



Annual Report and Accounts 2025

Bringing water to life

**Supporting the lives of people and the places
they love for generations to come**

Contents

Strategic Report

Pennon at a glance	1
Group highlights	2
Our sector – a changing landscape	4
Delivering on our priorities	6
The markets in which we operate	7
Chair's letter	8
Our CEO review	10
WaterShare	15
2020 – 2025 K7 timeline	16
Outlook for K8 (2025 – 2030) – 'We're doing this'	18
Embarking on K8: Our largest ever investment programme	19
Our business model	20
Pennon, a business that listens and acts: Stakeholder engagement overview	22
Our people and culture	32
Our operational review	
Building water resources, improving water quality	40
Tackling storm overflows and pollutions	44
Driving environmental gains	48
Supporting affordability, delivering for customers	52
Our operational KPIs	56
Our financial KPIs	59
CFO's Review	61
Risk management	70
Viability statement	80
Our integrated approach to ESG	82
Our ESG performance	83
Shaping our ESG approach	84
Net Zero – our promise to the planet	88
Sustainability reporting	91
Task Force on Climate-related Financial Disclosures (TCFD)	
and Task-Force on Nature-related Financial Disclosures (TNFD)	94
Non-financial and sustainability information sheet	126

Governance

Governance at a glance	128
Chair's introduction	130
Our Board	
The Board	132
Pennon Executive Board	134
Monitoring purpose and culture	135
Board leadership	136
Division of responsibilities	137
An effective Board	138
Key activities of the Board	140
How the Board engages with stakeholders	142
Composition, succession and evaluation	145
Our s172(1) statement	146
Nomination Committee report	148
Audit Committee report	151
Audit, risk and internal control	156
ESG Committee report	158
Health and Safety Committee report	161
Remuneration Committee report	163
Directors' Remuneration report	166
Directors' report	184

Financial Statements

Independent auditor's report	188
Financial statements	194
Notes to the financial statements	200

Other Information





Alternative performance measures	248
Five-year financial summary	252
Glossary	253
Shareholder information	254

Our Annual Report and the other reports in our corporate reporting suite can be found on our website: www.pennon-group.co.uk/investor-information/financial-reports-and-presentations

Our reporting suite

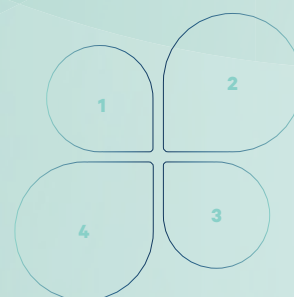
Clear and transparent reporting is important to us and our stakeholders. Our Annual Report is supported by additional disclosures contained in our wider corporate reporting suite.

These include:

-  [Net Zero plan](#)
-  [Modern slavery statement](#)
-  [ESG Databook 2025](#)
-  [Gender and Ethnicity Pay Gap Report 2025](#)

Cover photo credits/captions:

1. Alderney Water Treatment Works: investing to improve your drinking water services
2. Storm tank 47 at Lifton
3. Granular Activated Carbon (GAC) at Littlehempston water treatment works
4. Smart meter




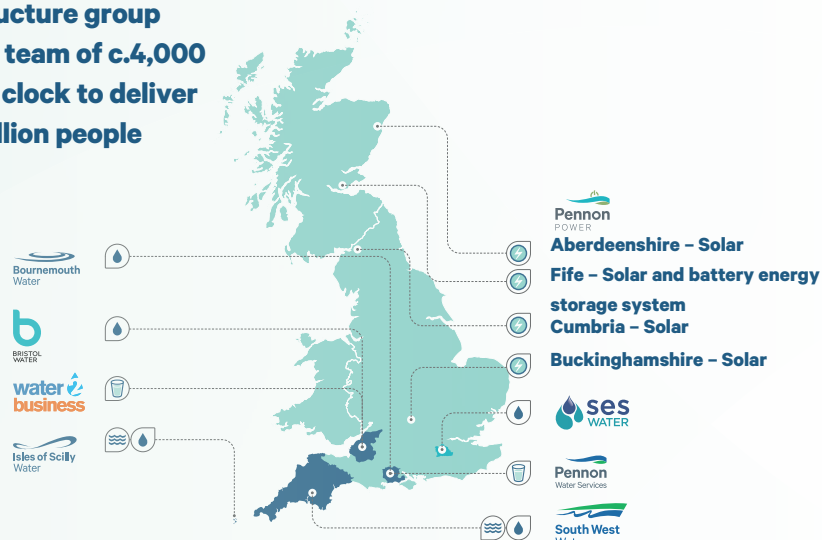
Pennon at a glance

Pennon is an environmental infrastructure group focused on the UK water sector. Our team of c.4,000 brilliant colleagues work around the clock to deliver over 1 billion litres of water to 4.3 million people every day.

Our locations

Key:

-  Water services
-  Wastewater services
-  Water retail services
-  Renewable energy generation



Our businesses

South West Water

c.1.8m

population served

c.480m litres
of drinking water per day

Supplying Cornwall, Devon and small areas of Dorset and Somerset

c.25,300km
of sewers in the South West region

Isles of Scilly

c.2,100

population served

c.700k litres
of drinking water per day

Assumed responsibility in 2020

Operations



41

reservoirs

66

Water treatment works

655

Wastewater treatment works

Bournemouth Water

c.0.5 m

population served

c.160m litres
of drinking water per day

Supplying parts of Dorset, Hampshire and Wiltshire

Acquired in 2015

Pennon Water Services

c.95,000

customer accounts

4.8

out of 5 Trustpilot score

Customers



c.23,000

customers moved onto social tariffs in 2024/25

£124m

of financial support provided to customers since 2020

Bristol Water

c.1.2m

population served

c.280m litres
of drinking water per day

Supplying the city of Bristol and surroundings

Acquired in 2021

Water 2 Business

5.0

out of 5 Trustpilot score

SES Business water

c.15,000

customers accounts

Communities



£100,000

awarded to 55 different charities and groups by the South West Water neighbourhood fund

c.8,000

children taught in 141 lessons using South West Water education resources

SES Water

c.0.8m

population served

c.160m litres
of drinking water per day

Supplying parts of Surrey, Kent and South London

Acquired in 2024

Pennon Power

135 GWh

of future annual power generation

Enough electricity to power

40%

of operations

People



c.4,000

brilliant colleagues

0.24

Lost Time Injury Frequency Rate for employees and agency staff has reduced for the fourth year in a row

All figures as at 31 March 2025, other than population and litres of drinking water per day, which are as at 31 March 2024, as shown in South West Water's Annual Performance Report and Regulatory Reporting 2024- version 2 (January 2025) and SES Water Annual Performance report 2024.

Group highlights

Financial highlights

Group capital investment[^]

£652.5m

(2023/24: £649.5m)

Investing to deliver on our commitments

Return on regulated equity (RORE)[^] (%)

6.0%

(2023/24: 7.6%)

Strong financing performance, offset by increased investment, cost pressures, and ODI performance

RCV – Water Group[^]

£5,983.1m

(2023/24: £5,536.0m)

reflects regulatory true-ups identified in the PR24 FD, inflation, and additional accelerated investment and expenditure

Water Group Gearing[^]

61.8%

(2023/24: 64.4%)

increased capital expenditure and reduced operating cash flows

Revenue

£1,047.8m

(2023/24: £907.8m)

Benefiting from acquisitions of SES

Operational highlights

Cumulative ODIs achieved c.70%



Building water resources, improving water quality

Strong water resources position, with over

90%

full

Supply Demand Balance Index

100%

with industry-leading water quality metrics

Water quality (CRI score)

1.19

for SWB region. 2024 saw our best performance achieved during the five-year regulatory period

SES Top performer for water quality



Tackling storm overflows and pollutions

Industry-leading internal sewer flooding

c.40%

reduction in network pollution incidents over K7

Our provisional score of

2*

for the EPA rating for 2024 calendar year

Spills reduced by

4%

despite wettest hydrological year on record

Bathing beach releases during the bathing season down by

20%

since 2020

[^] Measures with this symbol are defined in the Alternative Performance Measure (APMs) as outlined on pages 248 to 251.

Underlying EBITDA[^]**£335.6m**

(2023/24: 338.3m)

Steady EBITDA with efficiency initiatives offsetting cost inflation

(Loss)/profit before taxUnderlying[^]**£(35.1m)**

(2023/24: £16.8m profit)

Statutory

£(72.7m)

(2023/24: £9.1m loss)

Depreciation and interest have increased as a result of the increased capital investment

Dividend per share**31.57 pence**

(2023/24 (restated):

36.67 pence)

Rebased, following Rights Issue

Earnings per shareUnderlying[^]**(10.3) pence**

(2023/24 (restated):

5.1 pence)

Statutory

(16.1) pence

(2023/24 (restated):

(2.9) pence)



Driving environmental gains

**Phosphorous reduction of****c.80%**

phosphorous reduction across 37 sites

RNAGs improving from

19% to 12%

over 2024/25

Award-winning catchment management programme**c.144,000**

hectares improved since April 2015, c.21.000 hectares more than our March 2025 target

389,306

trees planted



Supporting affordability, delivering for customers

**Average****8th**

on basket of industry customer measures

4.8

Trustpilot score for PWS

Affordability**100%**

(Meeting our pledge for zero in water poverty)

£124m

of financial support

[^] Measures with this symbol are defined in the Alternative Performance Measure (APMs) as outlined on pages 248 to 251.

Our sector – a changing landscape

This year has been pivotal for the sector

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

Price Review (2025-2030)

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

At the heart of Pennon's plans is a £3.2 billion¹ investment programme which drives forward our four strategic priorities across all regions we serve: ensuring resilient water supplies and excellent drinking water quality; improving water quality by reducing pollution levels and the reliance on storm overflows; driving net zero and environmental gain; and delivering for customers whilst keeping bills increases affordable. Our plans are ambitious and as a result South West Water was one of only two plans recognised by Ofwat as 'outstanding' with the funding and scope of work largely supported, setting us up to deliver for the long-term. This is the third price review in a row that the South West Water plan has achieved the top rating from Ofwat, something no other company has achieved. SES Water's plan is also set to deliver improvements for customers and communities.

New legislation

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

Independent Water Commission

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

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

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

Championing customers, regions and communities

We also believe we have much to contribute as a listed business with a model that advocates strong governance. As a Group, our regions are distinctive, largely rural and boast some of the UK's most unique natural environments. We also serve key urban centres from Bristol to Exeter, Plymouth and Poole, and through SES serve Gatwick Airport, which plays a significant role in the UK's economic growth.

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



1. At forecast outturn prices.

Our regulators and policy makers

Department for Environment, Food and Rural Affairs (Defra)



Department
for Environment
Food & Rural Affairs

Defra sets the overall policy framework in England, including the environmental and service requirements. Climate change, growth, consumer expectations, and macroeconomic trends all impact on the policies that Defra sets.

Ofwat



Ofwat is the economic regulator, with duties to protect the interests of consumers, ensure companies can carry out their functions, and ensure companies can finance their functions – through promoting efficiency, innovation, competition and economic growth.

Environment Agency (EA)



Environment
Agency

The EA is the environmental regulator focused on protecting and improving the environment.

It is also responsible for managing and reducing flood risk. The EA is a principal advisor to Defra on the water environment.

Natural England



Natural England is the government's advisor on the natural environment, with the aim of protecting and improving the natural environment.

Drinking Water Inspectorate (DWI)



The DWI is the drinking water quality regulator, with responsibility for ensuring that companies supply wholesome water that is clean and safe to drink.

Consumer Council for Water (CCW)



CCW represents the needs of customers, and supports customers who have complaints about their water company.

OFGEM



Ofgem is Great Britain's independent energy regulator. They work to protect energy consumers, especially vulnerable people, by ensuring they are treated fairly and benefit from a cleaner, greener environment. They are responsible for:

- working with government, industry and consumer groups to deliver a net-zero economy, at the lowest cost to consumers;
- stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable;
- enabling competition and innovation, which drives down prices and results in new products and services for consumers.

Delivering on our priorities

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



Serving more customers and communities across our regions

- Ongoing delivery of our acquisition strategy through expanding our footprint in the UK Water sector
- Synergies from Bristol Water are now delivered with strong progress made in delivering benefits from the SES acquisition



Delivering on our four strategic priorities

- We have reshaped our business to establish four business units, focused on Water Services, Wastewater Services, Pennon Power and Retail Services, to align delivery with our four strategic priorities
- Our reshaping of the Group aligns our operating model with our four strategic priorities, allowing us to focus on delivering on our customers' priorities
- We are also bolstering front line staff, and ensuring we have a best-in-class customer service platform to serve our customers



Reset and rebased for K8

- Robust balance sheet, with Water Group gearing at 61.8% and Pennon Group gearing of 64.3%
- We have continued to invest record levels in our asset base, with £652.5m in the current year as we focus on the things that matter most
- Our strong investment grade credit ratings, secured in the year, place us well for funding our ongoing investment programme
- We have progressed £76m annualised efficiencies of our targeted £86m efficiencies, resetting our cost base and integrating Bristol and SES into our Group



Strong Platform secured for the future

- Return to profitability, with reset revenue and efficient cost base
- Successful water efficiency in 2024/25 supports customer affordability as tariffs increase
- Supported by sustainable supply chain through our delivery partners – our 'Amplify' delivery alliance

The markets in which we operate



Household water sector

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

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

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

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

2020 saw the successful adoption of the Isles of Scilly, with customers benefiting from first time water and sewage. We followed this with the acquisition of Bristol Water in 2021. This year we announced we are resurrecting plans for Cheddar 2, a strategic reservoir that will not only benefit customers in and around Bristol but across the wider south west. Most recently, we acquired Sutton and East Surrey Group, securing its financial resilience to serve customers.

Our investors have been supportive throughout, helping us to invest to grow and innovate. Many of our shareholders are ordinary people, relying on us for their pension funds, or investments, our employees and, unique to Pennon, our customers. WaterShare+ is a UK first, demonstrating how a socially responsible model can successfully develop in a monopoly market. With c.80,000 customers as shareholders, this is nearly five times the number of institutional shareholders. Customers have all the voting rights this affords, whether holding us to account at quarterly public meetings, or attending the AGM, their voice is always the loudest.



Non-household retail sector

The non household retail market allows up to 1.2 million businesses and other non-household customers across the country to choose their retailer. The non-household market operates through a controlled portal operated by market operator services limited. This is required due to the separation of the wholesale and retail arms of water businesses.

Pennon supported the development of the Business-to-Business market, establishing Pennon Water Services. We now have c.15% market share along with Water2business, and SES Business Water, delivering excellent customer service in England and Scotland, and with Trustpilot scores that rival that of John Lewis and Amazon.



Pennon Power

Pennon Power is entirely owned by the Pennon Group, which will generate clean energy. Pennon Power was established to support delivering on the Group's Net zero commitments and to provide finance protection from energy price volatility, whilst providing sustainable financial returns.

The energy market is regulated by the independent energy regulator Ofgem.

To date Pennon Power has acquired four projects in the UK, and once operational the projects will generate enough electricity to power c.50,000 homes.

Along with our renewable energy investments at Pennon Power, we are also investing to accelerate 2030 net zero commitments.

Chair's letter



David Sproul

Pennon Chair

Read more about David on pages
132 to 133

**“We have a strong
foundation and a
clear purpose”**

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

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

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

I'm confident that, looking forward, you will see the benefit of our investment and growth plans, increasing innovation, improving environmental performance and offering better services for customers, as Pennon looks to build on the momentum we announced this year, with a determined record £3.2 billion¹ to invest in the regions to 2030.

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

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

Supporting our c.4000 employees has to be at the heart of what we do. If our employees feel supported and engaged, then everything else follows. It's not always been easy for them, given they live and work in the regions we support, and when the sector headlines have been challenging.



You can read more on how we are engaging with our stakeholders in our Section 172(1) statement on pages 146 to 147.

1. At forecast outturn prices.

“There has never been a more important time to make a positive contribution to the sector and society. What Pennon does for customer, communities and the environment really matters.”

I have also spent time talking to investors and our regulators. There is more alignment, than difference. We all recognise that the long-term success of our Company and the sector is intrinsically linked to the health of the natural environment, our financial health and supporting customers. That's why the Board will be extending its pledge to support customer affordability to 2030, and with a £200m support package.

I'd like to recognise the support from our investors, and debt providers for endorsing our fully underwritten rights issue in January 2025, used to maintain our robust balance sheet resilience, and fund investments in our water businesses across a range of transformational projects. With a rebased dividend per share, growing in absolute terms, by CPIH (Consumer Price Index with Housing costs), coupled with c.34% organic RCV growth projections to 2030, we believe this represents an attractive combination of underlying asset growth and income.

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

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

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

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



David Sproul
Chairman

3 June 2025

Q&A with our new Chair

Q: What attracted you to join Pennon Group and what were your first impressions?

What Pennon does matters and this next period is going to be truly consequential for the sector and the Group. The opportunity to join the Board and help shape how we respond to the opportunities ahead of us and the challenges the sector faces was one I could not turn down.

Q: What have been the key highlights for the Board this year?

It's been a very active year for the Board but three highlights would be the successful rights issue, working with Susan and her executive on the planning for delivery of the AMP 8 plans and the Board site visit to our new Alderney Water treatment plant.

Q: What are the key priorities for the Board in 2025/26?

The Board has a particular focus on ensuring the £3.2 billion¹ of investments now committed deliver the improved performance outcomes expected; this is particularly in the waste business to reduce pollutions incidents and storm overflows and in the water business to reduce leakages.

Our CEO's review



Susan Davy

Pennon Chief Executive Officer

Read more about Susan on pages 132 to 133

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

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

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

We are doing both.

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

We have successfully closed out the K7 regulatory period to 2025, having delivered higher than allowed base regulatory returns and consistently been a top quartile performer against stretching regulatory outcome performance metrics. The solid operational performance, across all parts of the Group, whether you are a South West Water (SWW), Bristol Water (BW) or Sutton and East Surrey (SES) customer was recognised in Ofwat's Water Company Performance Report in 2024. Alongside this, our Business to Business Retailers Pennon Water Services and W2B are consistently securing top ratings from Trustpilot.

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

Of course, there are also areas where we need to improve our performance, which is one of the reasons we have also reshaped the group with clear business lines, aligned to our four strategic priorities, building water resources and improving water quality, tackling storm overflows and pollutions, driving environmental gains and supporting affordability and delivering for customers. I now have in place Managing Directors leading key delivery aspects for waste water, drinking water, retail services and renewable energy. This new structure ensures there is a direct line of sight into the business and the systems, processes and governance. Having considered the ongoing sector wide and company specific investigations, the refreshed

pillars of governance are supporting rectifications we have identified through delivery on action plans as we await any findings. Through rightsizing, we are focused on having more of our colleagues on the front line having increased these teams by c.35%. This puts us in a good position as we head into K8.

Having received outstanding/good assessments for our SWW and SES respective business plans, we are well positioned to deliver on our plans for K8, with another period of significant growth.

With our robust deployment of capital, our growing footprint gives us a strong platform for delivery, and we were pleased to receive fast tracked clearance from the CMA in June 2024 for our acquisition of SES. Having integrated Bristol, we are well progressed with the SES integration, using our well-established integration blueprint.

Our capital delivery supply chain partnership 'Amplify' has already been stood up, delivering on over 1,000 schemes, representing one third of the £3.2 billion earmarked for investment to 2030. Expenditure for K8 was accelerated, and by April 2025 we had invested c.£85 million (c.£65 million to March 2025), kick starting our plans to reduce spills from storm overflows, investing in water treatment enhancements and improving services to customers. Once again, we have had record investment in 2024/25 at £652.5 million, aligned with the step change run rate required for K8.

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

Financially, we have good liquidity and a strong balance sheet having raised £1.3 billion in 2024/25 following the rights issue earlier this year, coupled with debt capital market funding. We have encouraged customers to use less water, and for 2024/25 that has impacted our revenues. Coupled with the financing costs of accelerated capital investment, we have reported a loss this year. This is a point of inflection into K8, where we will see a return to profitability. We have driven cost base efficiencies to offset inflation increases and rightsized and rightshaped the business, with cumulative efficiency benefits of c.£76 million.

As part of our reshaping and reset, following the rights issue, we have reset the dividend policy for 2024/25, growing the dividend in line with inflation from a re-based position.

“We have ended this year in a resilient position, giving us a strong platform for delivery”

Q&A with our CEO

Q: What has been the stand out for this year?

Our customer and community roadshows are always a personal highlight for me. I get to speak to thousands of customers regularly. From questions about storm overflows to hosepipe bans, bonuses and dividends to bills and everything in between, they are always challenging conversations. For me, it's all about building trust and changing perceptions, one conversation at a time. We also have a fantastic customer panel as part of Watershare+, with panel members representing the views of customers from across all regions. They are really good at holding my executive team and I to account for making sure we are walking in our customers shoes.

Of course, we could not do anything without the support of our brilliant teams. I'm a firm believer that if we want to deliver for customers, our investments have to be in people too. I am extremely proud of my c.4,000 brilliant colleagues, and what we do to support training and skills. From our apprenticeship programmes, graduate schemes and our award-winning HomeSafe programme, it's right we support everyone to be the best they can be. It's also the reason I was honoured to take on the role as President of the Institute of water this year, celebrating its 80th year, marking decades of developing people and the sector. It's right we celebrate the past and present and inspire the future.

Q: How do you reflect on the environmental performance?

Running a water company, is effectively running a water recycling system for the region. Every day we work with and are reliant on the natural environment, so when things do go wrong, as can happen from time to time with critical infrastructure, the impact on customers, communities and the environment can be devastating.

Our teams have worked really hard in reducing pollutions to homes, businesses and land. We're now the best performing company at tackling flooding to homes and businesses, with a 68% reduction over the past 5 years and a c.14% reduction this year. For five years running we have not had a category 1 incident with some of the lowest absolute levels of serious pollutions across the sector.

Now, you won't see this reflected in our EPA performance, as that focus on pollutions to watercourses, and that is where we need to improve our performance, and I'll be the first to say we still need to do more. We anticipate the EPA for 2024 categorising SWW with a 2 star performance. Beneath the headlines there is progress on tackling water pollutions, with those arising from our networks reducing by 40% over this regulatory delivery period. Let's be clear though, one pollution is one pollution too many.

We have got a 15-year programme to reduce the use of storm overflows, it's going to take time, but we're out of the blocks. We're only one of only five companies to reduce spills in 2024, and for bathing waters, we have seen a reduction by c.20% since 2020, maintaining our 100% bathing water quality on a like-for-like basis for the fourth year in a row.

Q: Do you think you have got the priorities right for the business?

I can answer this one with an emphatic yes, and it's not just my view, it's a shared view from customers, regulators and our shareholders.

In setting the four priorities as part of our business plan for SWW and SES, we embarked on our largest ever direct customer engagement, gathering the views and feedback of over 250,000 customers and 1,000 stakeholders, and based on the all the things customers told us they care about most.

I believe it's the reason why Ofwat gave us the green light to make our largest ever investment of £3.2 billion and rated our plan as outstanding, for the third consecutive price review, because we could demonstrate what it would do for customers and communities.

It also the reason that we were able to successfully execute our rights issue, with supportive investors, a strong balance sheet and good liquidity, we're positioned well for the future as invest to build new reservoirs, fix storm overflows, power our net zero ambitions and deliver improved services for customers.

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

We remain resolutely focused on our customer's key priorities, areas we know they truly value. With record levels of investment in 2024/25, we are focused on tackling the use of storm overflows at our beaches and reducing pollutions, protecting water quality and enhancing resilience, driving environmental gains and supporting our customers in making sure their bills are as affordable as they can be, whilst delivering improved services.

Reducing pollutions and tackling the use of storm overflows

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

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

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

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

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

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

Protecting water quality and enhancing water resilience

The top priority for our customers is safe clean drinking water, across Bristol, Bournemouth, Devon, Cornwall, the Isles of Scilly, and now with the recently acquired Sutton and East Surrey region.

We have been investing to enhance resilience and protect water quality.

This has been a monumental undertaking, with teams across South West Water and our supply chain partners. Blackpool pit has been fully operational during 2024/25, coupled with construction completing at the new treatment works at Rialton. That means for Cornwall we have supplemented resources available for use cumulatively since 2022 by 34%, with 4% extra delivery this year, having delivered the 30% uplift for Devon in 2023/24. Whilst there are rising concerns nationally about water resources, after the driest start to spring 2025 in 69 years, we have already learnt more about managing through drought than most, given the 1 in 200 year drought we experienced in the South West in 2022. Simply put, we have invested and innovated to break the cycle of drought, repurposing disused mines and quarries as mini reservoirs and building network recharge schemes. As a result, with the scenarios we have modelled, we do not anticipate restrictions to supply across our regions this summer.

There are always two sides to the coin. Reducing demand is also fundamental to future resilience alongside tackling our own production losses and leakage from our network. Across K7, we have reduced leakage by 13% in SWW, 1% in Bristol and 19% in SES. Whilst we narrowly missed the stretching leakage targets for 2024/25 for SWW and Bristol the in-year leakage results for 2024/25 were a 9% and 4% improvement respectively on the prior year. In SES leakage reduced by 3% meeting our 2024/25 target.

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

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

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

Driving environmental gains

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

With our commitment to Net Zero, our investment in Pennon Power has continued with over half of our targeted capacity already under construction at three sites across Fife, Aberdeenshire and Cumbria, with one further site where we have appointed preferred partners. Returns for these assets, post energisation on an unlevered basis are between 7-9%, and on a levered basis between 11-15%. With PV construction for Fife completed, energisation is expected in June 2025, having secured revised grid connection timings.

Supporting affordability, delivering for customers

In tackling affordability, it is about doing two things, keeping bills as low as possible and supporting those who find themselves struggling with affordability. By focusing on efficiency, we have kept bills as low as possible over the last decade to 2025, with increases below headline inflation over that period. We are supporting more customers than ever before with over 150,000 across the group benefiting from our support frameworks. By unlocking over £124 million of financial support we have increased affordability to 100% for customers in South West and Bristol, having met our pledge of having zero customers in water poverty by March 2025. Alongside supporting customers we have also supported 55 charities through our neighbourhood fund.

That said, with the significant investment we will be making, bills are rising by on average c.28% in 2025/26 for SWW customers, with the average water and sewerage bill now being c.£1.85 per day. Water bills for customers in Bristol and SES are set to rise by 5% and 3% respectively. We know customers are worried about the necessary bill increases to support investments. The majority of the funding will come from shareholders and debt providers, meaning that customers will pay around a third. At the same time, we will support those who need it most with a £200 million support package, building on our 100% affordable bill pledge. We have continued to support our vulnerable customers through our priority services register to ensure they have our support when they need it.

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

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

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

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

Record investment and growth

Record investment in K7 – with £652m in 2024/25, at the run rate for K8.

Investment reflects the ongoing focus on transitioning to K8, as well as delivering the final regulatory commitments for K7. With more resilient water resources, excellent progress on our state of the art water treatment works in Bournemouth and 100% water quality at bathing waters, our investment is delivering benefits as we have closed out the regulatory period. We have accelerated K8 investment, which coupled with our strategy of consolidation in the UK water sector, has resulted in RCV[^] growth of 75% over K7.

Investment in Pennon Power of c.£41 million reflects the construction at three sites as the four site build programme accelerates.

Point of inflection for 2024/25

We have reset and reshaped ahead of K8.

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

Secondly, having delivered £76 million of cumulative annualised efficiency savings in 2024/25 as we reshape the Group and integrate SES, towards our targeted annualised savings of c.£86 million in K8, this is an important base from which to deliver the K8 business plans.

Thirdly, having ramped up capital expenditure during K7, we are delivering at the required K8 run rate, with the supply chain alliance 'Amplify' in place.

Our Return on Regulated Equity[^] for SWW is relatively strong, at 10.4% on a nominal basis, and 6.0% on a real notional WaterShare basis (10.3% and 5.9% including Bristol). We are delivering for investors as well as customers, with robust relative performance on common ODIs, with overall cumulative ODI performance at c.70%. SES, with a reshaped balance sheet, will increase its performance in K8.

And finally, we have retained and grown our profitable sector leading B2B retailers PWS and Water2Business. They are both improving profit before tax against the prior year, with c.15% market share, delivering excellent customer service in England and Scotland, and with Trustpilot scores that rival that of John Lewis and Amazon.

Underpinning all our activities is a robust funding position, with total water group RCV gearing[^] of 61.8%. With a strong balance sheet and good liquidity, we maintain the agility to deliver on our strategy in UK Water and are well positioned for a sustainable future.

A sustainable future in the UK water sector

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

Standing ready to implement new legislation, government review

This has also been a year in which many of the foundations, underpinning effective regulation, have been under review, with a new Government, new legislation and a renewed focus on the sector. The Water (Special Measures) Act, passed in February has been an important first step, strengthening the power of water industry regulators, with Ofwat now consulting on the supporting rules. We have responded and await the outcome. As a principle, we always strive to ensure we maintain constructive working relationships with government and our regulators. It is what the public expects from us. However, to effectively regulate a transforming sector, we recognise that regulation should also reset. As a sector providing critical national infrastructure, we do believe we should be governed in the same way as other utilities, making a strong case for a more investable, resilient and predictable sector, and in unlocking long term capital at fair rates. We stand ready to implement what is required and continue to contribute to the independent Water Commission's review of water.

Our people

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

Our c.4,000 talented colleagues don't just bring water to life every day; we drive economic growth, and break down barriers to opportunity, supporting livelihoods in the areas we serve. As one of the largest private employers in the South West, and across the Group, leadership is all about making this a great place to work, and a safe place to work. Our most recent employee engagement scores were the highest we have ever had, and health and safety engagement is consistently our best scoring area. Our health and safety track record has improved for the past five years, as we focus on making sure everyone who works for us and with us, goes home safe every single day, through our HomeSafe culture programme, and with our lowest ever LTIFR rate, which has halved over the last five years.

Our partnerships with the wider supply chain and our 'Amplify' alliance more than doubles our workforce and plays a critical role in the regions too. As a living wage employer, we continue to invest in skills and jobs, and the only water company recognised by the Government as a top 100 apprenticeship employer, with our earn and learn approach and as a member of the 5% club with platinum status. With our 680 apprenticeship and graduate placements we are well on with our own target of 1,000 by 2030. With organisations like the Institute of Water, we are focused on making sure we have the talent and trained colleagues we need across the sector for our record investment and delivery.

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

Strong platform for the future

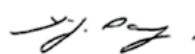
The fundamentals for the business are robust for a sustainable future.

Our growing footprint puts us on a strong platform for delivery. We have good liquidity, having delivered higher than base allowed regulatory returns and consistently been a top quartile performer against our regulatory outcome performance. Following the successful oversubscribed rights issue earlier this year, we have a strong balance sheet.

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

As we look ahead, we are set to invest a record level of £3.2 billion¹ by 2030, having achieved a sector leading plan in SWW for three consecutive price reviews. With Managing Directors now in place for Water Services, Wastewater Services, Pennon Power and Retail Services, we are reshaping the Group aligned to the new model, with more resources and capabilities, on the front line, supported by expert corporate functions, ensuring we are well positioned to deliver our outstanding business plan for K8, and another period of significant growth.

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



Susan Davy
Pennon Chief Executive Officer

3 June 2025

1. At forecast outturn prices

[^] Measures with this symbol are defined in the Alternative Performance Measure (APMs) as outlined on pages 248 to 251.

WaterShare

Building a deeper relationship with customers through our pioneering WaterShare+ scheme, giving customers both a say and a stake in the business, has been an important and innovative step in advancing a new type of social contract with our customers, and one we are very proud of.

Sharing our success with customers is at the heart of WaterShare+. Put simply, when we deliver, customers also benefit.



Innovative approach, first of its kind

The basis of WaterShare+ is

- Innovative voluntary mechanism for sharing regulatory outperformance with South West Water customers, endorsed by Ofwat
- Making the interests of customers and investors more aligned
- WaterShare+ share scheme ensures no dilution of existing shareholdings and voting rights in Pennon

The WaterShare Panel

Alongside customers having the opportunity to attend company AGMs, the independent WaterShare+ Panel performs a vital role, they directly represent customers, meeting with the water businesses to challenge on performance, champion customer concerns, and provide assurance on our performance reporting.

Third Issuance

In early 2025 we launched our rights issue entitling shareholders to subscribe for 13 new ordinary shares for every 20 existing ordinary shares held. This meant that many WaterShare+ Shareholders would only be entitled to fractional entitlements to shares under the rights issue, rather than the right to subscribe for any additional new ordinary shares. Therefore, the Board agreed that to the extent net proceeds arising from the sale of fractional entitlements under the rights issue and proceeds from the rump sale were retained and accrued for the benefit of the Company, these amounts will be applied (subject to receiving the requisite shareholder approval in due course) towards offering those WaterShare+ Shareholders who, because of the rights issue ratio, will not be entitled to subscribe for any new ordinary shares, the opportunity to receive a single further ordinary share in recognition of their not being able to participate in the rights issue.

Timeline

2020



September 2020

- WaterShare+ launched as part of our business plan to 2025
- First Issuance to 35,000 customers or £20 credit to their bills

2021



September 2021

- First customer AGM

2023



February 2023

- Second issuance – including Bristol Customers

2025



2025

- Date of third issuance

2020-2025 K7 timeline

2020

April 2020

Isles of Scilly

South West Water was appointed as licensee and began operating the water and sewerage services on the Isles of Scilly.

July 2020

Sale of Viridor, our former waste management business

The Board oversaw the successful and significant milestone in the evolution of Pennon, enacting a strategic review, having consulted with our largest institutional shareholders and acting in the best interests of all shareholders. We announced the proposed transaction to dispose of Viridor Limited for £4.2 billion on 18 March 2020, and this sale completed on 8 July 2020.

August 2020

Mayflower water treatment works, serving Plymouth, entered operation

September 2020

Launch of WaterShare+ scheme

As part of our New Deal K7 business plan, we launched our innovative WaterShare+ scheme, sharing £20 million of outperformance with customers, and giving them not only a say in what we do, but a stake too.

2021

March 2021

Restructuring of Pennon company debt

Following the disposal of Viridor, £1.1 billion principal debt was repaid. The significant majority of these borrowings were originally drawn to fund the investment phase of Viridor.

May 2021

Green recovery investment

Following a detailed assessment by Regulators, Ofwat published their draft green economic recovery decisions accelerating investment for customer priorities, outlining additional environmental investment for South West Water's Green Recovery Initiative over the period to 2025, with no impact to customer bills in K7. Our Green Recovery Initiative, developed with customers and stakeholders, proposed a set of schemes benefiting our region, delivering significant benefits for customers, society and the environment.

June 2021

Acquisition of Bristol Water

Acquired 100% of the issued share capital of Bristol Water Holdings UK Limited and its subsidiaries, including Bristol Water plc from its indirect shareholders: infrastructure funds advised by ICON Infrastructure LLP (80% of the shares); and ITOCHU Corporation (20%) for an equity value of £425 million. At the same time, Pennon also announced a return of capital to shareholders, consisting of a Special Dividend and a share buy-back programme.

COVID-19

2020/21 was undoubtedly a challenging year for us, and for everyone who worked within and supported the Group. The human tragedy of loss of life as a result of the pandemic, the disruption and difficulties experienced across society, and the economic impact will weigh heavy on us all for generations to come.

Susan and our Executive Leadership team, who led the Group through the pandemic from the front, demonstrated what it takes to be resilient, agile and above all, compassionate. With an unwavering responsibility for our critical infrastructure, we continued to deliver essential services to our customers and communities. This was due to the dedication of our talented and hardworking employees.

September 2021

Launch of new Graduate Management Programme

We set a commitment to recruit 100 new graduates on a structured two-year programme of training, work experience and career development by 2025.

2022

March 2022

Purchase Hawks Tor reservoir

As part of our continued investment in water resilience, we purchased the reservoir on Bodmin Moor in Cornwall.

April 2022

Launch of WaterFit

We launched WaterFit, our plan for healthy rivers and seas, focused on the protection of our 860 miles of coastline and rivers in the South West.

November 2022

"Stop the Drop"

South West Water announced a first of its kind customer incentive scheme, asking everyone in Cornwall to come together to help recharge reservoir levels. "Stop the Drop" saw customers offered a financial incentive to encourage them to reduce consumption in exchange for a rebate on their bill. 2022 saw historically low levels of rainfall in the South West, meaning significant pressure was placed on water resources in parts of the region.

2023

February 2023

Second issuance of our WaterShare+ scheme

As part of the scheme, certain customers were able to elect to receive a Pennon share as an alternative to receiving a £13 credit on their bill. In excess of 35,000 customer shares were purchased for this second offer.



February 2023

Licence and statutory transfer of Bristol Water

The licence change and statutory transfer completed on 1 February 2023, bringing Bristol Water under the South West Water licence.

March 2023

Launch of WaterFit Live

An interactive digital system which shares with customers the status of their local bathing waters and whether there is any impact from a storm overflow. WaterFit Live was another milestone in our progress to protect the environment by reducing storm overflows, enhanced monitoring, providing clear and transparent reporting for our customers and increasing our investment to improve performance.

May 2023

Acquisition of solar photovoltaic site in Dunfermline

First site acquired by Pennon Power Limited, expected to produce c.40 GWh for acquisition and build costs of c.£35 million, with additional opportunity for a 60 MW battery storage capacity totalling c.£25 million.

July 2023

Acquisition of Renewable Energy Generation Projects

Acquisition of three further renewable energy generation projects, which are located at sites in Buckinghamshire, Aberdeenshire and Cumbria, and expected to generate over 95 GWh of electricity on an annual basis from solar PV.

October 2023

Submission of Business Plans to Ofwat for SWW and SES Water



January 2024

Equity raise

Successful completion of the equity capital raise of new ordinary shares. The Equity Capital Raise in total comprised 24,657,535 New Ordinary Shares and raised gross proceeds of £180 million, to support the SES Group acquisition.

January 2024

Acquisition of Sutton and East Surrey Water

Acquired 100% of the issued capital of Sumisho Osaka Gas Water UK Limited, the holding company of Sutton and East Surrey Water plc and certain other ancillary businesses, for £89 million from Sumitomo Corporation and Osaka Gas.

February to April 2024

“Save every drop”

Launch of our “Save Every Drop” campaign to communicate the importance of water-efficiency to consumers, businesses and tourists.



March 2024

Blackpool pit fully operational

July 2024

Ofwat’s Draft Determinations for SWW and SES Water

‘Top-rated’ Business Plans. Ofwat assessed the SWW plan as “outstanding”, and the SES plan as “good”.



See page 18 for further detail.

July/August 2024

£2.5 billion EMTN Programme launched and inaugural bond issuance

Launch of our £2.5 billion Euro Medium Term Note Programme, and inaugural issuance of £400m bond; the programme will allow us to issue benchmark sized debt tranches over the forthcoming five year period.

September 2024

New water abstraction and treatment works at Rialton completed

December 2024

£250m public bond issuance through our EMTN programme

Ofwat’s Final Determinations for SWW and SES Water



See page 18 for further detail.



January 2025

Acceptance of Ofwat’s Final Determinations for SWW and SES Water



See page 18 for further detail.

February 2025

Successful completion of £490 million Rights Issue

A capital raise of £490 million by way of a fully underwritten rights issue of 185,928,002 New Ordinary Shares at 264 pence per New Ordinary Share on the basis of 13 New Ordinary Shares for every 20 Existing Ordinary Shares. The purpose of the Rights Issue was to enable Pennon, as part of a comprehensive financing package, to deliver the step change in investment required through the K8 period to March 2030, whilst ensuring appropriate and sustainable gearing is maintained throughout.

Outlook for K8 (2025 – 2030) – ‘We’re doing this’



To view these documents see:
<https://www.pennon-group.co.uk/investor-information/price-review-pr24>

About PR 24

The 2024 ‘Price Review’ (“PR24”) for water companies in England and Wales was a process led by Ofwat to determine prices for the period 2025-2030. As part of this process all companies worked with their customers to produce a business plan for 2025-2030, setting out what they intend to deliver for customers and the environment. Alongside our peers, we submitted our five-year business plans to Ofwat on 2 October 2023.

We listened to customers and stakeholders across our regions, and worked closely with our WaterShare+ Customer Panel to develop a plan that reflected the priorities of our customers and the environment.

Ofwat assessed the SWW plan as “outstanding”, earning a 30bps reward on the cost of equity, and the SES plan as “good” earning a 5bps reward. This reflected the quality of the plans, including the balance of cost and service proposals and their affordability.

South West Water are the only company to achieve the top ranking from Ofwat for all three price reviews.

The four strategic priorities of our plan

- **Building water resources, improving water quality** – In the face of changing weather patterns and a growing population, we are determined to continue to transform how we protect and secure water resources with unrivalled water quality across the region that will last for generations.
- **Tackling storm overflows and pollutions** – By 2030, a full decade ahead of governmental mandates, we pledge to have tackled the use of storm overflows at our bathing and shellfish waters. Our approach blends nature-based and engineering solutions, coupled with a comprehensive water monitoring and sampling programme, to rebuild trust in our communities.
- **Driving environmental gains** – By 2030, we’re committed to achieving Net Zero, proving our dedication to minimising our impact on the planet. We’ll invest in climate-independent water sources, water reuse, and enhanced transfer networks. We will repurpose brown field sites, build new reservoirs, and amplify our water resources significantly.
- **Supporting affordability, delivering for customers** – We are tackling monumental industry challenges, and we are delivering on our promises, all rooted in what our customers deem important. We recognise that some customers face affordability challenges due to the cost-of-living crisis, so our plan incorporates multiple solutions and extensive assistance.

Final Determination and beyond

On 19 December 2024, Ofwat published their Final Determination on company business plans.

After careful consideration, we chose to accept both the SWW and SES Final Determinations. Given the close alignment of our plans, and the material improvements made by Ofwat following the Draft Determination, we concluded that this was in the interests of all our stakeholders.

Our acceptance of the Final Determination allows us to move forward with our £3.2 billion¹ investment programme, focused on our four strategic priorities.

We are targeting outperformance of K8 plans that will give headroom for our delivery. Previous regulatory periods have seen Return on Regulated Equity (RORE[®]) delivery of 6-8% in K7 and 11-12% in K6. Taking into consideration our plan, we are targeting c.7% RORE[®] returns in K8, compared to the base return of 5.1% and within Ofwat’s upper range of 10.1%.



For the RNS see:
<https://www.pennon-group.co.uk/investor-information/price-review-pr24>

Timeline

2023

2 October 2023

- Submission of five-year Business Plans to Ofwat

5 October 2023

- Trading Statement PR24
- Spotlight presentation

23 November 2023

- Half year results 2023/24

2024

21 May 2024

- Full year results 2023/24

11 July 2024

- Ofwat publish Draft Determinations

28 August 2024

- Draft Determination consultation closes

27 November 2024

- Half year results 2024/25

19 December 2024

- Ofwat publish Final Determinations

2025

29 January 2025

- Acceptance of Final Determinations
- Launch of successful Pennon rights issue

1 April 2025

- End of K7 / Start of K8 five-year price review periods

3 June 2025

- Full year results 2024/25

Embarking on K8: Our largest ever investment programme

Our business plans for 2025-2030 were designed to deliver our customers and stakeholders requirements and to respond to the needs of the communities we serve

Our plans set out our largest ever investment programme: targeting a step change in investment for customers, regulators and stakeholders, delivering improvements across all our areas and driving growth for our investors. At the heart of our plans is a £3.2 billion¹ investment programme which drives forward our four strategic priorities: ensuring resilient water supplies and excellent drinking water quality; improving water quality in our rivers and seas through reducing pollutions and the reliance on storm overflows; net zero and environmental gains; and delivering for customers while keeping bills affordable for all.

We have already ramped up our investment, building on our strong track record of delivery through a focus on efficiency and performance improvement. With plans well under way to deliver £86 million of annualised efficiencies through operational transformation and integration, and our business restructured to align with our priorities, we are well placed for the challenges ahead.

New investment over the regulatory period of £3.2 billion¹ will be financed by investors and customers, with roughly two thirds of funding from investors and one third from customers. We have a robust and comprehensive financing strategy, with both debt and equity investor funding.

£3.2bn¹

investment programme

Water businesses totex allowance

97%

of Business Plan

Revenue allowance

100%

of levels requested





Growth of

34% in RCV

(nominal growth by 2030)

Tackling the biggest challenges head on

Our capital investment of £3.2 billion¹ across the regions we serve includes our base maintenance programme alongside an extensive enhancement programme, focused on delivering against our four priorities. The key deliverables of our plan include:

Our four priorities	Planned investments over the K8 period
 Building water resources, improving water quality	<ul style="list-style-type: none"> Upgrading one third of the water treatment works across our regions Renewing or replacing c.440km of water mains across our regions Lead pipes replacement for 38,000 customers, targeting 170 nurseries, schools and colleges in the SES region New strategic reservoir with Cheddar 2 in Bristol and a water re-use plant in Poole Reducing leakage by 19% in the South West region, and 14% in the Bristol and SES regions
 Tackling storm overflows and pollutions	<ul style="list-style-type: none"> 291 overflow improvements – 100% of storm overflows at bathing waters addressed Adding over 250,000m³ of storage to capture rainfall and reduce overflows – 62% reduction targeted from 2023/24 levels Removing rainwater draining into our sewerage network by a volume equivalent to over 350 hectares Upgrading over 200km of our sewer network
 Driving environmental gains	<ul style="list-style-type: none"> 10% reduction in the amount of phosphorous entering rivers – improving water quality A new independent environmental advisory panel – to ensure we are focused on putting the environment first
 Supporting affordability, delivering for customers	<ul style="list-style-type: none"> SMART metering installations for 1/3 of our customer base Largest ever package of support to help those struggling to pay – doubling to £200 million Expanding WaterShare+ through a third issuance incorporating SES customers Improved digital and self-service offerings for customers – opening our data to communities

1. In forecast outturn prices.

Our business model

Our robust business model and strong operational structure

Key strengths and resources we rely on

Quality of the services we provide

Read more on pages 40 to 55

Focus on the environment

Read more on pages 48 to 51

Our people, and investment in their wellbeing and development

Read more on pages 32 to 39

Customer engagement and wider stakeholder relationships

Read more on pages 22 to 31

Guided by our four strategic priorities



Building water resources, improving water quality



Tackling storm overflows and pollutions



Driving environmental gains



Supporting affordability, delivering for customers

Underpinned by our values



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

**Generating
value for our
stakeholders**

Reshaped structure into our four clear business units



Water Services

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



Wastewater Services

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



Pennon Power

We are building a portfolio of renewable energy projects to secure c.50% of the Group's energy.



Retail Services

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

For investors and the Group

We focus on ensuring that we are financially sustainable, both from a financial point of view and in relation to our ESG responsibilities.

Read more on pages 82 to 93

For the environment

We focus on our environmental strategy, which is central to everything we do, as evidenced by the fact that the environment and 'nature first' solutions underpin three of our four strategic priorities.

Read more on pages 48 to 51

For our customers, communities and colleagues

We focus on how we manage and work with our c.4,000 colleagues to ensure they feel valued and deliver excellent customer service.

Read more on pages 22 to 27 and pages 32 to 39

For our wider stakeholders

We focus on how we communicate, engage and work with our other key stakeholders, namely, our regulators, our suppliers and policy makers.

Read more on pages 28 to 31

Be
**ROCK
SOLID**

Be the
FUTURE

Pennon, a business that listens and acts:

Stakeholder engagement overview

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



Our approach is built on trust, transparency, and long-term relationships. Whether it's through formal panels, market research, community events, or one-to-one meetings, we stay connected, because strong relationships result in better outcomes.

The insights we gain directly influences everything we do, from Board decisions to strategy and social purpose. For more on how stakeholder voices shape our governance, see Section 172(1) on pages 146 to 147.

Why we engage

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

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

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

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

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

How we engage

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

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

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

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

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

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

Customers

Who they are

Our businesses supply water and wastewater services to 4.3 million residents across the South West and Sutton and East Surrey regions. We also support an additional 10 million people who visit the South West each year – making our services vital to both residents and tourists. Nationally, we serve 210,000 business customers across England through our non-household businesses.

Key highlights

We hosted

24

roadshows across Devon and Cornwall, engaging with over 1,000 customers

Through the WaterShare+ scheme

80,000

of our customers are now shareholders

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

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

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

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

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

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

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

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

Key Challenges and how we are responding

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

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

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

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

Outcomes, achievements and actions

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

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

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



Customer roadshows

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

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

The roadshows focus on our four strategic priorities:

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

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

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

Customer Feedback

“There was a variety of departments and enthusiastic staff talking about their area of work”

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



Communities

Who they are

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

Key highlights

Our education programme delivered

212

lessons on the water cycle, sewer misuse, plastic pollution and water efficiency to

3,000

children and young people

Our Awesome Water programme has reached

34,000

people across the South West

Why we engage

We are woven into the everyday lives of communities across the region. By listening regularly and responding with care, we can better understand local needs and deliver services that protect water, support wellbeing, and safeguard the environment today and for generations to come.

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

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

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

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

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

How we engage

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

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

In the SES Water region we have delivered 30 community events, with a customer reach of 100,000. We also supported other key events in this area.

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

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

Now in its fourth year, the South West Water Neighbourhood Fund awarded £100,000 to 55 different charities and groups in the year, helping over 40,000 people across the South West. SES Water donated £20,000 to its three charity partners. Through South West Water's Water Saving Community Fund, 21 projects received £55,772 in funding, saving an estimated 2.7 million litres of water annually.

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

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

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

Key Challenges and how we are responding

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

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

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

Outcomes, achievements and actions

Through our Community Programme we have delivered £329,247 in funding across 36 funding periods, supporting 198 local projects and positively impacting the lives of over 83,000 people.

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

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



CREWW

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

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

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

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

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

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

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

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

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

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



People

Who they are

Nearly 4,000 people work across the Group and brands, in corporate and operational roles. They are the heart of our business, delivering essential water and wastewater services and ensuring clean, safe drinking water for our customers 24/7.

Key highlights

Strong focus on PR24

Engaging all our colleagues and ensuring we are all focused on delivering for our customers, today and in the future

Launching a new Penon Podcast

Listening to our colleagues and regularly updating our internal communications

We delivered 25,000

training days across the group for our colleagues

Viva Engage, our internal communications platform

now used by over 2,000 employees

Why we engage

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

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

We regularly connect with our teams on topics such as:

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

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

How we engage

Great place to work

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

Listening and acting on employees' views

We take our responsibility to listen, to understand and support our employees seriously. Our s172(1) statement on pages 146 to 147 outlines how employee interests are considered in our decision making.

Speak Up

Our Speak Up whistleblowing policy continued to operate throughout the year, and remains a vital channel for open, safe and transparent communication, helping us build a culture of trust. Employees are able to speak up and are supported if they do so. Read more on Speak Up on page 157 in the Corporate Governance report.

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

Be The Future Forum

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

Employee training programmes

We're committed to helping our people grow. Last year, we delivered over 25,000 training days across the group for our colleagues – an average of nearly seven days per employee.

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

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

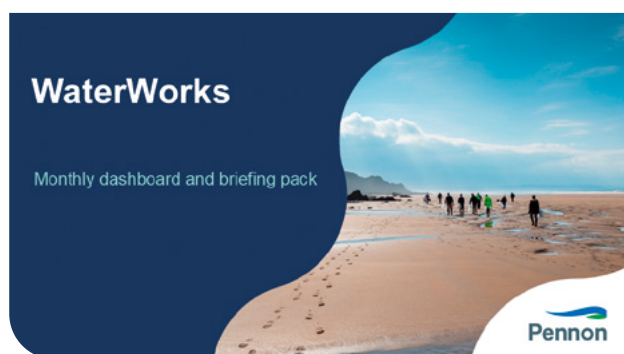
Performance and progression

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

Internal communication activities

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

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



Key challenges and how we are responding

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

Maintaining focus on Health and Safety is key, with we continue to invest through our HomeSafe programme. See page 35 for further detail on this.

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

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

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

Outcomes, achievements and actions

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

We are pleased to see our mean gender pay gap reduce significantly during the year to less than 4%, but our goal is to work to eliminate any gap.

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



Launching our new podcast: The Pennon Pod

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

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

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

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



Suppliers

Who they are

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

Key highlights

£3.2bn¹

2025-2030 infrastructure plan

over 1,000

schemes already underway

Why we engage

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

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

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

How we engage

Our capital delivery supply chain partnership "Amplify" is now stood up and is delivering on over 1,000 schemes, representing one third of the £3.2 billion¹ earmarked for investment to 2030.

