THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

21 May 2024

Pennon Group plc

Full Year Results 2023/24

Pennon Group plc ('Pennon' or 'the Group') today announces its results for the full year ended 31 March 2024 (2023/24).

Susan Davy, Group Chief Executive Officer, commented:

"Whilst the results we are announcing today are based on our performance for the last financial year, we are 100% focused on returning a safe water supply to the people and businesses in and around Brixham. Normal service has returned for 85% of customers, but we won't stop until the local drinking water is returned to the quality all our customers expect and deserve. Our absolute priority continues to be the health and safety of our customers and our operational teams are working tirelessly around the clock to deliver this.

"We have delivered a robust performance for 2023/24 and retained good levels of liquidity. We have continued to make sure we are prepared for a sustainable future for all our stakeholders with a record level of investment, record support for customers and the creation of new jobs.

"At a time when media, public and regulatory scrutiny is high, it is important we do what is right for all. In the context of the wider group performance, we have carefully considered Ofwat's new dividend guidance for water businesses. We have followed our K7 dividend growth policy of CPIH + 2%, and adjusted the final dividend quantum by £2.4 million, equivalent to the South West Water Court fine in 2023/24, signaling we are listening, clearing the way for long-term shareholder value."

KEY FINANCIAL METRICS

	2023/24	2022/23	Change
Underlying^ revenue	**£907.8m**	£825.0m	10.0%
Statutory revenue	**£907.8m**	£797.2m	13.9%
Underlying operating profit	**£166.3m**	£153.1m	8.6%
Non-underlying items before tax[1]	**(£25.9m)**	(£25.3m)	
Statutory operating profit	**£140.4m**	£109.4m	28.3%
Profit/(loss) before tax			
Underlying	**£16.8m**	£16.8m	flat
Statutory	**(£9.1m)**	(£8.5m)	
Loss/(profit) after tax			
Statutory	**(£8.5m)**	£0.4m	
Earnings/(loss) per share (EPS)			
Adjusted EPS	**6.2p**	7.3p	(15.1%)
Statutory EPS	**(3.6p)**	Nil p	
Total dividend per share[2]	**44.37p**	42.73p	3.8%
Capital expenditure			
Group (excl. SES Water)	**£642.4m**	£358.3m	79.3%
South West Water group	**£582.9m**	£358.2m	62.7%
Net debt	**At 31 March 2024**	At 31 March 2023	
Group (excl. SES Water)	**£3,479.9m**	£2,965.4m	
South West Water group	**£3,294.7m**	£2,865.3m	
South West Water group			
RCV (shadow)	**£5,186.4m**	£4,715.9m	10.0%
RCV gearing[3]	**63.5%**	60.8%	
RORE (cumulative)[4]	**7.3%**	7.8%	
South West Water			
RORE (cumulative)[5]	**7.6%**	8.0%	

Key financial points

- Overall performance **in line with our expectations**
- **Underlying profitability improving** – underlying operating profit (excl. SES water) up c.9%
- **Stabilising operating costs** – cost inflation below revenue inflation, early benefits from transformation programme
- **RORE outperformance** – continued cumulative outperformance, 7.6% for South West Water, 7.3% for South West Water group

- **Peak investment year as expected** - step up in investment leads to expected cumulative year 4 and 5 capex of c.£930m
- **RCV growth of c.65% -** K7 to date
- **Flexible funding strategy** – c.£1.2bn new and renewed facilities raised since March 2023
- **Robust liquidity position** – available liquidity in excess of £1bn
- **Targeting two public credit ratings by March 2025** – expect strong investment grade ratings
- **South West Water group RCV gearing -** within 55-65% policy for K7
- **Ability to optimise balance sheet with K8 clarity** - retained shareholder value of over £500m in South West Water
- **Carefully considered final dividend position** – recommended final dividend of 30.33p per share, total dividend per share for 2023/24 of 44.37p in accordance with policy (CPIH +2%), with 0.84p reduction for £2.4m fine from South West Water prosecution

Key operational points

- **Broken the drought cycle for Devon and Cornwall** – 100% peak reservoir capacity achieved
- **Exceptional rainfall** driving headline increases in storm overflow and pollutions[6]
- **Sector-leading internal sewer flooding performance** – focusing on what matters most for our customers
- **100% bathing water** quality for third consecutive year
- **Peak investment of £583m** in water business to protect our customers, the network and the environment
- **Road map to achieve EPA 4 star in 2025**[7] - expect to maintain EPA 2 star[8] for 2023
- **C,£145m** commitment to renewable energy providing 40% of group energy requirements
- **Below inflation bill increases for two years** – bills lower today than they were 10 years ago
- **Over £100m** customer support enabled in K7 to date

Outlook for 2024/25

- Expect organic revenue growth driven by combined impact of inflationary tariff increases and growth in non-household retail businesses
- Operating costs in South West Water expected to be broadly flat net of inflation. Total Group operating costs will increase overall
- Increased debt levels to support our capital investment profile drive overall increase in net finance costs

- Group RCV expected to increase in line with K7 business plan levels of investment, additional and accelerated investment, regulatory true-ups and inflationary impacts
- Overall results will reflect a full year's contribution from SES Water

Notes:
All percentage movements are on a year-on-year basis unless otherwise stated
^ Measures with this symbol are defined in the Alternative Performance Measures (APM) section of this document, underlying measures are presented before non-underlying items
[1] Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance.
[2] Dividend policy of CPIH+2%. The CPIH rate used is 3.8% as at 31 March 2024. Adjusted to reflect fine linked to prosecution.
[3] Based on South West Water group including Bristol Water - net debt/shadow RCV (excl. SES)
[4] Based on South West Water group including Bristol Water – underlying RORE (excl. SES)
[5] Based on South West Water only – underlying RORE
[6] Wastewater pollutions are measured on a calendar year basis
[7] Measures required for each star rating are as follows – 1: 3 or 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
[8] Provisional rating from the Environment Agency – final EPA expected in June/July 2024

Institutional investors and analysts

Presentation of results

A presentation of the full year 2023/24 results hosted by Susan Davy, Group Chief Executive and Steve Buck, Group Chief Financial Officer, will be available at 08:00am (BST), today, 21 May 2024. This will be followed by a Q&A session at 08:45am (BST). The presentation and Q&A session can be accessed here: www.pennon-group.co.uk/investor-information

The Ofwat draft determination on our PR24 Business Plan is due to be issued on 12 June 2024. Subject to there being no unforeseen circumstances, a call for institution investors and analysts will be held on that day.

For further information, please contact:

Institutional equity investors and analysts

Catherine Nash - Interim Head of Investor Relations	01392 446 688
James Murgatroyd, Harry Worthington – FGS Global	020 2251 3801

Retail investors

Link Asset Services	0371 664 9234

This announcement contains inside information for the purposes of the market abuse regulation (EU no. 596/2014) as it forms part of United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended.

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

As I look back on the year, the fundamentals are strong for a more sustainable future, reflected in record levels of investment, record support for customers, and as we create record numbers of jobs directly and in the supply chain, supporting the economic health of the regions we support.

With a strong balance sheet and good liquidity, we retain the agility and ability to respond when it matters most and for the longer term, and in delivering on our strategy focused on UK Water. We are growing sustainably, whether through acquisition or investment, with an efficiently funded and robust balance sheet, growing shareholder value. And this in turn, is ensuring we can make good operational progress, delivering on our four priorities and what matters most to our customers.

A sound business - growing sustainably

We have a clear twin track organic and acquisitive growth strategy. With peak capital investment up nearly two thirds, year on year, this represents our largest ever water programme. That translates in accumulative RCV growth of c.65%[9] and on track to deliver c.70%[9] to 2025. This investment delivers asset backed, inflationary returns.

Our operations in the Group require reliable and efficient power supplies and we are investing to increase our renewable energy provision through Pennon Power, with its first EBITDA contribution due in 2024/25, supporting of our Net Zero ambitions and in meeting 40% of the energy requirements of the Group.

We are also delivering on our acquisition and consolidation strategy. We are realising the benefits we set out as part of the Bristol Water acquisition with c.£17 million of annualised synergies identified to date and we are on track to meet the £20 million targeted by 2024/25, in addition to the c.£18 million financing benefits already realised.

Having acquired SES Water in January, safeguarding their financial resilience through a successful £180 million equity raise, we are now fast-tracking through the CMA process, ahead of plan and we anticipate annualised synergies of c.£11 million into K8.

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

We remain resolutely focused on our four customer priorities across the Greater South West. We are investing to protect water quality and enhance resilience; tackling storm overflows at our beaches and eradicating pollutions across Devon and Cornwall; and driving environmental gains, wherever we serve. At the same time, we have successfully managed customer bills to be lower than they were 10 years ago, as we pledge to eradicate water poverty.

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[9] Includes RCV growth from Bristol and SES acquisitions

This is a year in which the weather has been both our friend and our foe.

With 10 named storms and 12 yellow weather warnings since September and with average rainfall increasing by 50% when compared to long term averages, we have had the 5th wettest year on record for Devon and Cornwall. On one hand with more rainfall, we have been able to break the back of the drought we experienced in 2022, and in doing what we said we would by achieving 100%[10] strategic reservoir capacity for Devon and Cornwall ahead of target.

This has been a monumental undertaking from teams across South West Water and the supply chain, as we have opened two reservoirs at Blackpool Pit and Hawks Tor, and increased treatment capacity at Rialton, alongside other pump recharge schemes. We are also on track to deliver a 2-phase desalination scheme for Cornwall. It's not just about fixing the here and now, we are investing now to protect resources over the next 25 years, building trust in our services for the longer term. We have delivered on our 2025 target for Devon, with 30% greater resource availability and are on track for 45% in Cornwall, with 30% delivered to date.

There are always two sides to the coin, as in addition to diversifying our portfolio, it's also been about reducing demand. We are delivering on our leakage targets. Our sector-leading demand reduction schemes are focused on supporting customers to use less water and save money, with c.500 water saving devices issued every single day last year, whilst we are also piloting trial tariff schemes to better distribute charges and encourage water efficiency.

Overall, water quality continues to deliver upper quartile performance. We have delivered a step change in the Isles of Scilly, with zero failures of water treatment processes for Devon, Cornwall and Bournemouth, and with a robust action plan in place for Bristol to address the legacy issues we inherited.

As a result of the weather, we have seen significantly increased wastewater flows which have impacted our headline performance for wastewater pollutions and the use of storm overflows. Rainfall this year continues to be above the long-term averages, up 40% and with elevated groundwater levels resulting in a one-year impact of flows equivalent to the previous 20 years. Historically, 70% of our pollutions have occurred in our networks. The work we have done over the last few years is working, with performance stabilising. We are achieving sector-leading internal sewer flooding performance, outperforming regulatory targets for sewer collapses and blockages and maintaining the gains we have made previously in reducing network pollutions.

To tackle the c.20% increase in flows we have seen in 2023, we are focused on reducing the amount of water that enters our sewers through infiltration reduction and sewer separation projects. We have redoubled efforts at both our treatment works and pumping stations, where the

[10] 100% strategic reservoir storage achieved on 8 April 2024. Devon and Cornwall total storage 98.6% as at 31 March 2024 (77.7% at 31 March 2023)

higher levels of flows have driven spikes in performance. By reinvigorating action plans, our treatment works performance has recovered from the degradation we saw last year, stabilising performance into 2024, with a combination of inlet and storm tank cleansing and risk-based generator servicing, site-based compliance, reedbed surveys and refurbishments. Efforts have now turned to the 1,250 pumping stations, with improved site MOTS and enhanced cleansing as well as tackling power resilience.

Reducing pollutions remains a top priority for the Board, and everyone who works in Wastewater. We have maintained serious pollution incidents at the lowest level for 2023 (2 incidents), noting we are aiming for zero. For all other incidents, we have a revised trajectory to achieving a 4 star performance for the 2025 calendar year.

We are clear and transparent about where we are, and over time, we have improved self-reporting of pollutions incidents, and now are one of the best in the sector.

The higher flows in our networks has masked the demonstrable improvements made through our interventions in reducing the impact on a like for like basis. The investments we are making today are delivering underlying performance improvements which we will see in future years. All of the c.280 interventions planned are completed or underway.

As we focus on improving 49 of 151 beaches through our WaterFit programme by 2025, WaterFit Live is giving communities and visitors to the region, near real time information about their favourite beach alongside community roadshows, as we place communities at the heart of our future plans. And whilst beaches are a priority, we are equally focused on improving river water quality with RNAGs[11] reduced from 19% to 12.4%[12] and are on track to meet our 2025 target.

We have a nature-based approach to investment. Our award-winning catchment management programme is leading the way for biodiversity gains, as well as continuing to help the way others manage their land, improve water quality, biodiversity and climate resilience.

Activities range from building ponds, improving farm tracks, slurry storage, as well as planting trees and buffer strips to catch and filter water. We have restored c.127,000 hectares cumulatively, as well as exceeding our tree planting target of 250,000.

Having worked on our catchments for the last 15 years, we have the science to back up the improvements and I was delighted that we officially opened our partnership with the University of Exeter in March 2024, providing research through a state-of-the-art laboratory into the key challenges and issues facing water, wastewater and the environment globally.

[11] Reason for Not Achieving Good Status for river water quality
[12] Based on Environment Agency publication

In tackling affordability, it is about two things, keeping bills as low as they can be for all customers and secondly, supporting those who are struggling. We have always been focused on being as efficient as we can be in delivering services, and in keeping bill increases to 2025 well below inflation. That's why we continue to support customers and communities having provided over £100m[13] of customer support with 132,000 customers benefiting from one of our social tariffs, building awareness of our customer out-reach engagement programmes. As a result, over 98% of customers across our regions find their bills affordable.

Given customers can't choose their water provider; we believe they should have a say which is why we plan to grow our unique WaterShare+ scheme to one in every 10 households and will extend this scheme to SES customers for the first time.

Solid building blocks in place

We're reshaping the Group to be efficient, as we grow, and to ensure we are performance led, with planned improvements in processes and operational effectiveness which will deliver synergies. We are bolstering delivery of the wider supply chain, under an alliance collectively known as Amplify, with a two-tier supplier model already in place and mobilised, delivering 1,000 projects in support of our £2.8bn investment in the region.

To be a sustainable business, I've always been clear, our investments can't just be in assets, they're in people too. We are the only water company to have been recognised as a Top 100 employer for apprenticeships. With over 470 apprenticeships to date and accredited as a gold employer for our "earn and learn" approach, around 1 in 10 colleagues have either undertaken an apprenticeship or graduate programme. As we promote social mobility, we are giving young people the opportunity to dive into their local water company. For the third year running we had our best health and safety performance, as we deliver on our HomeSafe strategy to ensure everyone who works for us and with us goes home safe every single day.

