before non-underlying items		
Water	**14.1**	146.0
Non-household retail	**1.8**	1.0
Other	**0.9**	(3.5)
	16.8	143.5
(Loss)/Profit before tax		
Water	**(29.6)**	144.0
Non-household retail	**1.8**	1.0
Other	**19.3**	(17.3)
	(8.5)	127.7

(1) Intra-segment trading between different segments is under normal market based commercial terms and conditions. Intra-segment revenue of the other segment is at cost.

Notes (continued)

3. Segmental information (continued)

All revenue is generated in the United Kingdom. The grouping of revenue streams by how they are affected by economic factors, as required by IFRS 15, is as follows:

Year ended 31 March 2023	**Water**	**Non-household retail**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
Segment revenue - underlying	**701.3**	**218.0**	**8.6**	**927.9**
Segment revenue - non-underlying (note 4)	(27.8)	-	-	**(27.8)**
Inter-segment revenue	(94.7)	-	(8.2)	**(102.9)**
Revenue from external customers	578.8	218.0	0.4	**797.2**
Significant service lines				
Water	578.8	-	-	578.8
Non-household retail	-	218.0	-	218.0
Other	-	-	0.4	0.4
	578.8	218.0	0.4	797.2

Year ended 31 March 2022	Water	Non-household retail	Other	Total
	£m	£m	£m	£m
Segment revenue - underlying	687.8	195.3	8.5	891.6
Inter-segment revenue	(90.9)	(0.2)	(8.2)	(99.3)
Revenue from external customers	596.9	195.1	0.3	792.3
Significant service lines				
Water	596.9	-	-	596.9
Non-household retail	-	195.1	-	195.1
Other	-	-	0.3	0.3
	596.9	195.1	0.3	792.3

The Group’s country of domicile is the United Kingdom and this is the country in which it generates the majority of its revenue.

Notes (continued)

4. Non-underlying items

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance in the year and business trends over time. The presentation of results is consistent with internal performance monitoring.

	2023 £m	2022 £m
Revenue		
WaterShare+(1)	**(20.2)**	-
Drought incentive(2)	**(7.6)**	-
Operating Costs		
Drought costs(2)	**(9.4)**	-
WaterShare+(1)	**(2.2)**	-
Integration and CMA merger review costs(3)	**(4.3)**	(6.9)
Bristol Water acquisition costs(3)	**-**	(8.9)
Earnings before interest, tax, depreciation and amortisation	**(43.7)**	(15.8)
Bond redemption(4)	**18.4**	-
Net tax credit arising on non-underlying items above(5)	**4.7**	1.3
Deferred tax change in rate(6)	**0.6**	(99.5)
Net non-underlying charge	**(20.0)**	(114.0)

(1) In September 2020, the Group offered its WaterShare+ scheme to its customers whereby customers could choose to accept a credit on their bill or take shares in Pennon Group plc. The scheme has operated again in the year ended 31 March 2023. The value of the rebate equated to £13 per customer and the total value of £20.2 million was recognised in full as a non-underlying reduction to revenue in the year ended 31 March 2023. £19.9 million of the WaterShare+ credits were taken as credits on customers' bills, with the balance of £0.3 million being taken as shares in Pennon Group Plc. This item was non-underlying in nature given its individual size and its non-recurring nature. Additional costs of £2.2 million were incurred in relation to the offering.