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

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

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

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

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

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

Key Challenges and how we are responding

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

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

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

Outcomes, achievements and actions

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

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

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

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

1. In forecast outturn prices



Investors

Who they are

We have a broad and diverse investor base, including institutional equity investors, retail investors, many of which are customers, and a range of debt providers.

Around 50% of Pennon's shares are held by UK-based investors including individuals, pension funds, and charities.

Our diverse debt portfolio includes institutional debt investors, lessors and bank debt.

Key highlights

c. 80,000 customers are shareholders under WaterShare+ over a third of the Group's c.4,000 employees are shareholders

Read about our Capital Markets Day on page 144.

Why we engage

As a publicly listed company, access to capital and debt markets is vital to fund our growth and sustained long-term performance of our business. To maintain investor confidence, we ensure our shareholders and lenders have a clear understanding of our strategy, ambition, performance, and culture.

We provide regular updates on financial and non-financial performance, including environmental, social and governance (ESG) progress, reflecting the growing importance of sustainable investment.

We also maintain a proactive and transparent dialogue with our debt investors, keeping them informed on credit metrics, long-term funding strategies, and ESG initiatives. This approach strengthens investor confidence and ensures ongoing access to a broad range of debt capital markets.

How we engage

We run an extensive investor relations programme to ensure that all investor-related stakeholders are informed of our business, its strategy and prospects.

- Regular engagement via our investor relations team, and regular meetings with our CEO, CFO, and Chair
- Half year and full year results presentations, followed by Q&A sessions and roadshows to meet with investors
- Group and one-to-one meetings with UK and global investors
- Capital markets events to share strategic updates and sector insights
- Site visits to showcase to investors our operations and regional impact
- Ongoing engagement with debt investors through regular meetings and investor conferences
- Annual General Meeting (AGM), where retail shareholders can ask questions directly to the Board and we also engage with investor representative bodies including proxy agencies
- Engagement with investor representative bodies, including proxy agencies

Through our unique WaterShare+ scheme, customers can become shareholders in Pennon Group, giving them a stake and a say in their water company. We also work closely with the independent WaterShare+ Customer Advisory Panel to ensure we continuously engage with our customer-shareholders.

Key Challenges and how we are responding

In today's evolving investment landscape, transparency, trust, and long-term value creation are more important than ever. Over the past year, we have responded to several key challenges by deepening our engagement and strengthening our communication with investors, this included; the announcement of our £2.5 billion EMTN programme, with significant investor engagement for both the initial issuance and subsequent issuance; the communication of our share rights issue and acceptance of the Final Determinations covering the regulatory period to 2030. Alongside the comprehensive investor prospectus, an investor presentation was held, where we explained the rationale and future confidence for the issuance, as well as significant engagement with our shareholders; we hosted a capital markets day in region (more detail can be found on page 144). Members of the Remuneration Committee met with the Company's top shareholders as part of our Remuneration Policy consultation.

Outcomes, achievements and actions

Our sustained investor engagement throughout 2024/25 has played a vital role in ensuring investors understand our investment case. Through open and transparent communication, we have provided investors with clear visibility into our strategy, performance, and financial resilience.

The Treasury team undertook an extensive programme of engagement, holding 148 meetings with banking partners and 84 meetings with investors, targeting group sessions and targeted bilateral discussions.

During 2024/25, the management team met with 84% of our institutional investors (based on issued share capital), holding over 160 meetings and calls with existing and prospective investors.



Regulators

Who they are

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

Key highlights

May 2024

We hosted officials from Defra in Plymouth, sharing the work we are doing with local Government and landowners in our region to sustainably store water and manage flood risk.

Summer 2024

Ofwat awarded South West Water the top “outstanding” business plan status for the third price review in a row. No other company can match this track record.

29 January 2025

We confirmed our decision to accept Ofwat’s PR24 Final Determination.

27 February 2025

The Independent Water Commission launched their eight week Call for Evidence on the Water Regulatory System.

Why we engage

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

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

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

How we engage

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

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

Key Challenges and how we are responding

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

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

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

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

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

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

Outcomes, achievements and actions

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



Policy makers

Who they are

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

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

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

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

Why we engage

Following the significant political shift at the July 2024 General Election, and in an increasingly politicised operating environment, it is more important than ever to engage both new and longstanding stakeholders.

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

How we engage

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

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

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

Key Challenges and how we are responding

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

We respond promptly to enquiries we from local MPs and councillors. We proactively facilitate site visits for them to see firsthand our work in their constituencies, demonstrating investment in infrastructure and how we are upgrading our network to protect and enhance water quality and the environment. Policy makers are also regularly invited to join our customer roadshow events, where we explain the work we have been doing in their area.

Outcomes, achievements and actions

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

Our people and culture

As one of the largest employers in the region, with almost 4,000 colleagues, we have a responsibility and duty to make a positive societal contribution. Our goal is to be the Employer of Choice across our region through promoting social mobility and prioritising Diversity and Inclusion by addressing racial and gender inequality.

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

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

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

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

Prepared for PR24

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

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

Our exciting business plan, which has been approved by our regulators, will see us create upwards of 2,000 new jobs as part of a wider £3.2 billion¹ investment planned across the Group. Our business plan was built around our Group Values and aims to have a positive impact on customers, communities, colleagues and the environment.

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

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

1. In forecast outturn prices.

Embedding our new Group Values

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

Over this past year, we have worked hard to embed these values, using them as a tool to align our teams as we prepare the business for AMP8 and to deliver on our strategic priorities. Some examples of this include:

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



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

Be you

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

Be rock solid

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

Be the future

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



Enhancing the organisation culture

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

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

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

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

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

As a purpose-led organisation, Pennon has strong values and ethics which are important barometers in fostering the culture and beliefs that we require to be successful. One of the key reasons why we use Great Place to Work to survey our employees is that it is one of the few providers that seeks to measure values and ethics. These are notoriously difficult areas to measure as they are impacted by individual's personal values and ethics. See page 135 on how the Board monitors culture.

Talent development

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

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

Colleagues at our Pynes Water Network Training Centre



Apprenticeships

We have a long-standing commitment to apprenticeships, as they are an effective way to recruit and develop high quality talented employees. After setting a target in 2020 to support 1,000 apprenticeships by 2030, we are delighted to report we are ahead of schedule and have supported 663 and currently have 368 live on programme. Attracting and developing the next generation of talented employees is vital in building resilience in our workforce and ensuring we can deliver the essential services our customers and communities deserve.

Our graduate programme

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

Since the launch, the graduate programme has recruited 105 talented graduates, with 56% being female and almost half being ethnically diverse or international graduates. Attracting larger numbers of female and ethnically diverse employees has been a core part of our People Strategy. We are delighted our graduate programme is helping deliver this outcome whilst providing high-quality career opportunities for all these individuals.

Leadership development

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

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

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

Throughout 2024/25, we delivered 25,000 training days, ensuring that on average each employee received 50 hours of training – 7 days.

Our 2024 cohort of graduates



Prioritising health and wellbeing

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

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

Our wellbeing strategy focuses on the following four main areas:



Mental

Taking care of our minds, coping effectively with life, and creating satisfying relationships.



Physical

Taking care of our bodies, acknowledging the importance of activity, nutrition and sleep.



Financial

Taking care of our financial wellbeing, being in control of our financial future.



Community

Encompassing the major external and internal factors such as social health.

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

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



HomeSafe, the Group's flagship health and safety programme

Ensuring our people go home safe to their families safely every day is an utmost priority. Our HomeSafe programme continues to focus on the three key areas of Visible Safety Leadership, Accountability and Data Driven Targeted Interventions. Relentless focus on and driving consistency in these areas has seen the Group's Lost Time Injury Frequency Rate (employees and agency, excluding contractors), the Group's primary measure of health and safety performance, continue to reduce, and this year achieve the original HomeSafe strategic target of 0.25. This year has seen the fourth year in a row of reduction in LTIFR, down to 0.22 in September 2024, and 0.24 at 31 March 2025, compared to 0.30 at 31 March 2024.

The three areas we focused on:

1. Visible Safety Leadership:

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

2. Driving a culture of accountability throughout the organisation:

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

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

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

lead to higher engagement and fewer injuries. 45 individual sites have achieved an award to date with a similar number in flight and due to be assessed in the coming year.

As we prepare for AMP8, HomeSafe has also been embedded within Amplify, our engineering partnership between SWW and our supply chain, leveraging the skills, experiences and innovation opportunities from across a wide range of organisations.

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



Occupational Safety: focusing on the Individual

Process Safety: focusing on the high consequence processes within our water and wastewater treatment process.

Occupational Health and Wellbeing: focusing on physical and mental health

Security: focusing on physical and personnel security

Equity, Diversity and Inclusion (ED&I)

As one of the largest employers in the region, we have a responsibility to promote social mobility, address inequality and drive inclusivity.

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

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

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

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

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

REACH Development Programme

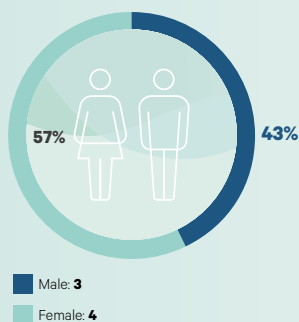


Gender Diversity dashboard

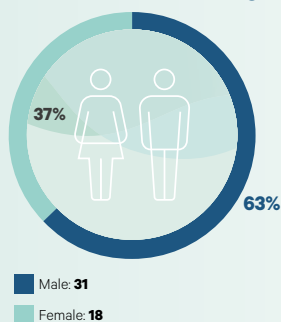
Pennon is one of only a few businesses in the UK to have both a female Chief Executive Officer and a female Chief Financial Officer. The following dashboard shows a breakdown of gender diversity across the Group.

2024/25

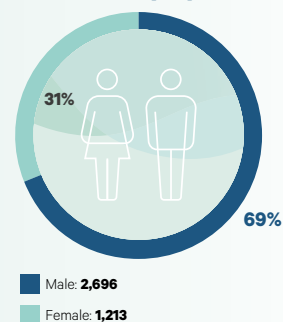
Gender – Board



Gender – Senior Management¹



Gender – Employees



For more information see page 171.

1. Pennon Executive Board and their direct reports (with substantive roles).

Recruitment

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

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

Last year, 30% of job applicants were female and 31% were ethnically diverse. We offer additional support to our new employees on our graduate programme and the 10,000 Black Interns programme, as we recognise many of them move to the region to start in these new positions.

Employee Led Inclusion

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

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

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

Inclusion Week at Pennon – September 2024



Progression

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

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

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

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

Change the Race Ratio initiative

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

10,000 Black Interns initiative

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

Our gender and ethnicity pay gap

In recent years, the composition of Pennon Group has further evolved with the acquisitions of both Bristol Water plc and SES Water, and the inclusion of these employees into the growing Group. This is the second year we have included Bristol Water in the Pennon Group results and next year will be the first year we include SES Water. Our mean gender pay gap has significantly reduced during the year to 3.92% from 8.51%, and sits lower than the national average of 13.1%. Our median gender pay gap has seen a decrease of over 3% to 11.1%, indicative of a shift in the representation of women, notable within the upper quartiles, where we have seen an uplift to 28% in female representation, which reflects our efforts to enhance female representation at leadership levels.

Since 2022, we have voluntarily produced and published our ethnicity pay gap, which stands at 11.7%. We know that there is still more for us to do in this area, including increasing the employee self-disclosure diversity rates across the Company and continuing to attract more ethnically diverse candidates at all levels across the Group.

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

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

Social mobility

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

Human rights

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

Company Induction Event



Colleagues Unite for Customers

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

Christmas swims

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

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

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



Being rock solid

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

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

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



Storm Darragh, December 2024

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



Our operational review

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



Building water resources, improving water quality

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

Regulated water

South West Water

c.1.8 million
population served

c.480 million litres
of drinking water per day

Bournemouth Water

c.0.5 million
population served

c.160 million litres
of drinking water per day

Bristol Water

c.1.2 million
population served

c.280 million litres
of drinking water per day

SES Water

c.0.8 million
population served

c.160 million litres
of drinking water per day

A resilient supply of clean drinking water is our customers' number one priority. We have made significant strides in enhancing our water infrastructure, ensuring that we are equipped to meet the challenges of climate change and population growth, and delivering against stringent regulatory standards. From repurposing disused mines and quarries to deploying advanced treatment technologies, we are focused on securing reliable, high-quality water supplies for all.

Capital investment in water services in 2024/25 of

£346.7m

delivering a resilient, sustainable, and high-quality water service across our regions.

Water Quality and Resilience

Clean, safe, reliable drinking water

Delivering high-quality tap water is central to our purpose. We proudly serve 4.3 million customers across Bristol, Bournemouth, Devon, Cornwall, Sutton, East Surrey, the Isles of Scilly, and parts of Dorset.

Customers consistently rank safe, clean water as their top priority. That's why we're embedding our Quality First culture across all operations, already delivering results in Bristol and now expanding to SES Water to ensure consistent standards.

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

Overall, water quality performance continues to improve. SES Water is currently the top-performing company in the sector, while South West Water leads among water and sewerage companies, a reflection of our focus on continuous improvement and knowledge sharing.

In Bournemouth, we are making excellent progress on two major infrastructure projects, Alderney and Knapp Mill, which will together supply 85% of the local population. These schemes are being delivered using modern offsite construction techniques, helping to reduce disruption, improve efficiency, and deliver long-term value. Across Devon and Cornwall, upgrades at Stithians, Saint Cleer, Restormal, and Littlehempston are progressing well, while targeted improvements in Bristol have been successfully completed in 2024/25.

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



Alderney upgrade

Investing to improve your drinking water services

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

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

Investing for the future

Local people want a reliable source of high-quality water that's resilient to climate change and environmentally responsible. We are transforming Alderney to ensure it continues to deliver exceptional water quality.

With a £115 million investment, we are delivering significant improvements:

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

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

An innovative approach

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

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

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

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

Investing to secure resilience, now and into the future

Building water resources

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

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

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

Reducing demand is equally critical to long-term resilience. We have made strong progress in cutting water losses from our own operations and across the wider network. Over the 2020-25 regulatory period leakage has been reduced by 13% in South West Water, 19% in SES Water, and 1% in Bristol Water, and whilst we have narrowly missed our 2024/25 leakage targets in some areas, the reductions build resilience and support the environment.

Supply Schemes

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

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

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

And whilst SES Water does not have large-scale infrastructure projects underway, we are investing in smarter, more sustainable supply-side improvements as part of contributing to regional resilience.

Compliance Risk Index (CRI)

The Compliance Risk Index score as reported by the Drinking Water Inspectorate (DWI) measures water quality compliance.

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

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

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

SES Water maintained their excellent track record delivering industry leading performance in 2024 with a compliance risk index (CRI) of 0.00.

Water Quality Upgrades

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

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

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

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

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

Taste, smell and colour contacts

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

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

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

SES Water continues to be upper quartile in the sector for its performance, with 0.58 contacts per 1,000 population.

Reducing leakage and supply interruptions

Leakage

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

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

SES met its target of 21.6 ml/day, continuing to lead the industry in leakage reduction. Whilst we narrowly missed the stretching leakage targets for 2024/25 for SWB and Bristol, the in-year leakage results for 2024/25 were an 9% and 4% improvement respectively on the prior year.

Impressively, SES has remained at or below the maximum allowed level of leakage every year since targets were introduced over 20 years ago. This success is driven by SES Water's smart network technology, enabling near real-time leak detection and cutting leakage run times by up to 40%. SES is also the first UK water company to deploy this technology across its entire network, aiming to more than halve leakage by 2045.

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

Minimising customer supply interruptions

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

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

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

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

For SES Water, despite a strong underlying performance, two events affected the overall result. A sinkhole in Godstone and a water quality incident at Cheam led to a combined supply interruption of 26 minutes and 37 seconds. Without these two unusual events, SES Water's full year performance would have been less than 1 minute, reflecting its typically high standards of service in this area.

Managing demand and ensuring efficiency

Per capita consumption (PCC)

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

- We conducted water audits in customer's homes, to identify opportunities to reduce water usage, fix leaky loos and identify other sources of internal water losses. Leakbots helped customers identify internal leaks.
- For non-households, we conducted water efficiency audits, with leaks located and repaired. We also offered incentives to water retailers to conduct water efficiency schemes with customers.

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

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

We're continuing our progressive charging trials across our regions. These trials aim to balance affordability with incentives for water efficiency. In Cornwall, households received a £10 bill credit for reducing water use by 5%, directly rewarding conservation. Our "Smart Saver" trial links progressive tariffs with smart meters, providing better usage insights and aligning charges with consumption. We have also introduced seasonal tariffs, including rising block and peak seasonal rates. These are the first trials of their kind in the region, with early results showing demand reductions of 2% to 9%.

Water availability

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

Maintaining asset health

Unplanned outages

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

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

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

The incident at the Cheam water treatment works in December impacted the position for SES Water, with 4.01% unplanned outages, compared with 0.81% in the prior year. Underlying performance was strong, and work is continuing to invest and maintain assets to strengthen asset performance and resilience.

Mains repairs

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

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

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

SES Water's level of mains repairs improved compared to last year, with a performance of 61.9 repairs per 1,000km of mains, however, this remains above the target for the year.



Tackling storm overflows and pollutions

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

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

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

4%

one of only five companies to see a reduction in the year.

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

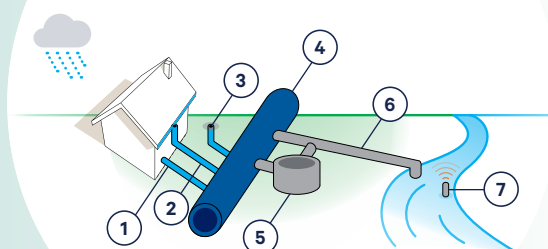
We have seen improvements in our operations, and in the resilience of our networks, reflecting our focused investment and we continue to drive a programme of works to improve our treatment works and pumping stations.

Sewer flooding and networks

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

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

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



The role of storm overflows

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

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

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

Drainage responsibilities

Private drainage, highways drainage, rural run-off and river flooding all contribute to overloading our network and systems.

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

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

Key:

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

Bathing Waters

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

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

Storm Overflows

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

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

To support this, we have invested in enhanced Event Duration Monitoring (EDM), we were among the first to achieve 100% coverage and have the second highest EDM operability in the country with 94% of our EDMs recording all year round. We also monitor overflows at a higher standard than required by our permits and other companies with most of our EDMs scan levels every 10 seconds, far exceeding the 15-minute minimum regulatory requirement. While this may result in higher reported spill numbers compared to companies using less frequent monitoring, it enables faster detection and response to protect our rivers and beaches.

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

Our WaterFit programme has delivered this year:

- Installed over 4,600m³ of storm storage across 19 sites so when flows exceed treatment capacity they can be stored and treated later, avoiding discharges
- Prevented groundwater infiltration at 120 sites re-lining 36km of sewer, sealing of over 1,300 manholes and surveying over 83km of targeted sewers
- Reduced phosphorus and ammonia impact on watercourses at 29 sites costing and completed our final bathing water improvement scheme at Malborough treatment works
- Completed major upgrades and design work at seven pumping stations, making the network more reliable and ensuring all flows arrive at Wastewater Treatment Works (WWTW) to be treated
- Rehabilitated rising mains, including two major mains in Exmouth preventing bursts and pollution incidents adjacent to the Bathing Waters.

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

Pollution Incidents

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

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

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

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

Numeric compliance

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

Environment Performance Assessment (EPA)

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

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

Pollution incidents remain our most significant challenge. The EPA currently measures only around 4% of all pollution incidents, largely those that reach watercourses. To improve our rating, we must reduce these watercourse-related pollutions. Our recently published Pollution Incident Reduction Plan sets out the actions we are taking to achieve this.

The Environment Agency is currently consulting on changes to the EPA framework from 2026. As this is a critical measure for the sector, we have submitted detailed feedback. In particular, we have highlighted that while the EPA is widely regarded as the key benchmark for environmental performance, it does not currently reflect the full range of emissions from wastewater networks and assets.

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

Tackling spills – making a difference

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



93%
spill reduction
in 2024

Rilla Mill

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



46%
spill reduction
in 2024

Duloe

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



50%
spill reduction
in 2024

Stibb Cross and Langtree

The overflows at Stibb Cross and Langtree WWTW were among our highest spillers but by using CCTV cameras to investigate 1,500 metres of sewers, we identified and removed sources of infiltration, lining over 650 metres of sewers.



Driving environmental gains

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

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

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

We are committed to supporting the natural environment. From restoring habitats to investing in clean energy, we are helping to build climate resilience and protect the places people love. Since 2019, we have planted

389,306

trees, reaching our 2025 target a year early, an important milestone in our nature-based approach to removing carbon from the atmosphere



Working with the natural environment

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

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

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

Enhancing the Natural Environment

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

Investing in the health of our rivers

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

Safeguarding water resources in our Drinking Water Protected Areas

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

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

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

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

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

Upstream Thinking – to safeguard our water quality

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

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

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

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

Enhancing Biodiversity Across Our Estate

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

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

Collaborating for Regional nature recovery

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

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

Safeguarding Sensitive Habitats and Preventing Biodiversity Loss

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



Preventing the spread of Invasive Non-Native Species

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

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

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

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

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

Climate change adaptation

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

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

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

Net Zero

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

Pennon Power Limited, a subsidiary of Pennon Group plc, has been established to deliver our renewable energy ambitions and support our broader Net Zero strategy. Pennon Power plays a central role in achieving Net Zero by driving investment in clean energy, enhancing energy resilience, and reducing exposure to energy market fluctuations, while also delivering sustainable financial returns and contributing to overall Group profitability.

Pennon Power has three renewable energy sites in construction. Fife is preparing to enter commissioning, and the Aberdeenshire project construction continues in line with the project programme. The Fife project comprises a 45MWp solar farm, with a 30MW 2-hour co-located battery storage system, situated on the site of a former open-cast coal mine and the Aberdeenshire project is a 15MWp solar farm. The annual generation from Fife will more than double the size of the Group's renewable energy portfolio. The project in Fife is being commissioned during Q1 2025/26, with Aberdeenshire entering commissioning in Q2 2025/26. We have also commenced construction on a third site in Cumbria which will have a capacity of 34MWp once complete. This is due to be operational by the end of the 2025/26. We are also soon to conclude contracts to build the fourth site in Buckinghamshire. Construction of this site is expected to commence in Q3 2025/26, with a build programme lasting approximately one year. Once all four sites are operational, Pennon Power will generate enough electricity each year to power c.50,000 homes.

Beyond grid-scale projects, Pennon Power is advancing 'behind the meter' development opportunities, focused on supplying renewable energy direct to operational sites within the Group. This will support Net Zero as well as protect against fluctuations in energy prices.

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



Dunfermline

The solar site is built on the former opencast coal mine at Rosebank Mains, which ceased production in 2009.

It has more than 77,000 solar panels, 18 battery units and more than 25 km of cabling.

It will generate c.40 GWh annually, equivalent to powering 15,000 homes in the UK or offsetting the equivalent of 9% of annual consumption in the group.

2022

September

- Trading Statement, announcing Investment in Renewable Energy Generation

December

- First site visit to Fife



2023

H1

- Project due diligence and ground condition verification of previous coal mine

June

- Completed acquisition of Dunfermline Solar Limited



2024

February

- Signed EPC Construction Contracts

August

- Construction Commencement



2025

April

- Mechanical Completion

June

- Energisation and commercial operations



Supporting affordability, delivering for customers

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

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

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

We are supporting more customers than ever before with over

150,000

across the Group benefiting from our financial support framework

Addressing Affordability and Delivering for Customers

Keeping bills affordable

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

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

Despite these efforts, 2025/26 brings a necessary increase in bills, around 28% for South West Water customers, raising the average daily cost to approximately £1.85. This rise supports critical infrastructure investment, but customers will only fund about a third of the cost, with the remainder covered by shareholders and debt providers. To mitigate the impact, we are launching a £200 million support package.

Eradicating water poverty

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

Amid the ongoing cost-of-living crisis, we have significantly expanded our affordability measures, unlocking over £124 million in financial support and helping more than 150,000 customers across our regions.

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



Helping customers understand our bills

Our plans for K8 involve a £3.2 billion investment programme to improve services and infrastructure. Whilst two-thirds of this investment is funded upfront by investors, customers will fund around one-third of this investment, which means bills will increase.

We recognise that this comes at a difficult time, following a prolonged cost of living crisis and increased scrutiny of our sector. That's why we have taken time to ensure we communicate to our customers around the bill increases, both why they are necessary, and what customers can do if they are financially vulnerable.

To ensure we engage with customers in a clear and effective way, we have based our messaging on customer research and feedback, as well as ensuring we consider other ways in which customers can reduce their bill. As a result, we have focused on two elements; re-designing our existing bills to make them simpler and clearer; and providing a bill insert that explains what we will be delivering over the five-year period.

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

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

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

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

Whilst SES Water does not currently measure affordability using this methodology, we are working to extend this approach across the group.

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

We are also investing in long-term community resilience through our £5 million Better Futures programme. This initiative provides hardship grants to individuals and supports community groups that promote wellbeing, education, and positive environmental outcomes, ensuring that support reaches both households and the wider communities they belong to.

Innovative Tariff Trials

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

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

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

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

Supporting vulnerable customers

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

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

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

Whilst SES Water does not currently publish customer satisfaction data specifically for its PSR, a comprehensive PSR programme is in place, including support for customers with health, mobility, or communication needs.

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

Progressive charging trials

In April 2024 we began a series of Progressive Charging trials. These trials are informed by extensive customer feedback, with input from over 250,000 customers. The concept of 'Progressive Charges' is seen as a crucial tool to incentivise water efficiency and make bills more affordable and are being conducted across various regions and customer types, with four small-scale tariff trials launched in 2024/25.

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

The evaluation framework for the trials assesses the impact on customer behaviour and opinion across five areas: consumption, affordability, perceptions of fairness, customer experience, and reputation.

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

We are continuing to gather important evidence to guide future tariff design, aiming to learn, evolve, and enable wider roll-out in AMP8. This is a key component of our affordability strategy and encouraging water efficiency through innovative tariff solutions.

"The work being undertaken across the Pennon Group companies to develop and examine new progressive methods of charging for their services is genuinely industry leading. The four innovative tariff trials currently underway reflect the extent of the Pennon ambition to embed at the heart of its relationship with customers and communities how collectively we should pay for our essential water services... The early evidence from the trials is revealing both the benefits and challenges of these tariff innovations and good progress is being made."

Dr. Scott Reid
Director, ICS Consulting

Business Retail

Pennon Water Services (PWS)

PWS reported a strong financial performance for the year and continued to deliver operationally for its business customers, offering a range of attractive tariffs and value-added services, while also delivering year-on-year improvements in its revenue, EBITDA and profit before tax and customer service metrics.

Serving its customers

PWS maintained its focus upon high quality customer interactions, resulting in a Trustpilot score of 4.8 out of 5, measured through the independent review platform, comparing favourably to its peers. Its large strategic users of water rated the quality of service from their account team at 4.96 out of 5, demonstrating its ability to provide tailored support services to meet varying business needs. Its customer service teams issued over 300,000 customer bills in the year and answered over 92,000 phone calls, assisting with simple queries as well as complex customer challenges relating to their site and its future requirements. Its focus upon root causes of complaints into its own service and those it recorded against wholesalers has yielded almost a 10% reduction in its volume of complaints year-on-year.

Financial performance and growth

Revenue increased by 8%, from £234 million in 2023/24 to £253 million in 2024/25. This was a direct result of continued customer growth and low customer attrition despite a reduction in customer consumption in our incumbent areas.

EBITDA and profit before tax grew by 2.7% and 14.9% in the year respectively, demonstrating its operational efficiency against its higher revenues, a disciplined approach to winning new business, and control of operating costs.

Since the market opened in 2017, PWS has provided strong customer support and a high quality of services to maintain a stable market share of c.6% in England and Wales. The market share for the UK is 5.1% including Scotland, serving over 153,000 business accounts (c.95,000 customers) in total.

PWS continued to win new customer contracts across a diverse range of business sectors. This was achieved despite ongoing economic uncertainty. The combination of strong growth in new contracts and high retention delivered a cumulative net consumption gain of c.10% (5,190 megalitres) in the current year.

As a result, PWS has taken its cumulative position since the market opened to c.56,000 megalitres, the equivalent of c. 22,330 Olympic-sized swimming pools. New contracts in the year included Samworth Brothers, BMW (UK), Weetabix and Campus Villages.

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 Bourne Leisure, Princes Foods, Rolls Royce and Unilever.

Outlook

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 5 out of 5 during the year, the highest of all water retailers and the only retailer to achieve this score. Further customer growth has seen Water2Business grow to a c.7% market share.

Water2Business has continued their strong financial performance during the year, contributing c.£0.8 million of associated companies' profit after tax to the Group's results, supported by the addition of c.2,000 new customers.

During the year Water2Business were proud to announce achievement of carbon neutrality in line with the Department for Environment, Food and Rural Affairs (DEFRA) guidelines; helping to combat climate change and sustain our environment through reducing emissions and offsetting through tree planting projects across the Southwest of England.

SES Business Water

SES Business Water ("SES BW") provides water and wastewater retail services to non-residential customers across the UK, whilst delivering year-on-year improvements in revenue.

Serving its customers

Improvements across customer service have manifested in several key areas; complaints have reduced by over 20%; Consumer Council for water complaints saw one of the lowest years we have had since inception; first contact resolution, shows a 50% improvement year-on-year; and abandonment rates are consistently low.

This is against a backdrop of consciously cleansing the business portfolio, which naturally drives increased contact into the business. The objective being to improve our overall customer journey and to help support customers more efficiently.

This is testament to the hard work of each colleague whom, has a positive touchpoint with our valued customers.

Financial performance and growth

SES BW's revenue increased by 1.8% from £66.4 million in 2023/24 to £67.9 million in 2024/25. SES BW adopted a strategic decision in 2024/25 of "no growth", with the aim of stabilising the underlying business operations and releasing less profitable customers within the portfolio. Thus, enabling the business to concentrate efforts on improving business operations, driving cash recoveries and extending its customer lifetime value. The increase in revenue was primarily driven by wholesale price increases.

Whilst the business took a "no growth" strategy during the 2024/25 year the business has won new business with the likes of Stadia Group Ltd and Gosforth Park Hotels Group, to help replenish some of the lost contracts through attrition. We have also extended the lifetime value of some of our key renewals with the likes of Klarent Group, Avery Healthcare, DO & Co Event and Airline Catering Group.

Outlook

SES BW has undergone significant changes in the last 18 months including the acquisition of the business by Pennon, alongside some key management changes, with the key drivers to stabilise the business.

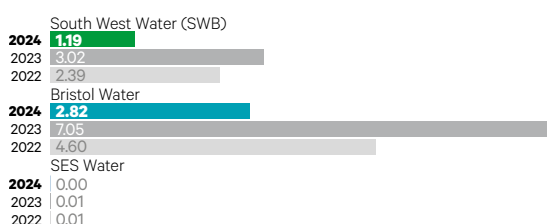
The short to medium term objectives are to continue building on the stabilisation of the business, whilst investing in some key areas around people, systems, key projects and automation of some operational activities. The outcome of those objectives is to strengthen its core activities, create a sustainable platform to deliver a more effective and efficient service for its customers. SES BW will have a continued focus on its cash management and improvement in customer service activities.

Our operational KPIs

Building water resources, improving water quality

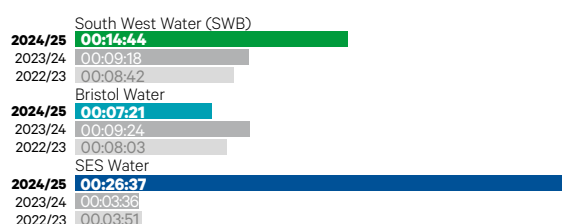
Water quality (CRI score)

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



Supply interruptions (Duration per property per year)

Performance across the Group is often impacted by colder weather and third-party damage. Despite a relatively stable underlying performance, specific events of scale have contributed to levels of supply interruptions in both SWB and Bristol Water that exceed our KPIs. For SES Water, which has a track record of achieving its target in respect of this metric, a sink hole in Godstone and a water quality event at Cheam, impacted a number of customers. Without these unusual events, SES Water's performance would have been less than one minute. While essential repairs were completed and water was restored, alternative water supply provisions were offered, including bottled water stations and utilisation of our priority services register, to ensure vulnerable people received bottled water to their homes.



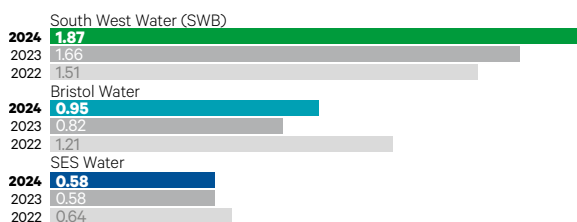
Taste, smell and colour (contact per 1,000 population)

We recognise that customers expect their drinking water to look and taste great and this is important in maintaining customers' trust in the quality of our supplies.

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

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

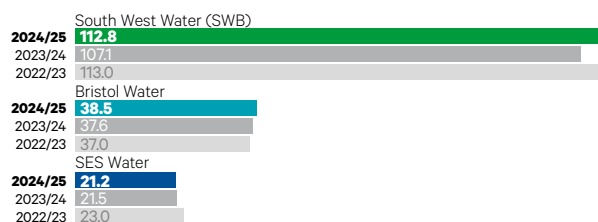
SES Water's taste, smell and colour contact performance remains in the top quartile for the industry.



Leakage (3-year average – Megalitres per day)

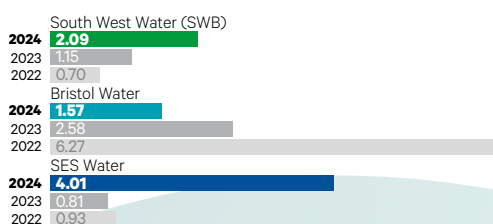
Reducing leaks is a critical component of ensuring a sustainable water supply.

Across K7, we have reduced leakage by 13% in SWW, 1% in Bristol and 19% in SES. Whilst we narrowly missed the stretching leakage targets for 2024/25 for SWW and Bristol Water the in-year leakage results for 2024/25 were an 9%, 4% improvement respectively on the prior year. In SES leakage reduced by 3% meeting our 2024/25 target.

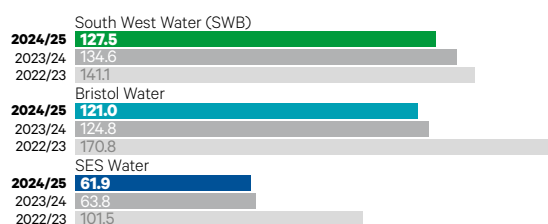


Unplanned outages (%)

Asset health is essential for ensuring a robust supply of water to our customers. Mains repairs performance has improved again for SWB and BRL, ensuring that we have met targets in these regions. For SES, mains repairs narrowly missed the regulatory target of 59.0. Both SWB and Bristol Water met the unplanned outage target of 2.34, while SES Water's performance was impacted by a single event at Cheam water treatment works in December 2024, despite strong underlying performance.



Mains repairs (Number of repairs per 1,000km)



Note: Non-financial KPIs are calculated on financial year basis, with the exception of; Water quality; Taste, smell and colour; unplanned outages; Pollution incidents; and Numeric compliance, which are calculated on a calendar year basis.

Tackling storm overflows and pollutions

Pollution incidents (Number of wastewater incidents)

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



Numeric Compliance (%)

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

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



Internal sewer flooding (Incidents per 10,000 sewer connections)

Sewer flooding is a key area that significantly impacts on customers. In 2024/25 we maintained our industry-leading internal sewer flooding performance and have delivered a further reduction in both internal and external flooding incidents, despite the prolonged periods of significant rainfall and high groundwater levels at the start of the year.



External sewer flooding (Number of incidents)



Sewer collapses (Incidents per 1,000km)

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



Sewer blockages (Number)



Driving environmental gains

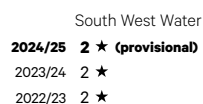
Biodiversity (Hectares)

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



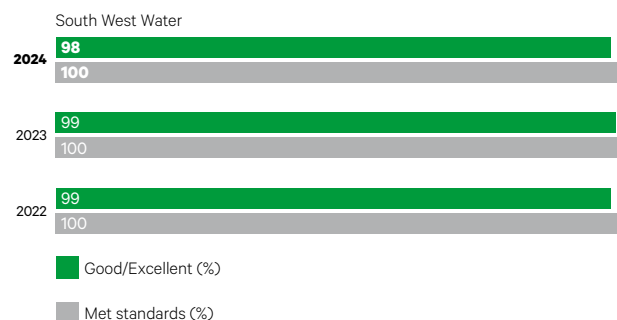
Environmental Performance Assessment

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



Bathing waters

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



Average Spills

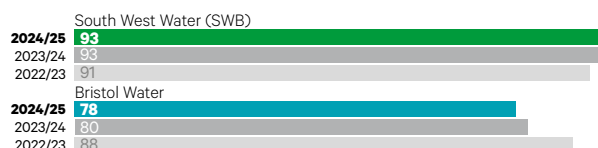
Our WaterFit programme is focused on protecting rivers and seas. During 2024, the average number of spills reduced, despite intense rainfall and high groundwater levels. South West Water was only one of five water companies to see such a reduction. South West Water has made interventions at a number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



Supporting affordability, delivering for customers

Overall satisfaction with PSR (%)

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



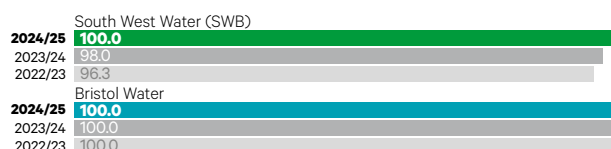
Customer Measure of Experience (C-MeX)

C-MeX is Ofwat's measure of customer experience both for those customers who directly contact us as well those surveyed around their perception of our brands. Bristol performance has been consistently strong throughout the period, and we see opportunity to share best practise across the Group.



Customer affordability (%)

We have targeted zero water poverty by 2025, and we have a range of affordability schemes to address customer needs. South West Water and Bristol Water have a measure which assesses customer affordability and which is improving year-on-year. Both SWB and Bristol Water have achieved 100.0% of customers finding their bill affordable. SES does not have a similar affordability measure in K7.



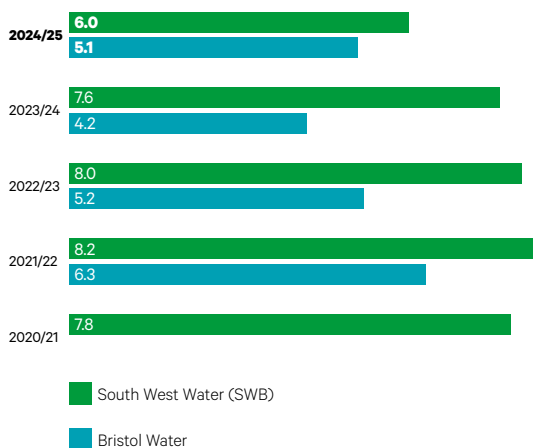
Developer Measure of Experience (D-MeX)

D-MeX is Ofwat's measure of service experience for developers which directly compares us with our peers. Across the 2020 to 2025 period, each of South West Water, Bristol Water and SES Water have seen broadly improving trends in performance in this metric.



Our financial KPIs

Regulatory¹



Return on regulated equity (RORE)^{^2} (%)

WaterShare

Why is this KPI important to us?

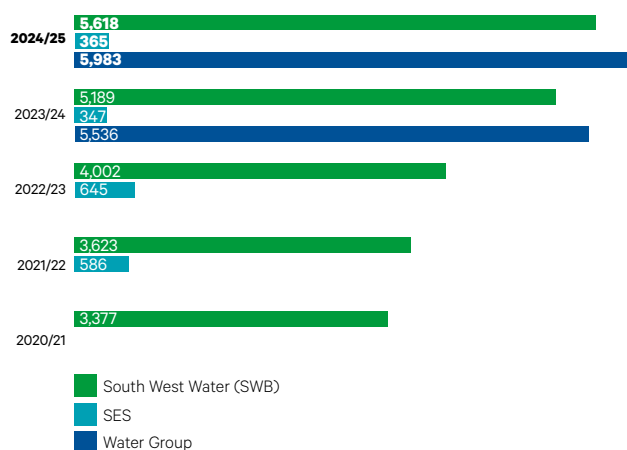
Return on regulated equity (RORE) expresses the return the water businesses have managed to earn above and beyond expectations set by the regulator through financial and operational performance, as explained in our Alternative Performance Measures on pages 248 to 251.

Our performance in 2024/25

Commentary on performance is set out in the Pennon Chief Financial Officer's report on pages 61 to 69.

Link to remuneration, bonus/LTIP¹

LTIP performance measure.



Regulatory Capital Value (RCV)[^] (£m)

Why is this KPI important to us?

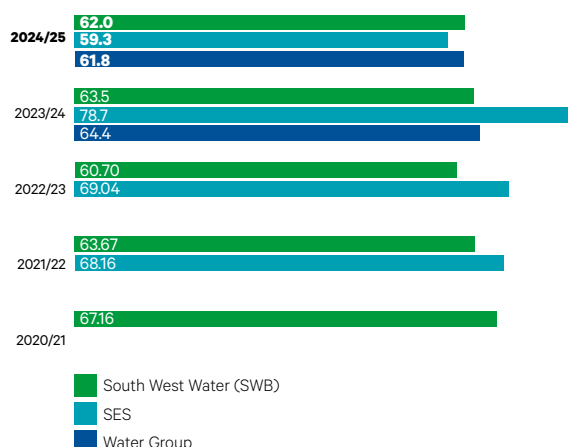
Regulatory Capital Value (RCV) has been developed for regulatory purposes and is primarily used in setting price limits. RCV is widely used by the investment community as a proxy for the market value of the regulated business and forms part of covenant debt limits, as explained in our Alternative Performance Measures on pages 248 to 251.

Our performance in 2024/25

Commentary on performance is set out in the Pennon Chief Financial Officer's report on pages 61 to 69.

Link to remuneration, bonus/LTIP

N/a



Gearing[^] (%)

Why is this KPI important to us?

The regulated gearing is calculated as year end net debt as a proportion of RCV (based on RCV including the adjustment for the IFRS16 leases as explained in our Alternative Performance Measures on pages 248 to 251).

Our performance in 2024/25

Commentary on performance is set out in the Pennon Chief Financial Officer's report on pages 61 to 69.

Link to remuneration, bonus/LTIP

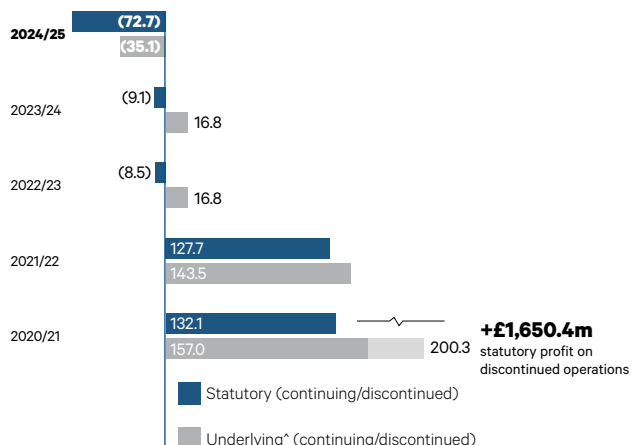
N/a

[^] Measures with this symbol are defined in the Alternative Performance Measures (APMs) as outlined on pages 248 to 251.

1. For further information on the relevance to Executive Directors' remuneration see page 166.

2. Cumulative K7 measure.

Statutory



(Loss)/profit before tax (£m)

Why is this KPI important to us?

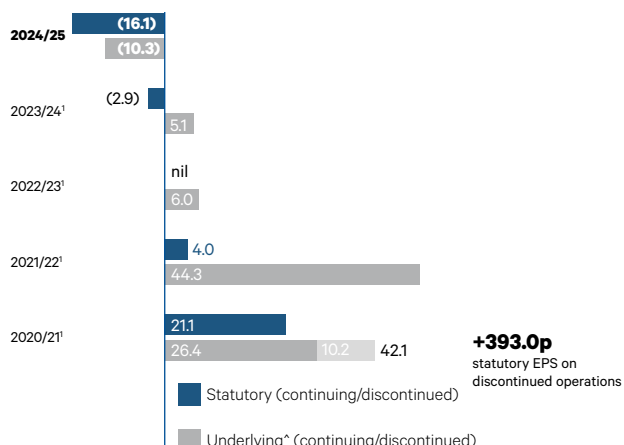
(Loss)/profit before tax is a key measure of the Group's financial performance after deducting all operating and finance costs. Underlying (loss)/profit before tax is measured to exclude any distorting non-underlying items, as explained in our Alternative Performance Measures on pages 248 to 251.

Our performance throughout 2024/25

Commentary on performance is set out in the Pennon Chief Financial Officer's report on pages 61 to 69.

Link to remuneration, bonus/L TIP

Underlying Profit before tax Annual bonus performance measure.



Basic earnings per share (pence)

Why is this KPI important to us?

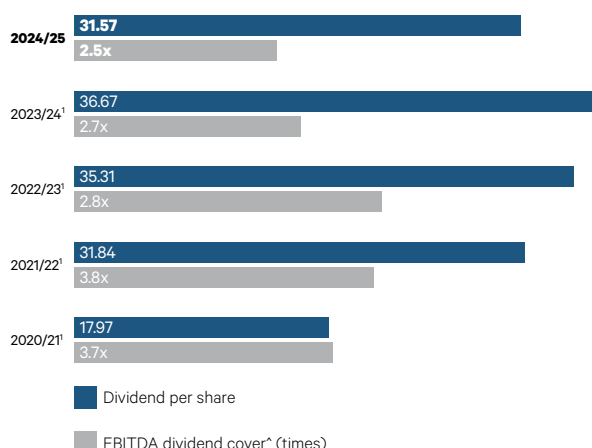
Earnings per share (EPS) is a key financial metric indicating the Group's profitability after tax and provides a relative measure of profitability in comparison to the Group's share price. Underlying* EPS excludes the impact of potentially distorting non-underlying items, as explained in our Alternative Performance Measures on pages 248 to 251.

Our performance throughout 2024/25

Commentary on performance is set out in the Pennon Chief Financial Officer's report on pages 61 to 69.

Link to remuneration, bonus/L TIP

N/a.



Dividend per share (pence)

Why is this KPI important to us?

Our sector-leading dividend policy is a key measure of the success of our sustainable growth strategy.

Our performance throughout 2024/25

Commentary on performance is set out in the Pennon Chief Financial Officer's report on pages 61 to 69.

Link to remuneration, bonus/L TIP

L TIP sustainable dividend measure.

[^] Measures with this symbol are defined in the Alternative Performance Measures (APMs) as outlined on pages 248 to 251.

1. The comparative period figures have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share.

Our CFO's review



This financial year has been a year of transition as we close out K7 and prepare for K8 – ensuring a resilient balance sheet for the growth ahead

Laura Flowerdew

Pennon Chief
Financial Officer

Read more about Laura on pages
132 to 133

Financial highlights of the year

Revenue

£1,047.8m

(2023/24: £907.8m)

Benefiting from acquisition of SES

Underlying EBITDA[^]

£335.6m

(2023/24: £338.3m)

Steady EBITDA despite ongoing cost pressures

Underlying loss before tax[^]

£35.1m

(2023/24: £16.8m underlying profit before tax)

Impacted by lower customer demand, higher depreciation and interest from capital investment

Loss before tax

£72.7m

(2023/24: £9.1m loss before tax)

One off costs relating to restructure and water quality incident

Capital investment[^]

£652.5m

(2023/24: £649.5m)

Investing to deliver on our commitments

Water Group gearing[^]

61.8%

Benefiting from Rights Issue, increasing financial resilience

K7 Watershare RORE[^]

6%

Outperformance across K7

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

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

Our underlying loss before tax[^] of £35.1 million for the year (2023/24: underlying profit of £16.8 million), resulted from lower regulated revenue impacted by lower customer demand in Devon and Cornwall, driven by customer efficiency initiatives. Cost pressures have been seen as we strive to deliver against our regulatory targets. SES Group was acquired in January 2024, and this reflects the first full year in which SES has been incorporated into the results of the Group.

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

The Group's statutory loss before tax of £72.7 million for the year (2023/24: £9.1 million loss) includes non-underlying items of £37.6 million (2023/24: £25.9 million), the majority of which related to costs in relation to the cryptosporidium water quality incident and costs in connection with restructuring and reshaping actions. The statutory loss after tax of £56.8 million (2023/24: £8.5 million) incorporates the associated tax credit on these results.

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

It is critical that we deliver on our strategic priorities, but that we also deliver the required outcomes and our capital programme as efficiently as possible.

[^] Measures with this symbol are defined in the Alternative Performance Measure (APMs) as outlined on pages 248 to 251.

Q&A with our new CFO

Q: What has been your key highlight for this year?

A: The Rights Issue has been the highlight for me; support from 93% of our shareholder base for this funding step provides a vital component of delivering on the 34% growth trajectory we see over the K8 period.

I was delighted it was so well supported and believe it allows us to maintain a resilient balance sheet to support investment for the environment, customers and communities.

Q: What are your key priorities in 2025/26?

A: 2025/26 marks the start of the next regulatory period; with a Business Plan that has been prepared and scrutinised for more than two years, it has been a long time in the making.

I am now looking forward to moving into the delivery period; supporting the business to implement our plans efficiently and effectively, and working with our Amplify delivery partnership to grow our asset base.

Q: How will your investment programme make a difference to the business?

A: Our £3.2 billion investment programme is based on the priorities of our customers and communities, as well as ensuring we protect the natural environment around us. Having spent 18 months in a customer facing role, I recognise that the expectations of our local communities have increased, and it is vital that we respond to this, particularly in terms of our wastewater network.

I am excited that with our reduced gearing, and a strong balance sheet we will be able to invest in our infrastructure over the next five years, ensuring that we reduce storm overflow spills, upgrade water treatment works across our region, and deliver other improvements to our core services whilst protecting the environment.

As such, in this period of transition from K7 to K8, we have continued to progress our efficiency programme, which targets annualised run rate savings of £86 million. In the 2024/25 financial year, we have focused on reshaping and realigning the business to ensure we are ready to deliver on the strategic priorities we have set for the next regulatory period.

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

In addition to the restructure, we have continued to deliver our transformation and integration programmes. Synergies delivered through our acquisitions of Bristol Water and SES Water have delivered savings of c.£20 million and c.£9 million, respectively. Combined with base efficiency of c.£47 million we have delivered c.£76 million of the expected annualised savings of c.£86 million for K8. These actions have resulted in non-underlying costs¹ of £15.8 million in the current year, but will provide a more effective and efficient delivery as we head into the next regulatory period.

We have continued to invest record levels of capital to deliver enhancements and benefits for the environment and our customers. Our group wide capital investment² of £652.5 million reflects £610.2 million of investment in our water businesses as we focus on delivering on our K7 commitments and transition to K8. Key investments, such as our new treatment works at Alderney and Knapp Mill, have progressed at pace, whilst our continued focus on the environment, through investment in our WaterFit and storm overflow programmes, have also driven capital investment in the year. Our programme to increase our water resources and strengthen our resilience to drought has also continued, leading to a 34% increase in water resources in Cornwall since the drought, as well as a 30% increase in Devon, positioning us well as we experience an exceptionally dry spring period across the UK.

Our current rate of investment aligns with that required to deliver our K8 programme of £3.2 billion¹ and which will deliver 34% growth in our regulatory asset base to 2030. To support this growth, ensuring a strong and resilient balance sheet has been a key focus. The completion of the £490 million fully underwritten rights issue in February 2025 was core to this; with over 93% of shareholders taking up their rights and the rump placing being more than four times over-subscribed, we are grateful to all those shareholders who supported the issuance. With the proceeds received, we close the K7 period with a water group gearing of 61.8%, well within our renewed gearing policy of 55-65% and within our anticipated range of 60-65% to 2030 for our Water Group. At 31 March 2025, SWW's net debt/forecast shadow RCV gearing ratio² was 62.0% (31 March 2024: 63.5%), reflecting the benefit of the equity injection following the rights issue, notwithstanding continued record levels of capital expenditure and reduced operating cash flows.

Debt funding is also fundamental to our growth; during the year we secured strong investment grade credit ratings for South West Water Limited and ratings were uplifted for SES Group as a result of recognition from the ratings agency of the stronger balance sheet support provided by SES being part of the Pennon Group. These credit ratings have allowed us to secure funding through private placements, the public bond markets, lease financing and wider bilateral lending. Overall, we have raised £1.3 billion in debt and equity funding to the end of the year, as well as ensuring our EMTN programme, launched in July 2024, provides an efficient and flexible way to fund our ongoing funding and liquidity needs over the next five years.