We're also leveraging technology, trialing AI in customer services and using predictive modelling to support wastewater operations.

Robust financial position

Overall, we have a robust financial position with solid financial performance and are well positioned for the next regulatory period. Our efficiency programmes are focused on keeping costs below inflationary levels, despite the impacts of the unprecedented wet weather. Furthermore, with a robust balance sheet, we are also efficiently funded and growing shareholder value. Our strategy for financing will continue to seek to ensure we remain one of the most efficient in the sector.

[13] Includes c.£40m Watershare+, c.£10m Stop the Drop, c.£50m Customer Support unlocked

We have new and renewed facilities which have raised £1.2 billion of liquidity since March 2023, and the successful equity raise of £180m for the SES acquisition. Our water group gearing at 63.5%[14] is in line with the water business K7 policy, reflecting the increased investment spend in assets and the timing of RCV build.

The B2B retailers, Pennon Water Services and Water 2 Business, are delivering a c.50% increase in EBITDA and an increase in market share through providing excellent customer services.

We paid an interim dividend of 14.04 pence per share on 5th April 2024.

We have carefully evaluated the recommended final dividend position considering performance in the round for the group, growth in our business to business retailers, development of Pennon power and for the water businesses we have considered Ofwat's recent guidance in this area.

The final recommended Pennon dividend has therefore been adjusted to reflect a £2.4m fine linked to a South West Water prosecution we had in May 2023, where we believe the ultimate shareholders of the Group, should bear that impact, and not customers.

As such the revised final dividend recommended is 30.33 pence per share.

Ambitious plan for PR24

As we look ahead to PR24, we have a robust base on which to build. It is an ambitious plan, based on the four priorities that customers care about most. We will be investing efficiently, within our total expenditure in the plan of £4.5 billion, we have built in 12% of efficiency keeping bill increases to a minimum, and with good support from customers at 74%.

For investors there is growth, in both nominal (38%), and real terms (25%) and we have put forward an ambitious set of outcomes that will see the opportunity to gain from good performance and with an ability to share this between investors and customers and with up to a 8.6% return on regulated equity.

In summary

Our fundamentals are strong, reflected in record levels of investment, record support for customers, and creating record levels of jobs directly and in the supply chain, supporting the economic health of the region. We are growing sustainably, whether through acquisition or investment with an efficiently funded and robust balance sheet, growing shareholder value.

[14] Based on South West Water group including Bristol Water net debt/shadow RCV

The building blocks are in place, focusing on not only what we do, but how we do business. And this in turn, is ensuring we are making good operational progress, delivering on our four priorities and what matters most to customers.

With a strong balance sheet and good liquidity, we maintain the agility to deliver on our strategy in UK Water and are well positioned for a sustainable future, with robust financials.

And finally, I could not end this update, without paying my personal respects to Gill Rider, our out-going Chair. She has been both a mentor and a Chair, and her championing of diversity and inclusion across Pennon is a fitting legacy on which we intend to build. On behalf of everyone who works for the Group, and will join us in the future, thank you Gill.

Susan Davy

Group Chief Executive Officer

20 May 2024

GROUP CHIEF FINANCIAL OFFICER'S OVERVIEW

I am excited to have joined Pennon at this time in the company's development. As I look back on the fourth year of our 2020-25 business plan, we continued to outperform the regulatory cost of equity, maintained financial discipline by managing gearing, raised debt to sustain liquidity and made an early start on cost reduction for K8. Furthermore, we are gaining momentum in the build out of our renewable energy generation sites through Pennon Power and see further positive progress in our non-household retail business, Pennon Water Services.

In addition to our organic development, soon after I joined the company in January, we announced the acquisition of SES Water and the £180 million equity raising to fund the acquisition. This successful transaction represents the ambitions we have as a company to grow and be a leader in the UK Water sector whilst maintaining our commitment to financial discipline.

Delivery of our regulatory programmes, the reinvestment of RORE, investing in Pennon Power and the acquisition of SES Water have resulted in the largest capital expenditure programme in one year. The level of regulatory investment demonstrates our capacity and capability to deliver at investment rates set out in our PR24 submission.

As I look ahead into the fifth and final year of the K7 plan, we are working to ensure that we are in a strong position financially to support our 2025-30 business plan. We will: diversify our debt portfolio, supported by our debut credit ratings; de-gear the SES Water balance sheet; continue to achieve outperformance on regulatory returns, and deliver a step change in our cost base. We have already realised c.£9 million of totex^ benefits in 2023/24 through our existing transformation programmes (including optimisation of sites to reduce power and chemical costs and enhancing contract management processes). We expect to continue and extend this programme, with targeted annualised savings of c.£55 million during K8. We expect further sustainable growth from Pennon Water Services and are expecting our first renewable energy site to start generation late in financial year 2024/25.

The improving performance, following a loss before tax in H2 2023, is expected to continue to the end of K7. The start of K8 will be a point of re-set for the financial position of the Group, enabling a return to stronger income statement performance and recognition of the K7 true-ups to Regulated Capital Value (RCV)^. We continue to deliver regulatory outperformance and our investments have generated RCV growth of around 10% in the year, with overall RCV growth of c.65%[9] since the start of K7. Despite the current low level of earnings per share, there is significant retained shareholder value in the regulated business.

Overall, our financial performance for 2023/24 is in line with our expectations. As we have said previously, the impact of high inflation on our cost base reduces our earnings, in particular due to power costs remaining high, and in part due to hedging our power at previous higher prices. The second half of 2023/24 experienced some of the highest levels of rainfall seen in recent times and this contributed to higher wastewater treatment costs. Despite this upward pressure on costs, we have managed to keep our regulated costs broadly flat year on year. Despite increased borrowing levels and rising base rates, our effective interest rate^ in South West Water has remained broadly constant at 5.6%[15] (2022/23: 5.5%), with the inflationary impact on finance costs stabilising, in part through the £300 million RPI swaps that were put in place in 2022/23. Tariff increases have recovered previous inflationary cost increases. Underlying profit before tax for 2023/24 is up from £16.8 million to £19.3 million before the impact of the acquisition of SES Water, an increase of c.15% compared with 2022/23.

SES Water has contributed to the financial results since 10 January 2024 and is performing in line with our expectations, contributing £35.7 million of revenue and a £2.5 million loss before tax for the c.2.5 months of ownership. In late January 2024, the Competition and Markets Authority (CMA) stated that it did not consider a parallel formal investigation under the Enterprise Act for the non-household aspect of the acquisition to be needed. The regulated aspect of the acquisition of SES Water is progressing through the CMA review and as expected, has been referred for a Phase 2 review under the prescribed process. The CMA has indicated that there are reasonable grounds for believing that the undertakings offered by the parties under the process might be accepted. Whilst the CMA review is ongoing, SES Water and South West Water will continue to be operated independently of each other.

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 both 2023/24 and the comparative period, 2022/23.

FINANCIAL PERFORMANCE - SUMMARY

Underlying	FY 2023/24	FY 2022/23	Change
Revenue	£907.8	£825.0m	+10.0%
Power	(£112.0m)	(£103.8m)	(7.9%)
Other operating costs	(£457.5m)	(£413.4m)	(10.7%)
EBITDA^	£338.3m	£307.8m	+9.9%
Depreciation and amortisation	(£172.0m)	(£154.7m)	(11.2%)
Operating profit	£166.3m	£153.1m	+8.6%
Net interest charge	(£150.2m)	(£136.6m)	(10.0%)
Share of associated companies PAT	£0.7m	£0.3m	-
Profit before tax	**£16.8m**	**£16.8m**	-

[15] South West Water group including Bristol Water excl. SES

Non-underlying items before tax[1]	(£25.9m)	(£25.3m)	-
Loss before tax	**(£9.1m)**	**(£8.5m)**	**(7.1%)**
Underlying tax (charge)/credit	(£4.3m)	£3.6m	-
Non-underlying tax credit	£4.9m	£5.3m	-
(Loss)/profit for the period	**(£8.5m)**	**£0.4m**	**-**
Earnings per share			
Adjusted EPS[16]	6.2p	7.3p	(15.1%)
Statutory EPS	(3.6p)	Nil p	-
Dividend per share[2]	44.37p	42.73p	+3.8%
Capital investment^			
Total Group	£649.5m	£358.3m	+81.2%
South West Water	£582.9m	£358.2m	+62.7%
Pennon Power	£59.0m	-	-
SES Water	£7.1m	-	-
Other	£0.5m	£0.1m	-
	At 31 March 2024	**At 31 March 2023**	
Total Group net debt	(£3,809.2m)	(£2,965.4m)	

GROUP PERFORMANCE - SUMMARY

The Group's statutory revenue for 2023/24 was £907.8 million compared with £797.2 million in 2022/23 which included non-underlying 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). Group underlying revenue increased by £82.8 million, or 10.0%, to £907.8 million, with SES Water contributing £35.7 million of the increase.

Organically[17], underlying revenue has increased by £47.1 million (5.7%) with South West Water's revenue increased by £28.5 million with inflationary tariff increases being offset by ODI penalties and prior year over recovery of revenue. Pennon Water Services' revenue increased by £15.8 million to £233.8 million, with new contracts, predominantly outside South West Water's regions, contributing c.£9 million to this increase.

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[16] Adjusted EPS: Before deferred tax and non-underlying items.

[17] References to organic movements throughout this commentary refer to the performance of the business excluding the contribution from SES Water from 10 January 2024

^ Measures with this symbol are defined in the alternative performance measures section of the annual report on pages 239 to 242.

Overall, underlying EBITDA has increased 9.9% from £307.8 million to £338.3 million with South West Water and Pennon Water Services contributing £332.5 million and £7.4 million, respectively, of this overall increase. SES Water contributed £3.6 million to the overall increase.

Further details of the performance of South West Water, Pennon Water Services and SES Water are outlined below.

We recognise the pressure the ongoing cost-of-living crisis puts on our customers, so we are determined to continue to assist customers with access to 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 across the Group have remained robust during the financial year. Expected credit loss charges for 2023/24 of £6.3 million for South West Water (0.9% of revenue) are in line with previous levels (2022/23: 1.0%). For Pennon Water Services, the expected credit loss charge of £1.0 million (0.4% of revenue) is also in line with previous levels (2022/23: 0.4% of revenue).

The Group reported a statutory loss before tax of £9.1 million (2022/23: loss of £8.5 million) after net non-underlying costs of £25.9 million (2022/23: £25.3 million). Group underlying profit before tax is in line with prior year at £16.8 million (2022/23: £16.8 million) with SES Water contributing an underlying loss before tax of £2.5 million. Organically, Group underlying profit before tax increased by £2.5 million to £19.3 million. While this outturn reflects a marginal overall improvement in earnings compared with 2022/23, it represents an overall marked improvement in performance given the challenging operating conditions, caused by the excessive rainfall during the second half of 2023/24. Underlying, organic profit before tax in H2 2023/24 was £10.2 million compared to an underlying loss of £5.7m in H2 2022/23.

SEGMENTAL PERFORMANCE - WATER

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 continues 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 results

	FY 2023/24	FY 2022/23	Change

Revenue[18]	£729.8m	£701.3m	+4.1%
Power	(£110.3m)	(£103.8m)	(6.3%)
Other operating costs	(£287.0m)	(£289.1m)	+0.7%
EBITDA^	£332.5m	£308.4m	+7.8%
Depreciation and amortisation	(£162.4m)	(£149.0m)	(9.0%)
Operating profit	£170.1m	£159.4m	+6.7%
Net interest charge	(£155.5m)	(£145.3m)	(7.0%)
Profit before tax	**£14.6m**	**£14.1m**	**+3.5%**
Non-underlying items before tax	(£15.6m)	(£43.7m)	-
Loss before tax	**(£1.0m)**	**(£29.6m)**	**+96.6%**

South West Water's statutory revenue for 2023/24 was £729.8 million compared with £673.5 million in 2022/23. Last year's revenue included non-underlying 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). Underlying revenue of £729.8 million for 2023/24 has increased by 4.1% compared with the prior period (2022/23: £701.3 million). The revenue growth of £28.5 million is explained above.

Underlying operating costs of £397.3 million are largely flat year on year with a small increase of £4.4 million (2022/23: £392.9 million). Normal inflationary increases have been offset by early benefits from our transformation programme and continuing integration efficiencies. Energy unit prices, which were specifically impacted by high levels of inflation over the last two years, are now stabilising. However, in order to de-risk the business from the volatility of the wholesale energy markets, some of the recent higher power prices were locked in through our hedging strategy. We expect the impact of those to decline over the coming year.

South West Water's underlying EBITDA increased by 7.8% to £332.5 million. Underlying operating profit has increased by 6.7% reflecting the improved EBITDA performance and an increase in the depreciation charge of £13.4 million compared to last year as our capital investment programme starts to impact the depreciation charge.

The net interest charge of £155.5 million is £10.2 million higher than prior year (2022/23: £145.3 million), reflecting an effective interest rate of 5.6%[19] (2022/23: 5.5%).

South West Water's statutory loss before tax was £1.0 million (2022/23: loss of £29.6 million) after non-underlying costs of £15.6 million (2022/23: £43.7 million).

[18] Includes wholesale revenue for non-household customers

[19] A measure of the mean average interest rate payable on net debt associated with South West Water Ltd's group of companies, which excludes interest costs not directly associated with net debt

South West Water's capital expenditure was £582.9 million, an increase of £224.7 million (62.7%) on the prior year (2022/23: £358.2 million). The final determination, Green Recovery, Defra accelerated delivery, and the RORE reinvestment were weighted towards the end of K7.

Enhancement spend has been pulled forward from year 5 to year 4 by c.£80 million due to our investment in water resources and network monitoring. This expenditure is delivering new water treatment works in Bournemouth, a desalination plant in Cornwall, additional reservoirs to improve resilience to drought, and enhanced network monitoring including acoustic loggers and sewer level monitors.

Base expenditure has increased by c.£80 million as a result of spend to mitigate the impact of the weather on our assets, and the expansion of our Quality First programme across the regions. The exceptional weather we have experienced over the year has resulted in spend to minimise pollutions and spills and to drive targeted reductions in leakage. We expect 50% (£40 million) of the increase to be recovered in our RCV in K8.

Sutton and East Surrey (SES) Water

SES Water – underlying results

	FY 2023/24
Revenue[18]	£35.7m
Operating costs	(£32.1m)
EBITDA^	£3.6m
Depreciation and amortisation	(£3.6m)
Operating profit	-
Net interest charge	(£2.5m)
Loss before tax	**(£2.5m)**

SES Water has contributed to the financial results since 10 January 2024. Since that date, the business has contributed £35.7 million of revenue and £3.6 million of EBITDA to the Group results. The business continues to be impacted by high levels of financing costs which the Group intends to address where possible once it is able to leverage benefits from the Group's financing strategy, as and when CMA clearance is obtained. In the period since acquisition, the business has performed in line with our expectations.