(2) 2022 was one of the driest and hottest years on record. Elevated demand on the South West Water region from increased tourism and the hot, dry weather led to an approximate 15% increase in distribution input in the year against the expected level from 2017 included in the drought plan. The combination of these individually extreme factors led to extremely low water storage levels in the Colliford Water Resource Zone, with the main supply of Colliford reservoir falling to around 14% capacity in October. A drought was declared by the Environment Agency in Devon and Cornwall in August 2022. In order to react to the drought and water shortage, South West Water invoked a series of emergency measures and one-off expenditure to ensure the region could be supplied with water over the summer and continuing into 2023. Due to the exceptional combination of these events and the significance of the emergency actions, certain costs have been classified as non-underlying given their size, nature and non-recurring incidence. The costs directly addressing these exceptional circumstances include charges for drought permits, water tankering and other water saving measures. In November 2022, South West Water asked households in Cornwall to reduce water usage as part of the "Stop The Drop" campaign to increase reservoir levels. Household customers were offered a £30 bill credit if Colliford reservoir reached 30% storage capacity by 31 December 2022 from a low of around 14%. In December 2022 the company announced the water level in Colliford reservoir reached 30% and as a result all household customers in Cornwall received a £30 credit on their bill. This one-off incentive was provided as part of the response to the drought conditions in the Cornwall area in order to further prompt customers to reduce water usage. The total value of the bill credits amounted to £7.6 million.

Notes (continued)

4. Non-underlying items (continued)

(3) The Group incurred expenses of £4.3 million in the year ended 31 March 2023. These costs are largely legal fees associated with statutory transfer related activities. These costs are classified as non-underlying due to their non-recurring nature. In the year ended 31 March 2022, the Group incurred expenses of £8.9 million in relation to the acquisition of Bristol Water and £6.9 million on the resulting merger review by the Competition and Markets Authority and other integration costs.

(4) On 17 October 2022 Bristol Water plc gave notice of redemption of the £40 million bonds due to be repaid in March 2041. The bonds were redeemed as part of the statutory transfer of the business of Bristol Water to South West Water. The Group carrying value of the bonds at 30 September 2022 was £91.3 million. The bonds were redeemed on 17 November 2022 for £72.3 million, and the difference arising on early settlement was credited to finance costs in the year. Associated legal costs of c£1 million have been incurred in relation to the bond redemption. The redemption of the bonds is non-recurring and of a material value, hence the credit has been treated as non-underlying.

(5) The net tax credit arising on non-underlying items reflects a £2.8 million current tax credit in respect of losses which will be carried back against prior year taxable profits. A deferred tax credit of £1.9 million relates to tax losses carried forwards, and the deferred tax unwind of the fair value adjustment in relation to the Bristol Water bond terminated in the year. The prior year credit of £1.3 million related to a current tax credit on Group strategic review costs.

(6) Following the Chancellor's Budget on 4 March 2021 and subsequent substantial enactment of the Finance Act on 24 May 2021, the UK's main rate of corporation tax increased to 25% from 1 April 2023. All deferred tax assets and liabilities were therefore reviewed and where they will crystallise after 1 April 2023 recalculated to crystallise at 25%, hence giving a non-underlying deferred tax charge in the year ended 31 March 2022 of £99.5 million. This charge is considered non-underlying due to it arising from a material legislative change and its treatment is consistent with that applied in relation to previous changes in corporation tax rates. A £0.6 million deferred tax credit in respect of rate change arises on losses carried forwards which will be relieved at 25%.

Notes (continued)

5. Net finance costs

	2023 Finance costs £m	2023 Finance income £m	2023 Total £m	2022 Finance costs £m	2022 Finance income £m	2022 Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(111.3)**	**-**	**(111.3)**	(73.9)	-	(73.9)
Interest element of lease payments	**(30.8)**	**-**	**(30.8)**	(20.3)	-	(20.3)
Other finance costs	**(3.7)**	**-**	**(3.7)**	(2.1)	-	(2.1)
Interest receivable	**-**	**4.9**	**4.9**	-	2.0	2.0
Net gains on derivative financial instruments	**-**	**2.3**	**2.3**	-	-	-
	(145.8)	**7.2**	**(138.6)**	(96.3)	2.0	(94.3)
Notional interest						
Retirement benefit obligations	**-**	**2.0**	**2.0**	-	0.6	0.6
Net finance costs (underlying)	**(145.8)**	**9.2**	**(136.6)**	(96.3)	2.6	(93.7)
Finance Income (non-underlying)	**-**	**18.4**	**18.4**	-	-	-
Net finance costs (including non-underlying)	**(145.8)**	**27.6**	**(118.2)**	(96.3)	2.6	(93.7)

In addition to the above, finance costs of £5.0 million (2022 £1.3 million) have been capitalised on qualifying assets included in property, plant and equipment, at an average borrowing rate of 5.7% (2022 4.1%).