We continue to outperform the regulatory cost of equity. Our RORE² across the K7 period reflects a 6% real return to shareholders, outperforming the equity return allowed by Ofwat of 4.19% as a result of strong financing performance across the five-year cycle, partially offset by increased investment, cost pressures including higher power costs than allowed, and ODI performance.

1. At forecast outturn prices.

² Measures with this symbol are defined in the Alternative Performance Measure (APMs) as outlined on pages 248 to 251.



Group performance – summary

	Revenue		Underlying EBITDA	
	2024/25	2023/24	2024/25	2023/24
SWW	737.7	729.8	308.6	332.5
SES Water	82.8	16.0	29.6	3.3
Total Water	820.5	745.8	338.2	335.8
Retail	320.3	253.5	7.5	7.7
Other	12.8	11.8	(10.1)	(5.2)
Intra-group	(105.8)	(103.3)	–	–
Group	1,047.8	907.8	335.6	338.3

SES was acquired on 10 January 2024 and has contributed to the Group financial results since that date. It largely comprises the regulated water company, Sutton and East Surrey Water plc ('SES Water'), along with non-regulated businesses including SES Business Water, a non-household retail business. The year to 31 March 2025 will be the first year where Penon's results will include a full year of SES results; the 2023/24 financial year incorporated results from the date of acquisition only.

The Group's revenue for 2024/25 was £1,047.8 million (2023/24: £907.8 million). Water revenue increased by £74.7 million (10.0%), as a result of the full year contribution from SES Water of £82.8 million (2023/24: three months' contribution of £16.0 million). Revenue from South West Water (including Bristol and Bournemouth) was broadly flat year-on-year, as tariff increases were offset by lower customer demand in the first half of the year from South West Water customers, in response to our water efficiency campaigns and activities.

Non-household retail revenue increased by £66.8 million to £320.3 million, with new contracts outside South West Water's regions contributing c.£14.9 million to this increase alongside the full year impact of the SES BW acquisition. SES BW has contributed £67.9 million of revenue in the year (2023/24: three months' contribution of £19.7 million).

Overall, the Group's underlying EBITDA[^] has decreased 0.8% from £338.3 million to £335.6 million, with full year contribution from SES of £26.9 million (2023/24: three months' contribution of £3.6 million), leading to £23.3 million year-on-year benefit to underlying EBITDA[^], offset by a £23.9 million reduction in underlying EBITDA[^] from South West Water, given flat revenue and increasing cost pressures.

Further details of the performance of the Group are outlined in the segmental analysis in note 5 of the financial statements on pages 210 to 211.

Cash collections across the Group have remained robust during the financial year. Expected credit loss charges for 2024/25 of £9.7 million for the Group (0.9% of revenue) are in line with previous levels (2023/24: 0.8%).

The Group reported a statutory loss before tax of £72.7 million (2023/24: loss of £9.1 million) after non-underlying costs^{*} of £37.6 million (2023/24: £25.9 million). The Group recognised an underlying loss before tax[^] of £35.1 million (2023/24: profit of £16.8 million), with SES Water and SES Business Water contributing an underlying loss before tax of £8.0 million (2023/24: £2.5 million). Group underlying loss before tax on a like-for-like basis (excluding SES) was £27.1 million (2023/24: profit of £19.3 million).

Segmental performance – Water businesses

South West Water

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

Underlying operating costs[^] of £429.1 million (2023/24: £397.3 million) have increased year-on-year by £31.8 million. This reflects the impact of inflationary pressures, the cost of implementing the new digital customer services platform and a focus on delivering key finance commitments. These were partially offset by lower wholesale commodity power costs and efficiency savings.

South West Water's underlying EBITDA[^] reduced by 7.2% to £308.6 million. Underlying operating profit has decreased by 17.5% reflecting the weakened EBITDA performance, and an increase in the depreciation charges of £5.9 million compared to last year, in line with our record, capital investment programme.

Net finance costs of £170.6 million (2023/24: £155.5 million), reflect an effective interest rate of 5.4%¹ (2023/24: 5.6%). The year-on-year increase of £15.1 million was as a result of higher debt, funding the capital programme.

South West Water's statutory loss before tax was £62.7 million (2023/24: loss of £1.0 million) after non-underlying costs of £32.4 million (2023/24: £15.6 million).

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

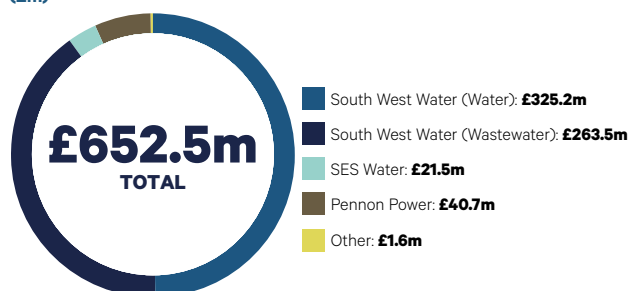
SES Water

SES Water's revenue for 2024/25 was £82.8 million of revenue in the year (2023/24: £16.0 million from date of acquisition), and reducing costs on an annualised basis, leading to an improved EBITDA margin for the 2024/25 year.

SES Water capital investment of £21.5 million has focused on network resilience and metering, continuing its focus on smart networks and ensuring resilient supply of drinking water.

Following the Rights Issue in February 2025, £330.0 million of equity was passed down to South West Water and £50.0 million of equity was injected into SES Water to ensure appropriate gearing in each water business.

Major categories of Capital expenditure (£m)



Segmental performance – non-household retail

Pennon Water Services (PWS)²

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 has fallen within our underlying water region; however, year-on-year revenue, EBITDA and profit before tax have continued to grow throughout 2024/25 aided by winning new contracts on a national basis.

The overall impact on revenues for Pennon Water Services, including the impact of new contract wins and tariff increases across the UK water market, is an increase of c.8% compared to the prior year. The business continued to maintain its focus on targeting high quality, sustainable customers who will benefit from the value-added services that form part of PWS' differentiated service proposition. New business wins contributed £13.9 million of additional revenue compared to the prior 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 and at a rate below the increase in revenues. As a result, the business has increased its underlying EBITDA by c.2.7% to £7.6 million (2023/24: £7.4 million). This strong performance has resulted in the business reporting a profit before tax of £5.4 million (2023/24: £4.7 million), an increase of 14.9%.

SES Business Water

SES Business Water's revenue for 2024/25 was £67.9 million during the year, with underlying EBITDA at £(0.1) million.

Segmental performance – Other

The Other segment comprises the result of Pennon Group plc company and other Group businesses, including the recently acquired ancillary businesses of SES. The Other segment contributed an underlying loss[^] before tax of £3.3 million in the year (2023/24: profit before tax of £0.1 million) with non-underlying costs of £1.5 million (2023/24: £0.7 million) associated with the closure of SES Home Services, a business providing plumbing services on a retail and business to business basis. This business was loss making and on 31 March 2025, it was announced that the business would be closed.

Share of post-tax profit from associated companies

The Group has a 30% interest in Water2Business Limited (W2B), a water retailer joint venture with Wessex Water. This investment is accounted for under the equity method and as the financial performance improves as it has gained scale, we have recognised £0.8 million of profit after tax in our 2024/25 results (2023/24: £0.7 million), an increase of 14%.

[^] Measures with this symbol are defined in the Alternative Performance Measures (APMs) as outlined on pages 248 to 251).

1. A measure of the mean average interest rate payable on net debt associated with South West Water Limited's group of companies, which excludes interest costs not directly associated with net debt.

2. Pennon Water Services (PWS) – 80:20 joint venture with South Staffordshire.

Group finance costs (net)

The increase of £34.2 million resulted from; £47.3 million from new and renewed debt facilities, the full year impact of financing SES Group (£16.1 million), offset by lower inflation and interest rates (£21.3 million), increased interest receivable as a result of the Rights Issue (£3.4 million) and higher levels of capitalised interest as we continue to invest record levels of capital in our water businesses (£9.2 million).

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

Acquisition accounting

As part of the requirements of acquisition accounting, we have finalised the fair values of the acquired balance sheet of SES Water. The provisional values reported in the Group's results to 31 March 2024 have been revised to reflect a £0.4 million decrease in the fair value of the acquired property, plant and equipment, including the network infrastructure, the fair value of SES Water's debt portfolio, and the deferred tax liabilities with a corresponding increase in Goodwill. The majority of the value is attributed to the SES Water business, recognising the strategic alignment of our acquisition with our other water companies.

Goodwill arising from the acquisition of £16.0 million, based on these 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.

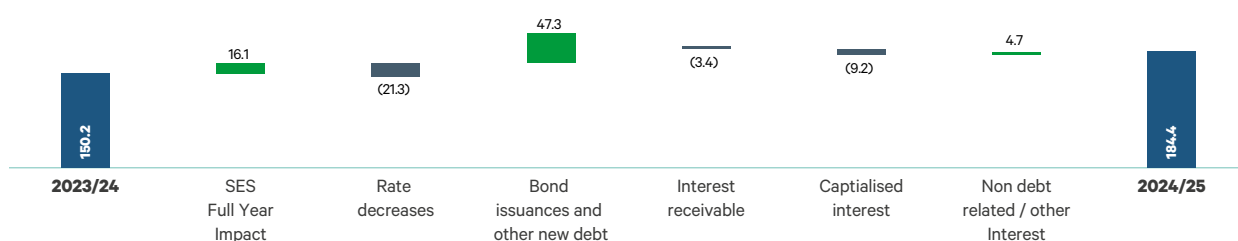
Non-underlying items

Non-underlying items* for 2024/25 were a net charge before tax of £37.6 million (2023/24: net charge of £25.9 million). Non-underlying items are those that in the Directors' view should be separately identified by virtue of their size, nature or incidence and where they believe excluding non-underlying items provides a more useful comparison of business trends and performance.

The non-underlying* charge includes:

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

Total interest charge (£m)



Earnings per share (basic and diluted)

The earnings per share calculations reflect an increase in weighted average shares due to the rights issue in February 2025. The Group has recorded a statutory loss per share of 16.1 pence per share for the year ended 31 March 2025 (2023/24: loss of 2.9 pence per share). This includes a net non-underlying* charge before tax of £37.6 million (2023/24: £25.9 million) and a net non-underlying tax credit of £7.9 million (2023/24: charge of £4.9 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 2024/25 of (10.3) pence (2023/24: 5.1 pence).

- £15.8 million of costs in connection with restructuring and reshaping actions
- £0.8 million of acquisition-related costs in relation to Pennon Power and SES.

The non-underlying* charges in the year give rise to a net tax credit of £8.9 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 2024/25 tax credit for the Group was £15.9 million (2023/24: credit of £0.6 million). On an underlying* basis, the net tax credit for 2024/25 for the Group of £7.0 million (2023/24: charge of £4.3 million) consisted of:

- Current tax charge of £0.8 million, reflecting an effective tax charge rate of 2.3% (2023/24: credit of £0.6 million, 3.6%). 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, pension payments made during recent years where tax relief is now due, and capitalised interest, which for tax purposes is deductible in the year incurred.
- Deferred tax credit of £7.8 million (2023/24: charge of £4.9 million). This primarily reflects a current year deferred tax credit in relation to tax losses carried forward for utilisation in later periods, partially offset by a charge in relation to capital allowances in excess of depreciation charged across the 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.

There was also a non-underlying* current tax credit in the year of £0.5 million (2023/24: £nil) and a deferred tax credit in the year of £8.4 million (2023/24: £4.9 million) relating to the non-underlying items. This related to losses carried forward for utilisation in later years.

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

Basic and diluted earnings per share figures and the weighted average number of shares for the comparative period have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share. Amounts as originally stated at 31 March 2024 were (3.6)p basic and diluted earnings per share, 6.2p basic and diluted adjusted earnings per share.

Movement in Net debt

Pennon Group – summarised net debt flow (£m)

	2024/25 flows
Net debt excluding other non-cash indebtedness 1 April	(3,684.8)²
Opening balance 1 April (restated)	(3,844.8)
Cash generated from operations	233.6
Corporation tax received	3.0
Net interest paid	(132.0)
Capital investment	(666.7)
Proceeds from Rights Issue	491.0
Share Issue transaction costs	(15.4)
Ordinary dividends paid	(126.9)
Non-cash index-linked accretion	(33.4)
Other movements ¹	13.4
Closing balance 31 March excluding other non-cash indebtedness	(4,078.2)
Net debt excluding fair value uplifts 31 March	(3,936.2)²

The Group's cash flow from operating activities for 2024/25 was £233.6 million (2023/24: £261.7 million). This recognises robust cash collection in the period, whilst we remain focused on supporting customers through a range of affordability measures where they may financially vulnerable. Operating cash flows continue to reflect the lower levels of underlying profitability, impacted by lower customer demand and cost pressures from inflation and delivering on our operational performance commitments.

Net interest payments were £132.0 million (2023/24: £109.1 million) with the higher payment in 2024/25 driven by increased debt consequent on our ongoing record levels of capital investment, partially offset by lower inflation and interest rates.

Capital investment has resulted in an increase in capital expenditure cash outflows of £68.6 million to £666.7 million (2023/24: £598.1 million). This includes c.£32.2 million (2023/24: £49.0 million) of cash outlay for the investment in Pennon Power.

Sustainable net debt

We completed an equity rights issue in order to ensure we maintain financial discipline with the leverage and capital structure for the Group. Proceeds from the rights issue, net of associated expenses, were £475.6 million.

Other significant movements in net debt in 2024/25 include payment of our interim and final dividends for 2023/24 totalling £126.9 million (interim and final dividends for 2022/23: £111.7 million) and £33.4 million (2023/24: £46.8 million) of non-cash indexation on our loan instruments.

The Group's net debt* at 31 March 2025 was £4,078.2 million (31 March 2024 (restated): £3,810.5 million). This includes acquisition-related fair value adjustments of £109.8 million (31 March 2024: £125.7 million) which are released over the life of the related debt instruments and other non-cash accounting adjustments of £32.2 million (31 March 2024: £35.2 million). The Group's net debt position excluding these adjustments is £3,936.2 million (31 March 2024 (restated): £3,684.8 million).

Robust liquidity and flexible funding strategy

Group debt at 31 March 2025 (£m)	Gross debt	Net debt
Pennon Group Plc	247.2	202.2
Water Group	4,107.1	3,698.3
SWW	3,815.9	3,481.7
SES Water	291.2	216.6
Other Group companies	155.9	133.6
Intercompany borrowing eliminations	(97.9)	(97.9)
Total adjusted group (excluding FV and non-cash indebtedness)	4,412.3	3,936.2
Non-cash indebtedness	142.0	142.0
Total Group	4,554.3	4,078.2

As at 31 March 2025, the Group had £1,036.1 million of cash and committed facilities (31 March 2024: £601.4 million). This consists of cash and cash deposits of £476.1 million (31 March 2024: £171.4 million), including £58.2 million (31 March 2024: £37.4 million) of restricted funds representing deposits with lessors against future lease obligations, and £560.0 million (31 March 2024: £430.0 million) of undrawn committed facilities.

Since 31 March 2024, the Group has secured c.£1,140 million of new debt, through its diverse portfolio of debt, consisting of:

- £300 million in US private placements with an average maturity of 15 years
- £650 million through our inaugural public bond issuances under our EMTN³ programme
- £65 million of new term loans and leasing with an average maturity of 6 years
- £125 million of new and renewed revolving credit facilities.

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

Resulting from the changes above and drawing of new debt during the year, South West Water gross debt at 31 March 2025 was £3,815.9 million (31 March 2024: £3,287.8 million). The debt has a maturity of up to 32 years with a weighted average maturity of 14 years.

South West Water⁴ net debt at 31 March 2025 is a mix of fixed/swapped (£2,460.7 million, 71%), floating (£243.7 million, 7%) and index-linked borrowings (£777.3 million, 22%), which reflects our diverse debt portfolio and compares to a 2024 industry average of fixed/swapped 32%, floating 12% and index-linked 56%. Where appropriate, derivatives are used to fix the rate on floating rate debt.

At 31 March 2025, South West Water's net debt to RCV ratio⁶ stood at 62.0% (31 March 2024: 63.5%). This is due to increased capital investment and reduced in period operating cash flows.

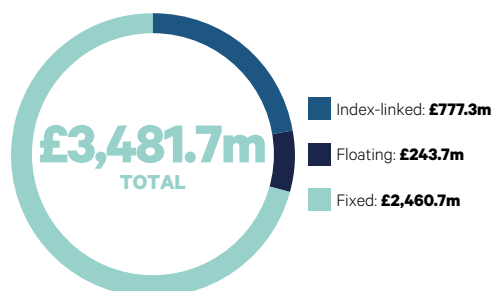
South West Water's cost of finance, with an effective interest rate in 2024/25 of 5.4% (2023/24: 5.6%), continues to benefit from the diverse portfolio of debt.

SES Water's net debt portfolio predominantly reflects index linked and fixed rate debt, based on the legacy portfolio acquired at the date of acquisition. Subsequent to the equity injections in 2024/25, SES Water's gearing levels relative to RCV have reduced to 59.3%, with recognition from Ofwat of their improving financial resilience as a result of Pennon's ownership.

The effective interest rate on the SES debt book is 7.2% (adjusted for the March injection of equity). As a material component of this debt book is index linked, it is anticipated this rate will decrease as UK inflation rates reduce. In addition, over time, as the legacy debt matures, we anticipate it will also benefit from being part of the diverse debt portfolio and hedging strategy employed by the wider Group.

1. Includes unwind of fair value adjustments and other non cash indebtedness.
2. Carrying value of fair value acquisition adjustments to net debt as at 31 March 2025 – £29.3 million Bournemouth Water, £71.0 million Bristol Water and SES Water £9.5 million.
3. Euro Medium Term Note.
4. Based on South West Water Group, including Bristol Water excl. SES.

South West Water Net Debt Structure (£m)



Strong investment grade ratings

During the first half of the year the Group, through South West Water, has achieved two strong credit ratings with Moody's and Fitch. We were pleased that despite the sector wide downgrade by Moody's due to ongoing regulatory risk, and the impact of the Determinations on the wider sector, our credit rating remained unchanged subsequent to the Final Determination. We were also pleased that SES Water's credit rating was upgraded by Moody's in November, in recognition of the benefit gained from being part of the wider Pennon Group and its resilient balance sheet.

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

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

Internal borrowing

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

Following its acquisition, SES Water continues to maintain its current Group structure whilst it operates under its own regulatory licence.

Funding for other parts of the Group, including PWS and Pennon Power, is predominantly provided by Pennon. Pennon will continue to use funds to support the Group's ongoing operations as appropriate.

Creating economic value in the regulated business

Regulatory Capital Value (RCV)⁵

	31 March 2025
SWW	4,900.1
BRL	717.7
SWB	5,617.8
SES	365.3
Water Group	5,983.1

Total Water Business RCV of £5,983.1 million includes the benefit of regulatory reconciliation items in the PR24 Final Determination, inflation of 3.4% at March 2025, as well as additional accelerated investment and expenditure to drive outcomes in 2024/25.

Return on Regulated Equity⁶

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

WaterShare RORE	South West Water	Bristol Water	SES Water
Base return	4.0%	4.5%	4.1%
Financing	4.2%	1.2%	(1.9%)
Totex	(1.6%)	0.6%	4.5%
ODI	(0.6%)	(1.2%)	(2.5%)
Cumulative RORE	6.0%	5.1%	4.2%

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

ODI[^] performance across the South West Water group in 2024/25 has continued to be dominated by pollutions underperformance, partly mitigated by areas of outperformance such as internal sewer flooding, catchment management and bathing waters. As a consequence, South West Water has incurred a penalty of c.£19 million (2023/24: penalty c.£12.1 million). South West Water continues to build on its ODI performance with c.70% either on track or ahead of target across a broad range of challenging bespoke, common, and comparative measures. ODI performance for Bristol Water is on track to achieve c.70% of its ODIs and has resulted in a net financial penalty of c.£4 million (2023/24: penalty of c.£1.7 million). ODI performance for SES is on track to achieve c.52% of its ODIs and has resulted in a net financial penalty of c.£2 million.

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

Fair Tax Mark

We are proud to have been awarded the Fair Tax Mark for the seventh year in a row in October 2024.

The Fair Tax Mark accreditation scheme is the gold standard of responsible tax conduct. It seeks to encourage and recognise organisations that pay the right amount of corporation tax at the right time and in the right place. Accredited businesses include listed companies, co-operatives, social enterprises and large private businesses.

As a FTSE 250 UK-focused company, Pennon takes its responsibility to transparency and societal contribution seriously which includes ensuring it pays the right amount of tax, in the right way, at the right time.

The Group became the first UK business in the water industry to be awarded the Fair Tax Mark in 2018 and has now successfully retained it each year since.



5. UK water position as at 31 March 2024 as per published Annual Performance Reports – weighted average

6. Based on South West Water group including Bristol Water net debt/shadow RCV.

[^] Measures with this symbol are defined in the alternative performance measures section of the annual report on pages 248 to 251.

Taxation strategy

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

Under our tax strategy we:

- At all times, consider the Group's corporate and social responsibilities in relation to its tax affairs
- Operate appropriate tax risk governance processes to ensure that the policies are applied throughout the Group
- Comply with our legal requirements, file all appropriate returns on time and make all tax payments by the due date
- Consider all taxes as part of ongoing decisions
- Do not enter into artificial tax arrangements nor take an aggressive stance in the interpretation of tax legislation
- Do not undertake transactions that are outside the Group's low-risk appetite for tax or not in line with the Group's Code of Conduct
- Engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real time, such interpretations following both the letter and spirit of the laws
- Do not have any connections with tax havens unless it is necessary for the purposes of trading within those jurisdictions
- As a long-term business with a long-term approach to financial management, there have been no changes to the tax strategy which is reviewed and reaffirmed on an annual basis.

Further details are given in the Group's tax strategy report available on the Pennon Group website www.pennon-group.co.uk

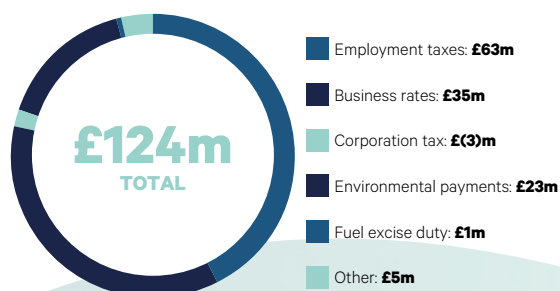
Tax contribution 2024/25 – borne/collected

The Group's total tax contribution (TTC) for 2024/25 amounted to £124 million (excluding £176 million of VAT receipts) (2023/24: £100 million excluding £144 million of VAT receipts). TTC is a standardised measure of a Group's total tax contribution, having been developed by PwC and the 100 Group (FTSE 100 Finance Directors). It is acknowledged as being a fair and comparable representation of total tax cost.

TTC looks at taxes borne, and taxes collected. Taxes borne includes all taxes which are a cost to the Group, such as business rates, corporation tax and employers' National Insurance contributions (NICs). Taxes collected and recovered highlights where the business is collecting tax on behalf of HMRC. Employment taxes totalled £63 million (2023/24: £52 million) including employees' Pay As You Earn (PAYE) and total NICs. The total includes PAYE of £5 million (2023/24: £5 million) on pension payments made by the Group pension scheme. A net amount of £44 million (2023/24: £37 million) was collected on behalf of the authorities for employee payroll taxes.

Business rates of £35 million (2023/24: £30 million) were paid to local authorities. This is a direct cost to the Group and reduces profit before tax.

Total Tax Contribution



UK Corporation Tax receipts from HMRC in the year were £3 million (2023/24: £3 million receipts) in relation to over-payments made in prior years. There were no payments due in respect of 2024/25 or 2023/24 as the Group has generated tax losses in both years.

Payments to the Environment Agency and other regulatory bodies totalled £23 million (2023/24: £20 million). This reduces profit before tax.

Fuel excise duty of £1 million (2023/24: £1 million) related to transport costs. This reduces profit before tax.

VAT repayments of £176 million (2023/24: £144 million) have been received by the Group from HMRC. VAT has no material impact on profit and is excluded from the TTC figure to avoid distortions in this.

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 and the company is now included alongside all other waste water companies. 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 later in 2025. 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 non permitted discharges at 7 locations with a total of 30 charges. The EA have since withdrawn 6 of these charges relating to 1 site. At a hearing on 14 November 2024, South West Water pleaded guilty to 5 of the charges and the sentencing hearing for all 24 charges will take place in the third quarter of 2025 with judgement following at a later date.

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

Pensions

At 31 March 2025, the overall Group surplus on retirement obligations was £31.2 million (31 March 2024: £26.6 million).

The increase in the overall Group surplus in 2024/25 of £4.6 million is largely from the Pennon Group Pension Scheme (PGPS), recognised in other comprehensive income. Total liabilities have reduced by c.£101 million, largely due to changes in the financial assumptions driven by the increase in the discount rate. Total assets have reduced by c.£96 million, driven by the reduction in the value of assets from the prior year. The triennial valuation of PGPS as at 31 March 2022 was finalised in March 2023 and no deficit recovery contributions were required. The ongoing funding requirements for the Company to the scheme were limited to the continuing administration expenses. The next triennial valuation of PGPS is in progress and is expected to conclude in March 2026. The Group pension surplus includes a net surplus of c.£9 million (31 March 2024: c.£9 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 trustee of WCPS continues to work through the process to wind up the Bristol Water section of WCPS which is expected to take place during 2025/26 and has indicated its intention to return the surplus to the Company.

The net surplus of c.£3 million (31 March 2024: c.£3 million) 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 and has commenced the process to wind up the scheme. 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 80,000 customers are now also shareholders.

In January 2025 the Board announced our dividend policy to 2030 of growing the base dividend in line with CPIH. As a result, they have recommended a final dividend of 19.43 pence per share for the year ended 31 March 2025. Together with the interim dividend of 12.14 pence per share paid on 4 April 2025 this gives a total dividend per share for the year of 31.57 pence. Proposed dividends per share for the 2024 comparative period have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

The proposed total dividend for 2024/25 is increased by 5.4% year on year to £133.7 million (2023/24: £126.9 million adjusted for £2.4 million fines). This reflects an increase in line with CPIH on the 2023/24 dividend adjusted to remove the £2.4 million one off deduction in respect of the fine from the Environmental Agency paid by SWW. Current year dividends are covered 2.5 times by underlying EBITDA* (2023/24: 2.7 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

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 with respect to the UK environmental infrastructure.

Pennon Power was established to support delivery of the Group's Net Zero commitments and to provide financial protection from energy price volatility whilst providing sustainability financial returns and contributing towards Group profitability.

To date c.£145 million has been committed to build four assets, and once all four sites are operational, Pennon Power will generate enough electricity each year to power c.50,000 homes.

Of this overall commitment, we have incurred total costs of c.£100 million to date, relating to project acquisition and construction costs incurred to date.

Our first project at Fife is expected to commence energy generation in June 2026, with Aberdeenshire and Cumbria sites energising in the second half of the financial year 2025/26. Buckinghamshire will commence construction in 2025/26 and is expected to energise in 2026/27.

Financial outlook¹

Looking to 2025/26 we expect revenue to increase with regulated revenues for the Water Group reset to align with the impact of both the Final Determination and inflation. This leads to an expected increase in Water Group revenues by £180-£240 million. Non-household retail revenues will also increase by c.20 to 25%, in line with sector wide tariff increases. Following energisation, we anticipate receiving first revenues from Pennon Power on the Fife project in Q2 2025/26.

We expect total operating costs across the regulated Water Group to be broadly stable, as upward cost pressures from inflation and operational delivery will be offset by anticipated benefits from our ongoing operational efficiency and transformation programme. Total Group operating costs are expected to increase as a result of wholesale costs relating to the non-household retail business outside our region increasing aligned with wider water tariff increases.

The step change in revenue, aligned with the cost movements set out, are expected to result in underlying EBITDA* increasing in 2025/26 by around two thirds compared with 2024/25.

Depreciation and amortisation charges are expected to increase by c.5-10% as a result of our continued K8 Water Group capital investment programme, and from projects for Pennon Power once commissioned.

Similarly, expected debt requirements to support our record levels of capital investment, both from the full year effect of current year financing and into 2025/26, are expected to increase net finance costs at a Water Group and therefore Group level, leading to an increase in net financing costs for the Group of £25 to 35 million.

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

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

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



Laura Flowerdew
Pennon Chief Financial Officer

3 June 2025

1. All guidance measured on an underlying basis.

* Measures with this symbol are defined in the alternative performance measures section of the annual report on pages 248 to 251.

Our risk management

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

The long-term success of the Group is dependent on the effective management of risks and opportunities and remains a key focus for the Pennon Board and Executive.

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

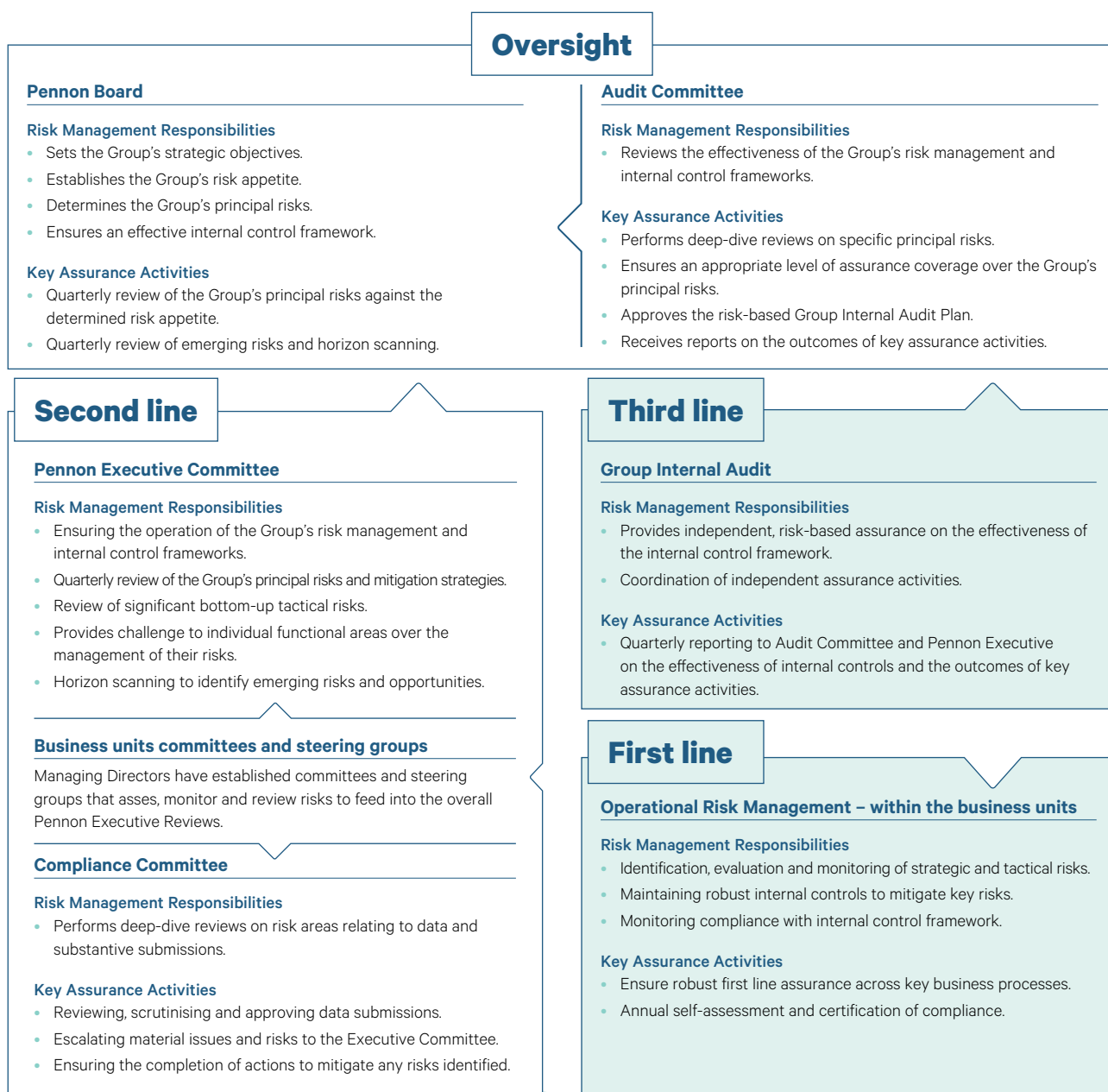
Pennon's risk management framework

Following the CMA's clearance for the acquisition of Sutton and East Surrey (SES) and the subsequent organisational reshaping of the Group, a consistent risk management framework has been established across the Group's regulated and non-regulated activities, as well as support and other enabling functions.

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

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

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





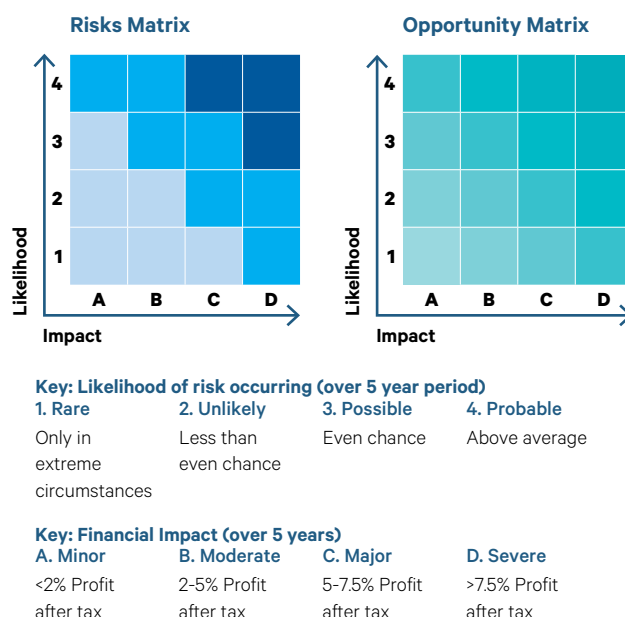
A consistent methodology is applied when assessing the Group's risks and opportunities (including climate-related risks and opportunities), which considers both the likelihood of a risk occurring and its potential impact. Risk impact is assessed across various financial and non-financial categories including: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

Environmental, social and governance risk management

Our purpose and values recognise the broader societal role that the Group plays within the regions and communities it serves. Consequently environmental, social and governance (ESG) considerations are at the heart of the Group's activities and how we operate as a responsible business. The identification, assessment and management of ESG risks and opportunities is integrated into the Group's overall risk management framework and methodology. The delivery of ESG metrics and targets, and the associated risks and opportunities, are monitored thorough the ESG framework by the ESG Committee. Further detail is provided on pages 158 to 160.

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

Further detail on the specific physical and transitional climate change risks and opportunities relevant to the Group, along with mitigating actions being taken, are detailed further within TCFD on pages 94 to 125.



Regulated water and wastewater technical (non-financial) data

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

Continuous improvements to risk management and internal control

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

- The Group's confidential Speak Up process has been reviewed and further enhanced.
- A dedicated second line function has been established focused on environmental permit assurance across the Group's water and wastewater sites, providing an additional layer of assurance in this area.
- South West Water has successfully achieved external ISO 45001 accreditation of its Occupational Health and Safety Management System.

Management of South West Water and SES Water within the Group's risk management framework

Pennon manages its risks in such a way that South West Water and SES Water, as regulated companies, are protected from risk elsewhere in the Group. The Group's principal risks and uncertainties include those Group-level risks that could materially impact on South West Water and SES Water.

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

Horizon scanning and notable emerging risks

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

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

Geopolitical Tensions

Comment	Risk category	Time horizon
Increased escalation of conflict in the Middle East combined with the ongoing war in Ukraine could further impact the global economy, heighten energy resilience risks and disrupt key supply chains such as chemicals	<ul style="list-style-type: none"> Market and Economic Conditions 	<ul style="list-style-type: none"> Short-Medium term

Artificial intelligence and machine learning

Comment	Risk category	Time horizon
There is a risk that automated artificial intelligence and learning deployed within operational processes develops faster than Government regulations and standards	<ul style="list-style-type: none"> Operating performance 	<ul style="list-style-type: none"> Medium term

Quality of water resources

Comment	Risk category	Time horizon
Changes in regulatory requirements over the treatment of micro-plastics, micro-pollutants and 'forever chemicals' (e.g. PFAS) as a result of ongoing research may require significant changes in operational processes in the water treatment process	<ul style="list-style-type: none"> Operating performance Business Systems and Capital Investment 	<ul style="list-style-type: none"> Medium term

Changes to demographics within the areas that we serve

Comment	Risk category	Time horizon
Increases in population migration to the South West due to climate change and an increasingly aging population could place greater demand on our resources and assets.	<ul style="list-style-type: none"> Operating performance 	<ul style="list-style-type: none"> Medium term

Water sector reform

Comment	Risk category	Time horizon
Reviews of the water industry commissioned by the Government, the Cunliffe Review and the Correy review, could result in significant changes to approach, regulation, and to institutional arrangements	<ul style="list-style-type: none"> Law, regulation and finance 	<ul style="list-style-type: none"> Short-Medium term

Risk appetite

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

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

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

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

Law, regulation and finance

Risk Appetite

The Board is committed to complying fully with, and being seen to be complying with, all relevant laws, regulations and obligations and has no appetite for non-compliance in this area. This includes, but is not limited to, environmental and health and safety laws and regulations.

The Group also operates a low risk appetite in respect of our financing strategy, ensuring our long-term financing commitments are met.

The Board acknowledges, however, that the Group operates in a complex environment influenced by Government and regulatory policy. Consequently, there is a greater risk appetite in these areas whilst seeking to mitigate any potential downside and leverage opportunities that may arise from Government policy and regulatory change.

Market and Economic Conditions

Risk Appetite

The Board recognises that the Group's activities are exposed to changes in macroeconomic and external market conditions. The Group seeks to take well-judged and informed decisions to mitigate these risks where possible but accepts that a level of residual risk may remain beyond the Board's control.

Operating performance

Risk Appetite

Whilst the Board recognises that unforeseen events do occur from time to time, the Board has no appetite for significant operational failure of our water and wastewater assets and seeks to reduce both the likelihood and impact through long-term planning and careful management of our operational assets.

There is greater appetite for well-informed risk taking to develop further markets, subject to this not detrimentally impacting on the level of service expected from our regulators, customers and wider stakeholders.

Business Systems and Capital Investment

Risk Appetite

The Board has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan.

There is greater appetite for broader value accretive investments with risk weighted against the expected level of return on a case-by-case basis and subject to this not detrimentally impacting on the level of service expected of our regulators, customers and wider stakeholders within our core water business.

The Group seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Group's operations.

Principal risks and uncertainties

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

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

- Confirming that the Group's risk appetite statements remain appropriate.
- Receiving and reviewing updates on the Group's principal risks, including movements in the risk exposure.
- Undertaking horizon scanning of emerging risks and trends.

- Performing deep dive reviews into key risk areas.
- Through the Audit Committee, confirming the effectiveness of the risk management and internal control framework.

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

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

These principal risks have also been considered in preparing the viability statement on pages 80 to 81.

What is PFAS?

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

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

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

What are we doing about it

CREWW Microplastics Research

CREWW is home to dedicated state-of-the-art microplastics laboratory, representing an initial investment of £1.4 million and collaborating with the University of Exeter's world leading academics. The priority is to enhance knowledge and understanding of microplastics in SWW operations, be that in the water we abstract, treat and supply as drinking water, or when we collect, treat and return to the environment.

The current programme of research which began in autumn 2023 is focused in three main areas;

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

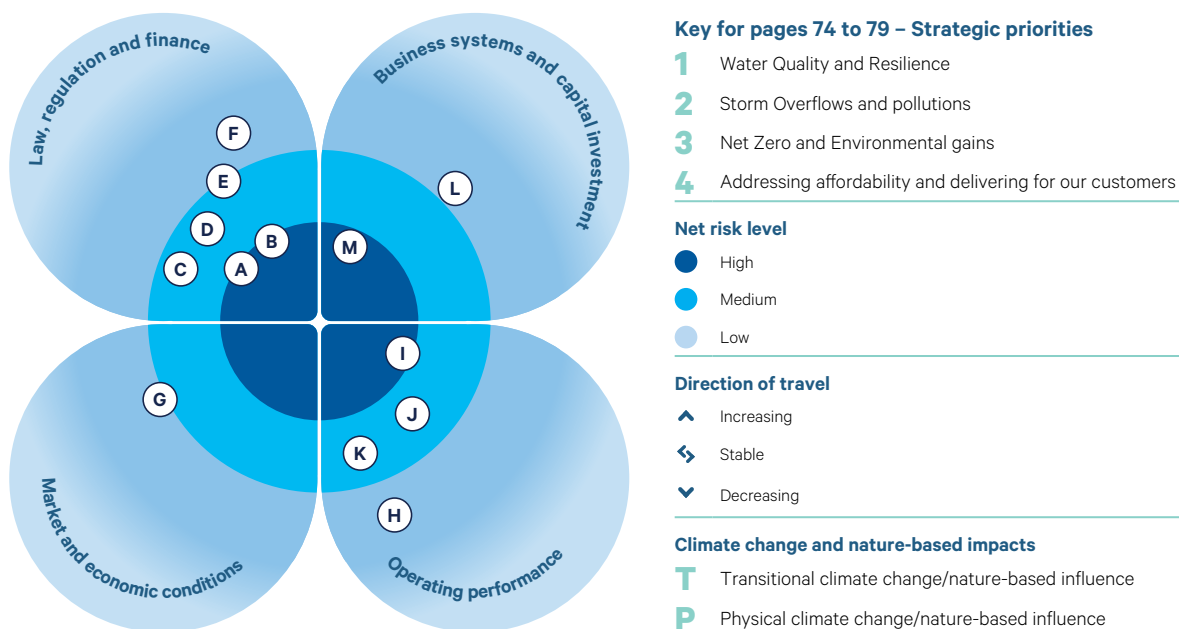
Internal Research

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

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

Overview of Pennon's principal risk profile

The chart below summarises the net risk assessment of the Group's Principal risks relevant to the risk categories.



Category	Reference	Strategic priorities	Risk description	Net risk/ Direction of travel
Law, Regulation and finance	(A)	1, 2, 3, 4	Changes in Government policy	↔
	(B)	1, 2, 3, 4	Changes to regulatory frameworks and requirements	↔
	(C)	1, 2, 3, 4	Non-compliance with laws and regulations	↑
	(D)	1, 2, 3, 4	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	↑
	(E)	1, 2	Non-compliance or occurrence of an avoidable health and safety incident	↔
	(F)	4	Failure to pay all pension obligations as they fall due and increased costs to the Group should the deferred pension scheme deficit increase	↔
Market and economic conditions	(G)	3, 4	Macroeconomic near-term risks impacting on inflation, interest rates and power prices	↑
Operating performance	(H)	1	Failure to secure, treat and supply clean drinking water	↑
	(I)	2, 3	Failure to improve wastewater performance resulting in environmental commitments not being delivered	↔
	(J)	4	Failure to provide excellent service or meet the needs and expectations of our customers and communities	↑
	(K)	1, 2, 3, 4	Inability to attract and retain staff with the skills to deliver the Group's strategy	↑
Business systems and capital investment	(L)	1, 2, 3, 4	Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes in K8	↔
	(M)	1, 2, 4	Inadequate technological control or cyber attack results in a breach of the Group's assets, systems and data	↑




For information on climate-related and nature-related risks impact see pages 94 to 125.

Key			Risk Trend		
Risk ratings					
● High	● Medium	● Low	▲ Increasing	↔ Stable	▼ Decreasing

Law regulation and finance




<div>Principal risk</div> <div>Changes in Government policy</div> <div>A</div>	<div>Changes in Government policy and direction may fundamentally impact our ability to deliver the Group's strategic priorities, impacting shareholder value.</div> <div>Strategic impact</div> <div>Strategic priorities</div> <div>1, 2, 3, 4</div> <div>Climate change influence</div> <div>T</div> <div>Nature related influence</div> <div>T</div>	<div>Mitigation</div> <div>We actively engage and respond to policy consultations and the Group regularly and proactively engages with MPs, government departments and other political stakeholders, both directly and via Water UK. This includes highlighting the impact that our proposed capital investment of £3.2 billion in the next regulatory period will have on our operational performance as well as our wider contribution to society and the economy.</div> <div>Additionally, horizon scanning of emerging changes in Government policy, including climate change-related policies, is regularly undertaken to monitor and assess the potential direct or indirect impact on the Group and to ensure we engage and respond accordingly.</div> <div>Appetite</div> <div>We recognise that Government policy evolves, which presents both risks and opportunities. The Group seeks to minimise the potential risks and maximise opportunities through regular engagement and robust scenario planning.</div>	<div>Net risk/ Direction of travel</div> <div></div> <div></div>
<div>Principal risk</div> <div>Changes in regulatory frameworks and requirements</div> <div>B</div>	<div>Changes to regulatory frameworks may impact on the deliverability and affordability of the Group's priorities, which can impact shareholder value.</div> <div>Strategic impact</div> <div>Strategic priorities</div> <div>1, 2, 3, 4</div> <div>Climate change influence</div> <div>T</div> <div>Nature related influence</div> <div>T</div>	<div>Mitigation</div> <div>The Pennon Group has a well established and experienced strategy and regulatory function. Regular meetings take place with regulators and we have comprehensive and robust response processes.</div> <div>We announced our acceptance of Ofwat's Final Determination for PR24 in January 2025, and a robust governance framework remains in place over the AMP8 period.</div> <div>Appetite</div> <div>We accept that regulatory frameworks evolve, which creates both risks and opportunities. We seek to minimise the potential risks by targeting changes which align with our long term strategy.</div>	<div>Net risk/ Direction of travel</div> <div></div> <div></div>
<div>Principal risk</div> <div>Non-compliance with laws and regulations</div> <div>C</div>	<div>The Group is required to comply with a range of regulated and non-regulated laws and regulations across our businesses. Non-compliance with one or a number of these may result in financial penalties, negative impact on our ability to operate effectively and reputational damage to the Group.</div> <div>Strategic impact</div> <div>Strategic priorities</div> <div>1, 2, 3, 4</div> <div>Climate change influence</div> <div>T P</div> <div>Nature related influence</div> <div>T P</div>	<div>Mitigation</div> <div>The Group operates within comprehensive and mature frameworks, which include second line compliance functions, to ensure compliance with permit and other requirements of Ofwat, the Environment Agency and other relevant regulators. These frameworks are reviewed and assured to try and ensure the Group remains compliant with the increasingly complex legal and regulatory landscape. The control framework continues to be enhanced with the embedding of a dedicated internal Environmental Permit Assurance Team, which conducted 213 site visits in the year.</div> <div>The Group also maintains a comprehensive internal framework, overseen by the Legal Compliance function, to ensure compliance with corporate laws applicable to public limited companies, reinforced through key policies approved by the Pennon Board and compliance training provided to staff. This has been enhanced this year through the creation and roll out of a new Code of Conduct and interactive eLearning module which is mandatory for all employees.</div> <div>The Group operates a confidential whistleblowing process. This is overseen by the Executive-led Ethics Management Committee. To underpin our commitment to continuous improvement, we have led on the creation of a Water Industry Whistleblowing Best Practice Forum consisting of 12 water and waste companies across England and Wales.</div> <div>There remains an increased appetite amongst regulators for pursuing enforcement action for perceived non-compliance, with industry-wide investigations of wastewater treatment works permit compliance and operational issues ongoing.</div> <div>Appetite</div> <div>The Group aims to maintain the highest standards of compliance.</div>	<div>Net risk/ Direction of travel</div> <div></div> <div></div>

Law regulation and finance







<p>Principal risk</p> <p>Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments</p> <p>D</p>	<p>Failure to maintain funding requirements could lead to additional financing costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.</p> <p>Strategic impact</p> <p>Strategic priorities</p> <p>1, 2, 3, 4</p> <p>Climate change influence</p> <p>T P</p> <p>Nature related influence</p> <p>T P</p>	<p>Mitigation</p> <p>The Group has well established treasury, funding and cash flow arrangements in place, underpinned by a Treasury Management Policy endorsed by the Pennon Board.</p> <p>The Group's financing commitments and cash flow, funding and covenant compliance is regularly reviewed by the Pennon Executive and Pennon Board.</p> <p>In February 2025, the Group completed a Rights Issue to secure £490 million of gross equity proceeds, to support the financial resilience and balance sheet strength of the Group as it enters into a period of significant growth over the next five years.</p> <p>Since March 2024 over £1,400 million has been secured through the Group's Sustainable Financing Framework.</p> <p>The Group retains £977.9 million of cash and committed facilities as at 31 March 2025.</p> <p>Appetite</p> <p>The Group operates a prudent approach to our financing strategy, maintaining an appropriate mix of cash and pre-funding facilities, to ensure our funding requirements are fully met.</p>	<p>Net risk/ Direction of travel</p> <p></p>
<p>Principal risk</p> <p>Non-compliance or occurrence of an avoidable health and safety incident</p> <p>E</p>	<p>A significant health and safety event could result in financial penalties, significant legal costs and damage to the Group's reputation.</p> <p>Strategic impact</p> <p>Strategic priorities</p> <p>1, 2</p> <p>Climate change influence</p> <p>P</p> <p>Nature related influence</p> <p>P</p>	<p>Mitigation</p> <p>The Group has developed HomeSafe 2030 to ensure our plans and strategy are fit for the future and deliver continued improvements throughout AMP8.</p> <p>Established health and safety training, procedures and reporting systems are complimented by site based investment, regular site visits by senior staff, initiatives such as Site Pride and HomeSafe Live as well a regular programme of wellbeing events.</p> <p>Health and safety performance is monitored by the Pennon Executive and the respective Board and Executive Health and Safety Committees.</p> <p>Continual integration of H&S initiatives and processes across Group. Establishing best practice, through collaboration and alignment, Full implementation of HomeSafe across SES will take place from April onwards under the evolved strategy.</p> <p>During the year South West Water successfully maintained ISO 45001 accreditation of its Occupational Health and Safety Management System and the Group's year-on-year lost time injury frequency rate (LTIFR) has reduced again.</p> <p>Appetite</p> <p>The Group has no appetite for health and safety-related incidents and maintains the highest standards of compliance for our staff, contractors and other third parties.</p>	<p>Net risk/ Direction of travel</p> <p></p>
<p>Principal risk</p> <p>Failure to pay all pension obligations as they fall due and increased costs to the Group should the deferred pension scheme deficit increase</p> <p>F</p>	<p>The Group could be called upon to increase funding to reduce the deficit, impacting our cost base.</p> <p>Strategic impact</p> <p>Strategic priorities</p> <p>4</p> <p>Climate change influence</p> <p>N/A</p> <p>Nature related influence</p> <p>N/A</p>	<p>Mitigation</p> <p>The Group has in-house pensions expertise supplemented by external specialists, including professional advisors who manage the scheme's investment strategy.</p> <p>The Pennon Group Pension Scheme is overseen by an independent Board of Trustees.</p> <p>The liabilities of the Bristol Water section of the Water Companies Pension Scheme are fully insured through a bulk annuity policy.</p> <p>As at 31 March 2025 the Group's pension schemes remained in surplus of £31.2 million. The triennial valuation of PGPS at 31 March 2022 did not require any deficit recovery contributions.</p> <p>Appetite</p> <p>The Group will ensure that all obligations are met in full but seeks to manage this without unnecessary costs to the Group.</p>	<p>Net risk/ Direction of travel</p> <p></p>

Key			Risk Trend		
Risk ratings					
● High	● Medium	● Low	▲ Increasing	↻ Stable	▼ Decreasing



Market and economic conditions

Principal risk Macroeconomic near term risks impacting on inflation, interest rates and power prices 	<p>Significant changes in inflation, interest rates and power prices could increase the Group's near term cost base.</p>	<p>Mitigation</p> <p>The macroeconomic position remains volatile, with rising gilt yields, continued high inflation and ongoing global conflicts.</p> <p>The Group maintains a manageable debt maturity profile and diverse funding mix with c.20% index-linked which is continuously monitored. Additionally, a significant proportion of the Group's power prices have been hedged for the next 24 months in line with defined levels.</p> <p>The Group's in-house procurement function drives value within strategic contracts and consumables through competitive sourcing and tendering processes.</p> <p>Long-term protection from an increasing inflationary environment is provided through regulatory mechanisms with inflation-linked revenues and RCV growth, along with regulatory true-ups.</p>	Net risk/ Direction of travel  
	<p>Strategic impact</p> <p>Strategic priorities 3, 4</p> <p>Climate change influence T</p> <p>Nature related influence T</p>	<p>Appetite</p> <p>The Group seeks to de-risk volatility by having set proportions of inflation-linked debt, fixed interest, and power prices. These are implemented over time to avoid concentrated exposure to one particular cycle of the macroeconomic environment. The macroeconomic environment sets the financial background for performance and five-yearly regulatory reviews provide a natural long-term mitigation.</p>	