Over the 12-month period to 31 March 2024, SES Water has benefited from higher revenues, mainly due to tariff rises allowed under the regulatory regime and increased non-household demand. Operating costs have increased in the year, mainly driven by supply chain pressures resulting in higher electricity costs and chemical spend. Financing costs continue to be adversely impacted by high inflation on the index linked bond although this pressure is starting to reduce as RPI comes down.

SEGMENTAL PERFORMANCE - NON-HOUSEHOLD RETAIL

Pennon Water Services[20]

Pennon Water Services – statutory and underlying results

	FY 2023/24	FY 2022/23	Change
Revenue	£233.8m	£218.0m	+7.2%
Water segment wholesale elimination	*(£90.8m)*	*(£94.7m)*	
Revenue excluding elimination	*£143.0m*	*£123.3m*	
Operating costs[21]	(£226.4m)	(£213.7m)	(5.9%)
Water segment wholesale elimination	*£90.8m*	*£94.7m*	
Operating costs excluding elimination	*(£135.6m)*	*(£119.0m)*	
EBITDA	£7.4m	£4.3m	+72.1%
Depreciation and amortisation	(£0.7m)	(£0.7m)	-
Operating profit	£6.7m	£3.6m	+86.1%
Net interest charge	(£2.0m)	(£1.8m)	(11.1%)
Profit before tax	**£4.7m**	**£1.8m**	**+161.1%**

Pennon Water Services has delivered a strong financial performance for the year through its continued focus on key strategic initiatives, growing through long-term contracts in targeted business sectors, good customer retention and strong control of operating costs despite additional cost pressures.

Non-household demand within our wholesale water region fell due to usage, however, year on year revenue, EBITDA and profit before tax have continued to grow throughout 2023/24.

The overall impact on revenues for Pennon Water Services, including the impact of new contract wins, is an increase of 7.2% compared to the prior year. New business wins have contributed £8.5 million of additional revenue compared to the last year, with inflation (net of customer attrition) contributing further to the increase.

The non-household market continues to be very competitive with low margins, as a result, a clear focus on cost control and efficiencies is critical to the success of the business. The business has improved its performance year on year, with underlying operating costs growing marginally behind improving revenues, the business has improved its underlying EBITDA by c.72% to £7.4 million

[20] PWS – 80:20 joint venture with South Staffordshire
[21] Includes wholesale costs for non-household customers

(2022/23: £4.3 million). This strong performance has resulted in the business reporting a profit before tax of £4.7 million (2022/23: £1.8 million), an increase of 161%.

GROUP PERFORMANCE

Net finance costs

Total net finance costs were £150.2 million compared to £118.2 million in 2022/23, which included a non-underlying gain of £18.4 million resulting from the repayment of the Bristol Water plc index linked bond due 2041. There are no non-underlying finance costs in 2023/24.

Underlying net finance costs for the Group of £150.2 million are £13.6 million higher than last year (2022/23: £136.6 million) arising from: c.£29 million as a result of increased levels of net debt, including post-acquisition finance costs of the SES Group; continued rate rises (c.£9 million), offset by reduction in inflation (c.£15 million), and increased levels of capitalised interest on our capital programme (c.£9 million).

The non-cash element of our finance charges, which accretes to the debt principal, was c.£56 million (2022/23: c.£67 million).

Overall, the efficient funding mix and hedging strategy has resulted in an effective interest rate of 5.6% (2022/23: 5.5%) for South West Water. 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 both through issuing fixed rate debt and effective interest rate hedging, with a further element being index-linked.

Share of post-tax profit from associated companies

The Group has 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 £0.7 million of profit after tax from our associated company in our 2023/24 results (2022/23: £0.3 million), an increase of 133%.

Acquisition accounting for SES Water

As part of the requirements of acquisition accounting, we have determined the provisional fair values of the acquired balance sheet of SES Water. Goodwill arising from the acquisition of £15.6 million, based on these provisional fair values, has been recorded in the Group consolidated balance sheet and is attributable to the recognition of deferred tax liabilities on fair value gains recognised as part of the acquisition.

The acquisition of the SES Water Group provides a strategic fit for Pennon Group plc as the Group expands its presence in water supply across Southern England.

These provisional values will continue to be reviewed and will be finalised within 12 months from the date of the acquisition. The most material areas of adjustment relate to the fair value of acquired property, plant and equipment, including the network infrastructure, and the fair value of SES Water's debt portfolio.

Non-underlying items

Non-underlying items for 2023/24 were a net charge before tax of £25.9 million (2022/23: net charge of £25.3 million). Non-underlying items are those that in the Directors' view should be separately identified by virtue of their size, nature or incidence and where they believe excluding non-underlying items provides a more useful comparison of business trends and performance.

The non-underlying charge includes:

- £13.9 million of costs in connection with the setting up of a business transformation programme in South West Water following the merger of Bristol Water into South West Water.
- £0.6 million of expenses in connection with the strategic review of renewable energy generating investments, not directly attributable to the intangible assets acquired.
- £9.6 million of expenses in connection with the acquisition of SES Water and the related merger review by the CMA.
- £1.8 million of further specifically identifiable costs in respect of mitigating measures and one-off expenditure to address the impacts of severe drought conditions following costs of £17.0 million incurred in 2022/23.

The non-underlying charges in 2023/24 give rise to a net tax credit of £4.9 million in relation to the above items.

Responsible approach to tax

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

The overall 2023/24 tax credit for the Group is £0.6 million (2022/23: credit of £8.9 million). On an underlying basis, the net tax charge for 2023/24 for the Group of £4.3 million (2022/23: credit of £3.6 million) consists of:

- Current tax credit of £0.6 million, reflecting an effective tax credit rate of 3.6% (2022/23: credit of £2.7 million, 16.1%). The reduction in rate is due to the Group generating tax losses, all of which are carried forward for future relief. These tax losses reflect the enhanced capital allowances available because of full expensing and first year allowances, along with pension payments made during recent years where tax relief is now due, and capitalised interest which for tax purposes is deductible in the year incurred. Around 50% of the Group's capital additions qualify for enhanced capital allowances. This current tax credit relates to prior year adjustments in respect of additional interest deductions due in accordance with UK tax legislation.

- Deferred tax charge of £4.9 million (2022/23: credit of £0.9 million). This primarily reflects a current year deferred tax charge in relation to capital allowances in excess of depreciation charged across the Group, largely due to full expensing and a charge in respect of pension payments paid in previous years and where tax relief is now due. These are offset by a credit for tax losses carried forward for utilisation in later periods. The prior year deferred tax charge is £nil.

There is also a non-underlying deferred tax credit of £4.9 million in 2023/24 relating to the non-underlying items set out above. This relates to losses carried forward for utilisation in later years.

Full expensing deductions which originally applied for the three years from 1 April 2023 to 31 March 2026 together with 50% first year allowances on long life assets and integral features, were made permanent in the recent Autumn Statement. Given the Group's continued capital investment programme, these changes mean that the Group does not expect to generate taxable profits for the foreseeable future, and therefore does not expect to make any corporation tax payments during this time.

Earnings per share

The earnings per share calculations reflect an increase in average shares due to the equity raise in January 2024. The Group has recorded a statutory loss per share of 3.6 pence per share for the year ended 31 March 2024 (2022/23: earnings of nil pence per share). This includes a net non-underlying charge before tax of £25.9 million (2022/23: £25.3 million) and a net non-underlying tax credit of £4.9 million (2022/23: credit of £5.3 million).

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 2023/24 of 6.2 pence (2022/23: 7.3 pence). Excluding the impact of the loss generated by SES Water in the period post acquisition, our adjusted earnings per share would be 7.2 pence.

Net debt movements

The Group's cash flow from operating activities for 2023/24 was £261.7 million (2022/23: £313.7 million). Cash collections have remained robust and we continue to monitor these closely and are focused on providing a broad range of affordability measures to support those in financial need.

The reduction in operating cashflow reflects the lower levels of underlying profitability in the last two financial years, caused by inflationary pressures, alongside the cash impact of our Watershare+ and 'Stop the Drop' bill credits which were recognised in the income statement in H2 2022/23.

Net interest payments were £109.1 million (2022/23: £154.8 million) with the higher payment in 2022/23 driven by £51.5 million of interest paid on lease settlements relating to interest which accretes to the lease principal.

Capital expenditure has resulted in an increase in capital investment cash outflows of £267.6 million to £598.1 million (2022/23: £330.5 million). This includes c.£49 million of cash outlay from the total £59 million investment recognised in Pennon Power.

The acquisition of SES Water resulted in net cash outflows of £62.7 million, being gross consideration of £90.2 million, net of £27.5 million cash acquired. The Group's net debt is further increased by the £360.1 million book value of SES Water's net debt including fair value adjustments of c.£15 million at the point of acquisition. In addition, £9.6 million of acquisition transaction costs and costs associated with the CMA review have been recognised as non-underlying operating costs and cash flows.

In connection with the acquisition, we completed an equity capital raise in order to ensure we maintain financial discipline with the leverage and capital structure for the Group. Proceeds from the equity raise, net of associated expenses, were £175.7 million.

Other significant movements in net debt in 2023/24 include payment of our interim and final dividends for 2022/23 (£111.7 million) and £46.8 million of non-cash indexation on our loan instruments.

The Group's IFRS net debt at 31 March 2024 was £3,809.2 million (31 March 2023: £2,965.4 million). This includes fair value adjustments on acquired debt of £125.7 million[22] which are released over the life of the related debt instruments. The Group's net debt position excluding these adjustments is £3,683.5 million.

Robust liquidity and flexible funding strategy

As at 31 March 2024, the Group has £601.4 million of cash and committed facilities. This consists of cash and cash deposits of £171.4 million (including £26.0 million of restricted funds representing deposits with lessors against future lease obligations) and £430.0 million of undrawn committed facilities. A further £500 million has been raised since March 2024, providing the Group with in

[22] Carrying value of fair value acquisition adjustments to net debt as at 31 March 2024 - £32.8 million Bournemouth Water, £79.3 million Bristol Water and SES Water £13.6 million

excess of c.£1 billion of available liquidity, providing enough funding to support its obligations for at least the next 18 months.

Since 31 March 2023, the Group has secured c.£675 million of new debt, through its diverse portfolio of debt, consisting of:

- £475 million in private placements with an average maturity of 13 years
- £100 million of new term loans and leasing with an average maturity of 9 years
- £100 million bilateral facility to support Group investments.

In addition, further pre-funding of £500 million has been secured.

The issuance of private placements signals the move to more benchmark-sized transactions in both the private placement and public bond markets, as the capital expenditure and ongoing refinancing continues. Our most recent private placements were at least 4.5 times oversubscribed, showing continued support for the Group.

This will see South West Water obtain two strong investment grade credit ratings and it plans to establish an EMTN[23] programme to facilitate further public issuances and maintain our diverse financing portfolio.

We look to raise all new and renewed facilities under our Sustainable Financing Framework where possible, with 82% achieved in 2023/24.

The Group took steps during the previous financial year to re-balance the proportion of index-linked debt to align with previously maintained levels for the longer-term. Whilst the current level is around 20% (including SES Water), we expect this to increase in March 2025 as the swaps mature.

Resulting from the changes above and drawing of new debt during the year, South West Water gross debt at 31 March 2024 was £3,323 million (31 March 2023: £2,918 million). The debt has a maturity of up to 33 years with a weighted average maturity of 13 years.

South West Water[25] net debt at 31 March 2024 is a mix of fixed / swapped (£2,147 million, 65%), floating (£696 million, 21%) and index-linked borrowings (£452 million, 14%), which reflects our diverse debt portfolio and compares to an industry average[24] of fixed / swapped 40%, floating 7% and index-linked 53%. 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.

[23] Euro Medium Term Note

[24] UK water position as at 31 March 2023 as per published Annual Performance Reports – weighted average

At 31 March 2024, South West Water's[25] net debt to RCV ratio[26] stood at 63.5% (31 March 2023: 60.8%). This is due to increased capital expenditure and reduced operating cashflows.

South West Water's cost of finance, with an effective interest rate in 2023/24 of 5.6%[25], continues to benefit from the diverse portfolio of debt.

Strong Investment grade gearing levels

As we progress through the remainder of K7, we expect the mix of our debt portfolio to evolve. We are currently considering the most effective debt structure to provide best value for our shareholders whilst maintaining the flexibility to adjust to market challenges and to remain within our treasury policy of at least 60% fixed rate debt throughout the current regulatory period.

As the Group continues to grow through capital investment in our infrastructure so will our funding requirements. In the coming years, we expect the Group to manage its portfolio with larger, and more diverse debt instruments, taking advantage of the public ratings once established. The Group plans to raise c.£500 million in new funding by March 2025 to complete the K7 business plan.

We will continue to maintain a diverse portfolio of debt to support flexibility and growth opportunities. In the long term, this investment will provide returns through K8 revenues and a higher RCV.

As we look to obtain strong investment grade credit ratings during the year, a target gearing level of below 72% will need to be maintained, South West Water remains well within the level.

As the year progresses, further clarity will be provided through the draft and final determinations. The Group and Water business balance sheets will be optimised post SES Water CMA clearance and the PR24 outcomes. The start of the new PR24 business plans, in April 2025, will provide a point of re-set and policy review.

Shareholder value retained in the Water business

In the first four years of K7, South West Water has created c.£820 million of value for the Group from base returns, RORE outperformance and the growth in RCV. The South West Water Board has taken a prudent approach to its dividend payments in making distributions to Pennon Group and as result c.£250 million has been distributed in K7 to date. This results in over £500 million of retained value in South West Water which the South West Water Board will consider as K7 closes.

[25] Based on South West Water group including Bristol Water excl. SES
[26] Based on South West Water group including Bristol Water net debt/shadow RCV

Contingencies

Ofwat and the Environment Agency (EA) 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 action against South West Water Limited, the company is now included alongside five other companies which received enforcement notices in March 2022. The Group continues to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The Group has undertaken its own internal investigation and investment interventions have been undertaken at a small number of our sites. In addition, the Group has looked for opportunities for additional future investment to include further storm storage and an extension of its sewer misuse programme which has been shared with Ofwat. Ofwat have yet to formally respond on the investigation and the timing of a response is unknown, although has been potentially indicated for Summer 2024.

Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply from closing the investigation with no further action, agreeing to formal S.19 undertakings through to fining the Group up to 10% of its revenue in relation to the regulated wastewater business. Given the wide range of possible outcomes, therefore, the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty.

On 23 May 2023, Ofwat announced an investigation into South West Water's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to assurance processes which include independent checks and balances carried out by an external technical auditor. The Group continues to work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation. The Group has undertaken its own internal investigation into the data and third-party experts have concluded the calculations are within a tolerance as reported, as a result there were no detrimental impacts to customers through Outcome Delivery Incentives (‘ODIs’). The Group recognises opportunities to enhance data quality to improve the estimation process and these have been shared with Ofwat.

Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply from closing the investigation with no further action, agreeing to formal S.19 undertakings through to fining the Group up to 10% of its revenue in relation to the regulated drinking water business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty.

Pensions

At 31 March 2024, the overall surplus on retirement obligations of £26.6 million compares to a surplus of £29.3 million at 31 March 2023.

The small reduction in the overall Group surplus in 2023/24 of c.£3 million reflects:

- c.£8 million net reduction in surplus of the Group's principal pension scheme, Pennon Group Pension Scheme (PGPS), recognised in other comprehensive income, reflecting adverse experience losses on deferred revaluation and pension increases, offset by favourable movements in gains in demographic assumptions.
- c.£3 million recognition of net pension surplus acquired with SES Water.
- c.£2 million increase on Bristol Water scheme surplus arising from change in income tax rate which is applied to restrict the surplus recognised.

The triennial valuation of PGPS as at 31 March 2022 was finalised in March 2023 and no deficit recovery contributions were required. The ongoing funding requirements for the Company to the scheme are limited to the continuing administration expenses.

The Group pension surplus includes a net surplus of c.£9 million (31 March 2023: c.£7 million) relating to the Bristol Water Section of the Water Companies Pension Scheme (WCPS). The gross surplus remains largely unchanged as the liabilities of the scheme are fully insured through a bulk annuity policy. The net surplus has increased as the tax rate on the restriction applied to the surplus under UK tax legislation has reduced from 35% to 25%. The trustee of WCPS continues to work through the process to wind up the Bristol Water section of WCPS and has indicated its intention to return the surplus to the Company.

The net surplus recognised from the SES Water acquisition reflects the surplus in the SES water section of WCPS. The trustee of WCPS has recently fully insured the liabilities of the scheme through a bulk annuity policy. The surplus has been restricted for income tax, consistent with the Bristol Water scheme.

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 50% of Pennon's shareholders are UK-based investors including individuals, pension funds, and charities. Over a third of the Group's c.3,500 employees (excluding SES Water) are shareholders and following the second issuance of our unique WaterShare+ initiative, around 90,000 customers are now also shareholders.

Pennon's 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 30.33 pence per share for the year ended 31 March 2024. Together with the interim dividend of 14.04 pence per share paid on 5 April 2024 this gives a total dividend for the year of 44.37 pence. This represents an increase of 3.84% on 2022/23 which is per our policy (March 2024 CPIH + 2%) with a 1.96% reduction for the £2.4 million fine from the Environment Agency. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

The proposed dividends totalling £126.9 million are covered 2.7 times by underlying EBITDA (2022/23: 2.8 times). 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 commitment to deliver Net Zero by 2030, we have committed c.£145 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 and will deliver attractive and sustainable financial returns.

Pennon Power, a wholly owned subsidiary to Pennon Group plc, has acquired the rights to build four solar farms, one of which includes a co-located battery storage asset in the UK. Specifically, these investments include:

- A co-located solar (45 MWp) and battery storage (60 MWh) site in Fife, acquired in May 2023. This is a ready to build site, with consents in place, with total build costs expected to be c.£60 million. Solar generation is expected to be c.39 GWh commencing at the end of next financial year 2024/25.
- A further three sites, located in Aberdeenshire, Cumbria and Buckinghamshire, acquired in July 2023. These sites, with total anticipated build costs of c.£85 million, are expected to provide a further 98.5MWp of generation capacity, generating c.96 GWh and are targeted to be operational during 2025 and first half of 2026.

Of this overall commitment, we have incurred total costs of c.£59 million for the acquisition of these sites and construction costs to date on our first project at Fife. This is expected to commence energy generation late in financial year 2024/25. Aberdeenshire and Cumbria sites will enter construction during late summer 2024 and Buckinghamshire in 2025. The financial contribution will accelerate in financial year 2025/26 and all four sites will generate income during 2026/27.

Pennon Power continues to identify further opportunities to enable further growth in renewable generation at our existing sites and by optimising the projects we have already acquired. The generating capacity of our investments to date equates to around c.40% of our electricity usage and will contribute significantly towards our target of 50% self-generation.

Return on Regulated Equity^

During K7 to date we have continued to deliver South West Water group RORE performance (excluding SES Water) of 7.3% cumulatively, equating to c.£160 million of outperformance. This consists of c.£255 million financing outperformance, net of c.£60 million totex^ overspend, and c.£35 million ODI net penalty impact. This has enabled the funding of additional capital investment initiatives as noted above.

The cumulative benefits from the structure of our debt book on financing costs persist, but have reduced due to the impact of falling inflation. Totex^ performance has been impacted in year due to peak levels of capital expenditure following past outperformance.

ODI performance across the South West Water group in 2023/24 has been impacted by the extreme weather events, including heavy rainfall through to March 2024. As a consequence, South West Water has incurred a penalty of c.£12.1million[27] (2022/23: penalty c.£4.2 million). South West Water continues to build on its ODI performance with c.70% either on track or ahead of target[28] across a broad range of challenging bespoke, common, and comparative measures. This performance will contribute to the potential ODI award at the end of K7 of c.£20 million. ODI performance for Bristol Water is on track to achieve c.70% of its ODIs and has resulted in a net financial penalty of c.£1.7 million (2022/23: penalty of c.£5.9 million).

The table below summarises the cumulative RORE position for both South West Water and Bristol Water:

	Ofwat RORE		**WaterShare RORE^**	
	South West Water	**Bristol Water**	**South West Water**	**Bristol Water**
Base return	3.9%	4.5%	3.9%	4.5%

[27] excludes impact of Per Capita Consumption, as under review by Ofwat
[28] On track or ahead of target, or within regulatory tolerances (deadband)

Totex[29]	(1.2)%	(1.1)%	(0.5)%	(0.3%)
ODI	(0.5)%	(0.8)%	(0.5)%	(1.1)%
Tax	0.6%	0.1%	N/A	N/A
Financing	4.8%	1.5%	4.7%	1.1%
Cumulative RORE	**7.6%**	**4.2%**	**7.6%**	**4.2%**

FINANCIAL OUTLOOK[30]

Looking to 2024/25, we expect overall organic revenue growth with the combined impact of inflation on our 2024/25 tariffs (net of the year on year impact of regulatory adjustments and ODI penalties) and ongoing expected growth in our non-household retail business. The full year impact of trading at SES Water will improve this further.

Overall, we expect total operating costs in South West Water to be broadly flat compared to 2023/24 levels. Total power costs in 2023/24 were £110 million (wholesale costs £73 million, non-commodity costs £37 million). Whilst wholesale power cost levels are falling, we anticipate a more modest improvement in our overall power costs[31] as the impact of hedging over the last two years continues to unwind. These expected reductions coupled with other efficiencies from our transformation programmes will be largely offset by normal inflationary pressures on other input costs. In particular we continue to recognise the pressures of the cost of living on our colleagues and pay increases of c.4% have been agreed. Total Group operating costs will increase overall, with growth in the non-household retail business outside our region increasing wholesale water costs, and the impact of an additional nine months of trading at SES Water.

Further increases in depreciation are expected as a result of our capital investment programme and the full year impact of SES Water.

Increased debt levels to support our capital investment profile are expected to result in an overall increase in net finance costs. The total Group net finance costs are also expected to increase with the full year impact of SES Water.

Overall capital expenditure is expected to reduce in 2024/25. In South West Water, following the peak in 2023/24, we expect overall capital expenditure of c.£930 million in the last two years of K7.

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[29] Excludes the ODI impact of third party Carland Cross event in 2021, which we are seeking to recover from the third party

[30] All guidance measured on an underlying basis

[31] Based on current market pricing and current hedged position of c.85% for 2024/25 and c.30% for 2025/26

our Pennon Power renewable energy sites will continue. The full year impact of SES Water will represent a small increase in our overall capital expenditure.

We remain in a strong position from a liquidity perspective with additional facilities already raised in the early part of the year, and with further programmes planned, supported by our plan to have two strong public credit ratings by the end of the year.

The Group's RCV is expected to increase in line with K7 business plan levels of investment in addition to additional and accelerated investment, regulatory true-ups and inflationary impacts. SES Water's RCV at 31 March 2024 was c.£0.4 billion.

Steve Buck

Group Chief Financial Officer

20 May 2024

OPERATIONAL REVIEW

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

Building water resources, improving water quality

Across the Group we are trusted to provide a clean, safe and reliable water supply to c.3.5million people across Bristol, Bournemouth, Devon, Cornwall, the Isles of Scilly and parts of Dorset. The health of our environment is intricately linked to the state of our water supply, so as we look to ensure robust supplies into the future, we focus on protecting the environment from which we take raw water to be treated and put into supply.

Building water resources – supply investments

Delivering a resilient water service requires us to invest smartly in securing new sources of supply, as well as reducing the demand placed on our infrastructure. Our twin-track approach has been to invest in new resources and accelerate plans for improvement, whilst seeking to tackle leakage and reduce customer demand.

Alongside the benefits of the weather, our interventions have increased our storage capacity by around one third – with our strategic reservoirs hitting 100% maximum capacity on 8 April 2024 – well ahead of the 90% target originally set for 31 March 2024[32].

Our programme to diversify the Group's portfolio of water resources in Devon is now complete, with two thirds of the programme of work in Cornwall also complete. Wet weather through 2023/24 has benefited our storage position, augmenting the investments that have contributed one-third of the gains to strategic storage in the region, with the early achievement of c.99%[32] storage for our strategic reservoirs ahead of 31 March 2024.

Completion of Blackpool Pit in February 2024 brings our portfolio of repurposed quarries to four. Blackpool Pit, along with Stannon, Park and Hawks Tor, have all been used this year to support an improvement in water resources in Cornwall. In Devon, our winter pump storage work at Gatherley is also now operational, and along with the Lyd pumping scheme delivered last year, both new schemes have been used this year to support improvement in our water resources in Devon.

In addition to these resources, our desalination plant in South Cornwall is on track with Phase 1 (5Ml/day) planned to be operational in December 2024 and Phase 2 (20Ml/day) in summer 2025. This plant will be a direct resource to our largest treatment works in Cornwall, Restormel, through a 13km pipeline and using nature-based solutions. In addition, our Rialton water abstraction and

[32] Total storage at 31 March 2024 98.6% compared with 77.7% at 31 March 2023

treatment scheme will be operational under its winter licence in 2024/25, supporting supplies to the Newquay area.

With these projects we are improving the long-term resilience of the region. We are on track to reach our target of augmenting water supplies in Cornwall by 45% by 2025 – with 30% delivered to date and we have already achieved our target of a 30% increase in Devon, one year ahead of schedule.

In Bristol, supply levels remain in surplus, but our long-term plans include investment in Cheddar 2 Reservoir which will support resources across the wider South West region. During the year, as part of our Strategic Regional Water Resource plans, this scheme passed the Gate 2 hurdle, and allowances have been made by RAPID[33] to progress the application through to Gate 3 next year. This supports a key element of our future water resources plans, with construction to begin by 2030.

Demand interventions

To reduce demand we are focused on minimising our own use, tackling leakage and reducing customer demand through water efficiency. We have successfully reduced our own use by c.12Ml/day over the last two years and we continue to improve efficiency within our processes.

In South West Water we have continued our significant water efficiency programmes including:

- Launching our 'Water is Precious' campaign – as part of this we have issued around 500 water saving devices every day this year
- Our North Devon smart metering programme is now 50% complete and on track for completion in 2025 – which will result in 76,000 meters deployed in this area
- Following on from the 'Stop the Drop' campaign[34] last year we launched a tariff incentive so that customers in Cornwall will receive a £10 credit to their bill having collectively reduced their water consumption by c.5%
- Launched our progressive charging trials for 2024/25 to include standard seasonal tariffs (both households and businesses), rising block tariffs and peak period seasonal tariff.

Water efficiency initiatives in Bristol are also targeting customers to use less, helping customers to use less through water saving devices, as well as donations to charities that promote and educate on water consumption.

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[33] Regulators' Alliance for Progressing Infrastructure Development

[34] Customers in Cornwall received a £30 bill reduction following the successful 'Stop the Drop' campaign which helped to support the recovery of Colliford reservoir (servicing the majority of Cornwall) to 30% capacity by 31 December 2022

In South West Water, we are focused on reducing leakage with a target of c.15% by 2025 (based on a three-year average) – and whilst leakage increased during the year, we have met our target again this year. In Bristol, we are focused on enhanced data and monitoring with c.7,000 acoustic monitors being installed to support quicker and more accurate detection which supports longer-term reductions and as a result we have not met our performance commitment for Bristol.

Quality First Approach

Our teams continue to work around the clock to ensure that water quality is maintained, delivering on our ‘Quality First’ principles, ensuring customers receive a continuous supply of clean, safe drinking water. We continue to deliver rapid improvements under our ‘Quality First’ transformation programme, and following the merger completion last year, we have extended the scope to the Bristol Water region. Improvements are focused on both embedding cultural changes through training, coaching and ongoing support, along with enhanced operational activities – including tank cleaning and inspection, maintenance and resilience of treatment facilities and water quality monitoring, control and investigations.

For 2023, South West (Devon, Cornwall and Bournemouth) there were no failures recorded as a result of our water treatment processes. Our final water quality score is expected to be upper quartile the year and following the lifting of official drought status for the South West in October, we are enhancing our network flushing activity to drive further underlying improvements. On the Isles of Scilly, we are delivering a step change in performance, and in the Bristol Water region robust action plans are in place to improve legacy water quality performance, and we have implemented remedial actions to mitigate risks identified during the year, but longer-term improvements are targeted within future regulatory investment plans.

As part of our business plan to 2025, we committed to building two state of the art treatments works in the Bournemouth Area and work is progressing well at Alderney and Knapp Mill, following planning permission being achieved at this site during the year. We are on track to achieve water into supply at Alderney by March 2025, and customers will then benefit from the enhanced ceramic membrane treatment. In addition, upgrades at four works in Devon and Cornwall are also progressing well with investments made to reduce manganese and install Granular Activated Carbon treatment.

Tackling storm overflows and pollutions

2023 has seen some of the most tumultuous weather on record, particularly in the second half-of the year. Across the South West Region, 2023 was the fifth wettest year on record, with a 34% increase in rainfall from 2022 and we experienced 50% more rainfall than the long-term average in the second half-of the calendar year, peaking at 130% in July, resulting in rising groundwater levels. We have also experienced ten named storms (five storms in 2022), nine of these back-to-back in the latter months of the year, along with 12 yellow weather warnings (including wind) which has tested the resilience of our assets and operations. This exceptional weather continued into the early part of 2024 with rainfall being 40% above the long-term average, February 2024 being the wettest on record and groundwater remaining elevated which has continued to place pressures on our wastewater infrastructure.