Other finance costs include £1.1 million (2022 £0.9 million) of dividends payable on listed preference shares issued by Bristol Water, which are classified as debt.

6. Taxation

	Before non-underlying items 2023 £m	Non-underlying items (note 4) 2023 £m	Total 2023 £m	Before non-underlying items 2022 £m	Non-underlying items (note 4) 2022 £m	Total 2022 £m
Analysis of charge						
Current tax (credit) / charge)	**(2.7)**	**(2.8)**	**(5.5)**	5.0	(1.3)	3.7
Deferred tax - other	**(0.6)**	**(1.9)**	**(2.5)**	8.9	-	8.9
Deferred tax arising on change of rate of corporation tax	**(0.3)**	**(0.6)**	**(0.9)**	-	99.5	99.5
Total deferred tax charge / (credit)	**(0.9)**	**(2.5)**	**(3.4)**	8.9	99.5	108.4
Tax (credit) / charge for the year	**(3.6)**	**(5.3)**	**(8.9)**	13.9	98.2	112.1

UK corporation tax is calculated at 19% (2022 19%) of the estimated assessable profit for the year.

UK corporation tax for the Group is stated after a credit relating to prior year current tax of £2.7 million (2022 £1.7 million credit) and a prior year deferred tax charge of £1.0 million (2022 £10.2 million credit). These items arise following the recording of the routine return to provision adjustments following the submission of tax computations for the year ended 31 March 2022 to HMRC ahead of the 31 March 2023 filing deadline.

Notes (continued)

7. Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares. The Group has two types of dilutive potential ordinary shares – those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; and the contingently issuable shares under the Group's performance and Co-investment Plan, the long-term incentive plan and the deferred shares element of the Annual Incentive Bonus Plan, based on performance criteria for the vesting of the awards.

The weighted average number of shares and earnings used in the calculations were:

Number of shares (millions)	**2023**	2022
For basic earnings per share	**261.9**	312.1
Effect of dilutive potential ordinary shares from share options	**0.9**	1.7
For diluted earnings per share	**262.8**	313.8

Basic and diluted earnings per ordinary share

Earnings per ordinary share before non-underlying items and deferred tax are presented as the Directors believe this measure provides a more useful year on year comparison of business trends and performance. Deferred tax is excluded as the Directors believe it reflects a distortive effect of changes in corporation tax rates and the level of long-term capital investment. Earnings per share have been calculated as follows:

	2023			2022		
	(Loss)/ profit after tax £m	**Earnings per share Basic p**	**Earnings per share Diluted p**	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p
Statutory earnings attributable to ordinary shareholders of the parent	**0.1**	**-**	**-**	15.4	4.9	4.9
Deferred tax (credit)/charge before non-underlying items	**(0.9)**	**(0.3)**	**(0.3)**	8.9	2.9	2.8
Non-underlying items (net of tax)	**20.0**	**7.6**	**7.6**	114.0	36.5	36.4
Adjusted earnings	**19.2**	**7.3**	**7.3**	138.3	44.3	44.1

PENNON GROUP PLC

Notes (continued)

8. Dividends

	2023 £m	2022 £m
Amounts recognised as distributions to ordinary equity holders in the year:		
Interim dividend paid for the year ended 31 March 2022: 11.70p (2021 6.77p) per share	**31.6**	28.6
Final dividend paid for the year ended 31 March 2022: 26.83p (2021 14.97p) per share	**70.0**	63.2
Special dividend paid for the year ended 31 March 2022: nil (2021 355.0p) per share	**-**	1,498.5
	101.6	1,590.3

Proposed dividends

	2023 £m	2022 £m
Interim dividend paid for the year ended 31 March 2023: 12.96p (2022 11.70p) per share	**33.9**	32.4
Final dividend paid for the year ended 31 March 2023: 29.77p (2022 26.83p) per share	**77.8**	69.6
	111.7	102.0

The proposed interim and final dividends have not been included as liabilities in these financial statements.