Operating Performance

Principal risk Failure to secure, treat and supply clean drinking water 	<p>An inability to secure, produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Group's reputation.</p>	<p>Mitigation</p> <p>The Group continues to diversify its water resource capacity and the resilience of its network and assets, informed by key plans including the Water Resources Management Plan and drought plans. As a result of this investment, with the scenarios we have modelled, we do not anticipate restrictions to supply across our regions this summer. Furthermore, delivery of phase 1 of the desalination project is expected during 2025/26, enabling more time to develop the application for a larger desalination plant.</p> <p>During the year we have extended our 'Quality First' continuous improvement culture and training programme to our Bristol colleagues.</p> <p>Asset health is managed through a well-established programme of routine planned and preventative maintenance works with asset and network performance managed by the 24/7 Control Centre.</p> <p>Where such events do occur, these are managed through established incident management procedures and utilises the Group's supply chain partners.</p>	Net risk/ Direction of travel  
	<p>Strategic impact</p> <p>Strategic priorities 1</p> <p>Climate change influence T P</p> <p>Nature related influence T P</p>	<p>Appetite</p> <p>The Group has a low tolerance for any event which impacts on our ability to supply clean drinking water which meets the demands of our customers and seeks to mitigate these risks where possible.</p>	
Principal risk Failure to improve wastewater performance resulting in environmental commitments not being delivered 	<p>An inability to improve wastewater could result in adverse environment impacts, financial penalties, regulatory enforcement and damage to the Group's reputation.</p>	<p>Mitigation</p> <p>Minimising the impact of our activities on the environment remains a strategic priority for the Pennon Board and Executive.</p> <p>The Group continues to make progress in delivering environmental improvements through the WaterFit programme which combines enhanced processes, targeted capital investment and proactive asset maintenance.</p> <p>Robust governance structures and clear accountabilities under the recently appointed Managing Director for Wastewater Services ensure there is a greater performance focus and regular reporting on pollution, storm overflow and numeric compliance, further supported by the establishment of a Permit Compliance Assurance function.</p> <p>Despite this progress high rainfall in 2024 and ongoing groundwater levels resulting in increased wastewater flows has impacted headline performance for pollutions and use of storm overflows.</p>	Net risk/ Direction of travel  
	<p>Strategic impact</p> <p>Strategic priorities 2, 3</p> <p>Climate change influence T P</p> <p>Nature related influence T P</p>	<p>Appetite</p> <p>The Group operates a low tolerance for significant operational failure of its wastewater processes and assets and maintains the highest level of environmental standards.</p>	

Operating Performance

<p>Principal risk</p> <p>Failure to provide excellent service or meet the needs and expectations of our customers and communities</p> <p>J</p>	<p>Failure to meet the needs of both customers and wider stakeholders may result in reputational damage to the Group and lower performance resulting in financial penalties impacting on shareholder value.</p> <p>Strategic impact</p> <p>Strategic priorities</p> <p>4</p> <p>Climate change influence</p> <p>T P</p> <p>Nature related influence</p> <p>T P</p>	<p>Mitigation</p> <p>The Group continues to enhance and invest in its customer services teams, expanding the channels by which it can interact with and support household and business customers.</p> <p>The Group offers a range of schemes and tariffs to support customers with affordability challenges with a £200 million support package to 2030.</p> <p>During the year both South West and Bristol Water successfully achieved kitemark certification to the vulnerable customer ISO 22458 standard.</p> <p>The Group also undertakes a range of initiatives to engage with the wider communities it serves including community road-show events, Neighbourhood Fund and funding to support water retention and leakage reduction.</p> <p>Whilst Bristol Water's regulatory customer service metric was positive, further improvement is required for South West Water and SES. Both Pennon Water Services and Water2Business continue to maintain high customer satisfaction scores, with ratings of 4.8 and 4.9 out of 5 respectively on Trustpilot. Further improvement is required for SES BW.</p> <p>Appetite</p> <p>The Group continually seeks to engage with and improve satisfaction levels amongst customers and wider stakeholders.</p>	<p>Net risk/ Direction of travel</p> <p></p>
<p>Principal risk</p> <p>Inability to attract and retain staff with the skills required to deliver the Group's strategy</p> <p>K</p>	<p>Failure to maintain a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Group forward.</p> <p>Strategic impact</p> <p>Strategic priorities</p> <p>1, 2, 3, 4</p> <p>Climate change influence</p> <p>T</p> <p>Nature related influence</p> <p>T</p>	<p>Mitigation</p> <p>The demands for high quality skills and expertise across the Group remains high, mirroring the national and regional skills demands for our industry.</p> <p>The introduction of the Water Special Measures Act, could impact the attraction and retention in comparison to other sectors.</p> <p>The Group's People strategy, aligned to the Group Values, enables the Group to attract, retain and develop our employees as well as recognising the significant contribution that our people make in delivering for our customers and communities every day. The key areas of focus during the year have been on reallocating resources to align with customer and business priorities and building capacity to manage a growing capital programme.</p> <p>We regularly engage with our employees, both individually and in groups, across multiple communication methods, to really understand their issues and concerns, and obtain feedback. We undertake employee pulse surveys throughout the year, conduct Big Chats for all employees to hear from our Executive, have an Employee Engagement Forum attended by functional representatives, provide employee newsletters sharing topical updates and have an employee collaboration platform via Viva Engage. These are all in addition to the countless team meetings, breakfast meetings and toolbox talks which take place every day across the Group, to share updates and gather employee feedback.</p> <p>We have continued to develop a diverse and inclusive talent pipeline and have doubled our long-term commitments with enhanced recruitment targets for graduates and apprentices through to 2030, and continued prioritisation of our diversity and inclusion agenda.</p> <p>The Group continues to invest in leadership development with two leadership programmes rolled out across the business helping current and prospective senior leaders develop key skills and mindsets.</p> <p>Appetite</p> <p>We ensure the appropriate skills, knowledge and experience are in place, which, combined with our Reward Strategy and robust succession plans, provide adequate resilience to keep employee turnover at a minimum.</p>	<p>Net risk/ Direction of travel</p> <p></p>

Key			Risk Trend		
Risk ratings					
● High	● Medium	● Low	▲ Increasing	↔ Stable	▼ Decreasing

Business systems and capital investment

<div>Principal risk</div> <div>Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes in K8</div> <div>L</div>	<div>The inability of our supply chain to support in the delivery of our operational and capital programmes may result in increased costs and delays, detrimentally impacting our ability achieve our change and growth agenda.</div> <div>Strategic impact</div> <div>Strategic priorities</div> <div>1, 2, 3,4</div> <div>Climate change influence</div> <div>T P</div> <div>Nature related influence</div> <div>T P</div>	<div>Mitigation</div> <div>Delivery of the investment included within South West Water's PR24 business plan will require a significant increase in the Group's capital programme.</div> <div>The integrated delivery model for K8 will enable greater flexibility and broadens the number of supply chain partners providing enhanced resilience for the Group. The framework procurement for professional services, Tier 1 and Tier 2 contractors has been completed.</div> <div>The Group also regularly monitors the financial health of key partners and we work in partnership with our supply chain to identify and manage potential issues and challenges. Where action is required there are established plans and alternative arrangements which provide mitigation and early intervention.</div> <div>Appetite</div> <div>The Board has a low appetite for risk associated with the delivery of key operational and capital programmes within our regulated business plan.</div>	<div>Net risk/ Direction of travel</div> <div></div> <div></div>
<div>Principal risk</div> <div>Inadequate technological control or cyber attack results in a breach of the Group's assets, systems and data</div> <div>M</div>	<div>Failure of our technology security, due to inadequate internal processes or external cyber threats, could result in the business being unable to operate effectively and the corruption or loss of data. This could have a detrimental impact on our customers and result in financial penalties and reputational damage to the Group.</div> <div>Strategic impact</div> <div>Strategic priorities</div> <div>1, 2, 3, 4</div> <div>Climate change influence</div> <div>N/A</div> <div>Nature related influence</div> <div>N/A</div>	<div>Mitigation</div> <div>External threats are increasing in complexity and sophistication with the National Cyber Security Centre (NCSC) highlighting the heightened risk to critical national infrastructure and an increased focus on the water sector. The advent of Artificial Intelligence also increases the complexity of our data and technology environment.</div> <div>The Group maintains a dedicated Information Security team with a strong preventive and detective information security framework, aligned to guidance issued by the NCSC, supported by regular training and communications, to raise awareness amongst staff. South West Water continues to hold the ISO 27001 accreditation.</div> <div>Enhanced technical controls introduced during the year across the Group's corporate and operational technology sector are informed by best practice and learnings from across sectors. Furthermore, the regulated water business continues to progress actions as part of the roadmap to meet the requirements of the Network and Information Systems Directive (NIS), with activities aligned to the priorities identified by the Drinking Water Inspectorate.</div> <div>The Group also maintains established disaster recovery plans which are subject to regular review and testing.</div> <div>Appetite</div> <div>The Group seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Group's operations.</div>	<div>Net risk/ Direction of travel</div> <div></div> <div></div>

Viability statement

The Directors of Pennon Group plc are responsible for ensuring the long-term viability of the Group. The Directors need to ensure the resilience of the Group by identifying, managing, avoiding or mitigating risks which may impact viability.

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

The overall market context is a cornerstone of the viability assessment. The Group's main operating subsidiary of South West Water now accounts for the vast majority of the Group's earnings, with the new acquisition of SES Water adding to water business, being a long-term business characterised by multi-year investment programmes, with associated revenue streams with high levels of future visibility.

The viability assessment has been made with reference to the Group's current position and prospects, including consideration of the ongoing impacts of the Ukraine crisis, climate change, its longer-term strategy, the Board's risk appetite and the Group's principal risks and how these are managed, as detailed on pages 70 to 79 of the Risk report.

Period of assessment

The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Group's viability should be increased to seven years, previously five years, which recognises both the longer-term visibility in the regulatory environment of the Water business and the corporate activity, including acquisitions and other non-regulated investments, undertaken by Pennon. This period gives visibility beyond the current regulatory AMP, testing the long term viability of the business.

Risks

The Board considers the preventative and risk management actions in place and the potential impact of the principal risks (as detailed on pages 70 to 79) against our ability to deliver the business plan. This assessment has considered the potential impact of these and other risks arising on the business model, future performance, solvency and liquidity over the period in question.

The Group has a strong liquidity and funding position with £1,036.1 million of cash and committed facilities as at 31 March 2025.

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

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

Stress testing

The 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 70 to 79, individual sensitivities (shown in the table below) have been identified. These sensitivities, which are individually ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied collectively to the baseline financial forecast which uses the Group's annual budget for 2025/26 and longer-term strategic business plan through to March 2032, based on the Final Determination for the first five years.

The impact of climate risks have been assessed in detail as set out in the Task Force on Climate-related Financial Disclosures (TCFD) section on pages 94 to 125. The Group's strategic business plan includes the expected investment identified at this stage to meet climate-change adaptation.

The stress-testing scenarios applied during the viability assessment period do not include specific reference to climate change-related risks alone as climate change has been considered as part of the principal risks identified. Beyond the period of assessment, additional impacts from climate change are considered in more detail within the TCFD section along with mitigating actions.

Principal risk

A: Changes in Government policy

Viability sensitivities tested

Changes in Government policy affecting the water industry, such as additional environmental legislation, may impact operational performance or investment requirements. The estimated average adverse impact on the Group's cash flows from a range of potential policy changes has been applied as a sensitivity.

B: Changes in regulatory frameworks and requirements

Whilst we have seen greater stability in the regulatory framework post PR24 Price Review, there are still significant changes expected in the water sector over the next few years.

C: Non-compliance with laws and regulations

The estimated impact of financial penalties and reputational damage from failure to comply with laws and regulations has been modelled as a sensitivity.

D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments

The impact of reduced availability of financing resulting in increased costs has been modelled as a sensitivity.

E: Non-compliance or occurrence of an avoidable health and safety incident

The financial impact and cash outflows related to a major health and safety event has been applied as a sensitivity.

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

The financial impact on the Group's gearing from additional funding being required to support the Group's defined benefit pension schemes has been applied as an adverse scenario.

Principal risk

G: Macroeconomic near-term risks impacting on inflation, interest rates and power prices

H: Failure to secure, treat and supply clean drinking water

I: Failure to improve wastewater performance results in environmental commitments not being delivered

J: Failure to provide excellent service or meet the needs and expectations of our customers and communities

K: Difficulty in recruiting and retaining staff with the skills required to deliver the Group's strategy

L: Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes in AMP8.

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

Viability sensitivities tested

The adverse impacts of higher operating and finance costs from increasing power prices and general inflation increases over and above increases assumed in base financial plans, including the impact on Totex underperformance on regulatory returns and impact on debt financing costs have been applied as a sensitivity, as well as a reduction in the collection of customer debt from adverse economic conditions.

The adverse impacts from non-delivery of regulatory performance targets which result in ODI penalties, other financial penalties and required additional investment reducing Group revenues and cash inflows have been applied as a sensitivity to the base plan.

Whilst the Group has robust processes to retain and develop staff, viability testing considers the impact of increasing costs including staff related costs.

Supply chain capacity shortages will impact on the costs required to deliver on the programme, which, whilst specific cost protections exist in the regulatory framework against construction costs, have been considered as part of the sensitivity testing.

The adverse financial impacts of a cyber attack resulting in operational disruption, potential loss of data, potential detrimental impacts on customers with potential for financial penalties have been included in the sensitivity analysis.

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.£108.5 million: this value is considered equivalent to an extreme one-off event that could occur within a year, though the probability of such an event happening is deemed unlikely.

Stress-testing evaluation and mitigations

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

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

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

In making its assessment of the Group's viability, the Directors have taken account of the Group's strong capital solvency position, the Group's latest assessments of forward power and other commodity prices, latest inflation forecasts, its ability to raise new finance and a key potential mitigating action of restricting any non-contractual payments. In assessing the prospects of the Group, the Directors note that, as the Group operates in a regulated industry which potentially can be subject to non-market influences, such assessment is subject to uncertainty, the level of which depends on the proximity of the time horizon. Accordingly, the future outcomes cannot be guaranteed or predicted with certainty. As set out in the Audit Committee's report on pages 151 to 157, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of the stress testing performed.

Viability assessment conclusion

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

Our integrated approach to Environmental, Social and Governance (ESG)

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

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

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

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

ESG Capitals

Creating value through our ESG approach

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



Our Natural Capital – Environment

- Freshwater
- Land (including soils)
- Species
- Ecological communities
- Coasts
- Atmosphere
- Waste



Our Social & Human Capital – Social

- Colleagues
- Customers
- Communities



Our Manufactured, Intellectual & Financial Capital – Governance

- Supply chain
- Responsible business
- Stakeholders and partnerships
- Finance

UN Sustainable Development Goals (SDGs)

We actively engage with the UN Sustainable Development Goals (SDGs) to shape our ESG approach and evaluate our impact on global sustainability outcomes. As we set new ESG targets for 2025–2030, we have mapped each target to the SDGs it most directly supports, ensuring our strategy aligns with international priorities. Our most significant contribution continues to be to SDG 6: Clean Water and Sanitation, which reflects our core purpose as a water and wastewater services provider. This commitment is further reinforced through our Double Materiality Assessment, which ensures our targets focus on the ESG topics most material to both our stakeholders and our business.

UN Global Compact

In support of the SDGs, we became a signatory of the UN Global Compact last year, joining the world's largest corporate sustainability initiative. We are currently preparing our first Communication on Progress (CoP), which outlines how we are upholding the Compact's Ten Principles across human rights, labour, environment, and anti-corruption. This step further strengthens our ESG governance and accountability, embedding these core principles across our operations and reporting. As part of this commitment, we will report annually on our progress, reinforcing our ambition to lead with integrity, build trust, and enhance transparency.



Our ESG performance

In 2024/25, we made significant strides in delivering our ESG commitments, achieving 13 out of 16 of our 2025 ESG targets, with significant progress on the remaining three, reflecting our continued dedication to being a responsible business. Notable achievements this year include reducing our Scope 2 GHG emissions by over 70%, exceeding our tree planting targets by over 100,000 trees and delivering over £1 million in additional community investment through our social programmes across the group. Our renewable energy generation target also remains a key pillar of our long-term strategy and we are on track to exceed the 13% target next year, supporting our journey toward our 50% renewable electricity self-generation by 2030 (see page 87).

Following our acquisition of SES Water, the Group's structure has evolved, which has influenced performance against some people-related targets, specifically female representation and Lost Time Injuries (LTIs). Despite these changes, our commitment to our people remains unwavering. Looking ahead, we have set more ambitious, inclusive, and normalised targets for 2030, which can be found on page 87, reinforcing our focus on our people and our long-term impact as an organisation.

Material issue and associated target	Annual performance against target	2025 Target	SDG
Net Zero			
% energy usage from renewable generation	⊗	13%	
Reducing greenhouse gas emissions	✓	70%	
Freshwater stewardship			
Reduce water use within our operational sites	✓	10MI	
Biodiversity			
Tree planting (cumulative)	✓	250,000	
Customer and community engagement			
Increase our community investment by 10% each year	✓	30%	
Diversity and skills			
% Female representation	⊗	33%	
Increase REACH recruitment (excluding Bristol Water)	✓	10%	
Achieve 5% club status	✓	Gold Accreditation	
Health, safety and wellbeing			
Number of LTIs across the group ¹	⊗	14	
Great Place to Work employee survey	✓	Maintain	
Trust and transparency			
ESG Rating (Sustainalytics Management Score)	✓	80	
Fair Tax Mark accreditation	✓	Maintain	
% of active institutional investors met or offered to meet	✓	75%	
Sustainable finance			
New funding raised through Sustainable Financing Framework %	✓	75%	
Supply chain			
Supplier payment days (average)	✓	30 days	
% of key and strategic suppliers that have established an ESG policy or equivalent	✓	100%	

Key:

✓ Achieved

⊗ Not Achieved

1. 2025 target for 'Number of LTIs across the group' uplifted from 11 to 14, to account for SES Water's inclusion in the group target. However, Pennon has met its strategic goal of less than 0.25 LTIFR by 2025.

Shaping our ESG approach

Our Double Materiality Assessment (DMA)

Purpose & Scope

Our 2021/22 materiality assessment engaged stakeholders to shape our ESG approach and targets up to 2025. We have now built on this approach to conduct our refreshed assessment to meet stakeholders' expectations and adhere to both financial and impact materiality principles in-line with best practice. By applying a double materiality lens, we are assessing both the impact of material topics to Pennon and our wider environmental and social impact on these topics. This will ensure that our future ESG approach looking ahead to 2030 and beyond is ambitious, relevant, and aligned with the evolving regulatory and global sustainability trends today.

2021/22 Materiality Assessment Priorities

Key Topic Area	What it means to all stakeholders
Net Zero	Taking action to mitigate our own emissions.
Freshwater stewardship	Taking care of precious water resources.
Water quality – river and coastal	Taking action to deliver a step change in both river and coastal water quality.
Climate resilience	Our preparedness for climate change.
Drinking water quality	The provision of clean, safe drinking water.
Amenity and recreation	Access to high standard bathing water across our region's coasts and inland waters.
Trust and transparency	Being open and transparent in a time of increased water sector scrutiny.

Our 2025-2030 Business Plan emphasises customer engagement in identifying priorities to enhance customer satisfaction, community wellbeing, and environmental sustainability. This process has involved gathering feedback on effective approaches and timelines for meeting statutory requirements. Insights from customers and stakeholders have been instrumental in shaping our investment and service enhancement plans, with a focus on prioritising impactful initiatives.

This feedback, combined with our wider stakeholders' engagement and assessments of business and external risks, guided the review of our material issues, reaffirming our alignment with key concerns. While the importance of certain issues has evolved, we remain committed to addressing high-priority topics.

Methodology

In the absence of UK-specific guidance under the forthcoming UK Sustainability Reporting Standards (UK SRS), we conducted our DMA using the European Sustainability Reporting Standards (ESRS) topic structure. This ensures alignment with current best practice and enhances consistency and comparability across our sector and beyond. Our aim is to bring greater transparency to how we identify and prioritise key environmental, social and governance (ESG) issues, risks and opportunities, both in terms of their financial relevance to Pennon Group and our impact on people and the environment.

Our approach built on our 2025-2030 Business Plan and sought to improve upon our previous materiality assessment by adopting a more robust, evidence-based methodology. We began with a comprehensive review of internal documentation and existing strategy to frame our understanding of relevant ESG topics.

We then engaged a broad and diverse group of stakeholders, including customers, investors, employees, community representatives, suppliers, senior leaders and Board members, through a combination of surveys and targeted interviews conducted from October 2024. This dual approach enabled us to capture both quantitative and qualitative perspectives on the topics that matter most.

Stakeholders were asked to evaluate each ESG topic from two dimensions:

- Impact materiality – how significantly Pennon Group affects people and the environment through its activities
- Financial materiality – how significantly these topics may affect our business operations or financial performance

Respondents also identified their top five priority topics, offering further insights into expectations and areas for strategic focus.

The resulting data was combined into a materiality matrix, categorising topics into priority tiers based on their significance from both a financial and impact perspective. These findings are now being used to inform our sustainability strategy, supported our 2025-2030 ESG target-setting, and will help shape future disclosures in line with evolving regulatory and stakeholder expectations.

Stakeholder Engagement

To ensure a balanced and representative view of material ESG issues, we engaged a broad range of internal and external stakeholders throughout our assessment process.

Interview Participants: Customers, investors, executives, and board members.

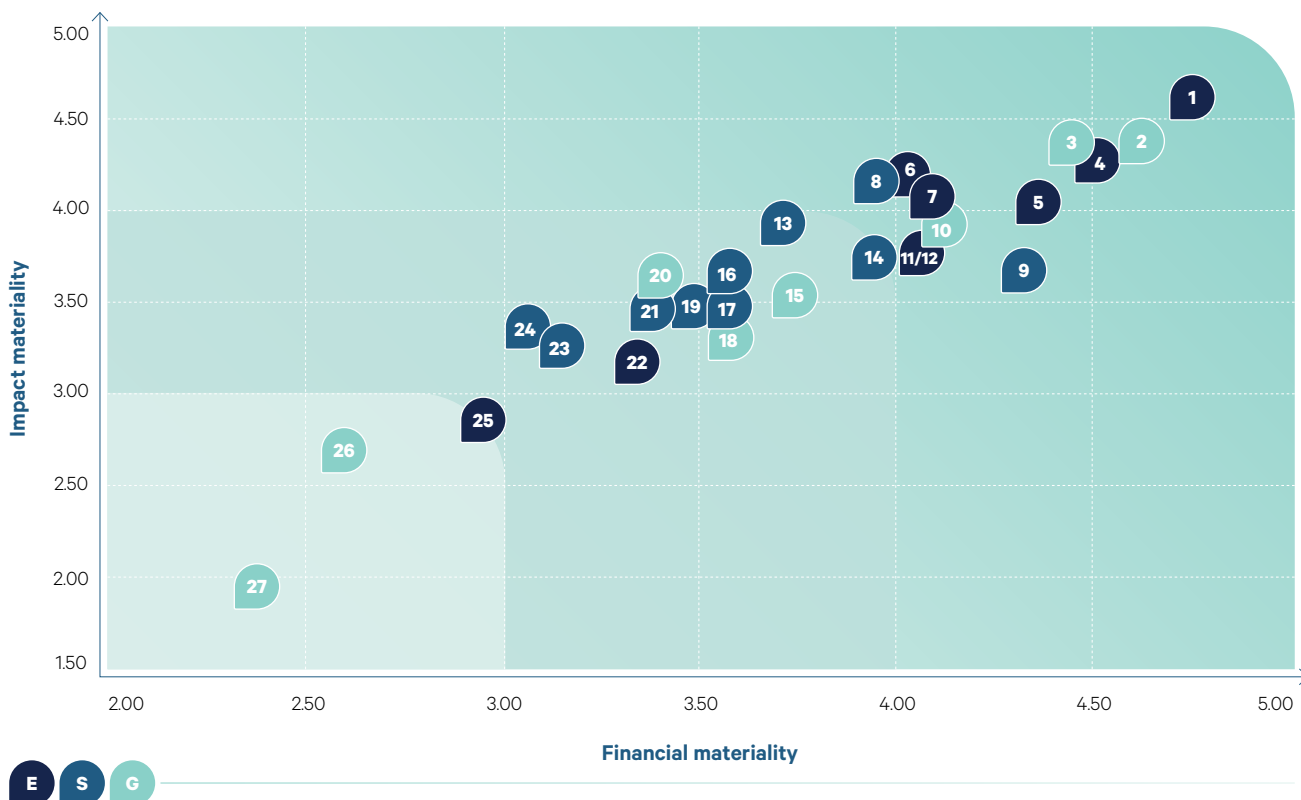
Survey Participants: Customers, investors, executives, board members, community groups, suppliers, and employees.

This inclusive engagement approach provided a strong foundation for assessing both financial and impact materiality. It ensured that the outcomes of the assessment reflect stakeholder priorities, while also aligning with the expectations of evolving sustainability reporting standards.

The insights gathered through this process will directly inform the next phase of our ESG strategy, helping to guide our ambition, shape strategic focus areas, and support the development of measurable, stakeholder-driven targets for 2030 and beyond.

Our Double Materiality Assessment (DMA) Results

The following Materiality Matrix presents the quantitative results of our double materiality assessment (DMA), highlighting the ESG topics that stakeholders consider most material. The matrix visualises each topic based on two dimensions: impact materiality (Y-axis), reflecting the significance of Pennon Group's impact on people and the environment, and financial materiality (X-axis), indicating the potential influence of each topic on our business operations and financial performance. Topics are colour-coded and listed below by Environmental, Social, and Governance (E, S, G) themes to provide a clear and structured view of our priority areas.



Key

1 Water pollution	10 Management of relationships with suppliers	19 Working conditions
2 Regulation and compliance	11 Climate change mitigation	20 Responsible marketing practises
3 Disclosure and reporting	12 Waste	21 Adequate wages
4 Water use	13 Equal treatment and opportunities for all	22 Circular economy
5 Climate change adaptation	14 Secure employment	23 Measures against violence and harassment in the workplace
6 Energy	15 Corporate culture	24 Gender equality and equal pay
7 Biodiversity	16 Social dialogue	25 Air pollution
8 Health & Safety	17 Training and skills development	26 Forced labour
9 Affected Communities	18 Corruption and bribery	27 Child labour

The results of our double materiality assessment reaffirm the priority ESG issues identified in our 2021/22 assessment and align strongly with the four strategic priorities that underpin our 2025-2030 Business Plan. This alignment highlights the consistency and relevance of the issues that matter most to both our stakeholders and our business. Topics such as water pollution, regulation and compliance, disclosure and reporting, water use, and climate change adaptation emerged as top priorities, reflecting the unique responsibilities and risks faced by our sector. These core areas closely align with our longstanding focus on net zero, freshwater stewardship, and building trust through transparency. The sustained importance of these issues strengthens our confidence in the direction of our ESG strategy and our ongoing commitments and actions as we look ahead to 2030 and beyond.

External benchmarking

Our ESG approach continues to drive positive change, embedding sustainability at the core of our business. This commitment is reflected in our leading performance across key ESG assessments, improving our scores across these key assessments as an industry leader for ESG.

This year, we achieved our highest-ever scores in both CDP's Climate and Water assessments, securing A- ratings for both with inclusion on the prestigious CDP A-list, a first for Pennon Group.

Our Sustainalytics assessment achieved our highest-ever management score of 84.5, exceeding target (80) and resulting in an improved ESG risk rating of 11.7 ('low risk'), placing Pennon Group 2nd out of 50 Water Utilities globally, and earning us Sustainalytics 'ESG Top Rated' industry badge for 2025.

Additionally, our GRESB Public Disclosure Assessment score of 93 cements our leadership position, achieving the top score amongst our industry peers.

These results reflect our unwavering commitment to sustainability, strong governance, and proactive risk management, demonstrating our leadership in ESG performance across the industry.

Latest external assessment scores (as of 31 March 2025):

 11.7 ESG Risk (Previous rating: 12.0)	 A- CDP Climate Change (Previous rating: B)	 3.8/5 FTSE4Good ESG Score (Previous rating: 3.7/5)
84.5 ESG Rating (Previous rating: 82.5)	A- CDP Water security (Previous rating: B)	 Prime (B+) ISS corporate rating (Previous rating: Prime, B+)
 AA MSCI ESG Indexes (Previous rating: AA)	 46 Corporate Sustainability Assessment (CSA) (Previous rating: 46)	 A (93) GRESB Infrastructure Public Disclosure (Previous rating: A (83))

Disclaimer

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Our Transition Plans

At Pennon, we recognise the need to transition to a low-carbon economy in alignment with the goals of the Paris Agreement and a 1.5°C future, to help protect our beautiful environment across the Great South West and beyond.

As a leading provider of the UK's clean water and wastewater services, we are committed to delivering a resilient and sustainable future. Our near-term GHG targets were validated and approved by the Science Based Targets Initiative (SBTi) in May 2024, and we are now focused on delivering against these ambitious targets.

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

Through extensive engagement, research and feedback from customers, our plan for change over the next five years puts 'Net Zero and environmental gains' as one of our four key strategic priorities as a business. Our Transition Plan builds on this priority, with our plans for achieving Net Zero focused on three actionable pillars:

- Sustainable Living;
- Championing Renewables; and
- Reversing Carbon.

At Pennon, we are working beyond our regulatory commitments to consider the Transition Plan Taskforce's (TPT) guidance for Climate Transition Plans in our annual reporting, and remain committed to building on our transition plans as we continue making progress towards net zero.

Further information on climate-related Governance and Metrics & Targets in-line with TPT guidance can be found within our TCFD statement on pages 94 to 125.

ESG Targets 2025 - 2030

Building on our Double Materiality Assessment's (DMA) priority topics, we have developed ESG targets for 2025-2030 to align with our DMA findings and drive performance in areas not currently covered by existing regulatory commitments. This approach ensures that we continue to deliver against stakeholder expectations across all our key topic areas. These targets have also been shaped by a combination of ESG best practice and insights from our external ESG benchmark assessments, such as CDP and Sustainalytics.

Our refreshed targets are clear, measurable, and embedded within our governance framework, with a strong focus on driving performance where it matters most to our stakeholders:

2025-2030 Targets:

ESG	2025-2030 Target ¹	Unit	2026	2030	UN SDG
E	% Renewable Electricity Self-Generated ²	%	16.1	50	
	% Reduction in GHG Emissions – Scope 1 and 2 (SBT verified) ³	%	49	61	
	Tree Planting (cumulative)	#	400,000	500,000	 
	Peatland Restoration (cumulative)	Ha	5,000	5,184	
S	Customer Affordability	%	95	100	
	Increase in Social Impact from our Community Investment	%	Baseline	10	
	% Diversity of Workforce ⁴	%	33	35	 
	5% Club Accreditation Status	Grade	Platinum	Platinum	
	Glassdoor Score (average)	#	3.2	3.8	
	Lost Time Injury Frequency Rate (LTIFR)	Number/100khrs	0.2	0.13	
G	ESG Rating (Sustainalytics)	Industry Percentile	Top 10%	Top 10%	
	Funding raised through Sustainable Financing Framework	£m	400	2,000	
	ESG Criteria included in % of Tender Evaluations	%	75	100	
	Supply Chain Sustainability School Membership Grade	Grade	Silver	Gold	 

1. Full ESG target definitions are available to view at www.pennon-group.co.uk/sustainability

2. Measured against South West Water's 2020/21 grid import requirements for usage.

3. The Group commits to reduce absolute scope 1 and scope 2 GHG emissions 68% by 2032/33 from a 2021/22 base year.

4. Our % Diversity of Workforce target is a combined measure of Female and REACH representation across our workforce, with internal targets for each business unit to drive performance against our group position.



Supply Chain Sustainability School (SCSS)

In March 2025, we proudly became a partner of the Supply Chain Sustainability School (SCSS), reinforcing our commitment to upskilling our supply chain and colleagues across key sustainability topics. This partnership provides access to industry-leading training and resources, enabling our teams and suppliers to deepen their understanding of environmental, social, and governance (ESG) principles, enhance sustainable procurement practices, and drive positive change across our operations. By working collaboratively with SCSS, we are empowering our supply chain to meet higher sustainability standards, supporting our ESG targets for 2025-2030.

Net Zero – our promise to the planet

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



Sustainable living

Our three-pillar strategy remains unchanged

- Reducing emissions through changes to operational practices, increasing energy efficiency, and switching to lower carbon fuel sources.
- Meeting our commitments to reduce leaks and help customers to use less water, protecting the environment and saving carbon.

Progress against our three-pillar strategy

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



Championing renewables

Our three-pillar strategy remains unchanged

- Maximising self-generation from renewables at our sites across the South West – working with partnerships and utilising our expertise.
- Where we cannot generate enough electricity to meet all our needs ourselves, 100% of what we purchase will be from renewable sources.

Progress against our three-pillar strategy

- South West Water (including Bournemouth Water) and SES Water have continued to source 100% renewable electricity (since 2022), representing over 87% of the Group's electricity consumption. We decided to delay switching Bristol Water to 100% renewable electricity for 2024/25 due to the cost of Renewable Energy Certificates, investing the money directly into renewable energy projects instead.
- During 2024/25 we have added to our portfolio of onsite renewable electricity by installing new Solar PV schemes at our Lowermoor WTW, Hill Barton STW and Fluxton STW sites, as well as having a number of further sites in construction.
- Although not part of our regulated water businesses, the Pennon Group's commercial energy company Pennon Power has continued delivery throughout the year with three sites in construction, and the first site in Fife to be energised in June 2025. This remains a major step towards meeting the Group's ambitions to own and control its own renewable energy assets.



Reversing carbon emissions

Our three-pillar strategy remains unchanged

- **Reversing carbon emissions from our core activities.**
- **Working in partnership to ensure our core activities reverse carbon emissions through solutions such as peatland restoration.**
- **Supporting the development of innovative solutions to develop low carbon footprint processes through research and development.**

Progress against our three-pillar strategy

- Our catchment management programmes include improved soil management, wetland creation, buffer strips, tree planting and other nature-based solutions. We have pioneered a collaborative partnership approach to peatland restoration across the region, continuing to develop best practice and build capacity to scale up into the future. Over time these interventions store more carbon in the landscape and reduce loss to the atmosphere, whilst retaining water upstream to improve long-term resilience.
- In 2024/25 our Upstream Thinking programme planted 81,482 trees to once again exceed our annual target of 50,000 trees. In total the 389,306 trees now planted for AMP7 are expected to store an estimated 23,500 tCO₂e during the next 30 years.
- We have restored 489.5 hectares of peatland, bringing our total area of restoration to 2,151.8 hectares between 2020-2025.
- Looking forward, we are increasing adoption of nature-based solutions in delivery of our PR24 Business Plan in 2025-2030 for the multiple benefits they provide for the environment. In a period of rapid regulatory change and emerging nature markets, we continue to collaborate with regulators and partners to investigate opportunities for nature-based carbon sequestration, including the development of science-based carbon codes for soil, hedgerows, saltmarsh and seagrass.

Progress in the year

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

Our Net Zero 2030 plan is well underway, and we are making good progress, reducing our carbon footprint by c.45% to date against our 2020/21 baseline for the South West Water and Bristol Water parts of our business.

Science Based Targets

As a Group we have committed to near-term Science Based Targets (SBTs), giving us Scope 1, 2 and 3 emissions reduction targets to aim for by 2032/33. Our targets were validated and approved by the Science Based Targets Initiative in May 2024, and our focus is now on delivering against those targets.

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

Our SBTs are set out below. These apply to the whole Pennon Group excluding SES for now, and we aim to add SES to our SBTs in due course. Action we take in achieving the Group's SBTs can also help support our regulated water and wastewater businesses, as well as our greenhouse gas and embodied carbon performance commitments.

- The Group commits to a 68% reduction in absolute scope 1 and market-based scope 2 emissions by 2032/33 from a 2021/22 base year.
- The Group commits to reduce absolute Scope 3 GHG emissions from 'well to tank' electricity and fuels, the delivery of electricity, emissions from 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 FY 2027/28.
- The Group commits to increase annual sourcing of renewable electricity to 100% by 2030.

Further details of how we are integrating climate into our business and readying for a low carbon future can be found in our TCFD report on pages 94 to 125.

GHG emissions performance

In line with good practice and to reflect the outcome of our 2021/22 materiality assessment, we set new interim Net Zero targets in 2022. Our 2024/25 performance is presented below.

Net Zero target	2024/25 Performance	2023/24 Target	2025 Target	2030 Target
% Energy usage from renewable generation	7.14%	8%	13%	50%
Reducing GHG emissions (%)*	70.68%	68%	70%	100%

* Scope 2 market-based emissions only.

These figures have been externally assured by Jacobs.

GHG emissions

Scope 2 market-based GHG emissions have reduced from 91,330 tCO₂e to 26,780 tCO₂e this year from our 2020/21 baseline, equating to a 70.68% reduction.

Overall GHG emissions against our Net Zero 2030 emission boundary for Scope 1, Scope 2 and selected Scope 3 operational emissions within the boundary of the regulated businesses have decreased by c.45%.

Full details of our 2024/25 GHG emissions are provided in our SECR report from page 91.

Embodied carbon

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

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

Net Zero culture

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

Renewable energy

We remain on target to generate 50% of the electricity we use through our own renewable electricity generation by 2030, measured against South West Water's 2020/21 grid electricity import requirements including onsite Solar PV, grid connected Solar PV, wind power, hydroelectricity and energy from our bioresources.

We have achieved 7.14% energy generated from renewables from our South West Water and Bristol Water parts of the business, whilst across the wider Group our percentage renewable energy generation is 6.44%.

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

Overall, our installed renewable energy capacity now totals 18.8MW including connected private wire assets.

Investment in renewable energy generation is an important part of achieving our Net Zero strategy and is aligned with our long-term sustainable growth strategy in UK environmental infrastructure.

Pennon Power Limited, a direct subsidiary of Pennon Group plc, was formed as an entity to deliver on this element of the Net Zero strategy.

To date, investment of c.£145 million has been approved for four projects across the UK, generating up to 135 GWh once operational, along with a two-hour battery system providing 30 MW of storage. When combined with the smaller scale on-site solar generation roll out, this puts the Group on track to meet its target.

Please refer to the operational review for Driving environmental gains for progress on these projects.

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 regulated water business.

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

Process and fugitive emissions

Process and fugitive emissions, mainly in the form of methane (CH₄) and nitrous oxide (N₂O), arise from our wastewater treatment processes. It is a challenge to accurately measure process emissions and this often means establishing a baseline to monitor changes in N₂O emissions can be difficult. Measuring and monitoring is the first step; without it, we cannot establish the efficacy of N₂O reduction initiatives. We have been piloting an innovative N₂O monitoring technology at one of our largest wastewater treatment sites, Countess Wear in Exeter. This pioneering initiative will enable us to benchmark N₂O at this site that provides wastewater treatment services to around 10% of our total regional population. Our monitoring activity has demonstrated that seasonal variability in N₂O emissions over the course of the year requires us to take a long-term approach to the monitoring. Alongside this we have also commenced with a separate trial to directly measure fugitive emissions of CH₄ at the same site. These initial trials will inform our future strategy for directly measuring and reducing process and fugitive greenhouse gas emissions.

Transition plan

Through our established strategies, plans and policies, we are preparing for a changing climate and lower carbon economy. Our annual Taskforce on Climate-related Financial Disclosures (TCFD) response on pages 94 to 125 sets out further details of this in accordance with the TCFD recommendations. This identifies one of our key transition risks as rising energy costs. Through our planned investment in renewable energy alongside our dynamic hedging strategy we are managing this risk.

For further information on nature-related disclosures, please see our Taskforce on Nature-related Financial Disclosures (TNFD) on pages 94 to 125.

Our Promise to the Planet operational emissions Net Zero scope includes Scope 1 & 2 (market based) GHG emissions and the following Scope 3 activities: outsourced activities, power transmission & distribution, business travel, and grey fleet (private vehicles used on Company business).

Sustainability reporting

Streamlined Energy and Carbon Report (SECR)

Pennon Group emissions now includes SES Water. Following the acquisition, SES emissions were reported separately and only reflected the period post acquisition. As a result, scope 1 and 2 emissions have increased to reflect this, but we continue to target improvements across all of our regions.

Pennon Group plc GHG emissions

	2024/25		2023/24 ⁴	
	market based	location based	market based	location based
Scope 1 GHG emissions by source (tCO ₂ e) ¹				
Direct emissions from burning of fossil fuels	8,859	8,859	5,467	5,467
Process and fugitive emissions	14,562	14,562	16,170	16,170
Transport: Company owned or leased vehicles	6,382	6,382	5,100	5,100
Total Scope 1 GHG emissions (tCO ₂ e)	29,803	29,803	26,737	26,737
Scope 2 GHG emissions (tCO ₂ e)	26,975	89,432	25,662	83,575
Total gross Scope 1 & 2 GHG emissions (tCO ₂ e)	56,778	119,235	52,399	110,312
Scope 3 GHG emissions ² (estimated) ⁵	299,297	299,297	316,295	316,295
Total gross Scope 1, 2 & 3 GHG emissions (tCO ₂ e) ⁵	356,076	418,533	368,694	426,607
GHG emissions removals through purchases of Renewable Energy Guarantees of Origin (tCO ₂ e)	Included in scope 2 above	–	Included in scope 2 above	–
GHG emissions saved by exporting self-generated electricity (tCO ₂ e)	0	(1,837)	0	0
Total annual net GHG emissions (tCO ₂ e) ⁵	356,076	416,696	368,694	426,607
Energy consumption used to calculate Scope 1 and 2 GHG emissions (MWh) (see Energy usage section)	535,621	535,621	459,736	459,736
GHG emissions intensity measure: tCO ₂ e (gross Scope 1+2/£100,000 revenue) ³	5.4	11.4	6.0	12.7
Biogenic GHG emissions outside of Scopes (tCO ₂ e)	2,871	2,871	3,076	3,076

Notes:

Pennon Group plc total Scope 1 (29,803 tCO₂e), Scope 2 market-based (26,975 tCO₂e), Scope 2 location-based (89,432 tCO₂e) GHG emissions, market-based GHG emissions intensity measure (5.4 tCO₂e) (gross Scope 1 + 2/£100,000 revenue), and location-based GHG emissions intensity measure (11.4 tCO₂e) (gross Scope 1 + 2/£100,000 revenue). These figures have been independently assured by Jacobs.

Scope 1 (direct GHG emissions): GHG emissions activities owned or controlled by our organisation that release emissions straight into the atmosphere. For Pennon, primary Scope 1 GHG emission sources during 2024/25 include GHG emissions from stationary plant, fugitive emissions from air conditioning plant and wastewater treatment, transport-related GHG emissions from our own vehicles, and fleet Scope 2 (indirect GHG emissions) GHG emissions released into the atmosphere associated with our consumption of imported electricity. Scope 3 (other GHG indirect emissions) GHG emissions are a consequence of our actions, which occur at sources which we do not own or control.

1. GHG emission figures are expressed in tonnes of carbon dioxide equivalents (tCO₂e) whereby emissions of carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), and the fluorinated gases (HFC, PFC, SF₆) are shown in terms of the equivalent emissions from CO₂. A breakdown of emissions by GHG is available in our ESG Databook available on our website: www.pennon-group.co.uk/reportsandpresentations
2. Estimated GHG emissions for relevant Scope 3 categories calculated for 2024/25 are provided in our ESG Databook available on our website: www.pennon-group.co.uk/reportsandpresentations
3. Based on relevant Group revenue for 2024/25.
4. 2023/24 figures are reported excluding SES Water, with SES Water's SECR figures reported separately within the 2023/24 Annual Report and Accounts.
5. 2023/24 Scope 3 category 5 GHG emissions have been restated to correctly account for waste generated in operations.

Operational Pennon Group plc GHG emissions by business

	South West Water	Bristol Water	SES Water	Group total ¹
Scope 1 GHG emissions (tCO ₂ e)	19,373	8,691	895	29,803
Scope 2 GHG emissions (market based) (tCO ₂ e)	503	25,900	2	26,975
Total gross Scope 1 & Scope 2 GHG emissions (tCO ₂ e)	19,876	34,592	897	56,778
Operational intensity measure (kgCO ₂ e/MI) – Water ²	30.68	358.82	32.19	n/a
Operational intensity measure (kgCO ₂ e/MI) – Wastewater ³	120.29	n/a	n/a	n/a

1. Group total includes 1,414 tCO₂e (total gross scope 1 & 2 GHG emissions) from Pennon Water Services and Group shared services.

2. For 'Water' measure MI = measured water into supply.

3. For 'Wastewater' measure MI = full measured flow treatment.

Change in GHG emissions

Operational Scope 1 and 2 emissions (market-based) for the Group increased by c. 8% from 2023/24. This is largely due to SES Water being included in the Group figures for the first time this year which has led to an increase in our Scope 1 emissions from vehicle transport as their transport fleet was included in our emissions for the first time as well as their emissions from the burning of diesel fuel for standby generation to ensure operational resilience at their sites. The revenue-based intensity metric has continued to reduce for the Group and the "market-based" value now stands at 5.4 tCO₂e/£100,000 turnover compared to a value of 6 tCO₂e/£100,000 turnover in the previous year, continuing the trajectory of emissions reductions relative to revenue earned.

Scope 3 GHG emissions

Scope 3 categories were evaluated for relevant categories in line with the reporting guidance. The assessment, carried out by carbon consultants Eco Act on behalf of Pennon, is based on 2024/25 activity data for the Group. The estimated Scope 3 GHG emissions for 2024/25 for the Group are 299,297 tCO₂e compared to the equivalent figure in 2023/24 of 316,295 tCO₂e.

SES Water's Scope 3 activities have been calculated and reported within the Group figures for the first time.

A breakdown of our estimated Scope 3 GHG emissions is provided in our ESG Databook, published on our website (www.pennon-group.co.uk/sustainability).

GHG Reporting Methodology

Our approach follows the UK Government's Environmental Reporting Guidelines, including Streamlined Energy and Carbon Reporting guidance (2019) and the Greenhouse Gas Protocol Corporate Standard including the Scope 3 Calculation Guidance (collectively referred to here as the reporting guidelines). In calculating our emissions, we have used the 2024 UK Government conversion factors for GHG reporting.

Organisational boundary and scopes

The GHG emissions listed here cover 100% of the Group's companies, each of which uses the financial control approach, except equity share for Bristol Water Holdings Companies, to report GHG emissions. We report our Scope 1, 2 and 3 GHG emissions where relevant. A breakdown of Scope 3 GHG emissions categories is provided in our supplementary ESG Databook online at www.pennon-group.co.uk/sustainability.

Market and location-based methodology

We report both market-based and location-based Scope 2 GHG emissions. Where our supply is backed by Renewable Energy Guarantees of Origin (REGOs), this qualifies as zero carbon market-based emissions. Where supply is not REGO backed, in accordance with the reporting guidelines, we have used our electricity suppliers' specific published Fuel Mix Disclosure emissions factors to report our Scope 2 market-based emissions. Where Fuel Mix Disclosure emissions factors are not available, we have used the residual grid mix emissions factor.

Self-generated renewable energy export

In accordance with the reporting guidelines, we may report an emissions reduction in our reported net CO₂e figure for any renewable electricity we have generated and exported to the national grid or a third party.

External assurance statement

Group Scope 1 and 2 GHG emissions and energy use, together with selected Scope 3 GHG emissions, have been independently assured by Jacobs. The assumptions, methods and procedures that are followed in the development of the reported data have been tested and the data audited for accuracy and consistency. Assurance statements can be found at www.pennon-group.co.uk/sustainability.

Offshore Emissions

All of Pennon Group's energy usage is within the UK, and Pennon Group had no offshore GHG emissions or energy usage in the reporting period.

Energy usage

Including self-supplied energy, the Group used 535,621 MWh of energy in 2024/25, compared to 484,374 MWh in 2023/24. This increase in energy has been driven by the inclusion of SES Water in the Group's figures for the first time. When excluding SES Water, our energy usage has gone down since the previous year due to the more favourable weather conditions which meant we were able to reduce our strategic water pumping program this year, reducing the amount of energy used to pump water, as reservoirs were recharged using natural means. A breakdown of Group energy usage and associated data assessment methodologies is shown below. Further details and previous years' data are provided in our ESG Databook, which can be found at www.pennon-group.co.uk/sustainability.

Energy usage

	2024/25 (MWh)	2023/24 (MWh) ⁵	Methodology
Imported grid electricity ⁴	431,305	404,426	Metered data except some NHHM supply which is estimated by electricity supplier
Imported private wire electricity (renewable)	6,138	5,804	Metered data
Self-supplied renewable electricity	10,841	10,656	Metered data
Self-supplied heat	6,625	7,068	Estimated that 60% of heat generated by sewage gas CHP is beneficially used, the rest (40%) is released to atmosphere
Natural gas ⁴	43,018	25,407	Metered data – from billing (some element of estimates)
Liquid fuels (for stationary applications) ⁴	6,739	6,375	Estimated based on fuel use/spend data. Reported totals calculated based on raw data provided by the supplier
Energy used by fleet transport ⁴	30,955	24,639	Estimated based on fuel use/spend and mileage data ²
Total energy usage ¹	535,621	484,374	
Intensity measure: MWh/£100,000 revenue ³	51.17	55.53	

Energy usage data notes:

1. Total energy usage (535,621 MWh) by has been independently assured by Jacobs.
2. Hire car fuel usage and grey fleet (use of private vehicles on company business) are included in these SECR volumes – as per SECR guidance.
3. Based on relevant Group revenue for 2024/25.
4. Energy consumption used to calculate Scope 1 and 2 GHG emissions.
5. 2023/24 figures are reported excluding SES Water, with SES Water's SECR figures reported separately within the 2023/24 Annual Report and Accounts.

Energy efficiency action taken

Our energy efficiency interventions during 2024/25 are estimated to have avoided around c.3 GWh of additional energy use, or around 0.6% of our total energy consumption (excluding transport). We have focused this year on a metering program across our energy consuming assets to prioritise our work for the next Asset Management Period (AMP) according to where interventions would be best optimised for energy consumption along with improving the resilience of our sites across the water and wastewater businesses in the Group. We have yet again taken steps this year to focus on testing, repairing or replacing our largest rotating operational assets across the Group. We have been modernising and refurbishing our rotating assets, including the deployment of more efficient aeration equipment in the form of new blowers (air compressors) at our Brokenbury wastewater treatment works and pump refurbishments across several sites.



Task Force on Climate-related Financial Disclosures (TCFD) and Task Force on Nature-related Financial Disclosures (TNFD)

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

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

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

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

TCFD Recommendations

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

In alignment with the FCA listing rule 6.6.6(8) we have taken into account available knowledge and guidance concerning the listing rule and climate-related risks to develop our TCFD disclosure, which is consistent to the TCFD framework. Pennon has addressed the 11 recommended disclosures and have considered the best practice guidance from the TCFD.

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

TNFD Recommendations

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

Developments in 2024/2025

The year has been marked by unprecedented weather patterns, characterised by above-average rainfall and frequent storms, resulting in extreme precipitation and high winds.

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

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

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

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

Over the past year our acquisition of SES Water has been finalised, and we are integrating SES Water into our Group-wide risk management approach and strategic planning.

In December 2024 Ofwat approved our business plan to invest £3.2 billion across 2025-2030, focusing on four priorities – water quality and resilience, storm overflows and pollution, Net Zero and environmental gains, and addressing customer affordability. Importantly, this will ensure we can strengthen our climate and nature resilience.

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

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

As a Group, we maintain strong reporting with the CDP (Carbon Disclosure Project), presenting our efforts to combat climate change and our GHG emissions since 2013. Our GHG emissions reduction continues to improve, reported through our CDP Climate Change submission in which we received an 'A-' rating in 2024 for both climate change and water security. You can read our GHG emissions performance on page 91.

Overview of Progress

Governance

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

2024/25 progress

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

Strategy

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

2024/25 progress

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

Risk Management

The processes we use to identify, assess, and manage climate-related and nature-related risks and opportunities

2024/25 progress

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

Metrics and Targets

The metrics and targets we use to assess and manage the relevant climate-related and nature-related risks and opportunities

2024/25 progress

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



Climate-related and Nature-related Governance

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

Board Oversight

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

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

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

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

We recognise that climate change, the nature emergency, and the transition to Net Zero influence several of the Group's principal risks (see our Principal Risks report on pages 70 to 79). Principal risks are reviewed as part of our audit governance processes.