The impact of the extreme weather has varied across our operations, with the wetter weather supporting the recovery of our reservoir storage and water resources, but the increased rainfall and high groundwater levels has driven up the use of storm overflows which are used in wet weather as a 'release valve' on the network to avoid flooding to homes and businesses, as well as increasing the number of pollution incidents in the year.

Storm Overflows

Despite the exceptional rainfall over the summer in the 2023 bathing water season, 100%[35] of bathing waters (where South West Water has assets impacting the bathing water) achieved the stringent quality standards for the third consecutive year. Whilst rainfall increased around 45% over the summer, overflows at bathing waters spilled on average 6.5 times in the bathing season, a modest increase on 2022.

We were particularly pleased that the newly designated Plymouth Firestone Bay achieved excellent status. For the 2024 bathing water season, six further bathing waters in our region including four on the River Dart (Dittisham, Stoke Gabriel, Steamer Quay and Warfleet), will be included in the future assessment. Improving river water quality is a continuing WaterFit target with the water company impact of reasons for not achieving good (RNAG) status reducing from 19% to 12.4%.

In addition, we are piloting a 'real-time' water quality sampling and monitoring regime at four beaches across Devon and Cornwall at high interest sites at St Agnes, Harlyn Bay, the River Lim as well as on the Dart and Tavy rivers.

The extraordinary weather has triggered an increase in the use of storm overflows, operating to protect thousands of homes and businesses from flooding and higher spills have been recorded from new monitors (installed at the end of 2022) with 100% coverage of our overflows. This position has been seen across the industry and for South West Water we recorded an average of 43.4 spills, compared with 28.5 in 2022.

On a like for like basis[36] (taking account of the first full year of monitoring and the impacts of exceptional rainfall and higher groundwater) the number of spills is lower reflecting the c.80

[35] 100% at sites where South West Water has assets which could impact the quality of bathing waters
[36] 2023 like-for-like spills adjusted to account for first full year of EDM monitoring and normalised for weather impacts

interventions delivered in 2023 and these actions will continue to support reductions into 2024. We have already ramped up our plans with c.60 interventions which have already been delivered by the end of March 2024 – including 20 additional storm storage schemes. A further 140 interventions are underway and up to 280 are in the planning stages.

We are seeing tangible benefits from our interventions which are focused on not only increasing storage but reducing the water entering our systems through groundwater infiltration and surface water separation. Our interventions include both operational and capital investments improving treatment capacity and enhanced proactive maintenance, together with monitoring to identify potential issues on site ahead of an overflow triggering.

We know how important bathing waters are to our customers and we have many sensitive areas where beaches are essential, particularly with tourism being a key part of the regional economy. As part of our WaterFit programme we launched #YourBeachYourSayOurInvestment, empowering customers and communities to work with us to plan our improvements and investments. We have taken this programme a step further, launching community roadshows across the region over the coming year. We have seen positive engagement at the five events held so far, with over 320 people attending.

We continue to present our storm information through WaterFit Live launched in March 2023 to cover all our bathing beaches, we are in the final stages of rolling this out across our rivers which will give live updates on all our storm overflows.

Furthermore, in March 2024, we were one of the nine water companies in England that published a National Storm Overflows Plan setting out how the sector will meet or exceed all Government targets – this is the most expansive programme for overflows in the world, and South West Water has submitted an ambitious plan which if approved, meets the targeted spill reduction a decade earlier than required in 2040.

Pollutions - Networks

Our pollution incident reduction plans over the last three years were based on the historical patterns where around 70% of pollutions were on our network, therefore our activities and investment were more focused on reducing incidents in this area.

- Installed over 12,000 sewer depth monitors, supporting predictive / proactive warning of potential issues to enable early interventions
- Invested in rising mains replacement with 70% of the planned programme complete and 16 kilometres of sewers relined
- Doubled our sewer jetting and cleansing activity and site inspections, with 116 kilometres of sewers surveyed with CCTV

- Focused on identifying and resolving incidents that arise from illegal connections and we have expanded our investigation into sewer misuse, supported by a third-party with dedicated resources targeting homes and businesses which repeat network issues
- We are supporting communities to reduce the use of harmful wet wipes, including government and national campaigns to ban the use of wet wipes.

Our interventions were successful with network incidents remaining stable in 2023 (despite the extreme weather), maintaining the positive gains achieved in previous years, whilst the number of incidents from our networks has reduced by around 40% since 2020.

We have seen the performance of our network remain strong, despite the extreme rainfall and additional flows during the year:

- **Sewer flooding** - we remain sector-leading for internal sewer flooding incidents at 0.76 per 10,000 connections outperforming our target every year of this regulatory period. External sewer flooding has reduced by 8%, although this is slightly elevated from our targeted position. A clear focus on avoiding repeat flooding incidents with an increase of planned cleansing and routine jetting is having a positive impact.
- **Sewer collapses and blockages –** we have outperformed our targets for both sewer collapses and sewer blockages, with 2023/24 our best-ever performance on blockages. Proactive management of our network, including enhanced cleansing removing debris from sewers, an increase in the number of repairs as well as sewer overflow inspections being completed. In addition, a focus on improving compliance of commercial premises who dispose fat, oil and grease into our sewers, as well as other operational change initiatives, have all contributed to this achievement.

Pollutions – pumping stations and treatment works

The exceptional rainfall and increased groundwater have driven an increase in the flows at our pumping stations and treatment works. We have evolved and rebalance our pollution reduction efforts at both treatment works and pumping stations.

At our treatment works, interventions were linked with targeted improvements in compliance which was challenged during the year and include:

- Increasing the resources for targeted inlet and storm tank cleansing with further training and upskilling of our workforce
- Individual site action plans have been developed and are focused on a dynamic risk-based approach for compliance and targeted enhanced maintenance
- Site visits at all our descriptive works were completed with a specific focus on reedbed surveys at 38 higher risk sites and ongoing refurbishments completed or planned.

By evolving our action plans, our treatment works performance has recovered in the first four months of 2024, despite the continued increase in rainfall and elevated groundwater.

We have around 1,250 sewer pumping stations, many of which are small, can be inaccessible with restricted space and therefore cannot have generator back-up power. We have dynamically evolved our plans to focus on these assets which includes:

- Increased site visits with one major and one minor MOT service at all pumping stations
- Enhanced sump cleansing at 288 targeted sites to reduce blockages
- Increasing our power resilience including installation of brownout timers at all sites, installing 'plug-in' points for mobile generators at 165 sites and 12 sites identified for new generators.

Reducing pollutions remains a top priority for the Board and despite the overall increase in pollution incidents, the number of serious incidents (category 1 – 2) have remained stable. We continue to be open and transparent, with our self-reporting on incidents our highest ever and meeting the Environment Agency's green Environmental Performance Assessment (EPA).

Our provisional[7] rating for 2023 is again 2 stars, maintaining improvements from the previous year. However, following the extreme levels of rainfall and high number of storms over the winter of 2023/24, the full benefits of our Pollution Incident Reduction Plan (PIRP) have not yet been seen and we have a road map to achieve a 4 star EPA[6] status in 2025.

We know there is much more to do and we continue to target a step change in performance.

Driving environmental gains

A healthy environment is important for our region and in the face of climate change, ecological decline and greater recreational use of rivers and seas. Nature and the environment is a priority for us, as we look to work with nature to provide sustainable solutions for the challenges we face. Putting the journey to net zero and nature recovery at the heart of what we do, working with partners, means we can create climate resilient places and infrastructure.

Catchment regeneration programme progressing well

Since 2010, we have been working with local delivery partners, farmers and landowners to deliver our award-winning Upstream Thinking programme. This pioneering approach has improved the management of c.127,000 hectares of land to date, across 80% of our drinking water catchments, outperforming our target resulting in a benefit of c.£20 million over the first four years of the regulatory period. We have restored c.1,550 hectares of peatland and planted over 250,000 trees meeting our 2025 commitment already.

We take our biodiversity responsibilities seriously and we are leading innovation in nature recovery and biodiversity gains across the South West, targeting invasive non-native species and through the peatland partnership. Our work in this area has leveraged c.£11 million of third-party funding, expanding our peatland restoration across a wider area.

We are developing Natural Catchment Management Plans which are focused on diagnosing the problems across a whole catchment and then devising a holistic, nature first solution. This includes identifying the root cause of water quality issues whether agriculture and food, urban and industry or drainage and wastewater.

We are working in 15 pilot catchments across coastal streams, river catchments and streams in urban landscapes developing a ‘toolbox’ of solutions whether storm storage, sewer upgrades or nature based sustainable urban drainage.

We were delighted that CREWW, our 25-year research partnership between South West Water and the University of Exeter (UoE), officially opened in March 2024. It builds on many years of collaboration between the two organisations including our catchment management programme, Upstream Thinking (first pioneered in 2006) which has acted as a beacon of change which others in the water sector have followed. The new dedicated, operationally net zero research facility is underpinned by a £21 million capital and research investment by South West Water and it is the only water sector partnership to receive support from the UK Research Partnership Investment Fund (UKRPIF), as well as being the largest RPIF-sponsored project in the South West.

CREWW has already begun working on projects including the creation of a state-of-the-art laboratory which will tackle the scourge of microplastics in our environment. The project represents an investment of £1.4 million from South West Water and will initially develop our understanding of the presence of microplastics in sewage sludge to inform our wastewater operations. In the long-term, the ambition is to provide guidance and support to any stakeholders involved in sewage operations, their management or monitoring, as well as regulators.

Net Zero

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

Our Net Zero 2030 plan is well underway, and we are on track to reduce our carbon footprint by 50% by March 2025. We are making good progress towards this target with c.40% delivered to date. Investment in renewable energy generation is an important part of achieving our Net Zero strategy and is aligned with our long-term sustainable growth strategy in UK environmental infrastructure.

Our target of achieving 50% of our energy from renewables is enhanced by an investment programme planned through Pennon Power, which is expected to deliver 40% of the Group's energy requirements, with construction of the first site underway.

As a Group, we have committed to near-term Science Based Targets (SBTs). Our targets have been validated and approved by the Science Based Targets Initiative in May 2024 and align with our water and wastewater greenhouse gas performance commitments:

- The Group commits to reduce absolute scope 1 and scope 2 GHG emissions 68% by 2032/33 from a 2021/22 base year.
- The Group commits to reduce absolute Scope 3 GHG emissions from well-to-tank, waste, business travel and commuting by 30% over the same timeframe.
- The Group commits that 60% of its suppliers by emissions covering purchased goods and services, capital goods and upstream transportation and distribution will have science-based targets by FY2027/28.
- The Group commits to increase annual sourcing of renewable electricity to 100% by 2030.

Supporting affordability, delivering for customers

Managing affordability starts with ensuring we deliver quality services efficiently, keeping bills as low as possible and minimising any bills rises. In all the areas we serve, average bill increases for 2023/24 and 2024/25 were below the headline rates of inflation. Our current bill for Devon and Cornwall is lower in actual terms today than a decade ago, bolstered by initiatives such as WaterShare+ and our innovative tariffs and incentive schemes, which give customers lower bills for lower water usage. We are pleased that our latest water efficiency tariff across Cornwall has been successful, leading to a 5% reduction in water use and a rebate on customer bills.

With households still feeling the impacts of the cost-of-living crisis, we have extended our package of affordability measures, unlocking £100m of financial support for customers, and we are pleased that we are on track to achieve our industry leading commitments to eradicate water poverty by 2025. A commitment we have doubled down on in our Business Plan to 2030.

Over 132,000 customers have benefited from one or more of our affordability initiatives across South West Water, Bournemouth Water and Bristol Water to date and we have seen a 35% increase in the number of customers benefitting from social tariffs. We are focused on lifting a further 10,000 customers out of water poverty in the next year as we continue to evolve our affordability toolkit. This includes our innovative data model allowing us to identify and auto-enrol customers who are within the group who are often the most vulnerable and hardest to reach onto social tariffs. We are also continue to work with local councils and debt partners to identify customers who may be in financial difficulty and may need support.

98.1% of South West Water and Bournemouth Water households have been independently assessed as having an affordable bill. This is up from 96.8% last year. 100% of Bristol Water customers receive an affordable bill.

We have a key role to play in supporting our communities, ranging from our community and water efficiency funds that support initiatives across the region, our new community roadshows or our education programmes which has reached c.4,000 children this year.

Our unique structure, through our WaterShare+ scheme, gives customers the chance to either own a share in our business or receive a reduction in their water bills. To date, we have shared £38m with customers through shares or bill reductions, and 1 in 14 households in the South West are now shareholders. We are looking to increase this to 1 in 10 by 2030, so that more customers have a stake in our business.

Delivering on our commitments

South West Water continues to target improved ODI performance, with c.70%[37] either on track, or ahead of target. Nine ODIs continue to represent areas of excellence having achieved their 2025 target early, with a further 21 forecast to achieve or outperform their 2023/24 target. Bristol Water is on track to achieve c.70%[36] of its ODIs, with two ODIs representing areas of excellence and a further 18 forecast to achieve or outperform their target for 2023/24.

Areas of excellence for South West Water include bathing water quality where four sites have been delivered in addition to our target, biodiversity enhancement, and internal sewer flooding which is currently favourable to target and represents sector leading performance.

Bristol Water consistently performs well on customer service, including properties at risk of low pressure, and C-MeX performance which has improved over each year of the regulatory period to date, and currently ranks Bristol Water as upper quartile.

For South West Water, key areas of focus include wastewater pollutions, treatment works compliance and the Environmental Performance Assessment (EPA) which are closely linked. For Bristol Water, making improvements to address legacy water quality performance is key, along with reducing leakage and increasing the number of metered customers.

South West Water and Bristol Water continue to target the actions and activities in our Service Commitment Plans published in November, with quarterly updates submitted to Ofwat. South West Water's ODI performance in K7 to date reflects an industry upper quartile position, with Bristol

[37] ODIs on track or within regulatory tolerances

Water in line with the industry average, placing the water group in a robust position as we head into K8, where delivery is focused predominantly on industry common ODIs.

Growing sustainably

Integration of Bristol Water

Since the completion of the merger of Bristol Water in February 2023, we have been delivering on our proven acquisition and integration blueprint. The integration of our water operations has involved: sharing control room capability and incident management practices; rolling out our water Quality First approach; and a new capital delivery alliance mobilised across all regions. In addition, we have been integrating our systems and processes. We are on track to deliver a run rate of c.£20 million of synergies ahead of K8, with £17.3m achieved in 2023/24.