The proposed interim dividend for 2023 was paid on 5 April 2023 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting.

9. Share capital

Allotted, called-up and fully paid

	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2021 ordinary shares of 40.7p each	8,443	422,120,181	171.8
Share consolidation	(2,815)	(140,708,916)	-
For consideration of £3.8 million, shares issued under the Company's Sharesave Scheme	-	582,427	0.4
Shares cancelled	-	(17,146,744)	(10.5)
At 31 March 2022 ordinary shares of 61.05p each	5,628	264,846,948	161.7
For consideration of £2.3 million, shares issued under the Company's Sharesave Scheme	-	379,044	0.2
Shares cancelled	-	(3,910,503)	(2.4)
At 31 March 2023 ordinary shares of 61.05p each	**5,628**	**261,315,489**	**159.5**

Notes (continued)

9. Share capital (continued)

Shares held as treasury shares may be sold, re-issued for any of the Company's share schemes, or cancelled.

On 16 July 2021, the Group paid a special dividend of £1.5 billion to shareholders in relation to the return of capital to shareholders announced on 3 June 2021. In order to maintain the comparability of the Company's share price before and after the special dividend, a share consolidation was approved at the General Meeting held on 28 June 2021. Shareholders received 2 New Ordinary shares of 61.05 pence each for every 3 Existing Ordinary shares of 40.7 pence each.

During the prior year, the Group announced and began a process to purchase ordinary shares at an aggregate cost of £400 million by September 2022. During the prior year, the Group purchased £199.6 million of ordinary shares from the market at an average ordinary share price of 1,164 pence. The shares acquired under the tender offer were immediately cancelled, creating a capital redemption reserve of £10.5 million. The maximum number of shares that can be repurchased in connection with the Programme is 42,183,689 (being the maximum authority granted by Pennon's shareholders at Pennon's AGM on 22 July 2021).

During the year ended 31 March 2023, the group purchased £39.9 million of ordinary shares from the market at an average ordinary share price of 1,022 pence. The total aggregate cost of the Buy-back programme, which has terminated, was £239.5 million. The shares acquired under the tender offer were immediately cancelled, creating a capital redemption reserve of £2.4 million.

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Notes (continued)

10. Analysis of the cash flows given in the statement of cash flows

Reconciliation of profit for the year to cash generated from operations:

	2023 £m	2022 £m
Cash generated from operations		
Profit for the year	**0.4**	15.6
Adjustments for:		
Share-based payments	**2.4**	2.2
Profit on disposal of property, plant and equipment	**(0.4)**	(1.0)
Depreciation charge	**151.1**	143.3
Amortisation of intangible assets	**3.6**	3.4
non-underlying net interest	**(18.4)**	-
non-underlying Bristol Water acquisition costs	**-**	8.9
non-underlying CMA merger review and integration costs	**-**	6.9
Share of post-tax profit from associated companies	**(0.3)**	-
Finance income (before non-underlying items)	**(9.2)**	(2.6)
Finance costs (before non-underlying items)	**145.8**	96.3
Taxation (credit) / charge	**(8.9)**	112.1
Changes in working capital:		
Increase in inventories	**(2.3)**	(0.6)
Decrease / (increase) in trade and other receivables	**15.9**	(14.3)
Increase / (decrease) in trade and other payables	**34.6**	(12.2)
Decrease in retirement benefit obligations from contributions	**-**	(24.2)
(Decrease) / increase in provisions	**(0.6)**	0.4
Cash generated from operations	**313.7**	334.2

Reconciliation of total interest paid	2023 £m	2022 £m
Interest paid in operating activities	**159.7**	74.6
Interest paid in investing activities	**5.0**	1.3
Total interest paid	**164.7**	75.9

During the year, the Group completed a number of sale and leaseback transactions in respect of its infrastructure assets as part of its ongoing finance arrangements. Cash proceeds of £40.2 million (2022 £15.0 million) were received and a gain of £nil (2022 £nil) was recognised. These assets are being leased back at market rentals over varying lease terms from 7.5 to 9.5 years.