Each of our regulated water companies has its own Board, which reports to the Pennon Group Board and oversees climate- and nature-related risks within its operations. New Board members, such as the new Chair who joined last year, are briefed on key climate- and nature-related risks, for example through site visits and strategic discussions. For more information see our Corporate Governance report pages 128 to 187.

Pennon Group Board Committees

All Board Committees play a role in managing our climate-related risks and opportunities, and several play a role in managing our nature-related risks and opportunities, and we are continuing to raise awareness of these issues across Board Committees. Matters are escalated to the Board as appropriate. Board Committees report their actions and decisions to the Board, ensuring robust governance – including for matters influenced by climate change, nature recovery and the transition to Net Zero. The responsibility for climate-related and nature-related risks and opportunities is cascaded through the business in order to meet our targets and objectives. Governance of nature-related risks and opportunities has been enhanced for AMP8 with performance commitments that now include biodiversity.

Audit Committee

Meetings and composition: Meets at least four times annually. Attended by the members of the Committee and other regular attendees at the invitation of the Committee.

Role relating to climate risks and opportunities: The Committee monitors the Group's financial reporting, including how the impacts of climate risks are accounted for in financial statements. The Committee also reviews key risks and opportunities (including climate-related risks) and challenges and tests the Group's internal control processes including risk management and internal audit. Further information on pages 151 to 157.

ESG Committee

Meetings and composition: Meets four times annually. Attended by the members of Pennon Board, CEO, CFO, and other Group Executives.

Role relating to climate and nature risks and opportunities: Provides the platform for discussion of the Group's ESG agenda and related climate and nature risks and opportunities, as well as setting and reviewing key metrics relating to ESG targets and goals. The Sustainable Financing reporting and monitoring is reported to the Committee for onward submission to the Board. Further information on pages 158 to 160.

Nomination Committee

Meetings and composition: Meets four times annually. Attended by the Chair and other Non-Executive Directors.

Role relating to climate risks and opportunities: Considers competency related to climate risks and opportunities when reviewing the structure, size, and composition of the Board and senior executives in the Group. Further information on pages 148 to 150.

Remuneration Committee

Attendance: Meets four times annually. Attended by the Chair and other Non-Executive Directors.

Role relating to climate risks and opportunities: Considers the Group's objectives and responsibilities, and advises the Board on the framework of executive remuneration for the Group and for the wider workforce, including mechanisms to incentivise achievement of the Group's objectives related to climate change, Net Zero, and sustainability goals. Further information on pages 163 to 183.

Health and Safety Committee

Attendance: Meets two times annually. Attended by the Chair, CEO, CFO, and other Non-Executive Directors.

Role relating to climate risks and opportunities: Supports the Executive Board on matters of risk across all areas of health and safety, resilience, and process safety – including areas impacted by climate-related risks, particularly related to harm from extreme weather events. Also reviews the effectiveness of the Group's procedures for Health and Safety reporting and performance. Further information on pages 161 to 162.

Management's role

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

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

Pennon Executive Committee (PEX)

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

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

Strategy

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

Climate-related Risks and Opportunities

Our most material physical and transitional climate-related risks and opportunities are presented on the following pages. These have been identified by considering the climate scenarios described on page 118. The risks have been assessed using the Pennon 4x4 risk assessment matrix which puts the highest risks in the red category under the RAG rating. Further information on our risk assessment methodology can be found on page 70. We have identified impacts over short (0-10 years), medium (10-25 years) and long term (25 years and beyond) horizons (the rationale behind these time horizons is presented on page 118).

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

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

Key

Risk ratings

● High ● Medium ● Low

Risk Trend

▲ Increasing ↔ Stable ▼ Decreasing

Physical climate risks

Key physical climate risk

Increasing frequency and intensity of droughts – risks to water supply and impacts on the overall water cycle.

Relevant time horizon

Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon

This year's risk rating

Current risk rating



Risk score in 2050 without further action



Last year's risk rating

Current risk rating



Risk score in 2050 without further action



Key impacts identified on our operations and customers

- Sustained drought can lead to supply shortfalls with a heightened risk for recovering water storage if there are consecutive drought years.
- Risk compounded by high temperature events that increase daily and peak demand for garden watering, crop irrigation, and tourism exceeding the capacity to redistribute water.
- Drought events lead to loss of supply and de-pressurisation of pipelines, greater incidence of pipe failure and contamination.
- More extreme wetting and drying cycles cause soil movement, more pipe movement/ subsidence and bursts/ increased leakage.
- Lower river flows, as a result of drought events, reduce yields. Could lead to reductions in our future abstraction allowances and increased need to release more water to rivers/the environment (see also 'climate-related regulation in the Water sector' transition risk).
- Lower groundwater levels reduce borehole yields. Intake, borehole pump and reservoir draw-off levels may not match reduced levels.
- Demand for environment protection impacts the availability of water for sustainable abstraction. Water companies' legal obligations and our environmental ambition to protect, restore and enhance the environment is increasingly challenging with increased frequency and severity of droughts.
- Saline intrusion as lower groundwater levels reduce the natural pressure that keeps seawater at bay, exacerbated by rising sea levels (see 'Rising sea levels' risk).
- Decreased intake raw water quality (see 'risks to raw water quality and treatment' risk).
- Impacts on wastewater networks from lower flows of surface water into the network, such as less storm overflow volumes but increased risk of sediment build up.
- Prolonged low water levels increasing the spread of invasive non-native species (INNS), as stressed native ecosystems become more vulnerable and INNS exploit newly available habitats.

Key physical climate risk

Gradual and significant increasing average and high temperatures – risks to raw water quality and water treatment

Relevant time horizon

Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon

This year's risk rating

Current risk rating



Risk score in 2050 without further action



Last year's risk rating

Current risk rating



Risk score in 2050 without further action



- Increased catchment erosion leads to decreased water quality (odour, discolouration, dissolved organics, microbes) requiring additional resources and cost to remove pathogens from drinking water or ensure water quality meets regulatory standards at WTWs.
- Increased microbe propagation and survivability affecting treatment processes.
- Algal blooms, triggered by catchment erosion and runoff, are exacerbated by higher temperatures.
- Higher peak demand for water compounded by reduced runoff yields due to higher temperatures increasing evaporation (see 'Increasing frequency and intensity of droughts' risk).
- Decreased water quality compounded by overheating of equipment/assets.
- Cascading impacts to interdependent networks (e.g. power supply) from overheating, leading to service disruption.
- Increased prevalence of INNS.

Examples of our actions to mitigate risks and realise opportunities through PR24 investments

Current actions:

Strategic Planning and Regional Collaboration

- Publication and delivery of the 2024 Water Resource Management Plan, setting out long-term strategies for sustainable supply.
- Active participation in regional water resource management through water resource groups: West Country Water and Environment and Water Resources South East.
- Enhanced drought planning, including preparation for more extreme events using stochastic and multi-year drought analysis to test system performance under prolonged dry conditions.

Infrastructure Investment and Supply Resilience

- Repurposed disused mines and quarries to create new water storage capacity.
- Enhancements to the distribution system to remove bottlenecks and support peak demand.
- Implementation of Abstraction Incentive Mechanism (AIM) schemes to promote sustainable abstraction practices.

Innovation and Efficiency

- LeakBot trials underway at households to help reduce leakage levels across the network.
- Participation in the Ofwat Innovation Project, Water Net Gain, focused on piloting smart ponds to provide localised water storage solutions.

Planned or future actions:

Strategic Planning and Regional Collaboration

- Development of the Water Resources Management Plan 2029, including new water supply and demand reduction options.

Infrastructure Investment and Supply Resilience

- Commencement of the Cheddar 2 reservoir, a major new storage scheme to benefit the entire South West region.
- Poole Reuse: A strategic reuse project that will pump treated wastewater from Poole to a new advanced treatment facility before discharging into the River Stour, in order to support water supply and the environment in Bournemouth.
- Increased water grid connectivity to improve resilience in areas such as Roadford and Colliford.

Innovation and Efficiency

- Continued development of desalination schemes to enhance drought management, including progressing feasibility studies across Cornwall and the Isles of Scilly.

Current actions:

Nature-Based Solutions and Catchment Management

- Exceeding Upstream Thinking catchment management targets, delivering benefits for water quality, wildlife, water resources, and peatland restoration.
- Implementation of an INNS (Invasive Non-Native Species) programme, with two South West Water sites upgraded from bronze to silver in the AQUA biodiversity accreditation scheme.
- Embedded our 'Green First' approach into all decision-making, promoting the use of nature-based solutions wherever possible.

Innovation and Research

- Ongoing innovation through the Centre for Resilience in Environment, Water and Waste (CREWW), a purpose-built research facility supporting cross-sector collaboration and applied research.

Infrastructure and Operational Resilience

- Upgraded treatment works, including the rollout of state-of-the-art treatment technologies designed to make our sites and assets more resilient to future challenges, including the rebuilding of two strategically important treatment works in the Bournemouth Water region.
- Maintained robust health and safety practices and management across operations, to support operational resilience and workforce protection in the face of increasing climate-related physical risks.

Planned or future actions:

Infrastructure and Operational Resilience

- Continued modernisation and upgrade of treatment infrastructure, ensuring they are future proofed against climate risks.

Innovation and Research

- Continued innovation through cross-sector collaboration via the CREWW research programme, supporting long-term resilience and environmental outcomes.

Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

Proactive investment in drought resilience, including storage, leakage reduction, and desalination, supports long-term water security, reduces service disruption, and protects environmental flows during prolonged dry periods.

Impacts of the unmitigated risk:

Failure to mitigate drought risk could lead to water supply shortfalls, infrastructure damage, environmental degradation, and regulatory non-compliance, with significant financial, operational, and reputational consequences.

Impacts from mitigating the risk:

We could incur increased expenditure (Capex and Opex) for water treatment, and to increase capacity for water supply infrastructure. Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon.

Impacts of the unmitigated risk:

Service disruptions and lower quality service provision could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue). We could face additional expenditure (Opex and Capex) to recover from service disruptions, reduce leakage, and manage water demand. Some of our assets could deteriorate and face impairment due to physical impacts.

Key

Risk ratings

● High ● Medium ● Low

Risk Trend

▲ Increasing ↔ Stable ▼ Decreasing

Physical Climate Risks *continued*

Key physical climate risk

Increasing frequency of heavy rainfall and floods – risks to sewer flooding

Relevant time horizon

Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon

This year's risk rating

Current risk rating



Risk score in 2050 without further action



Last year's risk rating

Current risk rating



Risk score in 2050 without further action



Key impacts identified on our operations and customers

- Impacts from intense rainfall overwhelming the surface water drainage system and from prolonged rainfall leading to groundwater flooding.
- Flooding of assets and treatment works, loss of access to assets, and greater sediment levels in raw water which disrupt services and potentially impact the environment.
- Cascading impacts to interdependent networks (e.g. power supply) from flooding, leading to service disruption.
- Increased groundwater leading to increased infiltration into assets.
- Increased volumes of storm-water exceed pump capacity leading to service failures.
- Exceedance of storm tank design and asset flooding/damage with interruption to service.
- Increased frequency and duration of storm overflows, with potential impacts to water bodies – including potential closure of beaches.
- Increased river flows and risk of bank erosion exposing wastewater pipes, increasing the risk of collapse.
- Catchment erosion in moorland or peatland areas, with nutrients leaching that increase algal growth in waterbodies and reservoirs.
- Dilution of, and rapid variations in, influent flows – longer retention of water in storm tanks leads to increased septicity and operational problems.
- Increased flood incidence impacts water quality for some boreholes, may result in temporary inaccessibility or contamination.
- Increased turbidity of water sources.
- Increased river flows and riverbank erosion. Risk to riverside pipework and assets.

Key physical climate risk

Rising sea levels and coastal erosion – risks to assets and services

Relevant time horizon

Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon

This year's risk rating

Current risk rating



Risk score in 2050 without further action



Last year's risk rating

Current risk rating



Risk score in 2050 without further action



- Direct asset damage from flooding, storm damage and/or coastal erosion.
- Cascading impacts to interdependent networks (e.g. power supply) due to damage from coastal flooding, storm damage and/or coastal erosion.
- Rising sea levels increase the extent of the saline intrusion zone. Tidal limits move upstream, causing increased salinity at river intakes. This can cause accelerated asset deterioration and reduced process performance efficacy.
- Increased health and safety implications e.g. hydrogen sulphide gas from wastewater treatment works.
- Saltwater intrusion of groundwater sources causing source to become unusable (compounded by lowering groundwater levels – see our 'Increasing frequency and intensity of droughts' risk).
- Coastal estuarine storm overflow discharges become tide-locked hindering free discharge.
- Increased environmental ambition by other stakeholders to replace lost coastal habitat and manage coastal erosion, impacting our assets and services (in some cases requiring us to carry out actions which may not be funded through the regulatory system).

Examples of our actions to mitigate risks and realise opportunities

Current actions:

Strategic Planning and Collaboration

- Development of the National Storm Overflows Plan, setting out plans to reduce storm overflows and supporting national-level strategy, transparency, and alignment.
- Development of Pollution Incident Reduction Plan (PIRP) to identify and address pollution risk.
- Catchment Systems Thinking Co-operative (CaSTCo) project with CREWW, exploring how nature-based solutions can reduce surface water inputs to combined sewer networks.

Network Resilience and Pollution Reduction

- Achieved 100% storm overflow monitoring, enabling better oversight and real-time response.
- Investment in WaterFit Plans, reducing storm overflow with a focus on beaches and high-amenity areas improving water quality and restoring habitats.
- Proactive sewer investigations, cleaning, and repair, combined with network improvements, to prevent flooding and reduce failure risk.
- Implementing sustainable solutions, such as surface water separation to reduce pressure on the sewerage network, and phosphorus removal schemes to support river health.
- Partnership flood schemes, including work at Countess Wear Wastewater Treatment Works (Exeter).

Nature-Based and Community Solutions

- Catchment management through Upstream and Downstream Thinking, supporting water quality and flood resilience, working with local partners and communities in 15 catchments.
- Collaborative work to achieve designated inland bathing waters in the South West – a first for the region.

Innovation and Risk Mapping

- Developing a Groundwater Infiltration Risk Map with CREWW, incorporating climate change scenario modelling.

Planned or future actions:

Strategic Planning and Collaboration

- Commencing the next cycle of our Drainage and Wastewater Management Plan (DWMP), in collaboration with stakeholders and flood risk management organisations, to address shared responsibilities for surface water flooding and drainage.
- Ongoing and regular updates to the Pollution Incident Reduction Plan (PIRP) to reflect new risks and performance data.

Network Resilience and Pollution Reduction

- Expanded investment to address storm overflows at beaches and shellfish waters, including storm storage, sewer separation, and other infrastructure upgrades as part of our £3.2 billion Business Plan
- Continued improvements to incident management to reduce pollution and service disruption.

Nature-Based and Community Solutions

- Assessing storm overflow solutions using the 'Green First' principle, prioritising nature-based approaches.
- Expanding the Upstream Thinking initiative to further enhance catchment-scale water quality and resilience.
- Promoting improved understanding that the number of combined sewer overflows (CSOs) does not directly equate to environmental or human health impact.

Current actions:

Climate-Informed Risk Assessment and Planning

- Five-yearly asset flood risk assessments incorporating the latest UK Climate Projections to inform Shoreline Management Plans to work collaboratively with other land holders on shared solutions.
- Drainage and Wastewater Management Plan (DWMP) supports long-term resilience planning.

Operational Resilience and Asset Protection

- Deployment of Operational Response and Recovery Plans to manage flood risks and ensure service continuity.
- Enhanced flood resilience across coastal assets, including targeted defences against saline intrusion (e.g. Otter Basin).
- Delivery of partnership flood schemes, such as Countess Wear WWTW in Exeter, to strengthen regional protection.

Customer and Community Support

- Prioritised support for vulnerable customers during extreme weather events.
- Ongoing engagement with coastal erosion risk management authorities.

Planned or future actions:

Strengthening Coastal and Water Resource Resilience

- Expansion of saline intrusion protection to additional at-risk sites.
- Desalination programme to replace 'at risk' sources such as Isles of Scilly boreholes.

Collaborative Planning and Adaptation

- Continued collaboration with risk management authorities to inform and evolve Shoreline Management Plans.

Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

We could incur additional expenditure (Opex and Capex) to improve operational resilience and flood defences, and to enhance our Upstream and Downstream Thinking programmes.

Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon.

Impacts of the unmitigated risk:

Service disruptions and combined storm overflows could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue).

We could incur additional expenditure (Opex and Capex) to recover our services and repair damaged assets.

Some of our assets could deteriorate and face impairment due to physical impacts.

Impacts from mitigating the risk:

We could incur additional expenditure (Opex and Capex) for protecting our sites and assets from coastal flooding and saline intrusion. Some of these costs could be recoverable through the regulatory system.

Increased energy and material use could impact our operational and embodied carbon.

Impacts of the unmitigated risk:

Service disruptions could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue).

We could face additional expenditure (Opex and Capex) for using alternative water supply if sites/sources become unusable.

Some of our assets could deteriorate and face impairment due to physical impacts.

Key

Risk ratings

● High

● Medium

● Low

Risk Trend

▲ Increasing

↔ Stable

▼ Decreasing

Physical Climate Risks continued

Key physical climate risks

Increasing frequency of extreme weather events, heatwaves and storms – Acute risks to assets and services

Relevant time horizon

Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon

This year's risk rating

Current risk rating



Risk score in 2050 without further action



Last year's risk rating

Current risk rating



Risk score in 2050 without further action



Key impacts identified on our operations and customers

- Power supply failure due to high winds, heavy rainfall/flooding, lightning at key network and treatment sites and resultant cascading impacts to interdependent networks, including water supply delivery and wastewater management.
- Cold snaps and freeze/thaw events leading to pipe bursts/increased leakage.
- Reduced ability for our services and assets to recover under consecutive storms.
- Surges in customer water use during heatwave events leads to operational challenges to treat and distribute water at pace even when there is enough water in sources (also see 'Increasing frequency and intensity of droughts' risk).
- Damage to our assets due to extreme weather and/or heatwaves e.g. overheating of electrical equipment.
- Decreased water quality during heatwaves (also see 'risks to raw water quality and treatment' risk).

Examples of our actions to mitigate risks and realise opportunities

Current actions:

Operational Resilience and Incident Management

- Improved operational and incident response across our South West Water and Bournemouth regions to minimise the impact of power failures.
- Continued investment in control room operations and alternative water supply teams to ensure service continuity.
- Severe and cold weather protocols and winter preparedness activities on operational assets to reduce disruption, protect critical infrastructure, and prioritise support for vulnerable customers during extreme conditions.
- Regular sector-wide coordination through Water UK Platinum Incident Management and National Incident Management calls.

Energy Resilience and Diversification

- Power resilience visualisation tool developed to assess vulnerability to national energy outages and drive targeted investment in resilience.
- Diversified energy supply, including onsite renewable energy generation, to reduce reliance on the national grid.
- Use of sludge to generate energy, powering parts of operations and enhancing energy self-sufficiency.
- Backup power systems at treatment plants to manage energy supply interruptions.
- Standby generator roll-out programme, with a switch from diesel to Hydrotreated Vegetable Oil (HVO) for lower carbon emissions.

Collaboration and Supply Chain Resilience

- Working with energy providers and other stakeholders to enhance regional resilience.
- Mutual aid agreements in place to manage competing demands during emergency events.
- Supply chain resilience initiatives, including a new commercial framework to diversify suppliers for critical items like treatment chemicals and HVO.
- Development of a Business Continuity and Visualisation Tool with Water UK and other companies to support operational decisions and reduce customer impacts, especially for vulnerable populations.

Planned or future actions:

Strategic Planning and Climate Adaptation

- Future climate adaptation and transition planning, ensuring long-term resilience to evolving climate risks.

Operational Resilience and Incident Management

- Continual improvement of operational and incident response, incorporating lessons learned from past events and building on the appointment of a new incident management team.
- Continued collaboration with Water UK and industry groups to strengthen regional and national resilience to power outages.

Energy Resilience and Innovation

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

Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

We could incur additional expenditure (Opex and Capex) for maintenance and upgrades to assets to enhance resilience to storms. Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon.

Impacts of the unmitigated risk:

Service disruptions could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue).

We could face additional expenditure (Opex and Capex) to restore services and repair assets. Some of our assets could deteriorate and face impairment due to physical impacts.

Key

Risk ratings

● High

● Medium

● Low

Risk Trend

▲ Increasing

↔ Stable

▼ Decreasing

Transition Risks continued

Type as defined by TCFD

Policy, Regulation and Legal Risks

Relevant time horizon

Short and medium term

Potential for this risk to decrease over time as regulation evolves to remove contradictions and misalignment, and as leadership on climate action becomes commonplace across Government and the economy.

Current risk rating



Last year's risk rating



Key impacts identified on our operations and customers

Risk of challenges balancing trade-offs in regulation in the Water sector between agendas of Net Zero, climate resilience, environmental enhancement, and other objectives, posing the risk of increasing costs and carbon: Prioritising different regulatory goals can result in undesired climate impacts. Rapid changes in policies and regulations can misalign holistic actions with stringent agendas, posing risks to Pannon. Some examples include:

- Stricter environmental regulations for climate adaptation and nature-positive agendas, with reduced abstraction allowances and increased river compensation flows (see our 'drought' physical risk)
- Increased environmental ambition to restore coastal habitat and manage erosion. (see our 'rising sea levels' physical risk).
- Changes to carbon accounting methodologies and scope boundaries, such as using location-based instead of market-based GHG accounting (e.g. disincentivising power purchase agreements (PPAs) for renewable energy).
- Increased energy demand and subsequent carbon footprint due to the use of modular desalination to ensure drought resilience at pace, and enhanced treatment requirements (e.g. phosphorus removal, UV disinfection, reducing combined sewer overflows in cases where the scale and pace required disadvantages nature-based solutions);
- Regulation contradicting Net Zero goals, with limited incentives for broader actions outside the regulated water business.

Examples of our actions to mitigate risks and realise opportunities

Current actions:

- Horizon scanning for new regulations.
- Engaging with stakeholders and maintaining public relations.
- Net Zero programme.
- Tracking small outperformance through the voluntary ODI under the Green Recovery Initiative.
- Establishment of science-based targets (SBTi) for carbon reduction.
- Communicating the impact of regulations on climate risks to regulators.
- Clarifying carbon accounting with sector partners.
- Engaging with customers via WaterShare+ Customer Advisory Panel.
- Adaptive planning approach within WRMP24 and DWMP23.
- Considering actions which Pennon can take outside of the regulatory framework (e.g. offsite investment in renewable energy).
- Seeking and implementing Ofwat innovation-funded projects for additional investment.
- Establishment of the Centre for Resilience in Environment, Water and Waste (CREWW) to collaborate with academia on water sector challenges.

Future actions:

- Upstream Thinking programme for nature recovery and nature-based solutions.
- Investment in innovation, R&D and climate resilience.
- Consideration of internal carbon pricing.
- Public value assessments in decision-making.
- Seeking opportunities for additional funding within and outside the regulatory system.
- Future climate adaptation and transition planning.
- Engaging with WaterUK and contributing as a reviewer for industry-wide developments.
- Review of ESG priorities considering the new materiality assessment.

Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

Regulatory changes may increase Opex and Capex for new equipment installation and operation. Some costs might be recoverable through the regulatory system. Increased energy and material use could raise our carbon footprint.

Impacts of the unmitigated risk:

Failing to balance regulatory requirements could reduce ODI rewards and increase penalties, impacting revenue. Negative public perception could harm our reputation. High carbon emissions or poor environmental outcomes may lead to asset obsolescence and impairment.

Key

Risk ratings

● High ● Medium ● Low

Risk Trend

▲ Increasing ↔ Stable ▼ Decreasing

Transition Risks continued

Type as defined by TCFD

Policy, Regulation and Legal Risks

Relevant time horizon

Short and medium term

In the short term the risk is more focused on funding to achieve Net Zero, over the medium and long term the risk will increasingly focus on funding to enable adaptation to climate change.

Current risk rating



Last year's risk rating



Key impacts identified on our operations and customers

Achieving operational Net Zero by 2030 and delivering timely climate adaptation may be affected by evolving regulatory expectations and the pace of funding approvals. Emerging requirements may not be fully reflected in regulatory cycles, creating uncertainty around future investment pathways and delivery timelines.

Type as defined by TCFD

Technology Risks

Relevant time horizon

Short and medium term

In the short term the risk is primarily driven by limited supply and readiness of technology and resources (due to past underinvestment in skills development and infrastructure across the UK and beyond, particularly in the South West), over the medium term the risk will be increasingly driven by high demand for technology and resources.

Current risk rating



Last year's risk rating



Capacity and readiness of technology and resources to achieve Net Zero before other sectors and the wider UK: Risks that skills, technology, resources, and infrastructure are not ready to enable Pennon's transition to Net Zero operational carbon by 2030, causing delays and high costs. Examples include:

- Workforce and supply chain availability to design low-carbon solutions affected by geopolitical events and macro-economic conditions.
- Technology and infrastructure capacity for Pennon's renewable energy projects.
- High demand for resources and technologies from others causing delays and increasing costs for Pennon (e.g. demand for expertise, batteries, electric vehicles).
- Unsuccessful investment in new technologies, with risks around recovering costs through the regulatory system.
- Larger-than-expected innovation needed to reduce process emissions, risking unsuccessful R&D investments and suboptimal decisions.
- Readiness and performance uncertainty of nature-based solutions.

Examples of our actions to mitigate risks and realise opportunities

Managing regulatory funding risk:

Current actions:

Strategic Integration

- Climate and multi-capital considerations embedded in business planning to align with long-term sustainability goals.
- Climate objectives regularly reviewed to ensure they remain ambitious, achievable, and responsive to evolving policy and regulatory landscapes.
- Our Green First Approach used to underpin value-driven decision-making, promoting nature-based and best-value solutions that deliver environmental and social benefits.

Engagement and Collaboration

- Maintaining dialogue with regulators, customers, and stakeholders to foster alignment on climate goals and co-develop solutions that support a low-carbon transition.
- Monitoring regulatory developments to identify opportunities for strategic alignment and early adoption of climate-related initiatives.

Innovation and Delivery

- Evaluating and prioritising carbon reduction and bioresource initiatives based on long-term value creation, operational efficiency, and environmental impact.
- Cultivating partnerships with industry leaders, research institutions, and technology providers to accelerate the development and deployment of sustainable solutions.
- Advancing initiatives – such as those of Pennon Power – showcasing a commitment to climate action that goes beyond compliance and regulatory expectations.
- Leveraging Power Purchase Agreements (PPAs) to ensure reliable access to renewable energy, enhance energy security, and reduce exposure to market volatility.

Managing capacity constraints:

Current actions:

- Continuing to enhance capacity through training and recruitment, collaboration with partners and financial planning.
- Establishment of the Pennon Innovation Committee, which is a network across Pennon working alongside CREWW, promoting innovation opportunities and preparing Ofwat innovation applications.

Managing supply chain and infrastructure limitations:

Current actions:

Enabling Infrastructure and Capacity

- Collaborating with infrastructure providers, regulators, and Government to encourage investment that expands network capacity.
- Enhancing internal capacity and increasing operational efficiency to reduce reliance on external suppliers for renewable energy.

Expanding Renewable Energy Access

- Developing Pennon Power to provide renewable energy from outside the South West region, supporting broader decarbonisation goals.

Future actions:

Strengthening Supply Chain Resilience

- Diversifying suppliers to enhance resilience and reduce exposure to supply disruptions.
- Developing procurement strategies to secure key technologies and expertise critical to climate and energy objectives.

Reducing Network Dependency

- Exploring decentralised solutions such as onsite battery storage to reduce reliance on external network capacity.

Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

Strategic investment in carbon reduction and climate resilience, both within and beyond the regulated business, supports long-term value creation, operational efficiency, and stakeholder confidence. Enhanced engagement with regulators and stakeholders strengthens alignment and may unlock new opportunities for innovation and revenue growth (see our 'Products and Services' climate opportunity).

Impacts of the unmitigated risk:

Delaying or underinvesting in climate action could limit our ability to meet performance targets, potentially affecting outcome delivery incentives (ODIs). It may also lead to increased long-term operational and customer costs, reputational challenges, and reduced asset performance due to physical climate risks. Proactive investment today helps avoid these future impacts and positions us as a climate-resilient leader (see our 'Negative public and stakeholder' and 'Customer affordability' reputation risks).

Impacts from mitigating the risk:

Increased Opex to build capacity and access skills and technology, some of which can be recoverable through the regulatory system.

Impacts of the unmitigated risk:

Increased Opex and Capex due to delays and high resource demand; unsuccessful technology investments leading to increased costs; penalties and reputational damage if targets are missed and limited ability to reduce carbon emissions (See our "Policy and Regulation" transition risk).

Key			Risk Trend		
Risk ratings					
● High	● Medium	● Low	▲ Increasing	↔ Stable	▼ Decreasing

Transition Risks continued

Type as defined by TCFD

Market Risks

Relevant time horizon

Short and medium term

In the short term the risk is primarily driven by limited supply of renewable energy and low-carbon materials (due to past under investment in infrastructure and materials across the UK and beyond), over the medium term the risk will be increasingly driven by high demand for renewable energy and low-carbon materials.

Current risk rating



Last year's risk rating



Key impacts identified on our operations and customers

Increased costs of energy and materials due to the transition to Net Zero, impacts of climate change, and wider factors: Costs are rising due to the Net Zero transition, climate change impacts, geopolitical events, and macro-economic conditions like high inflation. Examples include:

- Electricity prices, especially for 100% renewable energy, reached record highs in recent years due to market volatility. While prices have since eased, the experience highlights the need for long-term energy resilience and investment in self-supply.
- Increased prices for liquid fuels and gas.
- Higher costs for chemicals and construction materials (e.g. cement, steel) due to rising energy prices and carbon reduction measures.
- Increased prices for renewable electricity technologies due to high demand and limited supply.
- Increased energy demand due to the acquisition of companies reliant on groundwater (e.g. SES).

Examples of our actions to mitigate risks and realise opportunities

Managing cost of energy:

Current actions:

Renewable Energy & Supply Resilience

- Generate renewable energy and explore additional options and power purchase agreements (PPAs).
- Championing upscaling of renewables across our regions.
- Acquisition of renewable energy projects to support energy resilience and stabilise costs.

Efficiency & Cost Management

- Increasing efficiency to reduce energy demand (e.g. enhance energy efficiency, reduce leakage – see our ‘resource efficiency’ opportunity).
- Electricity price hedging.
- Secure long-term contracts for renewable electricity to manage price volatility.
- Accounting for cost recovery mechanism allowed by Ofwat for energy pricing.

Future actions:

Transition to Low-Carbon Energy

- Switch to alternative fuels, eliminating fossil fuels where possible.
- Investing in solar PV sites and innovative renewable projects (e.g. floating solar)
- Support Government and wider sectors actions to increase energy security and supply of low-carbon energy.

Smarter Energy Use

- Changing operational practices to reduce energy use and costs (e.g. off-peak electricity pricing).
- Exploring low-energy options (e.g. nature-based solutions).

Managing cost of input materials:

Current actions:

Smarter Procurement & Cost Management

- Implement cost-reducing procurement strategies (e.g. competitive pricing).
- Use whole life carbon tools to understand costs of high-carbon materials.

Supply chain resilience

- Enhanced supply chain resilience by diversifying and expanding suppliers to increase competitiveness and reduce costs.

Future actions:

Resource Efficiency & Innovation

- Increase efficiency to reduce material use and consumption.
- Innovate with different chemicals and materials (e.g. using excavated materials and recycling waste).







Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

Increased Opex and Capex for renewable energy and low-carbon materials, some recoverable through the regulatory system with potential ROI (see our ‘energy source’ and ‘markets’ climate opportunities).

Impacts of the unmitigated risk:

Increased Opex and Capex due to higher energy and material costs; limited ability to reduce carbon emissions.

Key			Risk Trend		
Risk ratings					
	High			Increasing	
	Medium			Stable	
	Low			Decreasing	

Transition Risks continued

Type as defined by TCFD

Reputational Risks

Relevant time horizon

Short and medium term

In the short term customers and stakeholders are primarily concerned about impacts on water quality and aquatic environments. Over time it is likely that customers and stakeholders will have higher concern for carbon emissions and other sustainability objectives.

Current risk rating



Last year's risk rating



Key impacts identified on our operations and customers

Negative public and stakeholder relations due to Pennon failing to be seen as a leader in environmental sustainability: Negative perception from the public/stakeholders/regulators, possibly linked to a major climate-related incident/event/failure. Some examples include:

- Public concern about climate-induced pollution events and sewer overflows.
- Concern about the environmental impact of abstraction and wastewater discharge.
- Public/media focus on high-energy activities like desalination over carbon reduction efforts.
- Shifts in stakeholder/customer expectations related to carbon and climate.
- Potential negative perceptions related to development of renewable energy projects, such as impacts on biodiversity.
- Stakeholder and customer dissatisfaction if Pennon fails to meet Net Zero commitments.

Type as defined by TCFD

Reputational Risks

Relevant time horizon

Short and medium term

The need for additional investment to meet the Net Zero and climate adaptation challenges will likely continue to impact across the medium term, particularly if global climate action is slow and the physical impacts are greater.

Current risk rating



Last year's risk rating



Customer affordability and fairness concerns for achieving Net Zero and adapting to climate change: Affordability for customers and questions around fairness could become challenging, added to the end of the Government contribution to water and wastewater bills. This risk includes:

- Large climate change investments may cause customer and stakeholder dissatisfaction.
- Fairness issues, especially for residents in high-impact areas like Cornwall and Devon.
- Misalignment among Government departments and regulators requiring increased investment.

Examples of our actions to mitigate risks and realise opportunities

Managing public and stakeholder relations:

Current actions:

Environmental Leadership & Climate Action

- Investing in environmental performance and risk reduction, delivering Net Zero and nature programmes (e.g. WINEP, Biodiversity Strategy).
- Developing renewable energy projects (e.g. repurposing a disused coal mine).
- Committing to global sustainability standards (e.g. UNGC, SBTi).

Stakeholder Engagement & Strategic Thinking

- Engaging customers and communities (e.g. PR24, Nature Recovery, education programmes).
- Applying the '6 capitals' framework to guide sustainable decision-making.
- Collaborating with research partners (e.g. CREWW) to drive innovation.

Future actions:

Climate Commitment & Policy Evolution

- Continue delivering on our 'Promise to the Planet' to reach Net Zero.
- Enhance sustainability policies and practices, including ESG materiality assessment.

Customer & Community Engagement

- Strengthen customer and community engagement.
- Expand the Watershare+ Scheme to reach one in every 10 households.

Managing customer affordability:

Current actions:

Supporting Customers and Communities

- Support programmes and social tariffs for customers struggling to pay bills, including working with regulators and policymakers on initiatives such as a national single social tariff.
- WaterShare+ engagement scheme to encourage customers to become shareholders, involved in the company's decisions.
- Board's pledge of zero customers in water poverty by 2030.

Delivering Efficient, Long-Term Investment

- Driving efficient investment programmes over the long term whilst ensuring bills reflect value for money.
- Phased investment in climate adaptation and Net Zero over time to reduce pressures on bills.
- Engaging with customers, stakeholders, regulators, and Government to explain investment needs.

Innovating for Affordability and Resilience

- Exploring cost-reduction actions and innovative tariffs, such as our Smart Saver tariff and seasonal tariffs supporting water efficiency whilst keeping bills low.

Future actions:

Customer Engagement

- Further encourage customers to have a stake and a say in the company through WaterShare+.

Innovating for Efficiency and Fairness

- Ongoing programme to introduce innovative and progressive charges.
- Rolling out smart meters to support water efficiency.

Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

Potential increased Opex to manage stakeholder relations.

Impacts of the unmitigated risk:

Negative public perception impacting reputation (see also our 'Challenges balancing trade-offs' policy transition risk).

Impacts from mitigating the risk:

Potential increase to Opex to manage public perception.

Impacts of the unmitigated risk:

Negative public perception impacting reputation and potential penalties for not supporting vulnerable customers.

Key

Risk ratings

● High ● Medium ● Low

Risk Trend

▲ Increasing ↔ Stable ▼ Decreasing

Climate-related Opportunities

Type as defined by TCFD

Resilience

Relevant time horizon

Short and medium term

Enhancing resilience to climate change and extreme weather events is of high relevance today, with increasing likelihood and magnitude of risk over each horizon.

Current opportunity rating



Last year's opportunity rating



Key impacts identified on our operations and customers

Enhancing resilience across Pennon's operations, asset base, and supply chain to avoid costs and enhance value:

Opportunity to invest in enhancing resilience across Pennon's business and supply chain, in some cases saving costs (e.g. avoided damage to assets, avoided losses in revenue, avoided penalties on ODIs and GSS) and enhancing Group reputation and value. Some examples include:

- Investing in climate change adaptation (e.g. drought and flood prevention) to avoid customer disruption and asset damage.
- Enhancing supply chain resilience by diversifying suppliers and investing in buffers/storage for critical resources.

Type as defined by TCFD

Energy Source

Relevant time horizon

Short and medium term

This opportunity is of high relevance to meet our 2030 Net Zero target, with continued relevance into the medium and long term due to increasing market risks to energy pricing and resilience of energy supply as physical risks increase in magnitude and likelihood over each horizon.

Current opportunity rating



Last year's opportunity rating

**Reducing carbon and enhancing energy resilience and revenue by using and generating renewable energy:**

Opportunities to lower carbon emissions by using renewable energy and opportunities to invest in renewable energy generation which can lower our carbon emissions, enhance our energy resilience (e.g. less reliance on energy suppliers), and enhance our revenue through sale of renewable energy.

Some examples include:

- Generating renewable energy on Pennon's sites and through partnerships (e.g. PPAs, bioresources, solar and wind energy).
- Switching fuels to lower-carbon sources.

Type as defined by TCFD

Markets

Relevant time horizon

Short and medium term

In the short term the opportunity is more focused on financing to achieve Net Zero and current physical risks; over the medium and long term the opportunity will increasingly focus on environmental targets and climate change resilience to long-term challenges.

Current opportunity rating



Last year's opportunity rating



Generating value and reducing our financing costs through sustainable financing: Opportunity to reduce our cost of finance and avoid cost increases through access to sustainable financing and generation of green financial assets. Our Sustainable Finance Framework is part of our strategy for taking action on climate change, and our approach is evolving as policy and markets change and information becomes available. We are exploring the implications for our business, including regulatory developments such as the EU Taxonomy/UK Green Taxonomy.

Examples of our actions to mitigate risks and realise opportunities

Enhancing Pennon's resilience:

Current actions:

Building Resilience and Adapting to Climate Risk

- Diversify water sources (e.g. desalination, repurposing quarries/mines) and pursuing new reservoir capacity.
- Plan for company resilience and climate risk assessment and adaptation.
- Investments in response and recovery to operational disruption.
- Upgrade and modernise infrastructure.

Advancing Renewable Energy and Sustainability

- Generation of renewable energy and explore additional options and power purchase agreements (PPAs) (see our 'market' transition risk).

Future actions:

Enhancing Climate Resilience

- Actions to adapt to climate change (e.g. enhancing drought resilience) and to mitigate climate risks.
- Investing in desalination plant in Cornwall by 2025 to promote climate resilient water resources during periods of drought.

Integrating Nature-Based and Sustainable Solutions

- Incorporate nature-based solutions to improve drainage and reduce reliance on storm overflows.

Using renewable energy:

Current actions:

Renewable Energy Strategy

- Renewable energy procurement strategy.
- Supply contract for 100% renewable energy for South West Water.
- Exploring additional options and power purchase agreements (PPAs).

Onsite Renewable Generation

- Generation of renewable energy.
- Investment in generating renewable energy.

Targeted Carbon Reduction and Net Zero Delivery

- Net Zero programme.
- Prioritising investments for highest carbon reduction and return on investment.

Future actions:

Innovation and Low-Carbon Technologies

- Trials of low-carbon fuels.
- Innovation programme (e.g. energy recovery from sewers).
- Use of energy recovered from bioresources to power our operations.

Strategic Partnerships

- Engagement with partners for PPAs.
- Establishing arrangements to co-fund renewable energy investments.

Sustainable finance:

Current actions:

Sustainability Embedded into Financial Decision-Making

- Our sustainable financing framework aligned with investment decisions and environmental and ESG.
- Sustainable finance market requirements reviewed to ensure alignment with evolving expectations from regulators, investors, and stakeholders.

Future actions:

Advancing Sustainable Finance

- Establishing commercial and legal arrangements for green financial assets and credits.
- Preparing for future disclosure and ESG initiatives, including alignment with frameworks such as the EU/UK Taxonomy, TNFD, ISSB, and Transition Plan Taskforce (TPT).
- Exploring third-party funding opportunities to support sustainability-led projects and unlock investment opportunities.

Primary financial and reputational impacts to our business

Impacts from realising opportunities:

Opportunity to reduce costs (Opex), enhance reputation and increase revenue through improved performance (reduction in penalties or increased rewards).

Achieving this will involve strengthening our infrastructure and enhancing our ability to adapt to changing conditions. These efforts will require coordinated planning and resource allocation, and may involve engagement with regulatory frameworks. As we implement climate resilience initiatives, we will also need to carefully manage their associated carbon footprint.

Impacts from realising opportunity:

Investing in renewable energy supports our transition to a lower-carbon future and strengthens long-term operational resilience (see our 'market' transition risk and 'market' opportunity).

These initiatives can also create new revenue streams through the sale of renewable energy. As we expand our generation capacity, we will continue to manage the environmental footprint associated with these activities.

Impacts from realising opportunity:

By embedding sustainability into our financial practices, we strengthen our position as a forward-looking, responsible business. These actions open up opportunities to attract values-aligned investors, access innovative funding mechanisms, and demonstrate leadership in climate and nature-related transparency, enhancing trust and long-term resilience (see our 'reputation' transition risks).

Key			Risk Trend		
Risk ratings					
● High	● Medium	● Low	▲ Increasing	↔ Stable	▼ Decreasing

Climate-related Opportunities continued

Type as defined by TCFD	Key impacts identified on our operations and customers
<p>Resource Efficiency</p> <p>Relevant time horizon</p> <p>Short and medium term</p> <p>In the short and medium term, investment in resource efficiency is central to many of our options and decisions in our business plan and WRMP's best value plan. This will enhance our resilience, our ability to meet our environmental and our Net Zero targets, and reduce our Opex over the medium and long term.</p> <p>Current opportunity rating</p> <p>▲ ●</p> <p>Last year's opportunity rating</p> <p>▲ ●</p>	<p>Saving water, energy, materials, and carbon by enhancing efficiency, using low-carbon and nature-based solutions, and reducing emissions across Pennon's supply chain: Opportunities to invest in enhancing efficiency and reduce wastage of water, energy, and materials, opportunities to use low-carbon construction, and nature-based solutions, and opportunity to work with suppliers to reduce their carbon footprints and enhance their sustainability. Some examples include:</p> <ul style="list-style-type: none">• Leakage reduction, water efficiency, smart metering, rainwater harvesting, and incentivising customers to use less water.• Enhancing efficiency of process equipment buildings and transport to reduce energy and chemical use.• Using low-carbon construction materials and local sourcing.• Employing technology like Real Time Control in sewers to avoid high-carbon interventions (see also our 'technology' risk).• Constructing wetlands and sustainable drainage systems (SuDS).• Investing in marine carbon opportunities, peatland restoration, tree planting and soil and grassland activities.• Working with suppliers to reduce their carbon footprint and enhance their sustainability.

Examples of our actions to mitigate risks and realise opportunities

Enhancing water efficiency:

Current actions:

Empowering Customers and Communities

- Customer education and outreach.
- Supporting community water-saving projects like the Heathfield Allotment Trust.
- Offering free leak fixes for eligible customers.

Leveraging Smart Technology and Data

- Installing AMI smart meters for direct water usage data.
- Addressing water leaks using smart meter data.

Driving Sustainable Water and Land Use

- Demand management and water efficiency programmes, including PCC (per capita consumption) and leakage reductions.
- Farm water efficiency and resilience project – 1,000 pond nature-based solutions.
- Incorporation of carbon values into capital planning and decision making.

Future actions:

Empowering Customers to Use Water Wisely

- Incentivising customers to use less water.
- Supporting customer affordability through efficiency schemes and metered tariffs.
- Promoting rainwater harvesting as a sustainable water source.

Enhancing Monitoring and Control Capabilities

- Extending real-time monitoring and control to improve system responsiveness and efficiency.

Enhancing process, building, and transport efficiency:

Current actions:

Improving Operational and Energy Efficiency

- Enhancing process efficiency through smarter operations, energy-conscious building practices, and low-emission transport solutions.
- Energy efficiency programmes for buildings.
- Efficient building requirements in leases.

Reducing Emissions Through Smarter Mobility

- Reducing travel needs through remote monitoring.
- Procuring/leasing efficient vehicles.

Future actions:

Driving Innovation and Operational Excellence

- Investments in innovation for efficiency.
- Enhancing operational practices (e.g. real-time monitoring).
- Partnerships with suppliers and outsourcing specific operations to improve efficiency and flexibility.

Promoting Low-Carbon Mobility

- Encouraging employee carpooling.
- Light-weighting vehicles to reduce emissions and improve fuel efficiency.

Using low-carbon solutions:

Current actions:

Embedding Carbon Considerations into Decision-Making

- Implementing capital carbon accounting.
- Implementing carbon values in decision making.

Future actions:

Decarbonising Supply Chains and Materials

- Engaging the supply chain for low-carbon solutions.
- Collaborations with suppliers to reduce embodied carbon.
- Procurement strategies that incorporate ESG criteria.
- Innovation programmes focused on alternative, low-carbon materials.

Primary financial and reputational impacts to our business

We can reduce our carbon footprint and Opex through resource efficiency, but it requires significant investment in monitoring, metering, and capital projects. Some costs may be recoverable through the regulatory system.

We will need to manage the carbon footprint associated with actions to realise resource efficiency opportunities.

Key

Risk ratings



High



Medium



Low

Risk Trend



Increasing



Stable



Decreasing

Climate-related Opportunities *continued*

Key impacts identified on our operations and customers

Type as defined by TCFD

Type as defined by TCFD

Products and services

Relevant time horizon

Short, medium and long term

Opportunity in the short, medium, and long term to enhance Pennon's revenue through delivery of Strategic Water Resource and bioresources schemes.

Current opportunity rating



Last year's opportunity rating



Enhancing revenue through providing resilient water solutions, bioresources, and expertise to other water companies: Opportunities to invest in water resources schemes linked to climate change, bioresources opportunities which align with the transition to Net Zero, and other opportunities to enhance our revenues.

Some examples include:

- Delivering strategic resource options (SROs) and resilient water solutions for other water companies e.g. modular desalination technology.
- Selling expertise and technologies for water efficiency and leakage reduction.
- Selling bioresources (e.g. biogas, nutrients, sludge etc).
- Selling expertise in bioresources to other companies.

Primary financial and reputational impacts to our business

Examples of our actions to mitigate risks and realise opportunities

Advancing Net Zero Leadership and Learning

- Net Zero programme with a focus on embodied carbon initiatives.
- Learning from other companies in the UK and internationally to adopt best practices and accelerate progress.

Using nature-based solutions:

Current actions:

Integration of Nature-Based Solutions

- Practising catchment management to improve water quality, biodiversity, and ecosystem health through landscape-scale interventions.
- Embedding natural capital and valuing carbon in decision making.
- Investing in innovation and piloting.

Future actions:

Nature-Based Solutions Through Collaboration

- Partnering with stakeholders (e.g. landowners) to co-develop and deliver NBS.
- Collaborations with the supply chain to integrate Green First and nature-based approaches into projects and operations.
- Learning from other companies in the UK and internationally to adopt best practices and accelerate impact.
- Launching the Nature Recovery Fund to support initiatives that restore and enhance natural ecosystems.

Reducing supply chain carbon:

Current actions:

- Engaging with suppliers to drive climate action across the value chain, with a commitment of 60% of suppliers to have science-based targets by the end of March 2028.

Future actions:

Embedding Sustainability into Procurement Practices

- Procurement strategies with ESG criteria to ensure suppliers align with environmental and social standards.
- Establishing life cycle assessment requirements for suppliers to evaluate and reduce carbon impacts across product and service lifecycles.

Strengthening Supply Chain Resilience and Learning

- Diversifying the supply chain and sourcing locally where possible.
- Learning from other companies in the UK and internationally to adopt best practices in supply chain decarbonisation.

Delivering water resource schemes and bioresources opportunities:

Current actions:

Advancing Strategic Water Resource Planning and Collaboration

- Preparatory work on three Strategic Water Resource schemes to secure long-term water resilience.
- Engagement with other water companies, regulators, and stakeholders to coordinate planning and delivery of regional solutions.
- Establishing commercial and legal arrangements for Strategic Resource Options (SROs) and the sale of bioresources.

Driving Innovation in Resource and Technology Deployment

- Business plan includes opportunity related to pyrolysis for bioresources, supporting circular economy and carbon reduction.
- Roll out of new technology in the region to enhance efficiency and sustainability.

Future actions:

Building Public Support and Driving Innovation

- Engagement with customers to build support (e.g. social licence).
- Innovation and R&D in collaboration with CREWW.

Impacts from realising the opportunity

Potential revenue increase through SROs and bioresources sales, requiring significant investment (Opex and Capex). Some costs may be recoverable through the regulatory system. We will need to manage the carbon footprint of SRO and bioresources schemes.

Short, medium and long-term horizons

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

Short-term – 1 to 10 years

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

Medium-term – 10 to 25 years

Our WRMP and DWMP strategic plans consider requirements up to 25 years. Major projects and operational plans will be renewed and managed over this time frame to ensure projects meet the correct regulatory period plans. Our 2045 total Net Zero target falls within this horizon, as well as the UK's 2050 Net Zero target, which will continue to present emerging policy and market changes. Transition risks and physical risks will both impact our business across this period to varying levels, depending on global GHG emissions and the Net Zero pathway taken by the UK and globally.

Long-term – 25 years and beyond

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

Climate scenario analysis

Scenarios

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

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

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

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

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

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

Our scenarios can be defined as follows:

Physical climate risk scenarios

RCP2.6¹: Lower Physical Impacts

An approximate 2°C warming scenario by the year 2100 – corresponding to a low emissions 'optimistic' scenario.

RCP8.5¹: High Physical Impacts

An approximate 4°C warming scenario by the year 2100 – corresponding to a high emissions 'business-as-usual' scenario, which is appropriate to use when considering high risks.

Climate Transition risk scenarios

1.5 degree scenario: NGFS Net Zero 2050

A scenario which sees the UK as a global leader with strong policies and actions to mitigate climate, aligned with the Paris Agreement.

	Policy ambition
	Government policy
	Technology change
	1.5°C
	Immediate and smooth
	Fast change

3-degree scenario: NGFS Current Policies

A scenario which sees the UK make incremental progress to mitigate climate change, but assumes no major policy changes and results in missing the targets of the Paris Agreement.

	Policy ambition
	Government policy
	Technology change
	3°C+
	None – current policies
	Slow change

Key assumptions

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

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

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

Physical Climate Risks – Scenario Analysis

Approach taken

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

Impacts

This section discusses impacts under both of the physical climate risk scenarios (RCP2.6 and RCP8.5).

- **Climate resilience will require increased expenditure and investment.**

The most significant financial impacts for the Group are on our expenditures (Opex and Capex), to mitigate against future climate risks by increasing capacity for water supply infrastructure; managing drought conditions and water demand; improving water and wastewater treatment and odour management; reducing storm overflow discharges; improving operational resilience to flooding, saline intrusion and storms; and enhancing our Upstream and Downstream Thinking programmes. These financial impacts would be significantly greater under the higher emissions scenario over the long-term horizon as they will require higher levels of adaptive capacity, although adaptive planning will seek to minimise this impact by identifying low-regret options under both high and low emissions scenarios to inform investment decisions. These costs could be recoverable through the regulatory system.

- **Investments in our natural capital will be central to climate adaptation.** Within the water industry, healthy and functioning ecosystems are critical for resilient operations. Therefore, the risks to Pennon's infrastructure are affected by risks to the natural environment. Accordingly, increased expenditures (Opex and Capex) include heavy investment in our natural capital schemes, catchment management, partnerships, and research and development in this area, as well as implementing our comprehensive Biodiversity Strategy and Environment Plan 2050. Our 'Green First' framework prioritises nature-based solutions to improve climate adaptation and resilience.