Reshaping the business

We have begun a new business transformation programme with the objective of achieving significant savings for the water business by changing the way we work; deploying new digitally enabled tools, and upgrading our teams' capabilities. Around 120 initiatives have been developed across three main workstreams covering:

- **Operations (Water and Wastewater):** launched an operational excellence programme, starting at the 29 largest sites and to be rolled out to 300 more sites to improve performance, and reduce costs through energy and chemical usage reduction
- **Procurement:** implemented procurement best practices which have allowed renegotiation of key strategic contracts, set up procurement standards and improve compliance
- **Customer Services:** delivering call centre operational improvements, reducing call handling times

At its core is the focus on building the capabilities of our people. Over 110 individuals have received coaching and training with new skills including management competencies and negotiation training.

We are targeting totex^ savings with an annualised run rate of c.£55 million in 2025/26 split between: water & below ground; wastewater; planning and scheduling, and procurement, predominantly in water, wastewater and customer services. There has been a strong start to the programme with c. £17 million annualised savings already realised as at March 2024 (c.£9 million in year benefits).

Acquisition of SES Water

On 10 January 2024 we announced the acquisition of the holding company of Sutton and East Surrey Water (SES Water) and certain other ancillary businesses for £89 million. The acquisition builds on Pennon's existing water operations through the acquisition of another high-quality water-only business with over 750,000 customers and a shadow regulatory capital value of c.£356 million as at 31 March 2024.

The transaction increased the Group's RCV by c.7%[38] on acquisition and for K8 SES's RCV is forecast to grow at an average annual rate of c.5%[39]. The transaction is expected to be earnings accretive from the first year of full ownership (2024/25), and to support further RCV growth in K7.

We will deploy our proven integration framework to deliver anticipated synergies of c.£11 million[40] on an annualised basis, driven by operational efficiency initiatives, lower financing costs and economies of scale. The acquisition will benefit SES customers, as they will be offered the opportunity to participate in Pennon's unique WaterShare+ customer shareholding scheme.

Like Pennon, the SES approach to delivering its business model has ESG at its core. SES has outstanding water quality with a CRI score of 0.01. Overall leakage reduction performance continues to meet its required three-year rolling target and is on track to deliver the 15% reduction required by 2025. SES Water has progressed its universal metering programme and continued to support in-home water efficiency assistance. 22,250 of its customers have been supported through financial hardship.

Pennon Power

Pennon Power Limited, a direct subsidiary to Pennon Group plc, has been formed as an entity to deliver on this element of the Net Zero strategy. To date, investment of c.£145 million has been announced by Pennon Power in four projects across the UK, generating up to 135 GWh once operational, along with a two-hour battery system providing 60 MWh of storage. When combined with the smaller scale on-site solar generation roll out, this puts the Group on track to secure c.50% of its energy from renewable sources.

This strategy will also benefit the Group by reducing our exposure to future volatility in wholesale power markets that we have experienced in recent years and will provide commercial returns ahead of those earned from the regulatory water business. The sites, acquired by Pennon Power, have the required consents in place and will see construction commence in 2024, with energisation for the full portfolio in financial year 2025/26.

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[38] Based on management forecast of RCV as at 31st March 2024
[39] K8 total nominal growth rate of 25%, based on SES Draft Business Plan for K8
[40] Anticipated run rate of targeted efficiency savings (on a net basis)

The first site to enter construction is a 39 GWh solar site with co-located battery storage 60 MWh (2 hours) in Dunfermline, acquired in May 2023. With total build costs expected to be c.£60 million, we are targeting a split connection with generation expected late in calendar year 2024, with the battery storage unit connecting in quarter 1 2025. A further three sites, located in Aberdeenshire, Cumbria and Buckinghamshire, were acquired in July 2023. These sites, with total anticipated build costs of c.£85 million, will add a further 96 GWh of generation capacity. The sites in Aberdeenshire and Cumbria are targeted to be operational early in financial year 2025/26, and Buckinghamshire following later in the year.

Pennon Power continues to identify further acquisition targets and anticipates making further investments once the Dunfermline project is fully operational.

Pennon Water Services (PWS)

PWS continues to deliver for its business customers offering a range of attractive tariffs and value-added services, whilst also delivering year-on-year improvements with a c.7% growth in revenue, EBITDA and PBT growing to £4.7 million in 2023/24.

PWS maintained its focus upon high quality customer interactions, resulting in a Trustpilot score of 4.8 out of 5, comparing favourably to its peers. Since the market opened in 2017, PWS has provided strong customer support and high quality of services to maintain a stable market share of c.6.0% in England and Wales. PWS serves over 154,800 business accounts (c.95,000 customers) in total. New contracts in the year included Agrial Fresh Produce, Aggregate Industries, and Welcome Break.

Whilst growth in new contracts continued, PWS maintained its low levels of customer attrition. Our continued focus on value and service with existing customers ensured we renewed a number of contracts including Unite, GSK and Kerry Ingredients.

Pennon Water Services remains well placed to deliver against its long-term strategic objectives, growing organically and sustainably, investing in its people, systems, processes, and innovative customer solutions.

Water2Business

Pennon's 30% shareholding in Water2Business continues to deliver market leading customer service performance, maintaining their Trustpilot score of 4.9 out of 5, the highest of all water retailers.

Further customer growth has seen Water2Business grow to a c.7% market share. Water2Business have continued their strong financial performance during the year, contributing c.£0.7 million of associated companies' profit after tax to the Group's results, supported by the addition of c.5,100 new customers. Water2Business have also topped the MOSL holistic retailer reporting tables for the entire 2023/24 financial year, demonstrating its commitment and effectiveness of data management, process control and customer service.

TECHNICAL GUIDANCE FOR 2024/25

Pennon Group		**FY 2023/24**	**Change**
Revenue*	• Inflation reflected in 2024/25 tariffs (net of year-on-year impact of regulatory adjustments and ODI penalties) • Ongoing growth in our retail businesses, including growth external to our wholesale region • Full year impact of SES Water acquisition	£907.8m	▲
Operating costs*	• SWW operating costs overall expected to be broadly flat • Power costs expected to reduce[1] with reducing wholesale power costs offset by the unwind of hedging • Expected reductions in power costs coupled with other efficiencies from our transformation programmes will be largely offset by normal inflationary pressures on other input costs • Pay increases of c.4% agreed, reflective of pressures of cost of living crisis • Growth in retail businesses leading to higher wholesale supply charges external to our regions, increasing total Group operating costs • Full year impact of SES Water acquisition	£569.5m	▲
Depreciation*	• Expanded capital programme driving increases in depreciation • Full year impact of SES Water acquisition	£172.0m	▲
Net interest*	• Increased levels of debt to support capital investment profile resulting in increased interest costs • Full year impact of SES Water acquisition	£150.2m	▲
Current tax	• 2023/24 effective credit rate reflects prior year credits arising from settlement of outstanding tax returns with HMRC. These are unlikely to recur • Higher capital allowances from the Group's continued capital investment programme, together with full expensing mean that the Group does not anticipate generating taxable profits for the foreseeable future, resulting in an effective current tax rate around 0%	3.6% (credit rate)	▲
Capex	• Capital expenditure in 2023/24 peaked with reprofiling of K7 commitments, additional/and accelerated	£649.5m	▼

Pennon Group		FY 2023/24	Change
	environmental, water resilience and Green Recovery investment. • Expected reductions from this peak in 2024/25 with overall target of c.£930m over last two years of K7 • Assessing the benefits of early start expenditure for K8 • Ongoing investment to build out Pennon Power renewable energy sites		
Net debt	• Continued delivery of capital investment programme across the Group increasing net debt • Accretion on index-linked debt	£3,809.2m	▲
SWW group RORE[2] (excl. SES)	• Expected year-on-year reduction in line with lower inflation expectations – continued expectation of RORE outperformance	7.3%	▼
RCV[41] (shadow)	• Increase in line with K7 business plan levels of investment in addition to additional and accelerated investment, regulatory true-ups and inflationary impact • SES Water's RCV at March 2024 – c.£0.4 bn	£5.5bn	▲

*Underlying basis

[41] Based on South West Water group including Bristol Water net debt and shadow RCV

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks

During the year the Board has carried out a detailed review of the Group's principal risks in the context of the Group's strategic objectives and priorities as well as the external environment within which it operates. This has included the impact of changes to the external macro-economic, legal and regulatory environment within which the Group operates. This has resulted in the following material changes to the Group's principal risks compared with those reported within the Pennon 2023 Annual Report:

- The water resources and operational water treatment risks have been combined into a single drinking water principal risk, reflecting the interconnectivity of the individual elements.
- Delivery of the Group's net zero programme has been removed as a standalone principal risk and instead reflected within the delivery of the Group's broader environmental commitments and associated risks.
- A new principal risk has been established reflecting the ongoing CMA process over the Sutton and East Surrey (SES) Water acquisition.

The Group's principal risks are:

Law, Regulation and Finance

1. Changes in Government policy
2. Changes in regulatory frameworks and requirements
3. Non-compliance with laws and regulations
4. Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments
5. Non-compliance or occurrence of an avoidable health and safety incident
6. Failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase

Market and Economic Conditions

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

Operating Performance

8. Failure to secure, treat and supply clean drinking water
9. Failure to improve wastewater performance resulting in environmental commitments not being delivered
10. Failure to provide excellent service or meet the needs and expectations of our customers and communities
11. Difficulty in recruiting and retaining staff with the skills to deliver the Group's strategy

Business Systems and Capital Investment

12. Insufficient capacity and resilience of the supply chain to deliver the Group's operational and capital programmes in K8

13. Inadequate technological security results in a breach of the Group’s assets, systems and data

14. Failure to receive CMA approval for the acquisition of Sutton and East Surrey Water

FINANCIAL TIMETABLE

10 June 2024	Annual Report and Accounts published
24 July 2024	Annual General Meeting 2024
25 July 2024*	Ordinary shares quoted ex-dividend
26 July 2024*	Record date for final dividend
08 August 2024*	Final date for receipt of DRIP applications
05 September 2024*	Final dividend payment date
26 September 2024	Trading Statement
28 November 2024	Half Year Results 2024/25

* Subject to obtaining shareholder approval at the 2024 Annual General Meeting.

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 published in June 2024. 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.

Consolidated income statement for the year ended 31 March 2024

	Notes	Before non-underlying items 2024 £m	Non-underlying items (note 4) 2024 £m	Total 2024 £m	Before non-underlying items 2023 £m	Non-underlying items (note 4) 2023 £m	Total 2023 £m
Revenue	3	**907.8**	**-**	**907.8**	825.0	(27.8)	797.2
Operating costs							
Employment costs		**(114.8)**	**(0.7)**	**(115.5)**	(102.2)	-	(102.2)
Raw materials and consumables used		**(51.8)**	**-**	**(51.8)**	(33.6)	-	(33.6)
Other operating expenses		**(395.8)**	**(25.2)**	**(421.0)**	(373.6)	(15.9)	(389.5)
Trade receivables impairment		**(7.1)**	**-**	**(7.1)**	(7.8)	-	(7.8)
Earnings before interest, tax, depreciation and amortisation	3	**338.3**	**(25.9)**	**312.4**	307.8	(43.7)	264.1
Depreciation and amortisation		**(172.0)**	**-**	**(172.0)**	(154.7)	-	(154.7)
Operating profit/(loss)	3	**166.3**	**(25.9)**	**140.4**	153.1	(43.7)	109.4
Finance income	5	**12.6**	**-**	**12.6**	9.2	18.4	27.6
Finance costs	5	**(162.8)**	**-**	**(162.8)**	(145.8)	.	(145.8)
Net finance costs	5	**(150.2)**	**-**	**(150.2)**	(136.6)	18.4	(118.2)
Share of post-tax profit from associated companies		**0.7**	**-**	**0.7**	0.3	-	0.3
Profit/(loss) before tax	3	**16.8**	**(25.9)**	**(9.1)**	16.8	(25.3)	(8.5)
Taxation credit/(charge)	6	**(4.3)**	**4.9**	**0.6**	3.6	5.3	8.9
Profit/(loss) for the year		**12.5**	**(21.0)**	**(8.5)**	20.4	(20.0)	0.4
Attributable to:							
Ordinary shareholders of the parent				**(9.5)**			0.1
Non-controlling interests				**1.0**			0.3
Earnings per ordinary share (pence per share)	7						
- Basic				**(3.6)**			**-**
- Diluted				**(3.6)**			**-**

The above results were derived from continuing operations.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the year ended 31 March 2024

	Before non-underlying items 2024 £m	Non-underlying items (note 4) 2024 £m	Total 2024 £m	Before non-underlying items 2023 £m	Non-underlying items (note 4) 2023 £m	Total 2023 £m
Profit/(loss) for the year	**12.5**	**(21.0)**	**(8.5)**	20.4	(20.0)	0.4
Other comprehensive income / (loss)						
Items that will not be reclassified to profit or loss						
Remeasurement of defined benefit obligations	**(7.7)**	**-**	**(7.7)**	(39.0)	-	(39.0)
Income tax on items that will not be reclassified	**2.2**	**-**	**2.2**	9.8	-	9.8
Total items that will not be reclassified to profit or loss	**(5.5)**	**-**	**(5.5)**	(29.2)	-	(29.2)
Items that may be reclassified subsequently to profit or loss						
Cash flow hedges	**(16.4)**	**-**	**(16.4)**	29.1	-	29.1
Income tax on items that may be reclassified	**4.1**	**-**	**4.1**	(7.3)	-	(7.3)
Total items that may be reclassified subsequently to profit or loss	**(12.3)**	**-**	**(12.3)**	21.8	-	21.8
Other comprehensive (loss) / income for the year net of tax	**(17.8)**	**-**	**(17.8)**	(7.4)	-	(7.4)
Total comprehensive income/(loss) for the year	**(5.3)**	**(21.0)**	**(26.3)**	13.0	(20.0)	(7.0)
Total comprehensive income/(loss) attributable to:						
Ordinary shareholders of the parent			**(27.3)**			(7.3)
Non-controlling interests			**1.0**			0.3