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Notes (continued)

11. Net borrowings

	2023	2022
	£m	£m
Cash and cash deposits	**165.4**	519.0
Borrowings – current		
Bank and other current borrowings	**(92.7)**	(70.0)
Lease obligations	**(32.0)**	(170.2)
Total current borrowings	**(124.7)**	(240.2)
Borrowings – non-current		
Bank and other non-current borrowings	**(1,960.9)**	(1,907.4)
Listed preference shares	**(12.5)**	(12.5)
Lease obligations	**(1,032.7)**	(1,041.8)
Total non-current borrowings	**(3,006.1)**	(2,961.7)
Total net borrowings	**(2,965.4)**	(2,682.9)

For the purposes of the cash flow statement cash and cash equivalents comprise:

	2023	2022
	£m	£m
Cash and cash deposits as above	**165.4**	519.0
Less: deposits with a maturity of three months or more (restricted funds)	**(21.7)**	(167.8)
	143.7	351.2

12. Contingent liabilities

	2023 £m	2022 £m
Guarantees: Performance bonds	**9.7**	9.7

Guarantees in respect of performance bonds relate to changes to the collateral requirements for the non-household retail business with other wholesalers.

Other contractual and litigation uncertainties

Ofwat and the Environment Agency announced an industry-wide investigation into sewage treatment works on 18 November 2021. On 27 June 2022, as part of its ongoing investigation, Ofwat announced enforcement actions against South West Water Limited, the company is now included alongside the five companies which received enforcement notices in March 2022. The company continues to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The potential outcome of these investigations remains unknown.

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 rigorous assurance processes which include independent checks and balances carried out by an external technical auditor. The company will work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation. The potential outcome of this investigation is currently unknown

The Group 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.

13. Acquisition of Bristol Water Group

On 2 June 2021, the Company acquired 100% of the issued share capital and voting rights of Bristol Water Holdings UK Limited, the holding company of the Bristol Water Group. Bristol Water Group comprises Bristol Water plc, a regulated water only company and a 30% share in Water 2 Business Limited, a joint venture with Wessex Water. The purpose of the acquisition was to grow the Group's core water business by expanding into a geographically contiguous region. The acquisition of the Bristol Water Group was reviewed by the Competition and Markets Authority and given full clearance on 7 March 2022. The Bristol Water Group is consolidated in Pennon's accounts with effect from the completion of acquisition at midnight on 2 June 2021.

The net assets recognised in the 31 March 2022 financial statements were based on a provisional assessment of their fair value. The Group had not completed a full tax review by the date the 2022 financial statements were approved for issue by the Board of Directors. In early June 2022 the final review of tax balances was completed, this has led to an increase in the deferred tax liability with an offsetting increase in the total value of goodwill recognised on acquisition of £5.5 million, the amortisation of this deferred tax liability to 30 September 2022 is immaterial. Final fair values on acquisition are shown in the table below. Corresponding amounts for the financial year ended 31 March 2022 have also been restated.

The goodwill that arose on the acquisition can be attributed to synergies expected to be derived from the combination and the value of the workforce which cannot be recognised as a separately identifiable intangible asset. Goodwill has been allocated to the water segment. The goodwill arising is not expected to be tax deductible.