- **Climate impacts will affect our ability to meet performance commitments and objectives.** The Group could also be impacted financially by Outcome Delivery Incentive (ODIs) penalties and rewards due to potential failure to achieve performance commitments as part of the regulatory framework, further resulting in negative impacts to our reputation. This impact is more likely under the higher emissions scenario over the long-term horizon due to higher projected magnitude of climate impacts and frequency of extreme weather events.

- **Investment required is high, but the cost of inaction is much higher.** Our risk assessment clearly shows long-term significant risks if the impacts of climate change are not mitigated. Pennon Group operates over £8 billion of assets, the majority of which relate to water and wastewater and will be impacted by climate change in some way. The drought in 2022 cost the Group around £20 million, and following this we have invested to enhance resilience. The unmitigated risk would result in additional expenditure (Opex and Capex) to recover from service interruptions and repair or replace deteriorated assets. The unmitigated risk would result in more frequent and greater ODI penalties. Although some of this will be our expenditure, wider flood protection investments will be required by others to protect wide-ranging coastal assets.

- **Impacts are worse with every bit of additional warming.** We would experience these impacts for extreme events over all time horizons, however these impacts would increase over each horizon as extreme weather events increase in frequency and magnitude and are compounded by higher average temperatures and drier summer conditions. This trend is more pronounced for the higher emissions scenario, particularly over the long-term horizon, where temperature increases are projected to accelerate.

Our strategic response

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

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

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

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

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

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

Impacts on financial planning

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

Climate Transition Risks – Scenario Analysis

Approach taken

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

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

Impacts – NGFS Current Policies scenario

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

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

to offset some of the additional energy and carbon costs. There is also an opportunity to clearly identify and communicate the synergies between environmental objectives and the transition to a Net Zero business in order to increase support from customers, stakeholders, and regulators.

Impacts on financial planning

Compared to today, overall our revenue is unlikely to be impacted significantly in this scenario, but also our non-water revenue is less able to grow. Our costs to achieve operational Net Zero may increase relative to our current plans, however, early investment in decarbonising the business to meet the 2030 target remains more cost-effective in the long term (post 2030), and reduces the risk to our Group and our customers from measures such as carbon pricing, as well as safeguarding our reputation on environment and climate change. The value of our assets and our cost of capital would remain relatively unchanged compared to today.

Impacts – NGFS Net Zero 2050 Scenario

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

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

Impacts on financial planning

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

Our Strategic Response

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

- **Investing in efficiency.** Under both scenarios, significant carbon savings and performance improvements can be achieved by driving greater efficiency across our operations. This includes energy efficiency (for example, more efficient pumping to reduce water losses), as well as optimising processes, reducing waste, and deploying smart technologies to improve the performance of our water supply and transmission systems. Many of these opportunities will reduce costs. We are currently investing in programmes to streamline operations, enhance resource efficiency, reduce energy use and carbon across our operations. This will accelerate our progress toward operational Net Zero and help manage the cost of the transition.
- **Enhancing our resilience.** We will continue to invest in building resilience across our operations to address climate-related and transition risks. This includes generating more of our own renewable energy to reduce exposure to energy price volatility and to enhance our options for energy supply, which is favourable under both scenarios. We are strengthening our ability to respond to physical climate impacts such as flooding and drought – by improving the robustness of our infrastructure, increasing water storage and supply flexibility, and integrating adaptive technologies and nature-based solutions.
- **Enhancing our access to green economy resources.** Across both scenarios there will be a shortage of skills and resources across key areas of the green economy that we will need to support our transition. To manage this we will diversify our supply chain of low-carbon suppliers, and invest in a programme of internal capacity-building to ensure access to the skills needed. We will also work with partners across the industry and engage with peers, regulators, and Government to enable rapid investment in the skills and capacity needed to support Net Zero.
- **Engage on environmental targets and trade-offs.** New ambitious targets on nutrients and storm overflows will require increased energy use and new infrastructure, and subsequently higher operational and capital carbon. There is a trade-off between action to meet these targets and action on decarbonisation, with implications for the balance between nature-based, and engineering solutions. We will engage in ongoing consultations on environmental targets and strategies for meeting them, and seek clear guidance on managing different trade-offs. We will advocate for policies which enable flexibility and time to scale up nature-based solutions so we can maximise co-benefits for our customers and the environment.
- **Enhance our stakeholder and customer engagement.** There are significant reputational risks associated with both scenarios, although the balance of concerns will vary. We will develop plans for enhanced programmes of engagement and communication with our customers and stakeholders, in particular focusing on explaining the costs and benefits of the investments we are making, potential trade-offs and synergies between Net Zero and other environmental targets, and affordability.
- **Pursue opportunities to deliver more value for customers and shareholders.** We will continue to pursue opportunities to reduce costs and enhance sustainability. This includes reducing our financing costs through our sustainable finance framework, investing in our environmental programme which includes restoring ecosystems to capture carbon, and working with partners and suppliers to enhance our resilience and reduce emissions across our supply chain. We will also continue to explore opportunities to enhance our revenue through water resource options, selling renewable energy, and markets for bioresources and natural capital.

Statement of resilience

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

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

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

There will be the requirement to invest more to improve our resilience to climate change and deliver Net Zero. Assets are likely to require additional protection, and planning for new assets will require a greater level of embedded climate resilience. Significant action and investment will be required by our Group, as well as action by our supply chain partners and wider actors (e.g. Government, local authorities, major landowners/users, and other providers of infrastructure and services).

Nature-related financial risks and opportunities – Strategy

Our most material nature-related impacts and dependencies for our direct operations are in the freshwater, land, and atmosphere biomes. We rely on water supply from the environment, and we recycle water back to the environment from our wastewater treatment facilities. We also discharge treated biosolids to land, and emit gasses to the atmosphere in our treatment processes.

Our ESG Capitals framework tracks a wide range of metrics to manage our multi-capitals performance, and our materiality assessment has been fundamental in helping inform and update our future ESG targets. By taking all of the capitals into consideration when planning for the future, we will deliver more sustainable outcomes and make decisions based on what matters most.

Our business planning and financial planning are underpinned by a series of environmental strategies, plans and commitments that interlink up to 2050. Key examples include:

- Growing Nature to 2035: our strategy for nature recovery, sets out the key activities that we will take to support nature recovery and biodiversity on our land, in our everyday operations and beyond. There are three principles in the strategy: 1) Protect the best – take action to protect the valuable biodiversity that we have on our landholdings, 2) Restore and enhance the rest – take action across our landholdings and assets to enhance biodiversity in the everyday management of our sites, and 3) Beyond our landholdings – work in partnership with others across the region, taking a catchment approach to deliver biodiversity enhancement and nature recovery. These principles align with the LEAP process advocated by the TNFD, by taking a site approach (locate), formulating plans to monitor those sites via undertaking biodiversity baselines and natural capital assessments (evaluate), and creating management plans (assess) with actions to work across the estate with own staff (e.g. Nature Safe) and external partners, to improve the biodiversity condition. The outputs of these plans will enable Pennon to prepare to respond to and report on material nature-related issues. Our biodiversity strategy aligns fully with our PR24 Business Plan.
- Our 'Green First' Framework, published May 2023, sets out our approach to utilise NBS and natural flood management wherever possible and practicable to do so. As such, our planning assumptions are based on achieving 50% reduction in surface water flow entering sewers, through nature-based solutions and a minimum removal of 10% of impermeable surfaces.
- The launch of WaterFit in 2022 is our plan for healthy rivers and seas as part of c.£100 million of investment to 2025 focused on the protection of our 860 miles of coastline and rivers in the South West. This includes an additional c.£45 million reinvestment of out-performance.
- Our catchment management initiative, Upstream Thinking, applies natural solutions to reduce agricultural impact on biodiversity and water quality. It does so whilst supporting farmers and the rural economy, by providing long-term resilience to climate change, by: installing waterside fencing, building ponds, improving farm tracks, increasing slurry storage and planting trees and buffer strips to catch and filter water.
- In early 2024, our Board approved a pilot programme of bespoke, evidence-based "Natural Catchment Management Plans" (NCMPs) at selected catchments in Devon and Cornwall. These will create a blueprint for all bathing water catchments from this year onwards, primarily in relation to bathing water quality issues.
- In preparation for Asset Management Period AMP8, our Tier 1 suppliers were tested for their ability to deliver NBS for wastewater and drinking water. In March 2025, we became a partner of the Supply Chain Sustainability School (SCSS), reinforcing our commitment to upskilling our supply chain and colleagues across key sustainability topics, including climate and nature. This partnership provides access to industry-leading training and resources, enabling our teams and suppliers to deepen their understanding of key topics, and drive positive change across our

operations. By working collaboratively with SCSS, we are empowering our supply chain to meet higher sustainability standards as we move into AMP8.

- South West Water has renewed its commitment to improving the management of natural assets and resources by re-signing the Catchment Management Declaration. The declaration promotes collaborative, cross-sector working in order to better manage water resources.
- We have used remote-sensing technology to determine a baseline condition assessment of habitats on our landholdings. This information will be used to help us target positive biodiversity interventions.
- We are investing in research on new and emerging risks such as microplastics, invasive freshwater mussel species, and on the sustainable management of sludge applied to land.

Going forward:

- The new Biodiversity Performance Commitment requires all water companies to set out their plans for delivering measurable biodiversity enhancement units measured using the Defra Natural England biodiversity metric. These will be achieved as a result of the actions that we will deliver under our nature plans and strategies across the areas we serve.
- We are creating a 'Nature Safe Framework' to support our employees and contractors across operational sites to understand and protect nature – in alignment with our Biodiversity Strategy. We are in the scoping phase and envisage this framework to be analogous to our 'Home Safe Framework' related to employee health and safety.
- Over the next year we will continue to develop our approach to embedding nature-risk and opportunity management across our business, including conducting materiality ratings of the ecosystem services that we depend on

Risk Management

TCFD/TNFD Recommendation: Disclose how the organisation identifies, assesses, and manages climate-related and nature-related risks.

The Group's risk management framework is explained in detail on pages 70 to 79, including the methodology for assessing risks.

The Group is continuing to integrate climate-related and nature-related risk management within the Group's overall risk management process. Climate-related and nature-related risks and opportunities are assessed using the same methodology as other business risks. In the past few years we have undertaken specific work to identify and assess climate-related risks and opportunities, and we are moving towards this risk identification and assessment being integrated within business subsidiaries/functions. We have the processes in place to enable this integration, and a key area we are continuing to work on is raising awareness and competency so that the key people across our subsidiaries/business functions can effectively identify climate-related and nature-related risks, like they do with other risks (in many cases, climate and nature risks are an amplifier or additional driver to risks we have already identified, rather than presenting novel risks). For the past three years we have convened workshops with senior management from across business functions to re-visit and re-assess climate-related risks and actions, and management will take forward the responsibility to integrate climate risks into risk registers owned by each business subsidiary/function.

Furthering our progress, the Group has identified several principal risks which are impacted or influenced by physical and transitional climate and nature risks and opportunities, and as such we are increasingly cognisant that climate and nature risk management is integral to the performance and resilience of our business and strategy. The link between climate-related and nature-related risks and opportunities on our principal risks is summarised in the table over the page.

We recognise the evolving landscape of climate-related and nature-related risk which is reflected in the changing regulatory frameworks, customer expectations and Government policies that are inherent to our operating context.

This is particularly true for climate change, nature, and Net Zero where new policies and technologies are rapidly emerging, and markets are rapidly changing.

For the climate-related risks that have been identified, a desired 'target' net risk level is documented within the Group's risk framework. This target risk level or tolerance level reflects the acceptable level of risk by the Group and also stands as a target and equitable measure for alleviatory measures to approach the risk going forward. We seek to minimise risks on operational activities within the regulatory environment. Climate-related risks are approached with a minimal level of appetite, and this is subject to Board approval where all appetite levels are established.

Environmental compliance requirements are high, so our risk appetite for environmental impacts is low. Where there is no risk to regulatory compliance, we are willing to take more risks to innovate e.g. NBS.

The appropriate action then follows from the level of difference between the net risk and the desired risk appetite. Actions to manage risks cover four response types:

- **Tolerate:** where decisions are taken to tolerate a risk, subject to ongoing monitoring. An example is climate-related risks where uncertainty is high and therefore we might decide to monitor risks until such time as it may be necessary to take further action.

- **Treat:** where actions are taken to manage and reduce risks, such as implementing operational measures in our drought plan or capital investments to enhance our resilience to droughts.
- **Transfer:** used where possible to transfer risks to other organisations – such as through insurance or through contracting out responsibilities. We recognise it is not possible to fully transfer risks, rather this approach helps to reduce our exposure. For example, reducing our exposure to the impacts of flooding through flood insurance.
- **Terminate:** where decisions are taken to stop activities so that we are not exposed to particular risks. For example, we may decide not to undertake a capital project if risks cannot be effectively mitigated – for example due to high costs for energy, materials, and specialist resources related to Net Zero or climate adaptation.

Actions to mitigate risks are allocated to action owners and progress is monitored through the risk review process.

Climate-related and nature-related risks impact and influence our principal risks

Below we outline our principal risks which are impacted or influenced by climate-related and nature-related risks and opportunities, including where our response to these principal risks needs to consider nature recovery, climate change, and Net Zero. The climate and nature emergency are amplifying our principal risks.

		Physical Risks	Transition Risks
Our Principal Risks	Law, Regulation and Finance		
	Changes in Government policy		● ●
	Changes in regulatory frameworks and requirements		● ●
	Non-compliance with laws and regulations	● ●	● ●
	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	● ●	● ●
	Non-compliance or occurrence of an avoidable health and safety incident	●	●
	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		
	Macro-economic near-term risks impacting on inflation, interest rates and power prices		● ●
	Operational performance		
	Failure to secure, treat and supply clean drinking water	● ●	● ●
	Failure to improve wastewater performance results in environmental commitments not being delivered	● ●	● ●
	Failure to provide excellent service or meet the needs and expectations of our customers and communities	● ●	● ●
	Inability to attract and retain staff with the skills to deliver the Group's strategy		● ●
	Business Systems and Capital		
	Insufficient capacity and resilience of the supply chain to deliver the Group's operational and capital programme	● ●	● ●
	Inadequate technological security results in a breach of the Group's assets, systems, and data		

We recognise how climate-related and nature-related risks are impacting our principal risks and/or how our response to these risks needs to consider climate resilience, nature, and Net Zero

Key

● Climate change influence
● Nature related influence

Metrics and targets

TCFD/TNFD Recommendation: Disclose the metrics and targets used to assess and manage relevant climate-related and nature-related risks and opportunities where such information is material.

We are continuing to enhance the metrics we use to quantify key climate and nature risks and to monitor progress towards managing risks and achieving our targeted objectives.

We continue to disclose comprehensive data relating to our GHG emissions and energy consumption (SECR report on pages 91 - 93). We report on all Scope 3 categories which are relevant and material to our business (ESG Databook). Our SASB disclosures can be found in the ESG Databook. We report on progress against our ODIs, performance commitments and WINEP delivery in our Annual Performance Report. All material data for TCFD compliance is in the TCFD report.

The Group is committed to improving its sustainability, climate change, and nature-related disclosures and will continue to enhance this over the coming years. Some metrics relate only to South West Water (SWW) including Bournemouth Water, Bristol Water (BW), or SES Water (SESW).

	Description of the metric	Metric for 2023/24	Metric for 2024/25	Related Targets
GHG emissions	Scope 1, 2 (market based), and 3 GHG emissions (in tCO ₂ e).	368,265 ¹	356,076	<ul style="list-style-type: none"> Operational Net Zero by 2030 (SWW, BW, SES). We have met our target to reduce operational GHG emissions by 70% by 2025 (Scope 2 market-based) (tCO₂e) (SWW & BW). We have met our target to reduce operational GHG emissions by 70% by 2025 (Scope 2 market-based) (tCO₂e) (SWW & BW). The Group commits to reduce absolute scope 1 and scope 2 GHG emissions by 68% by 2032/33 from a 2021/22 base year. The Group commits to reduce absolute Scope 3 GHG emissions from 'well to tank' electricity and fuels, the delivery of electricity, emissions from waste, and business travel and commuting, by 30% over the same timeframe. The 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 2027/28. The Group commits to increase annual sourcing of renewable electricity to 100% by 2030.
	GHG Reduction from the baseline year 2021 (Scope 2 market-based) (tCO ₂ e).	71.9%	70.68%	
	Carbon intensity of our water services in tonnes of CO ₂ e per megalitre of water supplied to customers.	38.8 SWW 358.5 BW ²	30.68 SWW 358.82 BW 32.19 SESW	
	Carbon intensity of our business in tonnes of CO ₂ e per £100k of our revenue based on Scope 1 and 2 GHG emissions.	6.0	5.4	
	Reduce scope 1 and 2 GHG emissions by 68% by 2032/33 from a 2021/22 base year (science-based target).		51% ¹	
	Reduce absolute Scope 3 GHG emissions from 'well to tank' electricity and fuels, the delivery of electricity, emissions from waste, and business travel and commuting, by 30% by 2032/33 from a 2021/22 base year (science-based target).		(9%) ¹	
	60% of suppliers by emissions covering purchased goods and services, capital goods and upstream transportation and distribution will have science-based targets by 2027/28 (science-based target).		35.23% ¹	
	The Group commits to increase annual sourcing of renewable electricity to 100% by 2030 (science-based target).		85% ¹	
Climate-and/or nature-related Transition risks	Risk of increased energy costs: Proportion of our operational expenditure on electricity (%).	c.21%	14.6%	<ul style="list-style-type: none"> Generate 50% of the electricity we use through our own renewable energy generation by 2030, measured against SWW's 2020/21 grid import requirements for usage. Met: 100% of our key and strategic suppliers have evidenced an ESG policy or equivalent by 2025. The Group commits to reduce absolute Scope 3 GHG emissions from 'well to tank' electricity and fuels, the delivery of electricity, emissions from waste, and business travel and commuting, by 30% by 2032/33 from a 2021/22 base year. The 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 2027/28. Zero customers in water poverty by 2030. Maintain zero customers in water poverty by 2050. Over 100,000 customers supported via social tariffs by 2030. (SWW) We are planning to improve our WaterShare+ scheme uptake to 1 in every 10 households by 2030. (SWW).
	Selected metrics for some material risks	51%	80%	
	Transition risks in our supply chain: proportion of our key and strategic suppliers who have evidenced they are working towards a Net Zero target.			
	Risk of customer affordability in achieving Net Zero and adapting to climate change: our customer affordability measure.	98.1% SWW 100% BW	100% SWW 100% BW 91.6% SESW	

1. 2023/24 GHG accounting did not include SESW.

2. Renewable Energy Guarantees of Origin (REGOs) are purchased for all of SWW & SESW electricity consumption but not BW, hence BW is more GHG intensive.

	Description of the metric	Metric for 2023/24	Metric for 2024/25	Related Targets
Climate-and/or nature-related Physical risks Selected metrics for some material risks	Proportion (%) of customers currently at risk of severe restrictions in a 1-in-200-year drought.	7.6%	0%	<ul style="list-style-type: none"> Our 2050 target is to achieve 0% of customers at risk of severe restrictions in a 1-in-500-year drought, aligning with Government planning guidance.
	Proportion (%) of customers at risk of sewer flooding in 2050 in a 1-in-50-year storm.	9.77%	10.18%	<ul style="list-style-type: none"> Our long-term target is to reduce this metric to zero, assuming funding is provided to achieve this through the regulatory system.
	Number of major sites/assets at high risk of coastal flooding and erosion.	36	36	<ul style="list-style-type: none"> Our long-term target is to achieve 0 of our key sites/assets at high risk, assuming funding is provided to achieve this through the regulatory system.
	Annual average number of spills from each storm overflow (number per calendar year).	43	41.3	<ul style="list-style-type: none"> Reduce spills to an average of 20 per year from each storm overflow by 2025. Zero harm to rivers and seas by 2030.
Climate-and/or nature-related opportunities Selected metric for some material opportunities	Enhancing our energy resilience and reducing our carbon emissions with renewable energy: Amount of renewable energy we have generated (MWh).	34,480	32,496 ¹	<ul style="list-style-type: none"> Generate 50% of the electricity we use through our own renewable energy generation by 2030, measured against South West Water's 2020/21 grid import requirements for usage.
	Proportion of our energy use which came from energy we generated ourselves (%) ²	7.5%	7.14%	
	Reducing our financing costs through sustainable finance: proportion of new finance under our sustainable finance framework during the year.	100%	100%	<ul style="list-style-type: none"> We have exceeded our target of 75% of new finance to be raised via sustainable financing framework by 2025. Raise a further £2 billion of funding through our Sustainable Financing Framework by 2030.
	Biodiversity enhancement (ha) (cumulative)	126,733	144,120	<ul style="list-style-type: none"> Plant over 500,000 trees by 2030 (cumulative). We're targeting to deliver at least 10% biodiversity net gain.
Capital deployment Selected metrics for material capital investments	Investment (£) earmarked for our renewable energy generation capital plans to 2030.	£160m	£160m	<ul style="list-style-type: none"> Generate 50% of the electricity we use through our own renewable energy generation by 2030, measured against South West Water's 2020/21 grid import requirements for usage.
Remuneration	Proportion of our management incentive schemes linked to ESG outcomes, including climate change	20%	27.4%	Further information is provided in the remuneration report.
Internal carbon value	Value of carbon used in business cases and whole life carbon assessments (£/tCO ₂ e)	£252/tCO ₂ e Sensitivity testing: Low: £126/tCO ₂ e High: £378/tCO ₂ e	£294/tCO ₂ e Sensitivity testing: Low: £147/tCO ₂ e High: £442/tCO ₂ e	

1. Does not include energy used in transport.
2. Reported in line with our 2025 ESG Target scope.

Our Net Zero carbon commitments will provide a step change to how we run our business and look to manage the risks of climate change, an update on our progress during the last year is found on pages 88 to 90.

Further detail on our progress with driving environmental gains is provided on page 48 to 51.

Non-financial and sustainability information statement

		Read more	Related Policies
Climate and environment	Our ambition is to become Net Zero by 2030. To achieve this, our Net Zero strategy is built around three key pillars – Sustainable Living, championing renewables, Reversing Carbon Emissions. To deliver on our carbon ambition, and reduce our climate-related risks, we continue to innovate and look for ways to decarbonise our operations, working with partners and supply chain.	<ul style="list-style-type: none"> • Approach to ESG – page 82. • Our Task Force on Climate related Financial Disclosures – pages 94 to 125. • Net Zero – pages 88 to 90. 	<ul style="list-style-type: none"> • Biodiversity policy. • Water management policy. • Environmental policy.
People	As a purpose led business, we recognise that the best way to deliver for customers is to focus on our people to enable them to deliver their best. We continue to foster a culture built on our purpose and one that reflects our values and business plans. We operate a safety-first mindset to working across the business with our HomeSafe health and safety approach which is embedded in the day-to-day working culture of our business. We encourage continuous learning and development, providing opportunities for all employees. We are building a diverse and inclusive workforce.	<ul style="list-style-type: none"> • Our people and culture – pages 32 to 39. 	<ul style="list-style-type: none"> • Health, safety and security policy. • Code of Conduct. • Workplace policy. • Diversity, respect and inclusion policy. • Board diversity policy.
Social matters	<p>We work closely with our customers, communities and partners on the things that matter most to them and have regular engagement with them. Supporting our customers is a priority. Not only providing safe, clean drinking water, but supporting them financially when it matters most. We aim to keep our bills low and have since 2020 provided financial support.</p> <p>Our approach to community relations and investment enables strong and clear governance, making positive community investments which create value, and benefits both the community and the business. Our Neighbourhood Fund is about supporting our local community. We're funding projects that support the wellbeing of people, the environment and communities across the South West and Bournemouth. Our Together for Good fund provides similar community support for Bristol communities.</p>	<ul style="list-style-type: none"> • Stakeholder engagement – Customers page 22 and Communities page 24. • Supporting affordability, delivering for customers – pages 52 to 54. • S172(1) – pages 146 to 147. 	<ul style="list-style-type: none"> • Community relations and investment policy.
Human rights	We are committed to promoting and maintaining the highest level of ethical standards in relation to how we do business. We uphold internationally recognised human rights standards in all our operations consistently throughout the Group. Our policies help prevent and address any human rights impacts on our business activities and relationships. We ensure all of our partners and suppliers comply with our policies, which include our new revised Code of Conduct (launched in February 2025) and Anti-Modern Slavery and Human Rights Policy. Our Modern Slavery Statement identifies the activities we conduct annually and our Code of Conduct for Supply Chain Partners further aligns our supply chain to the standards we expect of ourselves and others.	<ul style="list-style-type: none"> • Modern Slavery Statement – foot of homepage at www.pennon-group.co.uk 	<ul style="list-style-type: none"> • Anti-Modern Slavery and Human Rights. • New revised Code of Conduct • Code of Conduct for Supply Chain Partners
Anti-corruption	One of our guiding principles is to act fairly and responsibly in everything that we do. We are committed to promoting and maintain the highest level of ethical standards in relation to how we do business. We have a zero-tolerance approach to financial crime and corruption and have effective systems in place to counter them. Anyone that works with or for the Group must comply with our consolidated anti-financial crime policy and is encouraged to report any breaches to Group Legal Compliance or through the Pennon whistleblowing reporting Speak Up portal which is provided by a third party to enable completely anonymous reporting of concerns.	<ul style="list-style-type: none"> • Code of Conduct – page 156. • Anti-financial crime and corruption – page 156. 	<ul style="list-style-type: none"> • Whistleblowing Policy. • Anti-Financial Crime Policy • New revised Code of Conduct • Gifts and Hospitality Policy.

The following information and the sections referenced, represent our non-financial and sustainability information statement which is required by section 414CA and 414CB of the Companies Act 2006. The table below outlines our policies under the sections defined under the non-financial and sustainability information statement, as well as where further information in this report can be found. A full list of the Group's policies, including our business model on page 20, can be found online at <https://www.pennon-group.co.uk/about-us/policies>.

Due diligence processes	Policy outcomes	Principal risks	KPIs
<ul style="list-style-type: none"> Governance framework in place led by the Board and its Committees. External assurance. External ESG benchmarking. 	<ul style="list-style-type: none"> Minimising our impact on the environment. Meeting our regulatory commitments. Net Zero 2030 ambition. 	<ul style="list-style-type: none"> Failure to secure, treat and supply clean drinking water. Failure to improve wastewater performance, resulting in environmental commitments not being delivered. Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes in K8. 	<ul style="list-style-type: none"> % energy usage from renewable energy generation. % reduction in GHG emissions (Scope 2 market-based emissions only) Tree planting. Biodiversity. (Hectares)
<ul style="list-style-type: none"> Regular all colleague Great Place to Work surveys. Health and Safety Steering Group overseeing targets, performance monitoring and interventions. Employee representative groups, including RISE and Trade Unions relations. Change the Race Ratio. 	<ul style="list-style-type: none"> Reduced workplace accidents and improved employee wellness. Board diversity target achievements. Sustainability target. Code of Conduct compliance. 	<ul style="list-style-type: none"> Non-compliance or occurrence of an avoidable health and safety incident. Difficulty in recruiting and retaining staff with the skills required to deliver the Group's strategy. 	<ul style="list-style-type: none"> LTI number. GPTW accreditation. % REACH recruitment. % female employees. 5% Club achievement.
<ul style="list-style-type: none"> Community engagement plan in place led by the Regulatory and Customer teams. 	<ul style="list-style-type: none"> Having a positive impact on our local communities through our business activities and investments. Foster an environment that encourages employee engagement with communities and provides opportunities for volunteering and establishing community partnerships. 	<ul style="list-style-type: none"> Failure to provide excellent service or meet the needs and expectations of our customers and communities. 	<ul style="list-style-type: none"> £ community investment. C-MeX. % priority services register (PSR) – customer satisfaction.
<ul style="list-style-type: none"> Modern Slavery Statement www.pennon-group.co.uk 	<ul style="list-style-type: none"> An open dialogue with our stakeholders on human rights issues. 	<ul style="list-style-type: none"> Non-compliance with Laws and Regulations. 	<ul style="list-style-type: none"> % of instances of modern slavery detected in Pennon or supply chain.
<ul style="list-style-type: none"> Ethics Management Committee. Speak Up portal. Gifts and Hospitality and Conflicts of Interest procedures. Group-wide anti-financial crime mandatory training contained in new interactive Code of Conduct module. Supplier due diligence process. 	<ul style="list-style-type: none"> Seeking to prevent, detect and report financial crime, including instances of bribery and corruption. Maintaining an ethical approach to business and adhering to our Code of Conduct. 	<ul style="list-style-type: none"> Non-compliance with Laws and Regulations. 	<ul style="list-style-type: none"> Number of cases reported through Speak Up portal.

Approval of the Strategic Report

Our strategic report on pages 1 to 127 has been reviewed and approved by the Board.



Andrew Garard
Pennon General Counsel and Company Secretary

3 June 2025

Governance at a glance

Highlights

Board changes

- David Sproul was appointed to the Board as an Independent Non-Executive Director on 1 July 2024 and assumed the role of Pennon Chair after the 2024 AGM on 24 July 2024.
- Gill Rider stepped down from the Board as Group Chair on 24 July 2024.
- Steve Buck stepped down from the Board as Group Chief Financial Officer on 11 July 2024.
- Laura Flowerdew was appointed to the Board as Pennon Chief Financial Officer on 11 July 2024.
- Claire Ighodaro stepped down from the Board on 31 December 2024.
- Andrea Blance was appointed to the Board as Chair of the Remuneration Committee on 8 April 2025.

Read more on David, Laura and Andrea's experience in their biographies on pages 132 to 133

In numbers

3rd

top ten best performer in FTSE 250 Women Leaders Review, and 8th in the utility sector.

92.5%

The Company received valid acceptances representing approximately 92.5% of the total number of shares issued pursuant to the fully underwritten Rights issue.

Key focus areas for the Board in 2024/25

- Customer affordability.
- Delivery of capital projects.
- PR24.
- AMP8 readiness.
- Investment programmes.
- Storm overflows and eliminating pollutions.
- Water quality and resilience.
- Rights issue.
- Incident management.

See pages 138 to 139 for more information.

Compliance with the UK Corporate Governance Code 2018 and other requirements

Pennon firmly believes that good corporate governance is essential to enable us to deliver our purpose for all of our stakeholders and it remains a top priority for the Board. We are committed to the principles of the 2018 UK Corporate Governance Code (the Code), which is published on the Financial Reporting Council (FRC) website. For the year ended 31 March 2025, we were compliant with all provisions of the Code with the exception of Provision 24, which is explained further on page 151.

1. Board leadership and Company purpose	Page
A: Board of Directors	132 to 133
B: Purpose, values, strategy and culture	135
C: Resource and control framework	136
D: Stakeholder engagement	142 to 144
E: Workforce policies and practices	139
2. Division of responsibilities	
F: Role of the Chair	137
G: Division of responsibilities	137
H: Role of the Non-Executive Directors	137
I: Board policies, processes, information, time and resources	138 to 139
3. Composition, succession and evaluation	
J: Appointments to the Board	145
K: Board skills, experience and knowledge	129
L: Board evaluation	150
4. Audit, risk and internal control	
M: Independence and effectiveness of internal and external auditors	155
N: Fair, balanced and understandable assessment	155
O: Risk and internal control	156
5. Remuneration	
P: Alignment to purpose, values and long-term success	167
Q: Remuneration policy	166
R: Independent judgement and discretion	163 to 165

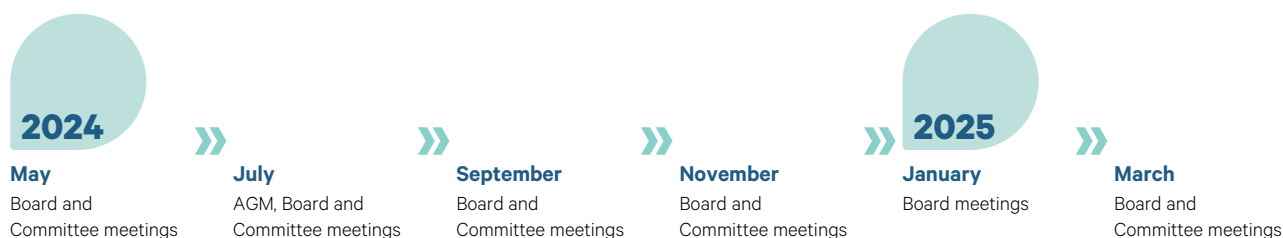
Meeting attendance during the year and Board skills matrix

Position	Chair	Non-Executive Directors					Executive Directors				
Member	David Sproul ¹	Iain Evans	Jon Butterworth	Lorraine Woodhouse	Dorothy Burwell	Claire Ighodaro ²	Andrea Blance ³	Susan Davy	Laura Flowerdew ⁴	Steve Buck ⁵	
Attendance	5/6	6/6	6/6	6/6	6/6	4/6	0/6	6/6	5/6	1/6	
Skills											
Water sector	⊙	⊙						⊙	⊙	⊙	
Regulation	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	
Finance and Accounting				⊙		⊙	⊙	⊙	⊙	⊙	
Strategy	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	
Transformation	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	
Health, safety and wellbeing			⊙					⊙	⊙	⊙	
ESG incl. climate change	⊙	⊙	⊙	⊙	⊙	⊙		⊙	⊙	⊙	
Enterprise Risk Management	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	
Data, technology and digital			⊙		⊙	⊙		⊙	⊙	⊙	
People	⊙		⊙	⊙	⊙	⊙		⊙	⊙	⊙	
Governance	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	
Remuneration	⊙						⊙	⊙	⊙	⊙	

1. Appointed 1 July 2024
2. Resigned 31 December 2024
3. Appointed 8 April 2025
4. Appointed 11 July 2024
5. Resigned 11 July 2024

Board meetings

There were six scheduled Board meetings during the year with a number of ad hoc meetings taking place when necessary.



Board gender diversity



Board ethnic diversity



Board tenure



Board independence



As of 31 March 2025

Chair's introduction



The Board reaffirms its commitment to maintaining effective corporate governance and integrity that enable us to deliver for the long-term benefit of all our stakeholders.

David Sproul

Pennon Chair

Dear Shareholder

I am very pleased to introduce, on behalf of the Board, the Pennon Group Corporate Governance Report for 2025, which sets out our governance practices and processes, and how we applied the principles of the UK Corporate Governance Code 2018 (the Code) throughout the year. The report covers our key focus areas and achievements during 2024/25 and explains how the Board continues to operate effectively and efficiently and to support the Group's strategy.

Review of the year

We continue to operate to the highest standards of corporate governance. Strong governance remains central to the successful management of the Group, providing the framework we need to deliver our strategy, fulfil our purpose, create value for all our stakeholders and continuously develop our business.

The table on page 128 will help you to navigate our reporting and evaluate our performance against the Principles of the Code. As we explain below, we also have processes and procedures in place to safeguard the independence of decision-making by the Board of South West Water.

More information on the Board's activities can be found on pages 140 to 141 and information on our PR24 framework can be found on pages 18 to 19.

Changes to the Board

There were a number of changes to the Board during the year. I joined the Board as Non-Executive Director on 1 July 2024. Gill Rider retired from the Board on 24 July 2024, after which I assumed the role of Chair.

Steve Buck stepped down from the Board in July 2024 as Group Chief Financial Officer for personal reasons, and we were very pleased to appoint Laura Flowerdew as his successor. Laura was previously the Chief Customer and Digital Officer of Pennon Group. She brings a strong understanding of our business, significant leadership experience and is well equipped for this new role.

Claire Ighodaro retired from the Board and as Chair of the Remuneration Committee in December 2024, and we are pleased to appoint Andrea Blance as her successor in April 2025. Andrea brings extensive risk and regulation expertise gained within the financial services sector and works with businesses to develop customer focused commercial strategies.

Laura's, Andrea's and my biographies can be found on pages 132 to 133.

Promoting diversity

Diversity and inclusion (D&I) continued to be a top priority for the Board and the Group during the year. Our Board composition is substantially ahead of the diversity targets suggested by the Parker Review and the FTSE Women Leaders Review and Pennon is one of the rare FTSE-listed entities where women on the Board outnumber their male counterparts. During the year, we were incredibly proud to achieve third position for best performers in Women on Boards within the entire FTSE 250.

Our commitment to diversity is also reflected right across the business; our widespread commitment and focused drive to recruit talent from all backgrounds has the heartfelt support of our strong and diverse leadership team. More information on our D&I initiatives can be found on page 36 and in the Nomination Report on page 149.

Engaging with our stakeholders

Engaging with all our stakeholders has never been more essential, particularly in view of the national and global issues we are facing. All companies in the water sector face much scrutiny around their environmental impacts, so it is vital that we listen to and respond to our stakeholders' views. We make sure to carefully consider all decisions and their likely impacts on our stakeholders.

Engagement with customers is of particular interest to the Board and as part of the PR24 process, we were delighted that Lord Matthew Taylor, Chair of the WaterShare+ panel, and Peaches Golding OBE, Chair of the Bristol Water Challenge Group, regularly attended Board meetings to provide feedback from their discussions with our customers as part of their work with the WaterShare+ panel. Further information on the important work of the WaterShare+ panel can be found on page 15.

We continue to foster an open and transparent feedback culture within the business. All colleagues have the opportunity to share feedback with the Executive team and Board in several ways, including the Big Chat initiative, our Great Place to Work survey and our Employee Forum RISE.

You can read more on how we engage with our stakeholders on pages 142 to 144 and in our Section 172(1) statement on page 146.

Culture

As a Board we pay particular attention to our Group's culture, ensuring it is fully aligned with our shared purpose, values, and strategy. We continue to monitor these essential properties and receive regular reports from management on the work being done to ensure their continuous improvement. During the year, the Board were delighted to see the development of the Group's values, which reflect the views of our wider stakeholders and culture.

Role of the Board and its effectiveness

It is my view that the Board continues to be highly effective with a deep understanding of the opportunities available to us and the threats facing the business. The results of this year's Board and Committee performance reviews support this view: see page 150 for further detail. We keep all identified threats to the future success of the business under constant review. Please see our risk report on pages 70 to 79 for a description of the risks we identify and review.

Board independence – Pennon and South West Water

In accordance with Ofwat's principles on board leadership, transparency and governance, the Group maintains separate boards for Pennon, South West Water and SES.

Our system of governance remains appropriate and effective, while continuing to support the delivery of our strategy.

Our Board and Committee framework also allows us to remain efficient in our decision-making processes. The South West Water and SES Boards convene on the same day as each Pennon Board meeting and consider all key relevant issues. This arrangement allows full operational oversight and governance by the boards over the Group's water interests, while the Pennon Board continues to focus on strategic forward-looking matters for the Group as a whole.

Looking ahead

I would like to take this opportunity to thank my Board colleagues, the management team and our wider workforce for their outstanding work over the year just gone.

The Board will continue to focus on delivering against our strategic priorities in the year ahead, ensuring the wellbeing of our workforce as we build on the work of the last year in creating a successful and sustainable business.



David Sproul
Pennon Chair

3 June 2025

Our Board

Working responsibly together



1. David Sproul
Pennon Chair



Date of Appointment to the Board: David was appointed to the Board on 1 July 2024 and became Pennon Chair on 24 July 2024.

Current external appointments: Chair of Starling Bank Limited and Non-Executive Director on Safanad Limited. David is also a senior adviser to Bridgepoint Europe, and he sits on the Board of Governors as chair designate of University of Hertfordshire.

Skills and experience: David is a Chartered Accountant who has spent the majority of his career in professional services with Deloitte and prior to that, Andersen, serving a diverse range of UK and international clients.

He concluded his executive career at Deloitte in summer 2021 as Global Deputy CEO having previously been elected for two terms as Senior Partner and Chief Executive of Deloitte UK and Northwest Europe from 2011 to 2019. During his leadership, the firm became the largest and most profitable professional services firm globally and in the UK, driven in part by significant investments in technology services, as well as differentiating itself as the Audit quality leader with a strong inclusive culture.

2. Susan Davy
Pennon Chief Executive Officer



Date of Appointment to the Board: Susan was appointed to the Board as Pennon Chief Executive Officer on 31 July 2020, having previously served as Chief Financial Officer since 2015.

Current external appointments: Senior Independent Non-Executive Director and Audit Chair of Restore Plc, President and Director of the Institute of Water, Director of Water UK, Director of CREWW (Centre for Resilience in Environment, Water and Waste) and was previously a member of the A4S Accounting for Sustainability CFO leadership network.

Skills and experience: Susan brings extensive industry knowledge, backed by strong financial and regulatory expertise, which has been key to shaping and delivering Pennon's strategy. This includes value-enhancing acquisitions such as Bournemouth Water, Bristol Water, Sutton and East Surrey Group, along with the successful disposal of Viridor. With over 28 years of experience in the listed utilities sector, Susan has held several senior positions in the water industry, including at Kelda Group plc. Her experience with FTSE-listed companies, combined with deep operational and corporate and financial knowledge, adds valuable diversity to Pennon's leadership.

Committee key for board:

- A** Audit Committee
- E** ESG Committee
- H** Health & Safety Committee
- N** Nomination Committee
- R** Remuneration Committee
- C** Committee Chair

3. Laura Flowerdew

Pennon Chief Financial Officer



Date of Appointment to the Board: Laura was appointed Pennon Chief Financial Officer of Pennon Group in July 2024.

Current external appointments: None

Skills and experience: Laura was appointed Chief Financial Officer of Pennon Group in July 2024. Laura held previous positions as Chief Customer and Digital Officer of Pennon Group and Chief Financial Officer of Bristol Water plc from October 2018. Laura previously worked in a number of senior executive positions in UK utilities, international natural resources and listed companies, including Anglo American plc, De Beers, Tribal Group plc and Bristol Energy. Prior to that she worked with Deloitte and trained with Arthur Andersen. She is a Fellow of the Institute of Chartered Accountants for England and Wales.

4. Iain Evans CBE

Senior Independent Director



Date of Appointment to the Board: Iain was appointed to the Board as Independent Non-Executive Director on 1 September 2018 and became Senior Independent Director on 1 September 2023.

Current external appointments: Iain is a Non-Executive Director of Bologna Topco Limited and HSM Advisory Limited and continues to act as an independent corporate strategy consultant.

Skills and experience: Iain has 40 years of global experience in advising companies and governments on issues of complex corporate strategy. In 1983, he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms, with a global footprint and active in a wide range of industries. Iain was appointed as a Non-Executive Director of Welsh Water plc in 1989, and served on the board for nearly ten years, including five years as Chair.

5. Jon Butterworth MBE

Independent Non-Executive Director



Date of Appointment to the Board: Jon was appointed to the Board as Independent Non-Executive Director on 8 July 2020.

Current external appointments: Chief Executive Officer at National Gas. Jon is also president of the Pipeline Industries Guild and a director of E.Tapp & Co Limited, Shopfittings Manchester Limited and TMA Property Limited.

Skills and experience: Jon has a distinguished track record and an immense depth of experience and knowledge within the utility sector, having begun his career over 40 years ago as an apprentice at British Gas. Jon was previously Managing Director of National Grid Ventures, driving growth across a range of commercial ventures outside the regulated energy sector in the UK and the US. He has also been managing director of Northwest Gas, global Environment and Sustainability manager of Transco, National Operations Director of National Grid, Group Safety, Resilience and Environmental director of National Grid plc and formerly Chief Executive Officer of National Grid Ventures. Jon is an ex-Chair of the CORGI board, an ex-ambassador of the HM Young Offenders Programme and trustee of the National Gas Museum Trust.

6. Loraine Woodhouse

Independent Non-Executive Director



Date of Appointment to the Board: Loraine was appointed to the Board as Independent Non-Executive Director on 1 December 2022.

Current external appointments: Senior Independent Director and Chair of the Audit Committee for the British Land Company plc, Non-Executive Director for Associated British Foods plc and a Trustee and Audit Committee member at the Zoological Society London.

Skills and experience: Loraine is an experienced finance executive, with her experience focused in the retail and consumer sector, and more recently in real estate and infrastructure through her roles with Intu Properties plc and British Land Company plc.

Loraine was the Chief Financial Officer of Halfords Group plc until June 2022, before which she spent five years in executive and senior finance roles within the John Lewis Partnership, including Waitrose. Prior to that, Loraine was Chief Financial Officer of Hobbs, Finance Director of Capital Shopping Centres Limited (subsequently Intu Properties plc) and Finance Director of Costa Coffee Limited.

7. Dorothy Burwell

Independent Non-Executive Director



Date of Appointment to the Board: Dorothy was appointed to the Board as Independent Non-Executive Director on 1 December 2022.

Current external appointments: Partner and Global Partnership Board member of FGS Global and Non-Executive Director at Post Holdings Inc.

Skills and experience: Dorothy has over 20 years' experience in banking and communications, specialising in natural resources and advising clients around issues of sustainability, strategy, and corporate communications. She is well known for driving substantive diversity and inclusion agendas. Between 2002 and 2006, Dorothy held analyst and senior roles at Goldman Sachs in the investment banking division, in both London and New York, as well as in the firmwide Strategy Group, where she focused on proprietary mergers and acquisitions and new business development. Dorothy graduated from the Florida Agricultural and Mechanical University, USA with a Bachelor and Master of Business Administration, Finance and Management.

8. Andrea Blance

Independent Non-Executive Director



Date of Appointment to the Board: Andrea was appointed to the Board as an Independent Non-Executive Director on 8 April 2025.

Current external appointments: Non-Executive Director and Risk Committee Chair at Aviva plc.

Skills and experience: Andrea brings extensive risk and regulation expertise gained within the financial services sector and works with businesses to develop customer focused commercial strategies.

Andrea spent her executive career at Legal & General Group plc where she held a range of senior leadership roles including Group Chief Risk Officer and Strategy & Marketing Director. More recently, Andrea has been Risk Committee Chair at Hargreaves Lansdown plc, Senior Independent Director and Remuneration Committee Chair of Vanquis Banking Group plc, Senior Independent Director and Audit Committee Chair of ReAssure plc, and Risk Committee Chair of Scottish Widows plc and Lloyds Banking Group Insurance.

9. Andrew Garard

Pennon General Counsel and Company Secretary

Date of Appointment to the Board: Andrew was appointed to the Board as Pennon General Counsel and Company Secretary on 1 December 2022.

Current external appointments: Non-Executive Director at Zinc Media Group plc, where he is chair of the Remuneration Committee, co-founder and Chair of the Board of Trustees of the Social Mobility Business Partnership.

Skills and experience: Andrew is a very experienced General Counsel, having joined from Meggitt plc, where he was Group General Counsel and Director of Corporate Affairs, and a member of the group executive responsible for legal, commercial, trade compliance, government relations, ethics and contract management. Previously, he was Group General Counsel and Company Secretary at ITV plc where he was a member of the executive board and led a global team responsible for legal and business affairs, secretariat, compliance, insurance, health & safety, rights management and corporate responsibility. Prior to this, he was Group General Counsel and Company Secretary at Cable & Wireless plc and Global Head of Legal at Reuters Group plc.

Board members who stepped down in 2024/25:

Steve Buck: stepped down from the Board on 11 July 2024

Gill Rider: stepped down from the Board on 24 July 2024

Claire Ighodaro: stepped down from the Board on 31 December 2024

Pennon Executive Board



1. Susan Davy Pennon Chief Executive Officer

See biography on pages 132 to 133

2. Laura Flowerdew Pennon Chief Financial Officer

See biography on page 132 to 133

3. Andrew Garard Pennon General Counsel and Company Secretary

See biography on page 132 to 133

4. Adele Barker Pennon Chief People Officer

Adele joined the Group in 2017 and was appointed as Pennon Chief People Officer in 2020. Adele's role is to lead and execute the Group's People strategy and Health and Safety strategy, and lead on Corporate Affairs. In addition, Adele is acting Manager Director, Retail Services.

Her background includes senior executive roles and HR leadership across Utilities, banking and retail, including British Gas, Orange and Marks & Spencer.

5. Richard Price Managing Director of Wastewater Services for South West Water

Richard was appointed Managing Director, Wastewater Services in July 2024. Previously, he held the position of Group Chief Engineering Director from 1 September 2022, having joined Bristol Water in February 2018.

Richard is a Chartered Civil Engineer and Fellow of the Institution of Civil Engineers and Institute of Water. Richard has over 30 years' experience engineering, constructing and operating water and wastewater infrastructure, having previously held senior roles at other water companies. Richard was instrumental in the transformation of Bristol Water as Chief Operating Officer. He is passionate about safety and customer excellence, embedding leading practices whilst transforming operating and delivery functions.

Richard is also a director of Pelican Business Services (the trading name of Bristol Wessex Billing Services Limited), a joint venture, providing combined billing services to Bristol Water and Wessex Water customers.

6. David Harris Managing Director of Water Services

David joined the Group as Group Drought and Resilience Director in 2022. He was appointed as Managing Director, Water Services (National) in July 2024.

With over 25 years of executive experience, he has successfully led the performance and growth of large infrastructure businesses, in both the regulated water market and the competitive energy market in Australia. David brings experience from his time leading one of Australia's largest and fully vertically integrated water companies through the worst droughts in the country's history, ensuring a constant supply of water and the building of additional water resources.

7. Paul Ringham Managing Director of Pennon Power

Paul joined the Group as Managing Director of Pennon Power, the newly formed renewable energy division, in September 2024.

Paul qualified as an accountant at Coopers & Lybrand and is a member of the Institute of Chartered Accountants of England and Wales. Earlier in his career, Paul was the Director of Corporate Finance for BT plc and later became the Commercial Director of BT Global Services, the group's international division. In 2014, Paul joined Viridor Waste Management Limited as Commercial Director and worked closely with the Pennon Executive team during the sale of the business to the US global investment company, 148 Kohlberg Kravis Roberts & Co ("KKR") in 2020. He then spent 24 months working with KKR to restructure the business. Following the completion of this divestment program, Paul worked with the new owner of Viridor's landfill and landfill gas division to develop its renewable energy strategy.

8. Graham Murphy Chief Engineering Officer

Graham joined South West Water in 1991 and has held a number of positions within engineering, operations and HR. He was appointed to his current role as Chief Engineering Officer in July 2024 and has full responsibility for the timely and efficient delivery of the South West Water's capital investment programme. Prior to joining South West Water, he undertook a variety of operational management roles within British Gas.



Sarah Williams Chief Strategy and Regulation Officer

Sarah Williams, Chief Strategy and Regulation Officer was also a member of the Pennon Executive Board during 2024/25.

Monitoring purpose and culture

Purpose, values and culture

As a purpose-led business, committed to the effective stewardship of the environment and our communities, we are shaped by our values and culture. We are a dedicated business, working 24 hours a day, 365 days a year to deliver our essential water services for our customers. We know that it's not only what we do, but how we do it that is really important for our customers, communities and ourselves. That's why we will keep our focus on living our values across Pennon, every day.

We want our values and our behaviours to be the golden thread across Pennon Group – all businesses within our Group to have the same values and therefore the same way of being.

Our values were developed after intensive involvement and listening sessions with the Pennon Executive Board, the larger leadership group, colleague organisations such as the employee forum, and comprehensive colleague listening groups.

Our purpose

Bringing water to life – supporting the lives of people and the places they love for generations to come.

Our values:

Be
YOU

Be
**ROCK
SOLID**

Be the
FUTURE

How the Board monitors culture

The Board plays a vital role in monitoring and assessing the culture of the Group and its alignment with its purpose, values and strategy.

During the year, the Board considered a number of areas that helped them to assess the development of the Group's culture.