PENNON GROUP PLC

Consolidated balance sheet at 31 March 2024

	Notes	**2024 £m**	2023 £m
ASSETS			
Non-current assets			
Goodwill		**179.5**	163.9
Other intangible assets		**67.7**	14.9
Property, plant and equipment		**5,361.6**	4,476.9
Other non-current assets		**8.7**	23.2
Financial assets at fair value through profit		**0.9**	1.3
Derivative financial instruments		**17.4**	33.2
Investments in associated companies		**1.0**	0.3
Retirement benefit obligations		**26.6**	29.3
		5,663.4	4,743.0
Current assets			
Inventories		**13.2**	10.0
Trade and other receivables		**353.7**	238.0
Current tax receivable		**6.0**	8.4
Derivative financial instruments		**23.4**	20.7
Cash and cash deposits	11	**171.4**	165.4
		567.7	442.5
LIABILITIES			
Current liabilities			
Borrowings	11	**(238.2)**	(124.7)
Financial liabilities at fair value through profit		**(2.6)**	(2.6)
Derivative financial instruments		**(5.4)**	(2.4)
Trade and other payables		**(341.2)**	(225.4)
Provisions		**-**	(0.4)
		(587.4)	(355.5)
Net current assets		**(19.7)**	87.0
Non-current liabilities			
Borrowings	11	**(3,742.4)**	(3,006.1)
Other non-current liabilities		**(154.9)**	(155.3)
Financial liabilities at fair value through profit		**(31.8)**	(34.0)
Derivative financial instruments		**(3.3)**	(2.4)
Deferred tax liabilities		**(548.3)**	(507.0)
Provisions		**(0.4)**	-
		(4,481.1)	(3,704.8)
Net assets		**1,162.6**	1,125.2
Shareholders' equity			
Share capital	9	**174.6**	159.5
Share premium account		**398.2**	237.6
Capital redemption reserve		**157.1**	157.1
Retained earnings and other reserves		**431.3**	570.6
Total shareholders' equity		**1,161.2**	1,124.8
Non-controlling interests		**1.4**	0.4
Total equity		**1,162.6**	1,125.2

PENNON GROUP PLC

Consolidated statement of changes in equity for the year ended 31 March 2024

	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 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
Profit for the year	**-**	**-**	**-**	**(9.5)**	**1.0**	**(8.5)**
Other comprehensive loss for the year	**-**	**-**	**-**	**(17.8)**	**-**	**(17.8)**
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**(27.3)**	**1.0**	**(26.3)**
Transactions with equity shareholders:						
Dividends paid	**-**	**-**	**-**	**(111.7)**	**-**	**(111.7)**
Shares issued	**15.1**	**164.9**	**-**	**-**	**-**	**180.0**
Transaction costs arising on shares issued	**-**	**(4.7)**	**-**	**-**	**-**	**(4.7)**
Adjustments in respect of share-based payments (net of tax)	**-**	**-**	**-**	**1.1**	**-**	**1.1**
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	**-**	**-**	**-**	**(1.4)**	**-**	**(1.4)**
Proceeds from shares issued under the Sharesave Scheme	**-**	**0.4**	**-**	**-**	**-**	**0.4**
Total transactions with equity shareholders	**15.1**	**160.6**	**-**	**(112.0)**	**-**	**63.7**
At 31 March 2024	**174.6**	**398.2**	**157.1**	**431.3**	**1.4**	**1,162.6**

PENNON GROUP PLC

Consolidated statement of cash flows for the year ended 31 March 2024

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Cash generated from operations	10	**261.7**	313.7
Interest paid	10	**(116.2)**	(159.7)
Tax paid		**3.4**	(1.4)
Net cash generated from operating activities		**148.9**	152.6
Cash flows from investing activities			
Interest received		**7.1**	4.9
Movement of restricted deposits		**-**	146.1
Purchase of property, plant and equipment		**(555.1)**	(326.6)
Acquisition of subsidiaries, net of cash acquired		**(62.7)**	-
Deposit of restricted cash		**(4.3)**	-
Purchase of intangible assets		**(43.8)**	(4.6)
Proceeds from sale of property, plant and equipment		**0.8**	0.7
Net cash used in investing activities		**(658.0)**	(179.5)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**175.7**	2.3
Purchase of ordinary shares by the Pennon Employee Share Trust		**(1.4)**	(5.0)
Proceeds from new borrowing		**574.5**	233.0
Repayment of borrowings		**(168.7)**	(210.3)
Cash inflows from lease financing arrangements	10	**64.8**	40.2
Lease principal repayments (including net recoverable VAT paid/recovered)		**(22.4)**	(99.2)
Dividends paid	8	**(111.7)**	(101.6)
Repurchase of own shares and associated fees		**-**	(40.0)
Net cash used in financing activities		**510.8**	(180.6)
Net increase/(decrease) in cash and cash equivalents		**1.7**	(207.5)
Cash and cash equivalents at beginning of year	11	**143.7**	351.2
Cash and cash equivalents at end of year	11	**145.4**	143.7

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 71. Pennon Group's business is operated through its principal subsidiaries. South West Water Limited, provides 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. 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 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. On 10 January 2024, the Company acquired 100% of the issued capital of Sumisho Osaka Gas Water UK Limited (which has subsequently been renamed Sutton and East Surrey Group Holdings Limited), the holding company of Sutton and East Surrey Water plc ("SES Water") and Sutton and East Surrey Water Services ("SESWS") a company providing water and wastewater retail services to non-household customer accounts along with certain other ancillary businesses, for £90.2 million from Sumitomo Corporation and Osaka Gas. SES Water is a regulated water only company serving a population of approximately 750,000 customers in the South East region. On 8 January 2024, an Initial Enforcement Order (IEO) was issued by the Competition and Markets Authority (CMA) regarding the Group's acquisition of Sutton and East Surrey Group Holdings Limited (SES). The IEO did not prevent the Group from completing its acquisition of SES, but required Pennon and SES to remain operationally separate, and in the form in which each had existed prior to the IEO coming into force, until the completion of the CMA's review. The Group duly completed its acquisition of SES on 10 January 2024. The Group has been exposed to the variable returns from the results and performance of SES since that date. The CMA has granted a number of derogations to the IEO in order to permit the Group oversight of SES' activities, for the purposes of, among other things, maintaining SES' financial position and ensuring that the Group as whole (including SES) is able to comply with its corporate governance obligations. These include derogations granted on 9 January 2024 allowing the Group to exercise its rights as shareholder in connection with certain reserved matters, to require SES to appoint individuals to certain internal management functions, and to nominate an observer to attend meetings of SES' board of directors. On 3 May 2024 the Group offered to provide separate reporting information for Sutton and East Surrey Water plc from the rest of the Group's water businesses post-Merger to allow Ofwat the ability to make comparisons between water enterprises, a similar remedy was accepted by the CMA following the acquisition of Bristol Water plc in 2021. The CMA considers that there are reasonable grounds for believing that the undertakings offered by the Group, or a modified version of them, might be accepted by the CMA. The Group therefore remains reasonably certain that approval of the acquisition will be granted in the coming months. The Group has considered the requirements of IFRS 10 Consolidated Financial Statements and – in light of the foregoing – has determined that Pennon Group plc should consolidate SES' results within the Group's financial statements for the year ended 31 March 2024 as from the date of the acquisition, i.e. 10 January 2024. The impact of consolidating SES from this date is disclosed in note 43.

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 2024 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 2024 Annual Report and Accounts which have not changed significantly from those adopted in the Group's 2023 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 2024 the Group has access to undrawn committed funds and cash and cash deposits totalling £601.4 million, including cash and other short-term deposits of £171.4 million and £430.0 million of undrawn facilities. Cash and other short-term deposits include £26.0 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. Considering this the Group has a headroom of £435 million, including the impact of £98 million of loans and facilities due for maturity or renewal within the going concern period through to 31 May 2025.

2. Basis of preparation (continued)

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 as set out on pages 58 to 64 of the annual report, 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 2024/25, including the impact of the acquisition of Sutton and East Surrey Holdings Limited, and longer-term strategic business plan for the remainder of the going concern period to 31 May 2025. 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, regulatory impacts such as the ongoing Ofwat price and tariff review, i.e. PR24, covering the period from April 2025 to March 2030, 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.£80m, 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. 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. In the combined stress test scenario, the group has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Group. However if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

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.

We have considered the Group's funding position and financial projections, which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Subsequent to the year end date, the Group has secured a £150m private placement and a £350m liquidity facility, which reflects on the Group's ability to secure finance. Having considered these factors, 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 31 May 2025, 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 and the regulated water services undertaken by SES Water. The non-household retail business reflects the services provided by Pennon Water Services and SESWS.

	2024	2023
Revenue	**£m**	£m
Water	**745.8**	701.3
Non-household retail	**253.5**	218.0
Other	**11.8**	8.6
Less intra-segment trading(1)	**(103.3)**	(102.9)
Total underlying revenue	**907.8**	825.0
Water non-underlying revenue (note 4)	**-**	(27.8)
	907.8	797.2
Operating profit/(loss) before depreciation, amortisation and non-underlying items (underlying EBITDA)		
Water	**335.8**	308.4
Non-household retail	**7.7**	4.3
Other	**(5.2)**	(4.9)
	338.3	307.8
Operating profit/(loss) before non-underlying items		
Water	**169.9**	159.4
Non-household retail	**6.9**	3.6
Other	**(10.5)**	(9.9)
	166.3	153.1
Profit before tax before non-underlying items		
Water	**11.8**	14.1
Non-household retail	**4.9**	1.8
Other	**0.1**	0.9
	16.8	16.8
(Loss)/Profit before tax		
Water	**(13.4)**	(29.6)
Non-household retail	**4.9**	1.8
Other	**(0.6)**	19.3
	(9.1)	(8.5)

(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 2024	**Water**	**Non-household retail**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
Segment revenue - underlying	**745.8**	**253.5**	**11.8**	**1,011.1**
Inter-segment revenue	**(91.4)**	**(0.2)**	**(11.7)**	**(103.3)**
Revenue from external customers	**654.4**	**253.3**	**0.1**	**907.8**
Significant service lines				
Water	**654.4**	**-**	**-**	**654.4**
Non-household retail	**-**	**253.3**	**-**	**253.3**
Other	**-**	**-**	**0.1**	**0.1**
	654.4	**253.3**	**0.1**	**907.8**

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

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

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.

	2024 £m	2023 £m
Revenue		
WaterShare+[(1)]	**-**	(20.2)
Drought incentive[(2)]	**-**	(7.6)
Operating Costs		
Transformation / restructuring[3]	**(13.9)**	-
Sutton and East Surrey Water acquisition costs[4]	**(9.6)**	-
Drought costs[2]	**(1.8)**	(9.4)
Renewables Projects acquisition costs[5]	**(0.6)**	-
WaterShare+[1]	**-**	(2.2)
Bristol Water integration costs[6]	**-**	(4.3)
Earnings before interest, tax, depreciation and amortisation	**(25.9)**	(43.7)
Bond redemption[7]	**-**	18.4
Net tax credit arising on non-underlying items above[8]	**4.9**	4.7
Deferred tax change in rate[9]	**-**	0.6
Net non-underlying charge	**(21.0)**	(20.0)

(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 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) £13.9 million of costs were incurred in connection with the setting up of a business transformation programme in South West Water following the merger of Bristol Water into South West Water, £0.7 million of which were employment costs. These implementation costs are one-off in nature and incidence, with the benefits from incurring these costs expected to endure into the future on a recurring basis. The programme is still ongoing with further costs of c.£8 million are expected to be incurred in the year ending 31 March 2025.

(4) The Group incurred expenses of £9.6 million in the year in connection with the acquisition of SES Water and the related investigation by the Competition and Markets Authority (CMA). Due to the one-off nature and incidence of the costs they have been classified as non-underlying.

(5) Expenses in connection with the strategic review of renewal energy generating investments, not directly attributable to the intangible assets acquired, totalled £0.6 million. Due to the one-off nature and incidence of the costs they have been classified as non-underlying.

(6) The Group incurred expenses of £4.3 million in the year ended 31 March 2023. These related to the integration and statutory transfer of Bristol Water into South West Water. These costs are classified as non-underlying due to their non-recurring nature.

(7) 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 redemption 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 prior year. Associated legal costs of c.£1 million were also 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.

(8) The net tax credit arising on non-underlying items, relates to a deferred tax credit in respect of tax losses carried forwards, generated by business transformation costs. The prior year credit reflected a £2.8 million current tax credit in respect of losses carried back against prior year profits. The prior year also included a deferred tax credit of £1.9 million relating 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 prior year.

(9) 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 were recalculated to crystallise at 25%. 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 arose in the year ended 31 March 2023, in respect of tax losses carried forwards which will be relieved at 25%.

Notes (continued)

5. Net finance costs

	2024 Finance costs £m	2024 Finance income £m	2024 Total £m	2023 Finance costs £m	2023 Finance income £m	2023 Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(113.0)**	**-**	**(113.0)**	(111.3)	-	(111.3)
Interest element of lease payments	**(44.0)**	**-**	**(44.0)**	(30.8)	-	(30.8)
Other finance costs	**(5.8)**	**-**	**(5.8)**	(3.7)	-	(3.7)
Interest receivable	**-**	**7.1**	**7.1**	-	4.9	4.9
Net gains on derivative financial instruments	**-**	**3.8**	**3.8**	-	2.3	2.3
	(162.8)	**10.9**	**(151.9)**	(145.8)	7.2	(138.6)
Notional interest						
Retirement benefit obligations	**-**	**1.7**	**1.7**	-	2.0	2.0
Net finance costs (underlying)	**(162.8)**	**12.6**	**(150.2)**	(145.8)	9.2	(136.6)
Finance Income (non-underlying)	**-**	**-**	**-**	-	18.4	18.4
Net finance costs (including non-underlying)	**(162.8)**	**12.6**	**(150.2)**	(145.8)	27.6	(118.2)

In addition to the above, finance costs of £15.5 million (2023 £5.0 million) have been capitalised on qualifying assets included in property, plant and equipment, at an average borrowing rate of 6.4% (2023 5.7%).

Other finance costs include £1.1 million (2023 £1.1 million) of dividends payable on listed preference shares issued by Bristol Water, which are classified as debt.

6. Taxation

	Before non-underlying items 2024 £m	Non-underlying items (note 4) 2024 £m	Total 2024 £m	Before non-underlying items 2023 £m	Non-underlying items (note 4) 2023 £m	Total 2023 £m
Analysis of charge						
Current tax (credit) / charge)	**(0.6)**	**-**	**(0.6)**	(2.7)	(2.8)	(5.5)
Deferred tax - other	**4.9**	**(4.9)**	**-**	(0.6)	(1.9)	(2.5)
Deferred tax arising on change of rate of corporation tax	**-**	**-**	**-**	(0.3)	(0.6)	(0.9)
Total deferred tax charge / (credit)	**4.9**	**(4.9)**	**-**	(0.9)	(2.5)	(3.4)
Tax (credit) / charge for the year	**4.3**	**(4.9)**	**(0.6)**	(3.6)	(5.3)	(8.9)

UK corporation tax is calculated at 25% (2023 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 £0.6 million (2023 £2.7 million credit) and a prior year deferred tax charge of £nil (2023 £1.0 million credit). These items arise following changes to the Group's Corporate Interest Restriction calculations as a result of Viridor Group, which was disposed of in 2020, settling enquiries with HMRC, which had a subsequent effect on the Group.

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.

Potential ordinary shares, as discussed above, that could dilute basic earnings per share in the future, were not included in the calculation for statutory earnings per share because they were anti-dilutive for the current year. The weighted average number of shares and earnings used in the calculations are detailed in the table below.