13. Acquisition of Bristol Water Group (continued)

The details of the business combination are as follows:

	£m
Fair value of consideration transferred	
Amount settled in cash	**419.6**
Recognised amounts of identifiable net assets	
Property, plant and equipment	**944.8**
Intangible assets	**12.8**
Other non-current assets	**9.9**
Inventories	**1.7**
Trade and other receivables	**22.3**
Cash and cash deposits (including restricted cash of £6.1 million)	**18.9**
Current tax liability	**(2.2)**
Borrowings	**(545.1)**
Trade and other payables	**(32.2)**
Provisions	**(0.3)**
Retirement benefit obligations	**7.8**
Deferred tax liabilities	**(140.4)**
Identifiable net assets	**298.0**
Goodwill on acquisition	**121.6**
Consideration for equity settled in cash	**419.6**
Payment to acquire loan to former parent	**5.5**
Cash and cash equivalents acquired (excluding restricted cash)	**(12.8)**
Net cash outflow on acquisition	**412.3**
Acquisition costs paid charged to expenses	**8.9**
Net cash paid relating to the acquisition	**421.2**

Acquisition related costs of £8.9 million are not included as part of the consideration transferred and have been recognised as an expense in the consolidated income statement within other operating expenses.

The fair value of trade and other receivables acquired as part of the business combination amounted to £22.3 million with a gross contractual amount of £38.9 million. At the acquisition date the Group's best estimate of the contractual cash flows expected not to be collected amounted to £16.6 million.

As part of the acquisition of Bristol Water, the Group acquired interests in two joint ventures, Bristol Wessex Billing Services Limited ("BWBSL") and Water 2 Business Limited ("Water 2 Business"). These two interests are accounted for using the equity method. Currently the carrying values of these investments equates to £0.3 million (2022 nil) representing the relevant share of the net assets of each of these interests.

The goodwill that arose on the acquisition can be attributed to synergies expected to be derived from the combination and the value of the workforce which cannot be recognised as an intangible asset. Goodwill has been allocated to the water segment. The goodwill arising is not expected to be tax deductible.

Notes (continued)

14. Events after the reporting period

In May 2023 the Group acquired a c.40 Gwh solar photovoltaic site in Dunfermline which is ready to build with consents in place, and is expected to commence generation in 2024, for total acquisition and build costs of c.£35 million. The site also has the capacity for a two-hour 60 MW battery that will support the UK Grid's move to renewables at a cost of c.£25 million.

On 23 April 2023, South West Water was issued with a fine of £2.15 million in relation to pollution offences occurring between 2016 and 2020, following a case brought by the Environment Agency. The liability for the fine and related costs are recorded on the balance sheet of the Group as at 31 March 2023.

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 rigorous assurance processes which include independent checks and balances carried out by an external technical auditor. The company will work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation. The potential outcome of this investigation is currently unknown.

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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. The following APMs have been added or amended to those presented previously to reflect the changing nature of the Group for the acquisition of Bristol Water in June 2021 and integration of Bristol Water plc into South West Water Limited's group of companies:

- The APM for 'effective interest rate' has been updated following changes to Group financial structures during the financial year. Following the acquisition of Bristol Water, Bristol Water plc has been integrated into South West Water Limited's group of companies. This metric has been amended, with the prior year reanalysed, to ensure a consistent, comparable metric is presented and is reflective of South West Water performance.
- An APM for the 'effective cash cost of interest' has been presented in addition to the 'effective interest rate' APM to provide an insight into South West Water's interest charges excluding finance costs that are not paid in the year but accrete to the carrying value of debt. This provides a useful insight into South West Water's cash cost of debt.
- The APM 'South West Water return on capital employed' has reverted to 'Group return on capital employed' (as presented in 2021/22 results) given the Group's current balance sheet structure. In the previous two years the APM was altered to 'South West Water return on capital employed' as this provided a more meaningful comparison of performance due to the Group holding a net cash position at 31 March 2021.
- The APM 'Continuing operations operational cash inflows and other movements' has been discontinued as management believe the statutory cash flows from operating activities appropriately reflects performance.
- The APM 'Regulatory Capital Value (RCV)' definition has been added alongside other regulatory APM definitions to provide additional information about the regulatory framework.