Area assessed	How the Board monitors the culture
Employee engagement	<p>Great Place to Work survey – The Board reviews the results and feedback from the quarterly employee engagement survey and monitors how the areas of employees' focus are being addressed.</p> <p>Big Chat – The Executive team engages with all employees on all business topics and ensures that their views and opinions are shared with the Board.</p>
Workforce policies and practices	<p>The Board formally reviews the Group's workforce policies and practices to ensure these remain consistent with the Group's Purpose and Values and support the Group's long-term sustainable success.</p> <p>Gender and ethnicity pay gap – The Board monitors the culture on gender and ethnicity pay through review, assessment, and approval of the Gender and ethnicity pay gap report.</p> <p>Diversity and inclusion – The Nomination Committee monitors diversity and inclusion through regular updates and the Board fosters the Group's culture on diversity and inclusion through the review and approval of the Group Diversity, Respect and Inclusion policy.</p> <p>General pay conditions – The Board ensures that reward and pay arrangements support a culture that is transparent, fair, and consistent to ensure that employees' trust is maintained and that talent is attracted and retained.</p>
Whistleblowing	<p>Speak Up – Employees raise concerns anonymously without fear of reprisal. Any significant concerns, following formal investigation, are shared with the Audit Committee through the Ethics Management Committee and ultimately shared with the Board.</p>
Health & Safety	<p>HomeSafe – This is monitored through regular updates on safety initiatives adopted for the achievement of the Group's 2025 strategic plan to be health and safety leaders in the water sector.</p> <p>Lost time injuries – Further updates on efforts to reduce injuries of our staff across all Group companies are assessed at the Health and Safety Committee and a reduction in the lost time injury frequency rate from 0.30 to 0.24 (employees and agency staff) was recorded in 2024/25, compared to the previous year.</p>
Remuneration	<p>The Remuneration Committee is regularly provided with feedback from shareholder consultations and customer engagement which helps the Committee and the Board to monitor the culture on wider workforce pay, and executive and CEO remuneration.</p> <p>The Committee reviews and approves the wider workforce Group Reward Framework and relevant policies, and ensures that incentives and rewards align with culture.</p> <p>CEO pay ratio – The Board ensures that the CEO pay ratio is fair, balancing stakeholder expectations while rewarding leadership success.</p>

Board leadership

Governance structure and framework

Pennon Group plc – Board Of Directors

The role of the Board is to promote the long-term success of the Group, generating value for all its stakeholders, including its shareholders, customers, employees and the communities which it serves, by providing effective leadership and direction to the business as a whole.

It sets the Group's strategy and sustainability strategy, having regard to stakeholders, while maintaining a balanced approach to risk within a framework of effective controls. It has also established the Group's purpose and values and monitors culture to ensure alignment. It sets the tone and approach to corporate governance and is responsible for the overall financial performance of the Group.

Board Committees

The terms of reference for each Committee are agreed by Board and can be found at <https://www.pennon-group.co.uk/about-us/board-committees>.

Audit Committee

Ensures the quality and integrity of the Group's financial reporting, assesses the application of accounting policies given underlying standards, probes and tests the accounting judgements made in preparing financial reporting and evaluates whether the presentation of the Group's activities is fair, balanced and understandable.

Reviews and challenges the ongoing effectiveness of the internal control environment and the scope and adequacy of risk management processes across the Group.

Audit Committee Report
pages 151 to 157

Nomination Committee

Regularly reviews the structure, size and composition (including the skills, knowledge, independence, diversity and experience required) of the Board, comparing to its current position and the skills and expertise needed in the future.

Nomination Committee Report
pages 148 to 150

Remuneration Committee

Ensures remuneration is aligned with the Group's strategy and reflects the values of the Group.

Advises the Board on the framework of executive remuneration for the Group and for the wider workforce.

Remuneration Committee Report
pages 163 to 165

ESG Committee

Ensures robust scrutiny of key aspects of environmental, social and governance (ESG) performance and oversees Pennon's performance against its ESG strategy and strategic sustainability objectives.

ESG Committee Report
pages 158 to 160

Health and Safety Committee

Provides a 'review and challenge' function to support the Board and the Executive on all matters connected to health and safety including the deployment of the health and safety strategy, resilience and process safety.

Health and Safety Committee Report
pages 161 to 162

Pennon Chief Executive Officer and Pennon Executive Board ("PEX")

Responsible for defining and driving the business priorities that will achieve delivery of the Group's strategy and ensuring, to the extent of the authority delegated by the Board, the proper and prudent management of Group resources to create and maximise shareholder value while protecting the interests of the wider stakeholder group. Chaired by the Pennon Chief Executive Officer, the Pennon Executive Board meets regularly to receive reports from the management committees and to review and refine recommendations to be presented to the Board.

Disclosure Committee

Draws up and maintains procedures, systems and controls for the identification, treatment and disclosure of inside information and for complying with other disclosure obligations falling on the Group.

Monitors compliance with the disclosure procedures and keeps the adequacy of those procedures under review.

Ethics Management Committee

Oversees the ethics culture of the Group and its commitment to ethical business and integrity, including the creation, maintenance and execution of the Group's approach to anti-financial crime, modern slavery, whistleblowing and grievances.

Division of responsibilities

There is a clear separation of responsibilities between the Chair and the Pennon Chief Executive Officer, divided between managing the Board and the business, while maintaining a close working relationship.

All Directors are equally accountable for the proper stewardship of the Group's affairs and have specific roles, which include those set out below:

Pennon Chair: David Sproul

- Leading the Board and promoting a strong culture of openness and debate to facilitate constructive Board relations and effective contribution from all Non-Executive Directors.
- Promoting the highest standards of integrity and probity and ensuring the Board holds itself to standards of good and effective governance.
- Managing Board composition, performance, and succession planning, ensuring the Board continues to have the skill set and training it requires.
- Setting the agenda and ensuring the timely dissemination of information to the Board to ensure all relevant information is provided in a timely manner before constructive discussion and decision making.
- Representing the high standards and values of the Group and ensuring the views of all stakeholders are understood and considered.
- Facilitating an open relationship with the Pennon Chief Executive Officer by providing advice, support, and guidance.

Pennon Chief Executive Officer: Susan Davy

- Managing the Group and providing executive leadership.
- Developing, proposing and implementing the Group strategy as agreed by the Board and in line with the strategic framework.
- Leading on all regulatory and policy decisions.
- Leading the Group in accordance with the decisions of the Board.
- Ensuring financial and operational leadership.
- Coordinating with the Chair on important and strategic issues of the group and providing input to the Board's agenda.
- Contributing to succession planning and implementing the organisational structure.
- Leading on acquisitions, disposals, and business development.
- Developing and managing relations with all stakeholders.

Senior Independent Director: Iain Evans

- Assisting the Chair with shareholder communications and being an additional point of contact for shareholders.
- Being available to other Non-Executive Directors if they have concerns that are not satisfactorily resolved by the Chair.
- Ensuring an annual performance evaluation of the Chair, with the support of the other Non-Executive Directors, and ensuring effective succession planning for the Board.

Pennon Chief Financial Officer: Laura Flowerdew

- Managing the Group's financial affairs and supporting the Pennon Chief Executive in providing executive leadership and implementing the Group strategy.
- Reporting accurate and detailed financial information to the Board on performance and developments across the business.
- Managing and balancing relationships with areas of the Group, such as investor relations, finance and treasury, as well as external stakeholders, such as investors, lenders and Pension Trustees.

Non-Executive Directors: Jon Butterworth, Loraine Woodhouse, Dorothy Burwell, Andrea Blance

- Critically reviewing the strategies, operational performance and financial reporting proposed for the Group.
- Evaluating proposals from management and constructively challenging its recommendations.
- Contributing to corporate accountability and good governance through being active members of the Committees of the Board.
- Playing a key role in succession planning of the Board and the annual Board and Committee evaluations.

Pennon General Counsel and Company Secretary: Andrew Garard

- Supports the Chair, CEO and the Board in ensuring all policies, processes, information, and resources are in order to ensure the Board can operate effectively and efficiently.
- Advises and keeps the Board updated on any changes to Listing and Transparency Rules and best corporate governance practices.
- Facilitates a comprehensive induction for newly appointed directors that is tailored to the Group's industry and strategy.
- Co-ordinates the annual Board and Committee evaluations in conjunction with the Chair and CEO.
- Provides advice and services to all Directors, as needed.

An effective Board

How the Board operates

The Pennon Board, in discharging its duties, has a clear strategy for growth and ensures that its aims and objectives align with the Group's purpose and values which have been carefully considered. The Board maintains the highest standards of governance alongside taking decisions to ensure the long-term sustainability of the Group.

Thanks to the diverse skillset, independence of thinking and experience of the directors, decisions reached by the Board are fair, focused and balanced and they demonstrate that constructive debate has occurred.

All possible outcomes for the mutual benefit of our shareholders, customers, employees, and the communities we serve are at the heart of the Board decision making process.

The governance framework for the Board is clearly documented in the Pennon Group plc Articles of Association, Division of Responsibilities, Schedule of Matters Reserved to the Board and Terms of Reference for each Committee, which are all available on our website.

The culture of the Board is one of openness and constructive dialogue with the senior management team. Regular and effective flow of information between the Non-Executive Directors and senior management, both in and out of the Boardroom, ensures that there is good understanding of the Group's business. Further information on the effectiveness of the Board is detailed in the 2025 Board performance review on page 150. As detailed on page 137, there is a clear division of responsibilities between the roles of the Chair and Pennon Chief Executive Officer; however, to ensure that their responsibilities are discharged effectively, there is consistent communication on all areas of the business between them.

The Board held six scheduled meetings during the year. Directors' attendance at scheduled Board meetings held during the year is set out on page 129. Additional unscheduled Board meetings were held when circumstances required the Board to meet at short notice. The Board also approved a number of matters during the year by written resolution.

Agendas for each scheduled Board and Committee meeting are prepared in advance and are aligned with the annual Board and Committee programmes. For each scheduled Board meeting there are a number of standing items such as the monthly performance reports from the Pennon Chief Executive Officer and Pennon Chief Financial Officer, operational reports, deep dives, and legal and governance updates. All matters are given due consideration by the Board and are reviewed at the appropriate point in the regulatory and financial cycles. Flexibility is retained in the programmes to include additional items requested by the Board, Committees, or senior management. The key activities of the Board can be found on pages 140 to 141 and the key activities of the Committees during the year can be found in the Committee Reports.

Directors are provided with papers at least five business days in advance of each Board or Committee meeting and meeting packs are provided on a secure Board portal.

The Pennon Chair has calls with each of the Non-Executive Directors in advance of each scheduled Board meeting to discuss the papers and the business of the meeting. If a Director is unable to attend a meeting because of exceptional circumstances, they will continue to receive all the material for the meeting and have an opportunity to have a briefing discussion with the Chair in advance. Feedback is provided to the Directors unable to attend on the decisions taken at the meeting.

Non-Executive Directors communicate directly with senior management between Board and Committee meetings, where required. Members of the Pennon Executive Board also present at the annual strategy Board meeting and at other times during the year on their areas of responsibility, along with members of their teams.

During the year, the Chair had catch-ups with the Pennon Chief Executive Officer and regular catchups with the Pennon General Counsel, and Company Secretary and Pennon Chief Financial Officer.

Meetings of the Non-Executive Directors, without the presence of the Executive Directors, are scheduled in the Board's annual programme. During the year, Non-Executive Directors met without the Executive Directors after every Board meeting. These meetings provide the Non-Executive Directors with the opportunity to share experiences and discuss wider business topics, fostering debate in Board and Committee meetings and strengthening working relationships.

Schedule of Matters Reserved to the Board

The Board maintains oversight of the areas material to the delivery of the Group's strategy and purpose, and acts as the main governing body for the purpose of oversight of the Group, with additional supervision of the regulated business of South West Water provided by South West Water's Board. The Board undertakes an annual review of the Matters Reserved to the Board, with the latest review taking place in November 2023.

Committees

In accordance with the Code, the Board delegates certain responsibilities to its core committees, which monitor various subject matters in depth and gain greater understanding in detail. The Committees' responsibilities and mode of operation are guided by their respective terms of reference which have been agreed by the Board and are summarised on the Committee Report pages. In addition, each committee considers its calendar of business at every meeting to ensure responsibilities continually remain clear. Each Committee Chair provides an update on matters discussed at each Board meeting, reporting on decisions taken, and where appropriate provides a recommendation to the Board on matters requiring its approval. The reports from each committee of the Board can be found on pages 148 to 165.

Strategy

The Board recognises its responsibility to create and oversee the framework for the delivery of the Group's strategic model, ensuring that the strategy and purpose continually deliver for our stakeholders. At the meetings the Board receive presentations from Managing Directors and senior management, deep diving into the performance of each business unit, including reviews into the financial outlook and opportunities for growth.

Pennon Executive Board

The Pennon Executive Board meet on a monthly basis and is responsible for executing the Group's strategy and the day-to-day management of the Group's operations. Responsibilities and processes are designed to ensure effective management and oversight of Group affairs. Governance policies and terms of references are reviewed in accordance with the demands of the business, changing regulation and emerging best practice. The Pennon Executive Board is led by the Pennon Chief Executive Officer. The biographies of the Executive Board can be found on page 134.

Workforce engagement

The Board has decided, at this time, not to adopt any of the three specific employee engagement methods referred to in the UK Code. Instead, our chosen method is to adopt a more enhanced approach which includes the periodic 'Great Place to Work' engagement survey (including related management feedback sessions) and continuous employee feedback through our own in-house forums, such as the 'Big Chat', hosted on a fortnightly basis by the Executive team. These forums not only give employees access to important up-to-date information on key business events; they also provide the opportunity to hear from the Directors, give feedback and ask questions. The Board believes Pennon's chosen approach is an effective way of communicating with employees and gathering essential feedback from across the business. This empowers the Board to consider the interests of all employees in its discussions and decision-making. You can find further information on employee engagement on pages 26 to 27.

Stakeholder engagement

In delivering our strategy and ensuring the sustainable, long-term success of the Group, the Board places utmost importance on the interests of our stakeholders in its decision-making process. Further details on how the Board has fulfilled its duties under section 172(1) of the Companies Act 2006, to consider all stakeholders in its discussions and decisions and that each decision reached is in line with the Group's purpose and culture, is set out on pages 146 to 147; and an explanation as to how we engaged with our different stakeholders during the year can be found on pages 142 to 144.

Workforce policies and Practices Conflicts of interest

In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Group's interests. The Board considers this has operated effectively during the year. Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Group.

This duty is in addition to the duty owed to the Group to disclose to the Board any interest in a transaction or arrangement under consideration by the Group. A register of Directors' conflicts is maintained and reviewed at each Board meeting. Authorised conflicts disclosed on the register currently involve cross-directorships with Pennon Water Services Limited and the trustee board of the Group's defined benefit pension scheme.

Whistleblowing

The Board maintains overall responsibility for the Group's Whistleblowing Policy (the Policy). The Policy provides a clear procedure for employees and suppliers to report concerns, through the Speak Up service, either to their line manager or through a third-party whistleblowing hotline. The Policy is well communicated to employees across the Group. All whistleblowing cases are investigated by the Ethics Management Committee. The Board, through the Audit Committee, receives yearly whistleblowing updates which set out any whistleblowing issues raised during the period and interim updates on any significant matters. The updates provided are anonymous and summarise the result of any investigation. The Board is satisfied that the Policy and the work of the Ethics Management Committee remain effective.



Key activities of the Board

In 2024/25, the Board considered a wide range of matters. The key activities that were carried out by the Board during the year, together with an indication of the stakeholders affected and whose interests the Board considered in its discussions and decision-making, are set out below.

Inform

The agenda for each meeting is discussed and agreed in advance with the Pennon Chair in conjunction with the Pennon Chief Executive Officer and Pennon General Counsel and Company Secretary, along with the matters arising from the previous meeting.

Senior leaders and management prepare written reports for the Board meetings, based on the annual calendar of business, as well as deep-dive presentations on key areas of the business, to inform and make recommendations for the Board's consideration. In addition, regular performance reports are shared with the Board to ensure members are continuously informed.

Recommend and consider

Recommendations and deep dives from senior leaders as well as external advisors to facilitate decision-making and account for stakeholder impact are presented to the Board for consideration.

Approve and action

The Board will consider matters and agree and approve actions to take forward.

Key to stakeholder groups



Customers



People



Policy makers



Environment



Investors



Suppliers



Regulators



Communities

Area	Activity	Outcome	Stakeholders considered	See page(s)
Strategic				
	2025 Rights Issue Reviewed and approved the 2025 Rights Issue.	The proceeds of the Rights Issue will form part of a comprehensive financing package to deliver step change investment in AMP8.		62 and 238
	PR24 Business Plan Accepted the Final Determination.	Investments will benefit our customers, the environment and community.		18 to 19
	Delivery of capital programme Reviewed and approved the delivery of capital programme in line with the framework model for capital delivery.	Successfully deliver the capital programme for the benefit of all stakeholders and foster long term relationships with our suppliers.		19
Operational				
	ODI improvements Monitored our ODI improvements to meet regulatory requirements, ongoing regulatory/innovation initiatives were monitored via ESG and Health and Safety reports and plans were adapted where needed.	Successful regulatory outcomes, safe customer and employee experience, enhancing day to day operations.		40 to 54
	Storm overflows and pollutions Reviewed and assessed measures tackling storm overflows at bathing waters and reduced spill rates across our sites and within our communities.	Delivery against our objective to ensure continuous supply of safe and clean water to our customers.		44 to 47
	Water quality and resilience Approved projects to upgrade treatment works and expand reservoir capacity across the regions.	Successfully maintain bathing water quality all year round. Reduction in pollution levels to industry-leading low levels.		40 to 43

Financial				
2023/24 Annual Report and Accounts Reviewed and authorised the Annual Report and Accounts.	Delivery against objectives to return capital where appropriate.		10	
Final dividend payment/AGM Approved the final dividend and held the Annual General Meeting.	The payment of a final dividend and the holding of a successful Annual General Meeting.		10	
Environmental				
Net Zero strategy plan, green recovery investment programs Implementation and alignment of plans with our strategic priorities by engaging in, for example: <ul style="list-style-type: none"> Investments in bathing waters to reduce releases from storm overflows. Desalination project being undertaken to secure long term water security in the region. 	Accelerate delivery of our Net Zero plans to achieve a more sustainable future for all.		88 to 90	
Pennon Power Continued to support the construction of the four renewable energy generation projects acquired during 2023/24. Construction has started on three of the four sites and will start on the fourth site in Q3 2025/26. Including these projects, the Group remains on target to generate 50% of the electricity we use through our own renewable electricity generation by 2030, measured against South West Water's 2020/21 grid electricity import requirements.	Foster our commitment to the long term sustainable growth of the UK's environmental infrastructure and increase the Groups energy security and resilience.		51	
Social				
Supporting customers on low income Monitored customer service levels and plans to deliver improved diversity mix and adapted where needed.	Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny.		52 to 54	
Investments in job opportunities and apprenticeships for local communities Reviewed and approved investments for the benefit of the communities.	Create job opportunities and improve the careers of our people and retain talent.		34	
Risk				
Mitigation of key risks Ongoing focus on key risks, with deep dives at Audit Committee meetings.	Continued alignment of plans to ensure appropriate risk mitigation.		74	
Deep dive on cyber security risk Reviewed our information security systems and assessed mitigating measures to avoid cyber-attacks.	Continued protection of sensitive data of our customers and our people and ensured business preparedness to tackle this risk.		79	
Compliance, Governance, Legal and Regulatory				
Regular updates on Corporate Governance and key legal developments during the year.	Continued alignment of plans to ensure appropriate compliance/best governance practice.		138	

How the Board engages with stakeholders

The Board understands the role the Group has to play in creating a more sustainable South West and UK as a whole. We are committed to carrying out our business in a responsible way and to continuously improving how we provide all our services for the benefit of all our stakeholders.

Our section 172(1) statement describes in more detail how the Board considers the interests of all our stakeholders when carrying out its duties. Pennon is committed to ensuring that its decision-making process takes into account the interests of all key stakeholders, including our shareholders, customers, communities, people, suppliers and investors. Our directors take their duties under this section seriously and carefully consider the long-term impact of their decisions.

In fulfilling their duties, our Board engage with stakeholders through a variety of channels to understand their views and priorities. This includes direct engagement with customers, employee feedback mechanisms, consultations with regulators, and community outreach programs. By integrating these perspectives into our decision-making, we aim to create value for both our shareholders and society, while also ensuring the sustainable use and protection of our water resources.



Engaging with our customers and communities

The WaterShare+ customer meetings are an opportunity for our customers to provide direct feedback to our independent WaterShare+ Advisory Panel, who, in turn, provide direct feedback to our Board.

The Pennon Chief Executive Officer's monthly report, which is presented to the Board and discussed at every meeting, included updates on customer engagement sessions conducted as part of the PR24 Business plan process.

The WaterShare+ scheme was developed in direct response to feedback from our customers who said they would like to share in the success of the Group, alongside giving them a greater say in our business. The first WaterShare+ scheme was launched in 2020 and returned £20 million to customers as a reduction of £20 on their bill. Eligible customers had the option of choosing a minimum of £20 in Pennon shares. In November 2022, the second WaterShare+ scheme was launched and returned c.£20 million to customers of South West Water (including Bournemouth Water) and for the first time, customers of Bristol Water. Eligible customers could choose between a £13 reduction on their bill or to opt for a shareholding in the Pennon Group. The WaterShare+ customer meetings are an opportunity for our customers to provide direct feedback to our independent WaterShare+ Advisory Panel, who, in turn, provide direct feedback to our Board.



Engaging with our people

The Board receives regular updates on our people from the Pennon Chief Executive Officer and Pennon Chief People Officer at its meetings. Feedback from the Great Place to Work survey was provided to the Board to ensure that the decisions made consider employee interests and include what is of priority to our people. Further details on the engagement with our people can be found on pages 32 to 39.



Engaging with our shareholders and investors

Shareholders are one of our key stakeholder groups and we continued to manage a comprehensive engagement programme with them throughout the year.

Members of the management team met with 84% of our institutional investors (based on issued share capital) during 2024/25, holding over 160 meetings and calls with current and prospective investors, through roadshows, events and conferences in London.

Pennon Group has a stable shareholder register, of which around half are UK-based investors. Institutions hold the majority of our issued share capital, with the remainder largely held by retail investors.

The AGM is an opportunity for our shareholders to meet the Board and receive updates on the Group. This year's AGM is to be held on Thursday 24 July 2025 at 10am and will be convened as a physical meeting. Shareholders who wish to pose questions to the Board should submit their questions, in writing, in advance of the AGM; these can be submitted to companysecretarial@pennon-group.co.uk.

Full details of the resolutions being tabled for shareholder approval can be found in the Notice of Meeting on our website. The voting results of each AGM are fully disclosed to the London Stock Exchange and are available on our website.



Engaging with our regulators and policy makers

The Board receives regular updates on our regulators and policy makers. The Board, through the Pennon Chair, Pennon Chief Executive Officer and Pennon Chief Financial Officer proactively engages with our regulators, particularly Ofwat and the Environmental Agency, and Government, both at a local and national level, including sharing platforms with local MPs at constituency meetings, and face-to-face discussions with Defra throughout the year.

In February 2025 the Pennon Chief Executive Officer attended the EFRA Select Committee to discuss South West Water's financial performance, environmental performance, service delivery and consumer satisfaction as part of the 'reforming the water sector' inquiry.

The Pennon Chief Executive Officer holds regular 1-2-1 meetings with regional MPs in Westminster to discuss strategic and overarching issues around performance and our plans for investment.



Engaging with environmental organisations

The Board regularly receives updates at meetings through the Pennon Chief Executive Officer on our engagement with environmental organisations, particularly Defra, DWI and Water UK. The Pennon Chief Executive Officer and the Executive Team hosted site visits from the Minister for Water and Flooding, facilitating discussion on the strategic issues of particular importance in the South West.

As we head into AMP8 and reflect on what was achieved in AMP7, Pennon is committed to continued engagement with the Environmental Agency, with Alan Lovell and Mark Rice attending the South West Water March Board meeting to give valuable insights on the future approach of the Environmental Agency.

The CEO gave updates to the Board on engagements and collaborations with Water UK, and its Board, ensuring that the water industry's position on increased investments to improve the sector for the benefit of our stakeholders, remains a key government focus.



Engaging with our suppliers

The Board receives updates at Board meetings on our engagement with suppliers that is conducted through formal Request for Proposal processes and periodic supplier review meetings to ensure that our suppliers deliver outcomes that benefit all our stakeholders.

The Board is regularly informed and involved through the stages of tender processes which are undertaken to ensure that suitable and experienced suppliers are contracted to deliver our capital projects, particularly the execution of Pennon Power projects during the year.

During the year, the Board received updates from the Pennon Chief Executive Officer on our engagement with the Cabinet Office on the drafting of the Procurement Act 2023 which is geared towards making procurement simpler, quicker and more transparent given the criticality of supply chain in the future delivery of our business.

The Executive team are actively engaging the wider industry supply chain directly and indirectly through organisations such as British Water, Future Water and the Civil Engineering Contractors Association to both understand and influence emerging trends and mobilise the best suppliers and innovation for the benefit of the Group. Updates are regularly provided to the Board.

Shareholder and investor engagement calendar

2024



May

- Announcement of 2023/24 Results
- 2023/24 London Roadshow



June

- 2023/24 PCIM Roadshow
- Investor Forum Group Meeting



August

- Dublin Roadshow



September

- Citi European Utilities Field Trip
- Morgan Stanley Utilities Conference



November

- Announcement of half year 2024/25 Results
- Half year 2024/25 London Roadshow



December

- Half year 2024/25 PCIM Roadshow
- LAPFF Conference

2025



January

- Citi European Utilities Conference
- Bernstein Société Générale Virtual Roadshow
- Announcement of FD Acceptance, Rights Issue and Dividends



February

- Barclays UK Water Splash Conference



March

- Capital Markets Day

Capital Markets Event

A vision towards a sustainable future – delivering for customers

We hosted c.30 external attendees including equity and debt investors as well as our sell-side analysts, visiting a range of operational sites throughout the day, with over 100 additional attendees joining online to view our live Q&A.

On Thursday 13 March 2025, we hosted our Capital Markets Event in Exeter, Devon. The event was hosted by Susan Davy, Pennon Chief Executive Officer and Laura Flowerdew, Pennon Chief Financial Officer, and provided an insight into a range of topics including the delivery of our plans for K8.

The event was an opportunity to showcase our operational sites alongside some of our areas of innovation as we bring our largest ever investment plans to life.

Presentation slides outlining the key areas of the event are available <https://www.pennon-group.co.uk/sites/default/files/attachments/pdf/j529-cmd-pres-final-120325.pdf>.

“For me the test of success for an event like this is whether I discovered things I didn’t know, and whether I went away thinking differently about the company. It was a yes to both of these, and so I think it was a great success.”

Equity investor

“I was struck by the scope and breadth of initiatives underway at Pennon, and the energy and commitment of all the members of the team that we met.”

Debt investor

“A very insightful day.”

Sell-side analyst

Operational site visits:

- State-of-the-art Network Training Centre at our Pynes Water Treatment Works in Exeter, which supports a number of drinking water improvement projects and training courses for our staff, supply chain partners and other water companies.
- Sidmouth Wastewater Treatment Works which serves the main settlements of Sidmouth, Sidbury and Bows with a population of c.14,400 which increases to c.200,000 over the summer.
- The Ham Pumping Station – flows from the catchment are conveyed at The Ham before being transferred to Sidmouth Treatment Works.



Composition, succession and evaluation

Training and development

In fulfilment of the Directors' duties, the Board has been supported by the advice and services of the Company Secretary and other functions of the business. An established procedure whereby Directors can seek independent professional advice at the Group's expense to fulfil their duties is in place. The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors and the Committees and between senior management and Non-Executive Directors.

The training needs of Directors are reviewed as part of the Board's performance review process each year. Training may include attendance at external courses organised by professional advisors and internal presentations from senior management.

During the year, updates were provided to the Board and Committees via the Pennon General Counsel and Company Secretary and/or the Group's external advisors. These included updates on mandatory reporting and recent legal or governance changes. Specifically, the Board received updates on the Water (Special Measures) Act and Directors Duties under the Companies Act 2006.

Board Inductions

On their date of appointment to the Board, all new directors receive a comprehensive and tailored induction programme coordinated by the Pennon General Counsel and Company Secretary. Our induction programmes include one-to-one meetings with each of the executive team and visits across our various sites.

Pennon Board composition, independence, and experience

As at the date of this report, our Board comprises the Pennon Chair, five Non-Executive Directors, two Pennon Executive Directors and the Pennon General Counsel and Company Secretary. As at 31 March 2025, female representation on the Board was at 57%, exceeding the Board's target of 33% and the target of the FTSE Women Leaders Review and the Listing Rules.

All of the Non-Executive Directors are considered by the Board to be independent and are subject to re-election each year. All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 132 to 133 demonstrate collectively a broad range of business, financial and other relevant experience.

Loraine Woodhouse is Chair of the Audit Committee and, in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1A, has recent and relevant financial experience and competence in accounting and auditing (as set out in her biography on pages 132 to 133). The Board is satisfied that the Audit Committee has financial literacy and competence relevant to the sector in which the Group operates.

Time Commitment

All Non-Executive Directors are required to devote sufficient time to meet their Board responsibilities and demonstrate commitment to their role. During the year, the Nomination Committee considered the time commitment of all the Non-Executive Directors and was satisfied that the required time dedicated by each of them remains appropriate.

External appointments

All Directors are required to consult with the Chair and obtain Board approval before taking on any additional appointments. Executive Directors are not permitted to take on more than one non-executive directorship of a FTSE 100 company or other significant appointment. As part of the selection process for any new Board candidates, any significant external time commitments are considered before an appointment is agreed.

Susan Davy continued as a Non-Executive Director of Restore plc and Chair of Water UK throughout 2024/25. The Board is of the opinion that the experience gained from external appointments provides additional and different business experience and a fresh insight into the role of an Executive Director.

Further information on the other business commitments of the Pennon Chair and Pennon's Non-Executive Directors is on pages 132 to 133.

Board Performance Review

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. Having carried out an externally facilitated evaluation in 2023, this year the evaluation was carried out by means of an internally facilitated online questionnaire, prepared by the Pennon General Counsel and Company Secretary in consultation with the CEO and Chair. Further information on the outcomes from the 2024 Board performance review and the recommendations from the 2025 review can be found on pages 150.

Section 172(1) statement

All of the Board's decisions are considered against the importance of acting in a sustainable, ethical and collaborative way, understanding the views of our different stakeholders and weighing their competing interests, whilst being mindful of the regulatory obligations owed by Pennon Group's regulated subsidiaries. Our Board leads and sets the tone by carefully noting the priorities of our stakeholders during its discussions and when it takes decisions. We also know the importance of continually assessing the long-term impacts of our decisions, not only at Board level, but across the Group; this is embedded as part of our culture. This helps us live our purpose and our values as a responsible, trusted and sustainable business acting in a way which benefits all our stakeholders as much as possible. Properly understanding the impact of what we are doing has become part of how we operate, and it permeates everything we do at Pennon.

Each Director has a duty under section 172 (1) of the Companies Act (s.172), to act in a way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of members and stakeholders as a whole, and in doing so, must have regard to a range of broader issues. Therefore, in performing their duties during the year, the Directors had regard to the each of the s.172 matters set out below:

s.172 duties	Read more	Pages
The long-term consequences of our decisions	Strategic report	1 to 127
	Our business model	20 to 21
	Principal risks	70
	Sustainability reporting	91
	Our integrated approach to ESG	82
	Viability statement	80 to 81
	Key activities of the Board	140 to 141
The interests of our employees	Strategic report	1 to 127
	Investing in our people	32
	How we listen	22
	Diversity, equity and Inclusion	36
	Whistleblowing policy and speak up	157
	Purpose and culture	135
The importance of having excellent business relationships with suppliers, customers and anyone else who we impact	Our operational review	40 to 55
	How we listen	22
	How the Board engages with stakeholders	142 to 144
The impacts our operations have on our communities and our environment	Our approach to ESG and Net Zero	84 to 90
	TCFD and TFND disclosures	94 to 125
	ESG Committee report	158 to 160
Ensuring we maintain our reputation for the highest standards of business conduct	Non-Financial Information Statement	126
	Purpose and culture Our Values	135
	Modern Slavery	1
	Anti-financial crime framework	156
	Whistleblowing policy and speak up	157
	Stakeholder Engagement	142 to 144
The need to act fairly between our shareholders	Voting at the AGM	142

How the Board fulfils its s.172 duty

To be able to fulfil its s.172 duty when making decisions, the Board is supported in carefully considering all relevant factors to ensure the long-term success of the Group.

Board information

All Board papers contain a s.172 information section to enable the Board to consider stakeholder interests as part of their discussions and decision-making.

Our Board directly and indirectly engages with our stakeholders. Read more on pages 142 to 144.

Board strategic discussion

s.172 factors are considered in the Board's discussions on strategy, including how they underpin the Group's long-term success.

The Group's culture helps ensure there is proper consideration of the impact of Board decisions on our stakeholders and the Board considers the quality of information it has received and seeks assurance where appropriate.













Board decision

Outcomes of each Board decision are assessed and further engagement with stakeholders is undertaken, where appropriate.

As a result of the Board's engagement, the necessary actions are taken.

Key strategic decisions considered by the Board

Below are some of the key strategic issues considered, and decisions made, by the Board during the year and an explanation of how the Board considered the matters in Section 172(1) (a) – (f) when taking those decisions and how they link to our strategy.

Key decision	Board discussion and s.172 considerations	Outcome	Link to strategy
Rights Issue	<p>In making their decision, the directors considered the impact of the acquisition on all of our stakeholders, and in particular:</p> <p>Our Investors</p> <p>The long-term success of the Company was a big focus of this decision, but so too were the shareholders. The fact that it was a fully pre-emptive rights issue allowed all shareholders to participate, including retail shareholders, and this was an important part of the decision to proceed in this way.</p> <p>Our People</p> <p>The Board considered how the rights issue would impact our people and the shares they held through employee share schemes. Virtual and in-person drop in sessions were arranged to help answer queries and give our people the confidence to make an informed decision.</p> <p>Our Customers</p> <p>This decision, which improved the liquidity position of the business, enhanced the confidence of suppliers and customers regarding the strength of the balance sheet and the Company's resilience, with the Company having the necessary funds to support the investment package to deliver improved services for our Customers.</p>	In January 2025 the Board agreed to undertake a fully pre-emptive rights issue as part of a comprehensive financing package, to deliver the step change in investment required through the K8 period to March 2030	   
Pennon Power	<p>Foster our commitment to the long term sustainable growth of the UK's environmental infrastructure and increase the Groups energy security and resilience.</p> <p>Our Environment and Communities</p> <p>Our Pennon Power projects would see Pennon generating low-cost and low-carbon electricity which would reduce carbon emissions. In addition, the zero carbon electricity generated will power many homes across the UK and foster a sustainable future.</p> <p>Our Customers</p> <p>Reduced operating costs thanks to renewable energy generation, would have a positive impact on customer bills.</p>	In 2024/25, the Board continued to support and approve the construction of the four renewable energy generation projects acquired during 2023/24.	  
Acceptance of the Final Determination	<p>As part of their considerations, the Board discussed the £2.8 billion investment plan, which involves engaging 250,000 of our stakeholders over a three-year period. The investment will be across a range of transformational projects that are focused on areas like tackling the use of storm overflows, bolstering water resources through a new reservoir in the South West, and expanding our programme of nature recovery.</p> <p>Our People</p> <p>The Board considered the impact of the Final Determination on the workforce. Around 2,000 jobs will be created, providing local people with rewarding careers in their home region, either directly employed by South West Water or within the wider supply chain.</p> <p>Our Customers</p> <p>The Board considered the relationship between the cost of the scheme, the impact on bills, and the need to ensure that these remain affordable for customers, particularly in the cost-of-living crisis. The Board judged that the impact of the four priorities within the plan would boost water resources for customers across the region.</p> <p>Our Environment</p> <p>The Board considered the impact of the plan on the environment, and the need to ensure that investments create a sustainable future and accelerate net zero and environmental gains through creation of climate-independent water sources, and restoration schemes to boost natural habitats and nurture healthier rivers and seas.</p> <p>Our Regulators</p> <p>As part of their discussions, the Board engaged and considered our regulators and was pleased to accept Ofwat's Final Determination for South West Water (SWW) and Sutton and East Surrey (SES), following respective outstanding and good/standard business plan assessments.</p>	Following Ofwat's PR24 Final Determinations in December 2024 in respect of the K8 period (2025-2030) for the water businesses within the Group (SWW and SES), in January 2025 Pennon accepted Ofwat's Final Determination.	   
Interim dividend declaration	<p>As part of their discussion, the Board considered our stakeholders and the importance of dividends for the long-term success of the Company.</p> <p>Our Investors</p> <p>The Board considered investor expectations and the considerations of investors who view dividend payments as an important element of their investment at Pennon.</p> <p>Our People and Customers</p> <p>The Board considered the benefit to those employees and customers who participate in the Company's share schemes and WaterShare+ scheme respectively.</p>	In November 2024, the Board approved the payment of an interim dividend of 14.69p per ordinary share	

Strategic Priorities



Water Quality and Resilience



Storm Overflows and Pollutions



Net Zero and Environmental Gains



Addressing Affordability and Delivering for our Customers

Nomination Committee report



The Nominations Committee is a cornerstone of corporate governance, safeguarding the Board's integrity and effectiveness.

David Sproul

Chair of the Nomination Committee

Committee members	Date of appointment to Nomination Committee	Attendance
David Sproul (Chair) ¹	July 2024	✓ ✓
Gill Rider ²	September 2012	✓
Iain Evans	September 2018	✓ ✓ ✓
Jon Butterworth	July 2010	✓ ✓ ✓
Dorothy Burwell	December 2022	✓ ✓ ✓
Loraine Woodhouse	December 2022	✓ ✓ ✓
Claire Ighodaro ³	July 2020	✓ ✓
Andrea Blance	April 2025	

From 8 April 2025 Andrea Blance will be a member of the Nomination Committee

1. Appointed 1 July 2024
2. Resigned 24 July 2024
3. Resigned 31 December 2024

The Committee's focus for 2024/25

- Ensured that the Board has the appropriate mix of skills, experience and diversity and oversaw the effectiveness of the Board's succession plan.
- Continuously reviewed the development and evolution of the Executive leadership team and succession planning.
- Conducted the annual review of Board effectiveness and Board composition.
- Oversaw the annual review and approval of the Group policy on Diversity, Respect and Inclusion and the Group's progress on diversity in line with the Parker Review, including the outcome of the FTSE Women Leaders Review and the Group's position on Gender and Ethnicity Pay.

Role of the Nomination Committee

- Regularly review the structure, size and composition (including skills, knowledge, independence, diversity and experience) required of the Board.
- Consider succession planning for the Board and senior management, overseeing the development of a diverse pipeline.
- Identify and nominate candidates to fill Board vacancies.
- Assist in the annual Board evaluation process to assess performance and effectiveness of the Board and its Committees.
- Evaluate the balance of skills, knowledge, independence, diversity and experience on the Board.
- Review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued success of the Group.

- Review the Group's policy on Diversity, Respect and Inclusion (see www.pennon-group.co.uk/about-us/governance-and-remuneration), including gender, and the progress against objectives.
- Review membership of the Board Committees.

Dear Shareholder

I am pleased to present the Nomination Committee's (the Committee) report for the year ended 31 March 2025, and my first as Chair. This year, the Committee oversaw a number of planned changes to the Board, including the retirement of our previous Chair, Dr Gill Rider. It has been a great privilege to have taken on the role from Gill following her careful stewardship over many years, and at a pivotal point in Pennon's strategy. We also enacted our internal succession plan, appointing Laura Flowerdew to the role of Chief Financial Officer. Laura was perfectly placed to take on the role, with a strong understanding of the Group, having been Chief Customer and Digital Officer and previously Chief Financial Officer at Bristol Water.

A key focus for the Committee in 2024/25 has been in building complementary bench strength to the Board, as Claire Ighodaro retired at the end of December 2024. We thank Claire for her dedication and wise counsel, and were delighted to welcome Andrea Blance as Remuneration Chair, bringing extensive risk and regulation expertise. Andrea will join us from 8 April 2025. We were supported during this search by the Lygon Group, experts in Board Advisory and Executive search, and with no previous association with the company.

Finally, as we look ahead in 2025, we will be bidding farewell to Iain Evans, Senior Independent Director and Chair of ESG, as he plans to retire. Having joined the Group in 2018, Iain has been a valued Board colleague. In preparation for this, we have appointed Heidrick and Struggles, as independent consultants, following a robust procurement process, to support the Nomination Committee with this appointment.

The Committee held three scheduled meetings during the year and also held a number of ad-hoc meetings, in person and by Teams call, to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the Committee meetings, but other regular invitees to Committee meetings during the year included the Pennon Chief Executive Officer, the Pennon General Counsel and Company Secretary and the Pennon Chief People Officer. Committee members are also excluded from participating when their own positions are under discussion.

David Sproul
Chair of the Nomination Committee

3 June 2025

Board diversity

Building a diverse and inclusive culture is a strategic imperative for Pennon. The Committee maintains its strong interest in the Group's progress in championing diversity, whether in relation to gender, ethnicity, or social mobility, and regularly reviews the demographics of the workforce as well as the leadership.

We believe having a diverse mix of minds has helped to deliver a step change in our culture, as a more caring and considerate business that places significant focus on wellbeing.

As of 31 March 2025, female representation on the Board stood at 57%. In the 2025 edition of the FTSE Women Leaders Report, Pennon emerges as a leader, proudly showcasing its commitment to diversity, and ranked as 3rd in the FTSE 250 for representation on boards, for the second year running. The report, independently conducted and backed by the Government, is a ringing endorsement of Pennon's relentless efforts to lead the charge in fostering equality and inclusivity. Despite progress across the FTSE, Pennon is still one of only a few businesses in the UK to have both a female Chief Executive Officer and Chief Financial Officer.

The Group is an advocate of Sir John Parker's review of ethnic board diversity, meeting the external targets required of a responsible and inclusive business ahead of the required dates. For the second year running, in line with our commitment to the Change the Race Ratio campaign, we have also voluntarily published our ethnicity pay gap of 11.72% (mean). The Committee will continue to monitor pay gaps. Building our representation across the Group is a focus, given the area we serve has lower representation than the national average, where ethnic representation is 6%. Our Group ethnic diversity has increased slightly in the year to 3.4%.

Board Diversity, Respect and Inclusion Policy

The Board requires the Committee to review and monitor compliance with the Board's Diversity, Respect and Inclusion Policy and report on the targets, achievement against those targets and overall compliance in the Annual Report each year. The Policy was reviewed in March 2025.

The Board's diversity and inclusion policy confirms that the Board is committed to the search for Board candidates being conducted, and appointments made, on merit, against objective criteria whilst promoting diversity of gender, social and ethnic backgrounds.

In this context, the Board will endeavour to achieve and maintain:

- A minimum of 33% female representation on the Board.
- One Board member as a minimum who is racially or ethnically diverse.
- A minimum of 33% female representation on the Group's senior management team.
- Satisfying itself that plans for orderly succession of appointments to the Board and to senior management maintain an appropriate balance of skills and experience within the Group and on the Board and ensure progressive refreshing of the Board.

The approach to Group-wide diversity is detailed on page 36 and is also fully applicable to our Remuneration, Audit and Nomination Committees; and as each Committee is composed of members of the Board, the Board's Diversity, Respect and Inclusion Policy detailed above similarly applies. I can confirm we currently exceed the Policy targets.

Colleagues including our Board and leadership are asked to provide personal information for the purposes of monitoring equality and for statutory reporting purposes, including the FCA diversity disclosures and gender and ethnicity pay gap report. This is collected during recruitment and on-boarding and colleagues are asked to periodically review and update as necessary. Information is stored on the Group's HR management system, including the data used to populate the table below. Employees are encouraged to provide information on a voluntary basis.

FCA diversity disclosure table

The Committee is pleased to report against the FCA's new diversity disclosure requirements, as set out in the table below. At Pennon 'executive management' is defined as the Pennon Executive Board. The figures in the table are stated as at 31 March 2025 and have been calculated based on diversity data provided upon employment.

Talent management and succession planning

The Committee, supported by the Group Chief People Officer, regularly reviews both the executive and non-executive leadership as part of its standing agenda, reviewing both short and long-term skills requirements, opportunities for positive support to minority groups, and early identification of high potential. In line with our commitment to Change the Race Ratio, we have renewed stretching targets to develop diversity in our leadership levels below Executive Committee level, and the Committee will continue to review progress on this important goal. As part of the regular reports received by the Committee, rates of participation analysed by many characteristics are provided, noting however that this is also subject to employees' willingness to disclose certain characteristics or sensitive information.

The ethnic representation of our Board and leadership

	Number of Board members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
White, British or other White (incl. minority white groups)	7	88	4	8	100
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	–	–	–	–	–
Black/African/Caribbean/Black British	1	12	–	–	–
Other ethnic group including Arab	–	–	–	–	–
Not specified/prefer not to disclose	–	–	–	–	–

The gender representation of our Board and leadership

	Number of Board members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
Men	3	43	2	4	50
Women	4	57	2	4	50
Other categories	–	–	–	–	–
Not specified/prefer not to disclose	–	–	–	–	–

Board performance review

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

Action Points (“AP”)/Recommendations from Board evaluations in 2023 and 2024

Continue efforts to give the Board as much time as possible with the pack prior to Board meetings with five working days plus a weekend the aim.

More work is needed on making the Board papers more “NED friendly”, They need to be shorter, avoid repetition, and be transparent in terms of sign-posting the key facts. An executive summary should always appear, and it needs to be made plain what the Board is being asked to do: note; discuss; agree and signal where most attention is requested.

Ensure that critical areas of Board oversight, for example, health and safety, are given the time they need.

The experience and skills required for Board succession should ideally reflect infrastructure experience.

The Board should consider further succession planning for key Executive roles.

The Board should be reassured about the strength and succession potential of the Senior Management Team around the CEO.

More site visits to be arranged.

Consider whether the Group has the people resources that it will need to deliver.

Industry seminars and events to be highlighted.

Analyst’s notes to be sent to the NEDs.

Key financial updates/announcements to be sent to the NEDs to give appropriate time for review and input.

Progress on the up-weighting of the Group’s principal controls to be shared with the Board.

The linkage on KPIs to strategic delivery to be highlighted.

More engagement with regulators, key stakeholders and the “outside in” perspective.

The Remuneration Committee is facing conflicting priorities from stakeholders and must stay focused on doing the right thing.

2024 Board performance review

Last years Board evaluation was carried out in March 2024 via an online questionnaire created internally by the Pennon General Counsel and Company Secretary in consultation with the Chair.

The evaluation identified several recommendations and action points, an update on the outcomes of each action are set out below:

Update on Recommendation/Proposed Approach

The majority of Board and Committee papers are sent to the Company Secretarial team 5-7 working days prior to the meeting to allow for papers to be reviewed, and the meeting packs to be circulated in advance to Board and Committee members in the timescales set.

A new Board paper template has been introduced which contains a purpose and an executive summary in order to provide succinct details for the Board’s consideration upfront. Papers are reviewed by the Company Secretarial team to ensure appropriate length. Whilst the new format has been adopted, the Secretarial team will strive to ensure that relevant issues are sufficiently clear. Executives have been reminded of the standard required and the Chief Executive and Company Secretary will drive further improvements.

Agendas have been reviewed. Health and safety matters are included as a standing item on every Board agenda and the Health and Safety Committee provide an update to the Board on their work.

The Nominations Committee will factor in to further recruitment of the diversity of skills required.

This will be key focus of the Nominations Committee for the coming year.

Executive succession planning is considered by the Nomination Committee and further opportunities will be available to meet leaders who report to the Executive.

The Chair had added site and location visits to the 2025 and 2026 calendar.

HR are supporting organisational development activity across all areas of the Group.

The Corporate Affairs updates will contain these details going forwards.

The Company’s Investor Relations team will circulate analyst’s notes.

The Company’s Investor Relations team will ensure this is done.

This is a focus for the Audit Committee.

The KPI metrics are under review by the Chair, CEO and CFO.

The Chair has built these events into the 2025 and 2026 calendars.

The Committee regularly consults with investors, regulators and advisors to ensure that relevant inputs are considered and factored into pay structures.

2025 Board performance review

This year the evaluation was carried out in March 2025 via questionnaires created internally by the Group General Counsel and Company Secretary in consultation with the CEO and Chair.

The questionnaires focused on the ongoing effectiveness of the Board during the year in setting the Group’s strategy for the next AMP, the Board dynamics, ensuring that the Board has a clear understanding of the views of its shareholders and other stakeholders, ensuring the Board takes the lead in promoting a strong health and safety culture throughout the Group, and ensuring the Board has an appropriate level of focus on risk appetite and the internal control framework, and ensuring that the processes are in place to identify risk.

The review concluded that:

- There is an appropriate current focus on the Group’s operational performance with the agenda developing to reflect the current stakeholder environment.

- The Board dynamics are developing but work well, with open, effective debate and appropriate challenge and good meeting preparation. There is good support for the Executive and a feeling the Board functions best when being totally transparent about the challenges the organisation is facing.
- The Board Committees are well run and have sufficient independent membership to ensure that they can make high quality decisions that address the diverse customer and stakeholder needs of the Group.

The 2025 Board and Committee performance reviews identified several recommendations and action points for the Board to consider, which were presented to the Board for discussion at its meeting in May 2025.

An update on the outcomes of the Board’s discussions of the 2025 Board and Committee performance reviews will be provided in the 2025/26 Annual Report and Accounts.

Audit Committee report



The Audit Committee is focused on ensuring sound financial and risk management to support the Group's strategy.

Loraine Woodhouse

Chair of the Audit Committee

Committee members	Date of appointment to Audit Committee	Attendance
Loraine Woodhouse	December 2022	✓✓✓✓✓
Iain Evans	September 2023	✓✓✓✓✓
Claire Ighodaro ¹	September 2019	✓✓✓
Andrea Blance ²	April 2025	

1. Resigned 31 December 2024
2. Appointed 8 April 2025

For the period between Claire Ighodaro stepping down to the appointment of Andrea Blance, the committee composition was not in compliance with Provision 24, however for meetings during the relevant period another independent Non-Executive Director was in attendance along with the Chair, to ensure all decisions were made with the correct oversight of the company's control, governance and risk management.

Role of the Audit Committee

- Ensure the quality and integrity of the Group's financial and regulatory reporting.
- Monitor and review the effectiveness of the internal control environment.
- Challenge the scope and adequacy of the Group's risk management processes.
- Review the Group's policies on Risk Management, Treasury, Tax and the Delegated Authorities Schedule.
- Monitor the independence, effectiveness and remuneration of the external auditor.

The Committee's focus for 2024/25

- Ensure the 2024/25 Annual Report and Accounts are fair, balanced and understandable.
- In-depth review of the key financial reporting judgements.
- Oversight of the transition of the Group External Audit to PwC.
- Ensuring readiness for UK Corporate Governance Code reforms.
- Stewardship of the Assurance Framework and Data Assurance Plan.
- Oversight of cyber security risks, priorities and planned actions.
- Risk "deep-dive" in key focus areas.
- Approval of revised Internal Audit Charter.

Dear Shareholder

On behalf of the Board, I am pleased to present the Audit Committee's report for the year ended 31 March 2025. This report is intended to provide shareholders with an insight into the work of the Audit Committee ('the Committee') together with details of how the Committee has discharged its responsibilities throughout the year and overseen the process of assurance over the integrity of the 2024/25 Annual Report and Accounts ('the 2024/25 Annual Report').

We have focused on the following key priority areas:

- Ensuring the quality and integrity of the Group's financial reporting through the assessment of accounting policy application given underlying standards, challenging management through the review of accounting judgements made in preparing financial reporting, and the Committee's assessment of whether the financial reporting of the Group is presented in a fair, balanced and understandable manner.
- Ensuring the 2025 Annual Report is aligned with the requirements of and guidance from regulators, and that all matters reported on, and disclosed, meet the needs of our various stakeholders.
- Oversight of the transition of the Group External Audit to PwC following the tender of the External Audit in 2023/24.
- Monitoring and reviewing the ongoing effectiveness of the Group's risk management and internal control environment, including the effectiveness and independence of the Internal Audit function.
- Challenging the scope and adequacy of risk management processes across the Group. In doing this, we monitor the expression of the Group's risk appetite and undertake "deep dive" reviews of higher risk areas.
- Approval of revised internal audit charter.

The Committee uses its collective expertise, with input from the External Auditor, to provide a robust challenge to the approach and judgements made by management in the treatment of financial matters and their resulting disclosures within the financial statements. PwC were appointed External Auditors for the current financial year following a competitive tender process in 2023/24. We welcome the fresh perspectives and insight that they will bring in their first year audit, to ensure a robust and effective audit of our financial results.

One of our key roles is to advise the Board that we are satisfied that the 2024/25 Annual Report is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's position, trends in performance, business model and strategy. In doing so, we ensure that management's disclosures reflect the supporting detail, or challenge them to explain and justify their explanation and, if necessary, re-present the information. As part of fulfilling these commitments, we carefully consider the key financial reporting judgements of management as set out on page 154. Significant matters considered by the Committee both during the year and in relation to the year end financial statements are laid out in this report. The External Auditor supports this process in the course of the statutory audit.

The Committee discharges its responsibilities throughout the year in accordance with a schedule of business reflecting the annual external reporting cycle of the Group, allowing for appropriate consideration at the right point. This scheduling also allows for consideration on an ad-hoc basis of events as they have arisen.