Number of shares (millions)	**2024**	2023
For basic earnings per share	**266.6**	261.9
Effect of dilutive potential ordinary shares from share options	**-**	0.9
For diluted earnings per share	**266.6**	262.8

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:

	2024			2023		
	(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	**(9.5)**	**(3.6)**	**(3.6)**	0.1	-	-
Deferred tax (credit)/charge before non-underlying items	**4.9**	**1.9**	**1.9**	(0.9)	(0.3)	(0.3)
Non-underlying items (net of tax)	**21.0**	**7.9**	**7.9**	20.0	7.6	7.6
Adjusted earnings	**16.4**	**6.2**	**6.2**	19.2	7.3	7.3

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Notes (continued)

8. Dividends

	2024 £m	2023 £m
Amounts recognised as distributions to ordinary equity holders in the year:		
Interim dividend paid for the year ended 31 March 2023: 12.96p (2022 11.70p) per share	**33.9**	31.6
Final dividend paid for the year ended 31 March 2023: 29.77p (2022 26.83p) per share	**77.8**	70.0
	111.7	101.6

Proposed dividends

Interim dividend paid for the year ended 31 March 2024: 14.04p (2023 12.96p) per share	**40.2**	33.9
Final dividend paid for the year ended 31 March 2024: 30.33p (2023 29.77p) per share	**86.7**	77.8
	126.9	111.7

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

The proposed interim dividend for 2024 was paid on 5 April 2024 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 2023 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
For consideration of £0.5 million, shares issued under the Company's Sharesave Scheme	-	72,299	-
Shares issued	-	24,657,535	15.1
At 31 March 2024 ordinary shares of 61.05p each	**5,628**	**286,045,323**	**174.6**

9. Share capital (continued)

Shares held as treasury shares may be sold, re-issued for any of the Company's share schemes, or cancelled. During the year the Group issued 24,657,535 new ordinary shares of 61.05 pence each as part of the consideration for the acquisition of Sutton and East Surrey Water.

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

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

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

	2024 £m	2023 £m
Cash generated from operations		
Profit for the year	**(8.5)**	0.4
Adjustments for:		
Share-based payments	**1.2**	2.4
Profit on disposal of property, plant and equipment	**(0.7)**	(0.4)
Depreciation charge	**168.2**	151.1
Amortisation of intangible assets	**3.7**	3.6
Non-underlying bond early redemption gain	**-**	(18.4)
Share of post-tax profit from associated companies	**(0.7)**	(0.3)
Finance income (before non-underlying items)	**(12.6)**	(9.2)
Finance costs (before non-underlying items)	**162.8**	145.8
Taxation (credit) / charge	**(0.6)**	(8.9)
Changes in working capital:		
Increase in inventories	**(1.1)**	(2.3)
(Increase)/decrease in trade and other receivables	**(47.6)**	15.9
(Decrease)/increase in trade and other payables	**(2.0)**	34.6
Decrease in provisions	**(0.4)**	(0.6)
Cash generated from operations	**261.7**	313.7

Reconciliation of total interest paid	**2024 £m**	2023 £m
Interest paid in operating activities	**116.2**	159.7
Interest paid in investing activities	**-**	5.0
Total interest paid	**116.2**	164.7

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 £64.8 million (2023 £40.2 million) were received and a gain of £nil (2023 £nil) was recognised. These assets are being leased back at market rentals over varying lease terms from 9.0 to 9.5 years.

Notes (continued)

11. Net borrowings

	2024 **£m**	2023 £m
Cash and cash deposits	**171.4**	165.4
Borrowings – current		
Bank and other current borrowings	**(186.3)**	(92.7)
Lease obligations	**(51.9)**	(32.0)
Total current borrowings	**(238.2)**	(124.7)
Borrowings – non-current		
Bank and other non-current borrowings	**(2,658.7)**	(1,960.9)
Listed preference shares	**(12.5)**	(12.5)
Lease obligations	**(1,071.2)**	(1,032.7)
Total non-current borrowings	**(3,742.4)**	(3,006.1)
Total net borrowings	**(3,809.2)**	(2,965.4)

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

	2024 **£m**	2023 £m
Cash and cash deposits as above	**171.4**	165.4
Less: deposits with a maturity of three months or more (restricted funds)	**(26.0)**	(21.7)
	145.4	143.7

Notes (continued)

12. Contingent liabilities

	2024	2023
	£m	£m
Guarantees: Performance bonds	**13.8**	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 (EA) 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 action against South West Water Limited, the company is now included alongside the five companies which received enforcement notices in March 2022. The Group continues to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The Group has undertaken its own internal investigation and investment interventions have been undertaken at a small number of our sites. In addition, the Group has looked for opportunities for additional future investment to include further storm storage and an extension of its sewer misuse programme which has been shared with Ofwat. Ofwat have yet to formally respond on the investigation and the timing of a response is unknown, although has been potentially indicated for Summer 2024.

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

Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply from closing the investigation with no further action, agreeing to formal S.19 undertakings through to fining the Group up to 10% of its revenue in relation to the regulated drinking water business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty.

On 2 February 2024 summons were received by South West Water Limited from the EA in relation to alleged breaches of environmental permits relating to the illegal water discharge activity at 7 locations with a total of 30 charges. The initial court hearing took place on 16 April 2024 at which the company entered no plea, proceedings have been adjourned to 3 July 2024. In May 2024 the EA withdrew 6 of the 30 charges. The potential outcome of the remaining prosecutions 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 SES Water Group

On 10 January 2024, the Pennon Group acquired 100% of the issued share capital of Sumisho Osaka Gas Water UK Limited, which has subsequently been renamed Sutton and East Surrey Group Holdings Limited ('SESGHL'). SESGHL is the holding company of the SES Water Group which comprises Sutton and East Surrey Water plc ('SES Water'), a regulated water only company, and certain other ancillary businesses. The purpose of the acquisition was to expand the Group's presence in water supply across Southern England.

The acquisition of SESGHL is currently under review by the Competition and Markets Authority, and the SESGHL Group has been consolidated into Pennon PLC's consolidated financial statements from 10 January 2024 due to management's assessment of obtaining control of SESGHL as of that date in accordance with IFRS 10.

Revenue and profit contribution

For the period 9 January 2024 to 31 March 2024, SES Water Group contributed revenue of £35.7 million and loss before tax of £2.7 million to the Group's result. If the acquisition had occurred on 1 April 2023, management estimates that consolidated revenue would have been £1,031.1 million and consolidated loss for the year would have been £12.4 million. In determining these amounts, management have assumed the fair value adjustments, determined provisionally, that arose on the date of the acquisition would have been the same had the acquisition occurred on 1 April 2023.

13. Acquisition of SES Water Group (continued)

The details of the business combination are as follows:

Fair value of consideration transferred	£m
Amount settled in cash	**90.2**
Total consideration transferred	**90.2**
Fair value of assets and liabilities recognised on acquisition	
Property, plant and equipment	**441.6**
Intangible assets	**11.6**
Inventories	**2.1**
Trade and other receivables	**61.4**
Cash and cash deposits	**27.5**
Current tax receivable	**0.4**
Borrowings	**(360.1)**
Trade and other payables	**(65.3)**
Retirement benefit obligations	**3.3**
Deferred tax liabilities	**(47.5)**
Provisions	**(0.4)**
Identifiable net assets	**74.6**
Goodwill on acquisition	**15.6**
Outflow of cash to acquire subsidiary, net of cash acquired	
Consideration for equity settled in cash	**90.2**
Cash and cash equivalents acquired	**(27.5)**
Net cash outflow on acquisition	**62.7**
Acquisition costs paid charged to expenses	**9.6**

Acquisition related costs of £9.6 million are not included as part of the consideration transferred and were recognised as an expense in the consolidated income statement within other operating expenses.

The net assets recognised in the 31 March 2024 financial statements were based on a provisional assessment of their fair value, whilst all necessary information is finalised to complete the valuation exercise. The initial significant fair value adjustments are described further below and have been incorporated into the 10 January 2024 fair value balance sheet. The provisional fair value of trade and other receivables acquired as part of the business combination amounted to £32.9 million with a gross contractual amount of £35.1 million. At the acquisition date the Group's best estimate of the contractual cash flows expected not to be collected amounted to £2.2 million.

Goodwill is attributable to the recognition of deferred tax liabilities on fair value gains recognised as part of the acquisition. None of the goodwill recognised is expected to be deductible for tax purposes. Goodwill has been allocated to the water segment. The acquisition of the SES Water Group provides a strategic fit for Pennon Group plc as the Group expands its presence in water supply across Southern England.

Notes (continued)

14. Events after the reporting period

On 15th May 2024 outbreak of cryptosporidium was detected in the water supply in the Brixham area of Devon, causing South West Water to issue a notice to boil water before consuming. All customers issued with a notice to boil water have been offered with compensation of a bank payment or bill credit of £215 per household, the total cost to the Group being c.£3.5 million.

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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. In 2022/23, the following APMs were 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 resulting integration of Bristol Water plc into South West Water:

- 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 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 to provide an insight into South West Water's interest charges which incur a cash cost during the year. This provides a useful insight into South West Water's cash cost of debt amidst a high inflationary environment.
- 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.

In 2023/24, the following APMs were added or amended to those presented previously:

- The APM for 'Basic adjusted earnings per share (adjusted for share consolidation)' has been discontinued as the impact of the share consolidation is reflected in both the current and prior year.

(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 2024	Underlying £m	Non-underlying items Drought costs £m	SES acquisition £m	Renewables acquisition £m	Transformation £m	Statutory results £m	Earnings per share p
EBITDA (see below)	**338.3**	**(1.8)**	**(9.6)**	**(0.6)**	**(13.9)**	**312.4**	
Operating profit	**166.3**	**(1.8)**	**(9.6)**	**(0.6)**	**(13.9)**	**140.4**	
Profit before tax	**16.8**	**(1.8)**	**(9.6)**	**(0.6)**	**(13.9)**	**(9.1)**	
Taxation	**(4.3)**	**0.5**	**0.9**	**0.1**	**3.4**	**0.6**	
Profit after tax						**(8.5)**	
Non-controlling interests						**(1.0)**	
Profit after tax attributable to shareholders						**(9.5)**	**(3.6)**

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Alternative performance measures (continued)

(i) Underlying earnings (continued)

Underlying earnings reconciliation 31 March 2023	Underlying £m	Non-underlying items: 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	-

(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.

Alternative performance measures (continued)

(iii) 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.

	2024 £m	2023 £m
Net finance costs before non-underlying items (note 5)	**150.2**	136.6
Remove: net finance income before non-underlying items not associated with South West Water Limited's group of companies	**5.3**	8.7
Net finance costs before non-underlying items associated with South West Water Limited's group of companies	**155.5**	145.3
Net interest on retirement benefit obligations associated with South West Water Limited's group of companies	**1.4**	1.6
Capitalised interest	**14.1**	5.0
Net finance costs for effective interest rate calculation	**171.0**	151.9
Group net debt / (cash) (opening) (note 11)	**2,965.4**	2,682.9
Remove: opening net debt not associated with South West Water Limited's group of companies	**(100.1)**	(43.8)
Opening net debt for calculation	**2,865.3**	2,639.1
Group net debt (closing) (note 11)	**3,809.2**	2,965.4
Remove: closing net debt not associated with South West Water Limited's group of companies	**(514.5)**	(100.1)
Closing net debt for calculation	**3,294.7**	2,865.3
Average net debt (opening net debt + closing net debt divided by 2)	**3,080.0**	2,752.2
Effective interest rate (%)	**5.6**	5.5

(iv) 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).

	2024 £m	2023 £m
Net finance costs for effective interest rate calculation (as above)	**171.0**	151.9
Remove non-cash interest accrued (income statement indexation charge)	**(55.5)**	(66.8)
Net finance costs for effective cash cost of interest calculation	**115.5**	85.1
Opening net debt (as above)	**2,865.3**	2,639.1
Closing net debt (as above)	**3,294.7**	2,865.3
Average net debt (opening net debt + closing net debt divided by 2)	**3,080.0**	2,752.2
Effective cash cost of interest (%)	**3.8**	3.1

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Alternative performance measures (continued)

(v) Underlying interest cover

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

	2024	2023
	£m	£m
Net finance costs before non-underlying items (note 5)	**150.2**	136.6
Net interest on retirement benefit obligations (note 5)	**1.7**	2.0
Net finance costs for interest cover calculation	**151.9**	138.6
Operating profit before non-underlying items (see APM (i) above)	**166.3**	153.1
Interest cover (times)	**1.1**	1.1

(vi) EBITDA dividend cover

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

	2024	2023
	£m	£m
Underlying EBITDA (see APM (i) above)	**338.3**	307.8
Proposed dividends (note 8)	**126.9**	111.7
EBITDA dividend cover (times)	**2.7**	2.8

(vii) Group dividend cover

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

	2024	2023
	£m	£m
Proposed dividends (note 8)	**126.9**	111.7
Profit for the year attributable to ordinary shareholders	**(9.5)**	0.1
Deferred tax charge before non-underlying items (note 6)	**4.9**	(0.9)
Non-underlying items after tax in profit for the year (note 4)	**21.0**	20.0
Adjusted profit for dividend cover calculations	**16.4**	19.2
Group dividend cover (times)	**0.1**	0.2

(viii) 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.

	2024	2023
	£m	£m
Additions to property, plant and equipment	**604.5**	353.7
Additions to intangible assets	**45.0**	4.6
Capital investment	**649.5**	358.3

(ix) 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.

	2024	2023
	£m	£m
Cash flow statements: purchase of property, plant and equipment	**555.1**	326.6
Cash flow statements: purchase of intangible assets	**43.8**	4.6
Cash flow statements: proceeds from sale of property, plant and equipment	**(0.8)**	(0.7)
Capital payments relating to the Group	**598.1**	330.5

PENNON GROUP PLC

Alternative performance measures (continued)

(x) Group return on capital employed

The total of underlying operating profit divided by capital employed (net debt plus total equity invested).

	2024 £m	2023) £m
Capital employed (opening):		
Net debt (note 11)	**2,965.4**	2,682.9
Total equity invested	**554.2**	551.9
Opening capital employed for return on capital employed calculation	**3,519.6**	3,234.8
Capital employed (closing):		
Net debt (note 11)	**3,809.2**	2,965.4
Total equity invested	**729.9**	554.2
Closing capital employed for return on capital employed calculation	**4,539.1**	3,519.6
Underlying operating profit (see APM (i) above)	**166.3**	153.1
Capital employed for return on capital employed calculation (opening capital employed + closing capital employed divided by 2)	**4,029.4**	3,377.2
Return on capital employed (%)	**4.1**	4.5

Alternative performance measures (continued)

(xi) 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.

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

(xiii) 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.

(xiv) 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.