(i) Underlying earnings

Underlying earnings are presented alongside statutory results as the Directors believe they provide a more useful comparison on business trends and performance. Note 4 in the notes to the financial statements provides more detail on non-underlying items, and a reconciliation of underlying earnings for the current year and the prior year is as follows:

Underlying earnings reconciliation 31 March 2023		**Non-underlying items**						
	Underlying £m	**Integration costs £m**	**Water-Share+ £m**	**Drought incentive £m**	**Drought costs £m**	**Bond redemption £m**	**Statutory results £m**	**Earnings per share p**
EBITDA (see below)	**307.8**	**(4.3)**	**(22.4)**	**(7.6)**	**(9.4)**	**-**	**264.1**	
Operating profit	**153.1**	**(4.3)**	**(22.4)**	**(7.6)**	**(9.4)**	**-**	**109.4**	
Profit before tax	**16.8**	**(4.3)**	**(22.4)**	**(7.6)**	**(9.4)**	**18.4**	**(8.5)**	
Taxation	**3.6**	**1.1**	**5.5**	**1.5**	**1.8**	**(4.6)**	**8.9**	
Profit after tax							**0.4**	
Non-controlling interests							**(0.3)**	
Profit after tax attributable to shareholders							**0.1**	**-**

PENNON GROUP PLC

Alternative performance measures (continued)

(i) Underlying earnings (continued)

Underlying earnings reconciliation 31 March 2022	Underlying £m	Non-underlying items: Deferred tax change of rate £m	Non-underlying items: Acquisition and merger review related costs £m	Statutory results £m	Earnings per share p
EBITDA (see below)	383.9	-	(15.8)	368.1	
Operating profit	237.2	-	(15.8)	221.4	
Profit before tax	143.5	-	(15.8)	127.7	
Taxation	(13.9)	(99.5)	1.3	(112.1)	
Profit after tax				15.6	
Non-controlling interests				(0.2)	
Profit after tax attributable to shareholders				15.4	4.9

(ii) Underlying EBITDA

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

(iii) Basic adjusted earnings per share (adjusted for share consolidation)

	2023	2022
Basic weighted average number of shares		
Basic weighted average number of shares (millions) (note 7)	**261.9**	312.1
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (millions)	**-**	(36.6)
Adjusted basic weighted average number of shares (adjusted for share consolidation) (millions)	**261.9**	275.5
Basic adjusted earnings per share before non-underlying items and deferred tax (pence) (note 7)	**7.3**	44.3
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (pence)	**-**	5.9
Basic adjusted earnings per share before non-underlying items and deferred tax (adjusted for share consolidation) (pence)	**7.3**	50.2

Alternative performance measures (continued)

(iv) 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.

	2023 £m	2022[(1)] £m
Net finance costs before non-underlying items (note 5)	**136.6**	93.7
Remove: net finance income before non-underlying items not associated with South West Water Limited's group of companies	**8.7**	6.7
Net finance costs before non-underlying items associated with South West Water Limited's group of companies	**145.3**	100.4
Net interest on retirement benefit obligations associated with South West Water Limited's group of companies	**1.6**	0.2
Capitalised interest (note 5)	**5.0**	1.3
Net finance costs for effective interest rate calculation	**151.9**	101.9
Group net debt / (cash) (opening) (note 11)	**2,682.9**	(64.3)
Remove: opening net debt not associated with South West Water Limited's group of companies	**(43.8)**	2,658.5
Opening net debt for calculation	**2,639.1**	2,594.2
Group net debt (closing) (note 11)	**2,965.4**	2,682.9
Remove: closing net debt not associated with South West Water Limited's group of companies	**(100.1)**	(43.8)
Closing net debt for calculation	**2,865.3**	2,639.1
Average net debt (opening net debt + closing net debt divided by 2)	**2,752.2**	2,616.7
Effective interest rate (%)	**5.5**	3.9

(1) 2021/22 water business comparator of 3.7% re-analysed to provide comparative performance under post-integration South West Water Limited group of companies' structure.

(v) Effective cash cost of interest

Effective cash cost of interest for South West Water Limited's group of companies is based on 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).

	2023 £m	2022 £m
Net finance costs for effective interest rate calculation (as above)	**151.9**	101.9
Remove non-cash interest accrued (income statement indexation charge)	**(66.8)**	(35.7)
Net finance costs for effective cash cost of interest calculation	**85.1**	66.2
Opening net debt (as above)	**2,639.1**	2,594.2
Closing net debt (as above)	**2,865.3**	2,639.1
Average net debt (opening net debt + closing net debt divided by 2)	**2,752.2**	2,616.7
Effective cash cost of interest (%)	**3.1**	2.5

Alternative performance measures (continued)

(vi) Underlying interest cover

Underlying net finance costs (excluding pensions net interest cost) divided by operating profit before non-underlying items.

	2023	2022
	£m	£m
Net finance costs before non-underlying items (note 5)	136.6	93.7
Net interest on retirement benefit obligations (note 5)	2.0	0.6
Net finance costs for interest cover calculation	138.6	94.3
Operating profit before non-underlying items (see APM (i) above)	153.1	237.2
Interest cover (times)	1.1	2.5

(vii) EBITDA dividend cover

Underlying EBITDA for the Group divided by proposed combined interim and final dividends.

	2023	2022
	£m	£m
Underlying EBITDA (see APM (i) above)	307.8	383.9
Proposed dividends (note 8)	111.7	102.0
EBITDA dividend cover (times)	2.8	3.8

(viii) Group dividend cover

Proposed dividends divided by profit for the year before non-underlying items and deferred tax

	2023	2022
	£m	£m
Proposed dividends (note 8)	111.7	102.0
Profit for the year attributable to ordinary shareholders	0.1	15.4
Deferred tax charge before non-underlying items (note 6)	(0.9)	8.9
Non-underlying items after tax in profit for the year (note 4)	20.0	114.0
Adjusted profit for dividend cover calculations	19.2	138.3
Group dividend cover (times)	0.2	1.4

(ix) Capital investment

Property, plant and equipment and intangible asset additions. The measure is presented to assess and monitor the total capital investment by the Group.

	2023	2022
	£m	£m
Additions to property, plant and equipment	353.7	237.3
Additions to intangible assets	4.6	3.6
Capital investment	358.3	240.9

(x) Capital payments

Payments for property, plant and equipment (PPE) and intangible asset additions, net of proceeds from sale of PPE and intangible assets. The measure is presented to assess and monitor the net cash spend on PPE and intangible assets.

	2023	2022
	£m	£m
Cash flow statements: purchase of property, plant and equipment	326.6	225.6
Cash flow statements: purchase of intangible assets	4.6	3.4
Cash flow statements: proceeds from sale of property, plant and equipment	(0.7)	(1.4)
Capital payments relating to the Group	330.5	227.6

Alternative performance measures (continued)

(xi) Group return on capital employed

The total of underlying operating profit divided by capital employed (net debt plus total equity invested). An average value for this metric is part of the long-term incentive plan for Directors under the 2020 LTIP award.

	2023 £m	2022[(1)] £m
Capital employed (opening):		
Net debt (note 11)	**2,682.9**	2,198.6
Total equity invested	**551.9**	250.9
Opening capital employed for return on capital employed calculation	**3,234.8**	2,449.5
Capital employed (closing):		
Net debt (note 11)	**2,965.4**	2,233.8
Total equity invested	**554.2**	295.9
Closing capital employed for return on capital employed calculation	**3,519.6**	2,529.7
Underlying operating profit (see APM (i) above)	**153.1**	214.5
Capital employed for return on capital employed calculation (opening capital employed + closing capital employed divided by 2)	**3,377.2**	2,486.6
Return on capital employed (%)	**4.5**	8.6

(1) 2022 presentation reflects South West Water return on capital employed, re-analysed on an average capital employed basis

Alternative performance measures (continued)

(xii) 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.

(xiii) Totex

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

(xiv) 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.

(xv) 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.