The Committee formally considers the effectiveness of the Group's risk management and internal control systems. This is achieved through updates on the operation of risk management processes during the year and the outcomes of key assurance activities, including from the Group's independent Internal Audit function. Additionally, the Audit Committee undertakes risk deep dives focused on aspects of the Group's principal risks. During 2024/25, the Audit Committee has performed risk deep dives on the following areas:

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

More detail on our risk management processes, principal risks and their associated mitigation can be found on pages 70 to 79.

The Audit Committee has also been actively engaged and received regular updates during the year on the Group's preparations for meeting the enhanced requirements set out within the 2024 UK Corporate Governance Code, in particular those aspects in respect of Audit, Risk and Internal Control. Good progress has been made with the initial phase focused on financial reporting related processes and controls. The scope of these preparations during 2025/26 will expand to cover non-financial elements alongside the financial reporting related processes and controls.

Alongside this focus on our risk processes, we formally reviewed the output of the Group's financial resilience and health assessments throughout the year: with the receipt of the Final Determination providing greater clarity on the next five years, as well as the Rights Issue completed in period, this activity was critical for the long term success and viability of the business. The Audit Committee considers a 18-month 'look forward' period through our assessment of the Group's going concern status, and over a period of seven years to assess the Group's continuing viability. This viability assessment has considered a range of financial projections arising from the current challenging and complex external environment with ongoing uncertainties in relation to economic growth, inflation prospects and the impact of the PR24 Final Determination on our water businesses. These are modelled through internal scenarios around the deployment of Group cash reserves across the full scope of the Group. The Group now uses a seven-year viability assessment period, appropriate for an acquisitive group, which in the current year aligns with the confidence provided through the PR24 Final Determination for our water businesses, given the visibility of future cash flows it brings to our regulated businesses. Our viability statement is reported on pages 80 to 81.

Throughout the year, the Group has remained focused on delivering a resilient performance in UK water, despite a difficult period of cost inflation and scrutiny of the water industry as a whole, as we execute our growth strategy of utilising both organic and acquisitive levers to drive long-term sustainable growth. We are focused on delivering sustainable results for all stakeholders.

Finally, I would like to thank Claire for her significant contribution to the Committee over the years, and I'm delighted to welcome Andrea Blance to the Committee following her recent appointment.



Loraine Woodhouse
Chair of the Audit Committee

3 June 2025

Audit Committee composition

All members of the Committee are Independent Non-Executive Directors of the Board. In accordance with the UK Code, the Board is satisfied that Loraine Woodhouse and Claire Ighodaro, both of whom served on the Committee during the year under review, have recent and relevant financial experience and, in accordance with FCA Rule 7.1.1A R of the FCA's Disclosure Guidance and Transparency Rules, have competence in accounting or auditing.

Only members of the Committee have the right to attend Committee meetings. Other regular attendees at meetings, at the invitation of the Committee, include the Chair of the Board, the Pennon Chief Executive Officer, the Pennon Chief Financial Officer, the Pennon General Counsel and Company Secretary, Director of Risk and Assurance, Group Financial Controller and the External Auditors.

The Committee regularly holds private discussions with the External Auditor without management present. Further, the Committee Chair regularly communicates with the Pennon Chief Financial Officer, the External Auditor and with Committee members outside of the meetings to better understand any issues or areas of concern.

Matters of significance for 2024/25

Financial reporting

- Reviewed and discussed reports from management on the financial statements, considered management's significant accounting judgements and the policies being applied, and assessed the findings of the statutory audit in respect of the integrity of the financial reporting of full, half-year results and a subsequent interim review to support the rights issue of the results to November 2024.
- Reviewed the internal assessment of going concern and longer-term viability on behalf of the Board.
- Reviewed in detail the 2024/25 Annual Report and advised the Board that the presentation of the 2024/25 Annual Report is fair, balanced and understandable in accordance with reporting requirements, including the consideration of climate risk in the preparation of the financial statements, and recommended the Board gives approval for publication.

External auditor

- Oversaw the 2024/25 statutory audit, including the key audit risks and level of materiality applied by the External auditor.
- Agreed the statutory audit fee for the year ending 31 March 2025.
- Reviewed and approved the non-audit services and related fees provided by the External Auditor for 2024/25.

Internal controls and risk management

- Reviewed the effectiveness of the Group's risk management framework and its integration into Board and Committee Reporting.
- Reviewed the Group's Risk Appetite Statement prior to making a recommendation to the Board.
- Monitored fraud reporting and incidents of whistleblowing, including a review of the Group's whistleblowing processes and procedures and reporting to the Board on this.
- Reviewed the Group risk register as part of the Annual Report process and considered appropriate areas of focus and prioritisation for the internal audit work programme for the financial year.
- Carried out deep dives at Committee meetings on principal risk areas.
- Approved the revised Internal Audit Charter in line with latest guidance and updated standards.
- Reviewed updated Legal Compliance Policies to progress for approval.

Governance

- Considered and approved Group accounting policies and judgements used in the preparation of the financial statements, including any required alignments of Bristol Water's and SES's accounting policies.
- Reviewed and considered internal financial policies.
- Confirmed compliance with the UK Corporate Governance Code.
- Held regular meetings with the external auditor without members of management being present.
- Reviewed updates on the Group's preparations for the UK Corporate Governance Code reforms.

Regarding monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2025 are set out in the following table, together with details of how each matter was addressed by the Committee. At the Committee's meetings throughout the year, the Committee and the external auditor discussed the significant matters arising in respect of financial reporting, together with the areas of particular audit focus, as reported on in the independent auditor's report on pages 188 to 193. In addition to the significant matters set out in the table below, the Committee considered presentational disclosure matters including the use of non-underlying performance metrics, and ensuring a fair presentation of statutory and non-statutory performance and financial measures.

During the year, the Committee's areas of focus included:

Area of focus	How the matter was addressed by the Committee
Revenue recognition	Given the nature of the Group's revenue, the key areas of income statement judgement for South West Water, Pennon Water Services and SES Water continue to be in respect of revenue recognition relating to income from water services. The Committee undertook a deep dive into the measured income accrual to ensure a robust and accurate position in the current year, as well as a further streamlining of the methodologies and judgements applied. The Committee continues to scrutinise the track record of accuracy by comparing actual outturns with accruals at previous year ends to form a judgement about the quality of decision making and to ensure any learnings are further embedded in the calculation to improve accuracy going forward. The Committee also closely considered the work in respect of these areas at year end by the external auditor as well as reviewing disclosures around revenue recognition accounting policies.
Bad and doubtful debts	Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly across the Group against historical standards and compared to the track records of other companies in the relevant sectors. The Committee was particularly mindful of the ongoing impacts of affordability on the assessment of expected credit losses in determining the bad debt provision, noting the significant increases in inflation arising from macroeconomic developments. At the year end, the external auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for expected credit losses were reasonable.
Going concern basis for the preparation of the financial statements and viability statement	A report from the Pennon Chief Financial Officer on the financial performance of the Group, including forward-looking estimates of covenant compliance and funding levels under different scenarios, including inflationary scenarios, is provided to the Committee on a periodic basis. Rolling seven-year strategy projections, and the resultant headroom relative to borrowings, are also regularly reviewed by the Committee, including the application of scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Committee receives for consideration a report focusing on the Group's liquidity over the 15-month period from the date of signing of either the Annual Report or half-year results. The Committee also reviewed a report on the Group's financial viability over an appropriate period, in connection with the UK Corporate Governance Code's requirement for a viability statement to be given by the Board. The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Group's viability should be increased to seven years, previously five years, which recognises both the longer-term visibility in the regulatory environment of the Water business and the corporate activity, including acquisitions and other non-regulated investments, undertaken by Pennon. Similarly, this report also considered the viability of the Group, taking into account the potential manifestation of other adverse events modelled from the Group's principal risks and resultant sensitivity scenarios. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Group to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on pages 80 to 81.

In addition to the matters above, the Committee also reviewed and considered communications from the Financial Reporting Council (FRC) in respect of their Corporate Reporting Review (CRR) team's review of the annual accounts, strategic reports and directors' reports for compliance with relevant reporting requirements. The FRC did not raise any questions or queries on the Annual Report for 2023/24, however, they did note a number of matters which were considered in the preparation of the 2025 Annual Report and, where relevant, updates have been reflected in the current reporting period.

The Audit Committee notes that the FRC's review was based on the 2023/24 Annual Report and Accounts and does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into. It is, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. We also note that the FRC provides no assurance that the annual report and accounts is correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's letters are written on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on them by the company or any third party, including but not limited to investors and shareholders.

Statutory auditor appointment for the year ending 31 March 2025

The 2024/25 year end audit has been PwC's first year in office as auditor, they were appointed after the committee conducted a formal tender process in February 2024, as reported by the committee in the 2023/24 Annual Report.

Effectiveness of the external audit process

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to carefully monitor the effectiveness of our External Auditor as well as their independence, while recognising there is a need to use our External Auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The External Auditor produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditor in delivering the timely audit of the Group's Annual Report and which was shared with, and discussed by, the Committee in advance. As this was the first year of appointment, the External Auditor also prepared a transition plan, which included monitoring of the 2023/24 Audit process as well as additional work in the current year to enable them to provide their audit opinion on the 2024/25 Annual Report.

The effectiveness review of the External Auditor is considered as part of the Committee's annual performance evaluation, which also examines the relationship and communications between the Committee and the external auditor. Given this reflects the first year of the External Auditor's appointment, the evaluation will take place in due course, after completion of the current year audit.

The Committee Chair has also met privately with the External Auditor to discuss key matters on a number of occasions.

Auditor independence

The Committee regards independence of the External Auditor as absolutely crucial in safeguarding the integrity of the audit process and takes responsibility for ensuring the three-way relationship between the Committee, the External Auditor and management remains appropriate.

The External Auditor reported on its independence during the year, and again since the year end, confirming to the Committee that, based on its assessment, it was independent of the Group.

Provision of non-audit services

The Committee adopts a robust policy for the engagement of the External Auditor's firm for non-audit work. The Committee receives a regular report covering the auditor's fees including details of non-audit fees incurred.

Recurrent fees typically relate to agreed procedures regarding annual regulatory reporting obligations to Ofwat: work which is most efficiently and effectively performed by the statutory auditor. The Committee's policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee Chair to approve all non-audit work performed by the statutory auditor.

The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditor's firm to carry out such work, and only grants approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be safeguarded. If another accounting firm could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the External Auditor.

The level of non-audit fees payable to the External Auditor for the past year is exceptionally not within the Group's 70% non-audit fee limit, due to fees payable in respect of the Rights Issue which were not excluded from the assessment.

The Pennon Chief Financial Officer regularly reports to the Committee on the extent of services provided to the Company by the External Auditor and the level of fees paid. The fees paid to the External Auditor's firm for

non-audit services and for audit services are set out in note 7 to the financial statements on page 213.

Statement of compliance with CMA order

The Group complies with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Internal audit

The internal audit activities of the Group are a key part of its internal control and risk management framework. At Group level there is a long-standing and effective centralised internal audit service which supports the Committee in delivering its responsibilities and has continued to operate effectively. The internal audit charter was updated during the year to reflect the requirements of the new Global Internal Audit Standards. The Group Internal Audit Plan is set on a rolling six-month basis and was approved in March 2024 and September 2024, following a thorough review to ensure it provided adequate coverage over the Group's key risks for the year ahead and was sufficiently flexible to respond to emerging risks. In developing the plan, account is taken of the principal risks, the activities to be undertaken by the External Auditor, and the Group's annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Group.

The Group Director of Risk and Assurance reported regularly through the year to the Committee on the outcomes and findings of internal audit activity. There were regular discussions, correspondence and private meetings between the Director of Risk and Assurance and the Committee Chair. The Committee continues to monitor the performance of the internal audit function as part of its annual assessment of the effectiveness of the function. As required by IIA standards, the next cyclical external review of the internal audit function will take place before the end of 2026/27 (the last having been undertaken in 2021/22).

Fair, balanced and understandable assessment

To enable the Committee to advise the Board in making its statement that it considered the Company's Annual Report to be fair, balanced and understandable (FBU) on page 187, the Committee applied a detailed FBU review framework that takes account of the Group's well-documented verification process undertaken by management in conjunction with the preparation of the 2025 Annual Report. This was in addition to the formal process carried out by the External Auditor to enable the preparation of the independent auditor's report, which is set out on pages 188 to 193.

In preparing and finalising the 2024/25 Annual Report, the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the Pennon Executive. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Looking forward

During the forthcoming year, the Committee will remain focused on the key areas of responsibility delegated to it by the Board, ensuring that standards of good governance are maintained and that appropriate assurance is obtained across all areas of the business. Particular focus will be given to the Group's principal risks, internal control environment and approach to financial reporting, noting the start of the new regulatory period, Special Measures Bill and ongoing volatility in the global economy. Developments in reporting responsibilities, including those recommended by the Task Force on Climate-related Financial Disclosures (TCFD), the consideration of climate risk in preparation of the financial statements and the changes in the UK Corporate Governance Code, including the pending requirements of Provision 29, will be considered throughout the year.

Audit, risk and internal control

Risk management and the Group's system of internal control

The Board is responsible for maintaining the Group's system of internal control to safeguard shareholders' investments and the Group's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the year and up to the date of the approval of this Annual Report and Accounts and was last reviewed by the Board at its meeting in March 2025.

The Group's system of internal control is consistent with the Financial Reporting Council's (FRC) 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (FRC Internal Control Guidance).

The Board confirms it applies procedures in accordance with the UK Corporate Governance Code and the FRC Internal Control Guidance, which bring together elements of best practice for risk management and internal control by companies. The Board's risk framework described on pages 70 to 79 of the Strategic Report provides for the identification of key risks, including ESG risks, in relation to the achievement of the business objectives of the Group, monitoring of such risks and ongoing and annual evaluation of the overall process. Details of the key risks affecting the Group are set out in the Strategic Report on pages 1 to 127.

Key performance indicators are in place to enable the Board to measure the Group's ESG performance on pages 83 to 87 and a number of these are linked to remuneration incentives on page 167.

The Audit Committee reviews the group's internal control systems and receives updates on the findings of internal audit's investigations at every meeting. During the year, work has been undertaken to document the operation of existing internal controls over financial reporting. Internal control systems over financial reporting are the responsibility of the CFO, with the support of the financial control team and the internal audit team. During the year the internal controls over financial reporting were reviewed with refreshed risk and control matrices produced.

Confirmation that the controls and processes are being adhered to is the responsibility of managers but is continually tested by the work of the internal audit team as part of its annual plan of work, which the Committee approves each year.

As part of the review evaluating the system of risk management and internal control under the Group risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Group procedures.

We have assessed the internal control systems alongside our own view arising from the ongoing regulatory investigations into operational aspects. Noting where we have had non-compliances, we have action plans in place and have continued to assess this during the year, and we have supplemented this with other aspects of investigation and remediation as required.

The Group's processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout the Group and that the Group is able to react appropriately to new risks as they arise. New and emerging risks are identified in further detail in the risk management section on pages 70 to 79.

Code of Conduct and policies

The Code of Conduct and related policies set out Pennon's commitment to promoting and maintaining the highest ethical standards. Areas covered in the Code of Conduct and related policies include our impact on the environment and our communities, our workplace, and our business conduct.

The Code of Conduct sets out the values and principles by which we operate and provides a framework for ethical business practices. It is further supported by several policies that guide our workforce and suppliers, so that we can identify and deal with suspected wrongdoing, fraud or malpractice, maintain the highest standards of compliance, and apply consistently high standards of ethics. We aim to maintain a culture that fosters the reporting of any concerns, and trust and confidence that we will act upon them.

Our Code of Conduct and other key compliance policies can be found here: <https://www.pennon-group.co.uk/about-us/policies>

Anti-financial crime policy

The anti-financial crime policy outlines the requirements of Group companies to comply with relevant legislation, ethical standards and best practice on preventing financial crime (including acts of bribery, fraud, money laundering and tax evasion) and provides information and guidance to those working for and on the Group's behalf on how to spot 'red flags' that could indicate a risk of financial crime.

The policy is at the heart of the new Pennon Code of Conduct published in February 2025. The Code of Conduct was launched to employees together with a bespoke interactive e-learning module which steps employees through different financial crime scenarios asking the learner to identify red flags which are set out in the policy. The training is mandatory for all employees and is delivered through the Group's learning management platform to track completion. Employees will be obligated to complete an annual refresher, and the course is part of the induction of all new employees irrespective of job function or part of the Group.

The Group Legal Compliance function ensures compliance with the policy and Code of Conduct in line with our risk-based approach by conducting ad hoc checks on completion of the mandatory training set out above, providing specific training to areas of potential higher risk as part of our Bribery and Fraud Risk Assessment programme (e.g. Procurement and Commercial & Estates), and carrying out detailed investigations into allegations of potential wrongdoing (whistleblows) received from employees, customers and suppliers.

The potential consequences for colleagues and the Group itself are clearly set out in the policy as are the processes for raising concerns. Any breaches or failure to adhere to the Group's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Group. All employees are required to report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Group's confidential whistleblowing service Speak Up.

The Legal Compliance team (in conjunction with the Internal Audit function and Group Tax team) created a revised financial crime risk assessment framework in April 2024. This was delivered in 2024/25 and included:

- Combined business-wide bribery and fraud risk assessment process which included a training session on the law governing financial crime and a risk assessment completion workshop
- Tax evasion risk assessment

The framework is complemented by the regular review of corporate policies relating to financial crime prevention. In addition to the Code of Conduct, a new simplified Gifts and Hospitality policy was introduced and approved by the Board at their September meeting.

Allegations of financial crime are reported to the Audit Committee together with investigation outcomes and details of any action taken, which are disclosed to our external auditors. There were no confirmed cases of bribery, corruption, fraud, or business ethics violations during the year.

Training and communications

Our comprehensive programme of training and internal communications continues with targeted messaging and interactive training sessions. This programme addresses the business's key compliance risk areas and has been designed to increase resilience, heighten awareness, and promote a culture of doing the right thing. From 2024, colleagues are required to complete refresher compliance training (focused on the Code of Conduct which signposts to all Group policies) on a yearly basis to ensure that continuous knowledge and understanding of our policies is maintained.

Whistleblowing policy – Speak Up

The Speak Up service encourages employees and our suppliers to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how any such concerns should be raised and ensures that employees and suppliers are able to do so without fear of reprisal. The whistleblowing policy specifically encourages the reporting of:

- Endangering someone's health and safety
- Anything that is against the law
- Stealing or fraud
- Corrupt or dishonest activity
- Damage to the environment
- Covering up wrongdoing
- Abuse of authority
- Intentionally misreporting to a regulatory body
- Bullying, harassment and/or victimisation
- Tax evasion or the facilitation of tax evasion.

The Speak Up service comprises telephone and web-based reporting channels operated for Pennon by independent provider NAVEX Global.

Following receipt of a report, the allegation will be triaged to assess if the issue is a personal grievance or has a wider public interest element, and an investigation started promptly if in the public interest to do so. The investigation process is overseen by the Ethics Management Committee and will be undertaken fairly, impartially, and thoroughly by appropriately trained investigators, with strict confidentiality being maintained at all stages of the investigation.

After each investigation, a confidential review is undertaken to identify any lessons learnt, or organisational improvements or training requirements. Other improvements identified are always acted upon, while ensuring the paramount requirement of operating a whistleblowing process that protects the identity of individuals and the independence and integrity of the process. Our whistleblowing process is designed to support our staff, reflect shared responsibility, promote a positive culture and provide unique insights, and is central to our system of checks and balances.

To emphasise our commitment to transparency and continuous improvement, we have led on the creation of a Water Industry Whistleblowing Best Practice Forum consisting of 12 water and waste companies across England and Wales.

ESG Committee report



The ESG Committee (the Committee) supports the Group's ongoing commitment to environmental stewardship, social responsibility, and strong governance, ensuring that sustainability remains embedded across the group.

Iain Evans

Chair of the ESG Committee

Committee members	Date of appointment to ESG Committee	Attendance
Iain Evans (Chair)	September 2018	✓✓✓✓
Gill Rider ¹	September 2012	✓
David Sproul ²	July 2024	✓✓✓
Jon Butterworth	July 2020	✓✓✓✓
Dorothy Burwell	December 2022	✓✓✓✓
Susan Davy	March 2018	✓✓✓✓
Laura Flowerdew ³	July 2024	✓✓✓
Steve Buck ⁴	November 2023	✓
Andrea Blance ⁵	April 2025	

From the 1 April 2025 Dorothy Burwell will be Chair of the ESG Committee and membership will be Jon Butterworth, Loraine Woodhouse, Susan Davy and Laura Flowerdew.

1. Resigned 24 July 2024
2. Appointed 1 July 2024
3. Appointed 11 July 2024
4. Resigned 11 July 2024
5. Appointed 8 April 2025

Role of the ESG Committee

- Review the policies, management, initiatives and performance of the Group with respect to the environment, workplace policies, Group governance and corporate policies relating to responsible and ethical business practices, the role of the Group in society and customer service and engagement.
- Review the overarching environmental performance of the business, ensuring a focus on key areas of improvement.
- Review the actions of the Group to determine the suitability of the workplace environmental policies and practices of key suppliers and contractors.
- Review the extent and effectiveness of the Group's external reporting of sustainability performance and its participation in relevant external benchmarking indices.
- Regularly report to the Board.
- Advise the Audit Committee of any material non-financial risks.

The key successes of the Committee's focus for 2024/25

- Achieved 13 out of 16 of our ESG targets for 2025.
- Successful integration of all entities into our group ESG targets, where practically applicable.
- Refreshed our materiality assessment, following double materiality principles in line with best practice to complete our first Double Materiality Assessment (DMA).
- Established new ESG targets for 2025-2030 informed by the outputs of our DMA.
- Enhanced our social strategy informed by a deep dive into our Social Performance.
- Continued to successfully integrate ESG principles across the group, with a strong focus on our supply chain leading to an exciting partnership with the Supply Chain Sustainability School.
- Achieved inclusion on the CDP A-List for climate and water for the first time as a group, highlighting our improved environmental performance.
- Achieved our highest Sustainalytics score, with a management score of 84.5 and an overall ESG risk rating of 11.7 placing us second out of 50 water utilities assessed.
- Successful progress made against our four priorities for 2024/25, including greenhouse gas emissions reductions and water quality and resilience.
- Continued development of our TCFD and TNFD reporting, including key physical and transition risks, and scenario analysis, aligned with the Climate Adaptation Report published in January 2025.
- Reviewed our ESG reporting and assessments in line with incoming legislation – including UK Sustainability Reporting Standards (UK SRS).

Dear Shareholder

I am pleased to report on the ESG Committee's activities and achievements during 2024/25. I continue to be supported by an experienced Committee who focus on governing our ESG activity and disclosures and ensuring we continue to be a responsible business, as well as on creating a long-term positive impact on both the environment and all of our stakeholders, and I'd like to thank them personally for their work and input this year. I am also delighted to be handing over the ESG Committee Chair to Dorothy Burwell, who I have no doubt will continue to drive our ESG strategy into the future.

Our approach to ESG ensures that everything we do supports our commitment to providing environmental stewardship and supporting our local communities and customers. A broad range of ESG topics were considered by the Committee during the year while fulfilling its duties in accordance with our latest terms of reference and governance structures. The Committee closely monitored its wide range of ESG measures, targets and environmental KPIs alongside compliance and assurance activities, which showed strong performance throughout the year. This performance has been underlined by our continued improvement in ESG benchmark scores, achieving industry leading scores in key assessments such as CDP and Sustainalytics.

A strategic leadership approach has been implemented to address areas of improvement, particularly across renewable energy generation, storm overflows, pollution, and water quality. Remediation activities are currently underway to ensure continued improvements in performance for 2025/26. Our strong progress on existing regulatory commitments and group ESG targets to 2025 has been further identified in "Our Integrated Approach to ESG" on pages 82 to 87, and the key focus areas for the Committee in 2025/2026 are noted in the "Focus areas for 2025/26" below.

As we conclude our 2025 ESG targets, this year has provided a valuable opportunity to reflect on our performance and shape our future ambitions. The Double Materiality Assessment (DMA) conducted in alignment with best practice has provided critical insights into stakeholder views, building on our four strategic priorities as a business. This assessment has formed the foundation of our next phase of ambitious ESG targets, spanning 2025-2030. These refreshed targets take into account our ever-changing environment and ensure focus on the highest-priority issues for our stakeholders, driving performance above and beyond our current regulatory commitments. As we enter this next chapter, we remain committed to driving our performance against these targets, driving long-term value for our stakeholders and environment, and enhancing our sustainability performance across the Group.

Following on from our supply chain deep dive in 2023/24, we remain committed to ensuring that ESG principles are inherent within the Group activities and across our supply chain. Driven by our ESG improvement programme, we are partnering with the Supply Chain Sustainability School (SCSS) to upskill both suppliers and internal colleagues across all sustainability-related topics. This is part of our wider commitment to continue endorsing the assessment of supplier ESG measures against stakeholder, regulatory, and investor requirements to ensure alignment with our sustainability ambitions activities.

In line with our TCFD requirements, we have disclosed climate-related financial information on pages 94 to 125. These disclosures evidence our strategy to reduce emissions within our operations to achieve our Net Zero commitments. The Committee oversaw our climate-related governance, with climate change management treated as one of the group's principal risks. The Committee has also continued to oversee TCFD and TNFD recommendations, including key physical and transition risks and scenario analysis, aligned with the Climate Adaptation Report published for South West Water in January 2025.

This Annual Report provides an integrated assessment to show how a responsible approach to sustainability helps us to balance the immediate and longer-term needs of society with the delivery of sustained commercial success.

ESG performance

The ESG Committee continues to provide assessment and oversight of the group entities' performance against sustainability-related targets that are core to the successful delivery of its five-year business plan. This is consistent with Ofwat's requirement for independent governance of the regulated business.

As of 31 March 2025, Pennon has achieved 13 out of 16 ESG targets, representing strong progress against our challenging ESG goals. Whilst we continue to consistently outperform in our greenhouse gas reductions, renewable energy generation as a proportion of total usage is lower than our target for the year. This is due to increased energy usage driven by reinforced pumping and treatment in response to extreme wet weather throughout the year, however we continue to invest in solar generation with our first investment in Pennon Power expected to commence energy generation in June 2025.

As detailed above, we have now set ambitious ESG targets to drive sustainable outcomes for the period 2025-2030. These have been disclosed on pages 86 to 87.

Enhanced reporting and assurance

As a key topic identified in this year's Double Materiality Assessment, we continue to evolve our ESG reporting and disclosures with our integrated reporting found throughout our Annual Report and Accounts, alongside a refreshed ESG Data Book to drive transparency throughout our ESG data. Our SASB disclosures can now be found within our ESG Data Book which is available to view at www.pennon-group.co.uk/sustainability.

Pennon's ESG reporting is integrated throughout the strategic report and specifically in the following sections:

Section	Page
Chair's letter	8
Our CEO's review	10
Our business model	20
Stakeholder engagement overview	22
Our people and culture	32
Our Operational review	40
Key performance indicators	56
Our ESG performance	83
Governance performance	138

Other related reporting including our Gender Pay Gap report, Climate Change Adaptation Report and Net Zero plan can be found on our website www.pennon-group.co.uk/sustainability.

Pennon's ESG performance and reporting is now assured by Jacobs, an independent consultancy with expertise in technical assurance for the utility sector. Jacobs uses a controls-based approach, assessing the processes, systems, and governance frameworks that underpin ESG data to ensure accuracy, consistency, and reliability. The assurance statement can be found on our website at www.pennon-group.co.uk/sustainability.

Certain disclosures within this Annual Report that relate to the sustainability performance of South West Water and Bristol Water have also been subject to an independent audit of regulatory data conducted by Jacobs.

Jacobs are engaged to independently audit South West Water's and Bristol Water's technical (non-financial) data relating to our Outcome Delivery Incentives published in their Annual Performance Reports (APRs). This includes all regulatory targets, including a suite of environmental performance indicators. This year, Turner and Townsend have conducted an independent audit of other non-financial data, also included in the APR. This includes all South West Water regulatory targets, including the suite of environmental performance indicators. Jacobs provide a report on this audit within South West Water's APR. Following the acquisition of SES Water, Mott MacDonald have continued to provide independent assurance over the technical (non-financial) data across information published in the APR, including regulatory targets and performance.

As we enter the new regulatory period to 2030, we are reassessing our assurance requirements and will retender for technical (non-financial) audit activities to be consistent across all of the Group companies and regions.

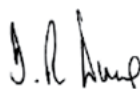
Benchmarking

It's important to us to ensure we are regularly benchmarked against the expected industry standards. This ensures we are continuing to provide up to date disclosure for our stakeholders. Certain leading indices assess companies on their disclosures relating to stringent environmental, social and governance criteria, and their capacity to capitalise on the benefits of responsible business practice. Pennon is a constituent within the FTSE4Good Index, Sustainalytics, CDP Climate and Water, GRESB, S&P Global CSA, and a number of other leading external ESG assessments.

Our latest external assessment scores as of 31 March 2025, included on page 86, show our improved performance across all assessments, building on our status as an ESG leader within our industry.

Focus areas for 2025/26

- Embed and progress against our refreshed ESG targets for 2025-2030.
- Develop our Social approach to embed social value within our community investment.
- Continue to review our ESG assessments in line with incoming legislation – UK Sustainability Reporting Standards (UK SRS).
- Development of supply chain improvements, embedding benefits through our partnership with the Supply Chain Sustainability School (SCSS).
- Formalise our group's Climate Transition Plan aligned to a 1.5 degree increase in global temperatures.
- Engage in diverse deep dive sessions across the ESG areas.
- Continued integration of ESG across the entire Group.
- Review of external ESG benchmarking to refocus reporting to channels used most by our stakeholders.



Iain Evans
ESG Committee Chair

3 June 2025

Health and Safety Committee report



The Health and Safety Committee (the Committee) promotes a culture of safety within the Group.

Jon Butterworth

Chair of the Health and Safety Committee

Committee members	Date of appointment to Health and Safety Committee	Attendance
Jon Butterworth (Chair)	November 2020	✓✓
Iain Evans	November 2020	✓✓
Dorothy Burwell	December 2022	✓✓
Susan Davy	November 2020	✓✓
Laura Flowerdew	July 2024	✓✓

From April 2025 membership of the Health and Safety Committee will be Jon Butterworth, Iain Evans, Loraine Woodhouse, Susan Davy and Laura Flowerdew.

The Committee's focus for 2024/25

During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Half yearly comprehensive reviews of the Group's Health & Safety performance.
- A review of the tactical interventions to deliver in year improvements in incident reduction.
- A review of the HomeSafe 2025 strategy and evolution to HomeSafe 2030.
- A review and challenge of high potential near-miss events to ensure themes are identified and pragmatic solutions implemented.
- Visiting operational sites to engage with front-line colleagues and the wider Health and Safety teams.

Role of the Health and Safety Committee

- Review and challenge to support the Board and Executive on all matters connected to Health and Safety.
- Review the extent and effectiveness of the Group's reporting of health and safety performance and compare to external benchmarks.
- Regularly report to the Board.
- Advise the Audit Committee of any material non-financial risks.

Dear Shareholder

I am pleased to provide an update on the Health & Safety (H&S) Committee's activities during the year.

At Pennon we are passionate about health and safety. Everyone is empowered to take responsibility for both safety and wellbeing, feeling able to call out anything that makes us better. Safety is about taking accountability and brave leadership, which leads to the journey of a world-class culture. The Board are particularly proud of our Pennon Water Services division who, for the fifth year, have had no lost time injuries.

HomeSafe, our flagship initiative to drive enduring and sustained change – has played a pivotal role across Pennon. Our dedicated Board Committee, focused purely on Health and Safety, ensures the Board continues to support our HomeSafe strategy and the Group's vision that everyone goes home safe every day. We continue to strive to improve our health and safety performance, and leadership from the top is critical. The Board has dedicated time to visit operational sites, discuss and review performance, offer support, encourage learning, and meet department and site leaders and employees from across the business.

The Board recognises the improvements across the Group through HomeSafe and supports the evolution of the strategy to drive improvements across all aspects of health, safety and wellbeing through to 2030.

I was delighted that the Committee was able to support the HomeSafe live event this year and visit multiple operational sites. The event, which changed formats from previous years, was brought to life with engaging workshops delivered over six days at six different venues within the South West. The interactive workshops had core health and wellbeing messages featured throughout and allowed employees to engage directly with senior leadership.

Importantly, the Committee reviews deep dives of High Potential Incidents with a particular focus on lessons learned, getting to the root cause, encouraging a learning mindset. These reviews highlight the improvements in culture, leadership and accountability through open and honest investigations seeking to learn and improve whilst deliver pragmatic solutions.

Health and Safety Committee composition

All Board members are attendees and served throughout the year, with support from the Pennon Chief People Officer and Pennon's Health and Safety Director.

Reporting

In addition to the regular Board report by the Pennon Chief Executive Officer, detailed performance is reviewed quarterly by the Executive team, and six-monthly by this Committee, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health, critical safety controls and working environment.

Engagement through all levels of the organisation has demonstrably increased and has supported the incremental improvements, and once again seen the lowest ever Lost Time Injury Frequency Rate (LTIFR), for employees and agency, excluding contractors, achieving the original HomeSafe ambition of 0.25.

The evolution of HomeSafe will continue to drive improvements and will be regularly reviewed to ensure it drives us towards our 2030 aims, and beyond.

The Committee will continue to review and challenge plans and performance to support our HomeSafe ambitions.



Jon Butterworth

Chair of the Health and Safety Committee

3 June 2025



HomeSafe strategy

The Group's flagship Health and Safety programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities and impacts. The evolution of HomeSafe is an important progression to deliver continuous improvement throughout AMP8, and is focused on the four cornerstones of:

Occupational Safety: focusing on the Individual

Process Safety: focusing on the high consequence processes within our water and wastewater treatment process.

Occupational Health and Wellbeing: focusing on physical and mental health

Security: focusing on physical and personnel security

Read more on page 35.

Remuneration Committee report



Evolving remuneration in a changing environment.

Andrea Blance

Chair of the Remuneration Committee

Committee members	Date of appointment to Remuneration Committee	Attendance
	Committee	
Andrea Blance (Chair)¹	April 2025	–
Claire Ighodaro ²	July 2020	✓✓✓✓
Iain Evans ³	September 2018	✓✓✓✓✓
Dorothy Burwell	December 2022	✓✓✓✓✓
Loraine Woodhouse ⁴	December 2022	✓✓✓✓✓

1. Andrea Blance was appointed to the Board as Remuneration Committee Chair on 8 April 2025.
2. Claire Ighodaro resigned from the Board as at 31 December 2024.
3. Iain Evans acted as Chair of the Committee for the March meeting.
4. Loraine Woodhouse stepped down from the Remuneration Committee on 1 April 2025.

Role of the Remuneration Committee

- Ensure remuneration is aligned with the Group's strategy and reflects the values of the Group.
- Determine the Remuneration Policy to ensure it remains appropriate, considering shareholders' views and best practice and supports attraction, retention and motivation of Executive Directors.
- Advise the Board on the framework of executive remuneration for the Group.
- Set the remuneration level for the Chair, the Executive Directors and senior executives of the Group and review the remuneration arrangements of the wider workforce.
- Approve the design and determine the targets for any performance-related pay schemes.
- Determine the appropriate outturn of any incentive arrangements.

The Committee's focus for 2024/25

- Considered the remuneration and terms of engagement of the Executive Directors, senior executives and Chair of the Group and the remuneration of the wider workforce.
- Considered the appropriate long-term incentive arrangements for the Group over the next 3-5 years engaging with stakeholders as appropriate.
- Determined targets that remain stretching, relevant to the Group's strategy and values and reflect best practice and wider stakeholders' views.

Dear Shareholder

I joined Pennon in April 2025 as the new Chair of the Remuneration Committee and I am pleased to present our 2025 Remuneration Report to all of our stakeholders. I would like to start by thanking the previous Chair, Claire Ighodaro, for her careful and thoughtful leadership of the Committee until she retired in December 2024 and Iain Evans for stepping in as interim Chair before I joined.

Long term stewardship is at the heart of our strategy. Our values and culture shape how we act in a way that supports the interests of our various stakeholders. This applies at all levels of the organisation, including the activity of the Remuneration Committee.

All of our stakeholders – investors, employees, our customers, the communities in which we operate and the environment – have a shared interest in ensuring water companies are performance driven, sustainable, financially resilient, mindful of our impact on the environment and able to make the substantial capital investment required in infrastructure in order to ensure the long-term viability of the sector.

With this in mind it is essential that the approach to executive pay is able to attract and retain the high-quality talent required to a lead large, complex, infrastructure organisation, by incentivising and fairly rewarding management teams for the outcomes achieved. These principles underpin our approach to executive remuneration.

External context

This has been a year in which many of the foundations underpinning effective regulation of the water sector have been under review, with a new Government, new legislation and a renewed focus on the transformation of the sector. The Water (Special Measures) Act, passed in February 2025, has strengthened the power of water industry regulators, with Ofwat now consulting on supporting rules to prohibit performance-related pay across our regulated businesses in certain circumstances. We await the outcome of this consultation.

As a principle, we always strive to ensure we maintain constructive working relationships with the Government and our regulators. As a responsible business, we fully support the legislation and want to work constructively with Ofwat to ensure that everyone can have the clarity required to enact the requirements of the Act in full. That said, we are mindful that the Act will fundamentally change how incentives are operated by water companies in comparison to other sectors and FTSE listed businesses more generally.

It is also fair to acknowledge that as with any critical national infrastructure, from time-to-time things do not always go to plan – and whilst we should not reward failure, alignment of performance related pay with the long-term stewardship of the assets and delivery for customers and the environment is paramount.

Business Context

Following Ofwat's Final Determination in December 2024, in which South West Water's business plan was recognised as 'outstanding' for the third consecutive price review, Pennon accepted the determinations for SWW and SES. In the period to 2030 we are increasing capital investment from c.£1.9bn to a record £3.2bn, to be distributed across a range of transformation projects focused on areas such as tackling storm overflows, bolstering water resources with a new reservoir in the South West, and expanding our programme of nature recovery. Supporting affordability for customers remains key.

We also recently completed a comprehensive financing package to support investment and drive outcomes for customers, communities and the environment, whilst also maintaining total dividend with a sustainable CPIH linked growth policy to 2030. Coupled with the 34% organic growth projections in Regulatory Capital Value in the period to 2030, this represents an attractive combination of underlying asset growth and income to our shareholders.

This is a critical phase for the Group, as we seek to deliver what matters most to our stakeholders and in transforming the water sector in a period of unprecedented and well-documented challenges. During such a period it is crucial that we are able to attract, retain and motivate our extremely strong team of senior leaders in order to drive delivery of our transformational business plan.

Assessment of full year performance in the round

In respect of our 2023/24 annual bonus scheme, where it was agreed that Executives would not take a bonus payment, Ofwat commented on the weighting and selection of metrics related to customers, communities and the environment and the extent to which outcomes were linked to financial and broader Pennon Group performance. Conversely, Ofwat considered the SWW and SES scheme constructs to be robust.

Given this feedback, we have re-positioned the Pennon annual bonus for 2024/25 to create a clearer link to the performance of SWW and SES. In proportion, the annual bonus scheme is 90% water business (70% SWW, 20% SES) and 10% Pennon Group. This continues to be consistent with the existing remuneration policy, with financial, customer and environment measures embedded in these schemes. In all relevant cases objectives are based on achievement of stretching business plan targets, agreed with Ofwat as part of K7.

Based on a formulaic assessment of performance, the outturns for the 2024/25 bonus would be 42.4% of maximum. Overall we are delivering for investors as well as customers – with robust relative performance on common ODIs, with overall cumulative ODI performance at 70%. Underpinning all of our activities is a robust funding position, with Pennon Group gearing at 64.3%, and total water group RCV gearing at 61.8%. 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. The boil water notice in May 2024 for Brixham customers, was considered by the Committee in the forgoing of the 2023/24 annual bonus by all members of the executive team.

The Water (Special Measures) Act was passed in February 2025, and the Act will be applicable to 2024/25 annual bonuses. Whilst Ofwat has initiated a consultation on how bonuses may be prohibited, this is ongoing.

In light of the ongoing consultation by Ofwat on how the Water (Special Measures) Act will be operated in practice, the Committee has noted the formulaic outturn of the 2024/25 annual bonus. However, no payments will be made to the Executives until there is further clarity on the new legislation framework to assess performance and the additional performance criteria that need to be achieved before a bonus can be paid. Once the final rules have been published, the Committee will review outcomes and determine the best course of action including whether an element of this award should be delivered as long-term shares as part of a future incentive framework with additional conditions.

In relation to the Long-Term Incentive Plan awarded in 2022, Ofwat has indicated that it is not their intention for the Act to retrospectively apply to this award. This award was linked to a combination of financial and customer related metrics. Shareholders will be aware that in response to Ofwat feedback, the 2023 LTIP awards included additional goals relating to Water Quality.

At the sector wide Select Committee in January 2025, EFRA Committee members challenged the absence of metrics relating to affordability and the approach to vulnerable customers in incentive arrangements. Given this, we have included these metrics within the basket of measures relating to customer experience. Details of performance against all LTIP measures is set out on page 176.

The vesting level for the 2022 LTIP award is 41.1% and will be awarded as shares and not paid for by customers. Although this award vests in 2025, all vested shares are subject to a further two-year holding period and therefore awards are not eligible for release until 2027. The formulaic outcome was reviewed in the context of overall performance using the Committee's longstanding holistic performance review framework. Overall, the Committee concluded that the outcomes represented a fair reflection of performance over the period.

The stretching performance targets ensured vesting was dependent on strong delivery, and where the targets had not been achieved, this was already reflected in the performance assessment. In addition, the Committee noted that for the first two years of the performance period, the CEO did not receive any bonus payments, therefore the final vesting level was deemed to be proportionate. Using Ofwat's draft prohibition framework, we have assessed the award against customer, environmental, financial resilience and criminal liability matters, concluding that the EA prosecutions in 2024, as well as the Brixham incident had already been recognised in the forgoing of annual bonuses in 2023/24.

In addition to the incentive arrangements, performance alignment is also provided by shareholding requirements. The CEO has a significant shareholding in the Company, at 324% of salary. During the year the CEO acquired 118,939 shares in support of the Group's Rights Issue. The Committee is satisfied that the CEO continues to be aligned to the long-term sustainable performance of the business and the experience of our shareholders, exceeding the 200% shareholding guideline.

During the year Steve Buck stepped down from the Board. Details of remuneration arrangements agreed by the Committee on departure are set out on page 177.

Market context and review of arrangements

Over the past year the Remuneration Committee has been considering how best to evolve remuneration arrangements, seeking views from investors and a range of stakeholders to ensure we can continue to motivate, retain and attract talent. The focus has been on ensuring remuneration supports stewardship and sustainability of the business, aligned with longer-term objectives of our customers, and in complying with the relevant legislation.

Our principles around performance related pay are grounded in the Investment Association's guidance. We believe that performance related pay is necessary to attract and retain talent. Equally when combined with long term stewardship of critical national infrastructure, it can support economic growth and stability.

Over the past year we have debated a number of alternative solutions to how pay can be structured in the future. We have also had initial discussions with our major shareholders to test and challenge our thinking. Although this review process is ongoing, we have debated how remuneration can help to rebuild trust in the sector by supporting long-term stewardship and aligning remuneration with execution of the long-term strategy.

It is also recognised that despite being amongst the largest FTSE 250 companies when ranked by market capitalisation (c.30 May 2025), pay for the CEO is around the bottom 10% of the group. This is not a credible or sustainable position. The misalignment of CEO pay became very apparent when we were recruiting the CFO, as many credible external candidates had pay expectations that exceeded the pay levels for our CEO.

Having sought initial feedback, we intend to consult with stakeholders in the coming months. This review will cover all elements of pay for 2025/26. Our current expectation is that we will put forward a revised policy for approval by shareholders in due course, once proposals are finalised, with potential application for 2025/26 subject to shareholder approval.

Wider workforce remuneration

We are committed to ensuring remuneration for our front-line colleagues is competitive, understanding that this is the right priority when the financial landscape is challenging. We are proud that we have been an accredited Living Wage Foundation payer since 2021, and in practice we had aligned our pay rates to these recommended levels for some time prior to accreditation.

The 2025 pay award reflects a competitive award which continues to focus on front line roles with an increased valued at 3.9% inclusive of one day additional holiday for the majority of colleagues. We are proud that our employees will earn a minimum of £13.10 per hour, exceeding the real living wage by almost £1,000 annually, underscoring our dedication to being an employer of choice.

Our Group Reward Principles continue to reflect the broader strategy, evolving composition of the Group and recent years acquisition activity which has expanded our workforce across multiple locations. Key areas of focus included the embedding of the Group Values, strengthening wellbeing and incorporating greater employee flexibility through work patterns or choices of lifestyle benefits. We also offer highly competitive retirement benefits to our colleagues, and enhanced life assurance protection.

We also took time to reflect on our variable pay for colleagues, linking any variable pay to our Group Values, and ensuring clear line of sight between their objectives and the Group strategy, our customers and their communities. For senior managers there is a continued focus to build colleagues shareholding in the business through any variable pay outcomes.

Our HMRC-approved share schemes continue to be popular with c.40% of colleagues participating in either the ShareSave or Share Incentive Plan. We have once again provided expanded disclosure on our approach for the wider workforce, and this is set out on page 168.

Summary

The sector is being faced with unprecedented challenges, and we have sought to be measured and pragmatic as we navigate this period of change. The main body of the report provides further details on our key decisions, including our decision to pause the awarding of the annual bonus for 2024/25.

We recognise that the challenges faced by the sector may require a rethink to how Pennon approaches executive pay in the future, and therefore we will continue to review our approach in remaining mindful of evolving guidance from Ofwat. To the extent that structural changes are proposed we intend to consult with our major shareholders regarding any changes in the next few months.



Andrea Blance
Chair of the Remuneration Committee

3 June 2025

Directors' Remuneration report

How will the Water (Special Measures) Act Impact Pennon?

The new Act gives Ofwat the power to prohibit performance-related pay for executives of regulated water companies that fail to meet specific standards. We will abide by the new legislation and associated guidance when operating variable incentives in future years.

Ofwat have not yet published final guidance on how the Act will be implemented in practice. Naturally the Committee is keen to ensure that the Group complies with the legislation and our regulatory requirements.

For 2024/25, we have assessed the bonus performance outcome for the year, but no bonus has been paid to either executive director. The final outcome for the year will only be determined once Ofwat have published their final rules and guidance. If paid, it will not be paid for by customers.

In relation to the 2022 LTIP, the targets were set at the time of grant, before the new legislation was enacted. The Committee has taken steps to ensure that the vesting outcome and overall pay levels over the last three years fairly reflect performance over the period, noting that the award will be held for a further two years, and will not be paid for by customers.

In the longer-term the Act will fundamentally change how incentives are operated by water companies in comparison to other sectors.

Why have you not set performance targets for the coming year?

During a recent early-stage consultation regarding potential structural changes, a number of shareholders provided valuable feedback regarding performance metrics for incentives. We will take these comments into account when refining our proposals.

Once targets have been finalised, we intend to re-engage with investors and Ofwat. We also plan for finalised targets to be published on our website for full transparency.

For the 2024 LTIP, unfortunately we have not been able to finalise targets for this award. Although we had originally intended to finalise these during H1 of 2024/25, the election of a new Government followed by the prospect of new legislation and evolving guidance from Ofwat, made it impossible to set targets with certainty that any scorecard would be acceptable under the new regime. Ofwat has confirmed that any 2024 LTIP is likely to be within the remit of the Water (Special Measures) Act. Therefore our intention is that any scorecard that is applied to the 2025 LTIP awards will also be applied to the 2024 LTIP award.

Although the performance criteria and weightings for incentives have not been finalised, it should be noted that as a regulated business, there are clear targets that have already been set as part of our stretching business plan. These will form the basis for any performance conditions used for incentive purposes.

What are the areas of focus for the ongoing remuneration review?

This is a critical phase for the Group, as we seek to deliver what matters most to our stakeholders, transforming the water sector in a period of unprecedented and well-documented challenges. During such a period it is crucial that we are able to retain and motivate our extremely strong team of senior leaders in order to drive delivery of our transformational business plan.

The Water (Special Measures) Act will fundamentally change how incentives are operated by water companies in comparison to other sectors. The Committee is also acutely aware of the need for external stakeholders to have trust and transparency in the way remuneration is determined in the water sector.

In this context we think a fresh perspective on pay is required to respond to the new regulations and challenges in the sector. Overall the intention is to support greater long-term stewardship.

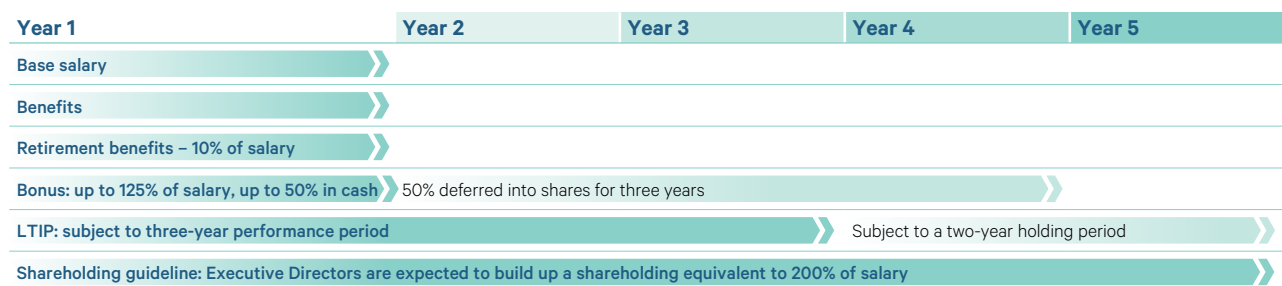
Over the past year we have debated a number of innovative alternative solutions. To date, we have consulted with a number of our major shareholders, to test and challenge our thinking and over the coming months will continue our discussions with key stakeholders.

Although initial feedback from shareholders regarding the direction of travel has been positive, we are not yet in a position to put forward a new Remuneration Policy at the forthcoming AGM. Instead, we intend to continue this review in the coming months. It is our intention to take the necessary time to appropriately consult with key stakeholders prior to any major changes in approach.

The ongoing review process will cover all elements of pay for 2025/26 including the operation of incentive plans for the coming year. In order to ensure remuneration is considered in a holistic manner, the CEO salary for 2025/26 will also be considered as part of this broader review process.

At a glance

What is the structure of executive pay?



What safeguards are in place?

Robust performance conditions

Variable pay linked to a rounded assessment of performance against stretching targets

Review framework

Holistic review of performance to consider if formulaic incentive outcomes are fair and appropriate

Deferral and holding periods

Bonus (50%) and LTIP awards are deferred for a further period to provide long-term alignment

Malus and clawback

Provisions in place for variable pay to safeguard against payments for failure

How did we perform?

Performance highlights

Record investment in our asset base...

£666.7m

...including investment in renewable energy generation of

£40.7m

Group Liquidity in excess of

£1bn

Underlying EBITDA

£335.6m

despite ongoing cost pressures

c.40%

reduction in network pollution incidents over K7

100%

bathing water quality for the fourth consecutive year

100%

affordability – meeting our pledge in water poverty

Vesting 2022 LTIP measures

Performance outcome = **41.1% of max**

Legacy LTIP award – granted before new legislation and guidance developed

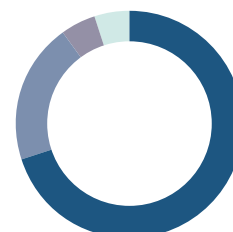


RORE: **33%**
Sustainable dividend: **33%**
Customer experience: **33%**

2024/25 bonus measures

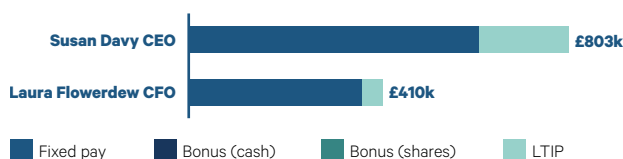
Performance outcome = **Not Applicable**

No payments have yet been approved until further clarity on how Ofwat will apply new legislation



SWW: **70%**
SES: **20%**
Pennon Power: **5%**
PWS: **5%**

What were the remuneration outturns for 2024/25?



Annual report on remuneration

Oversight of Remuneration for the Wider Workforce

The Remuneration Committee considers oversight of remuneration for the wider workforce as a key element of its remit and considers this when making decisions regarding remuneration for the Executive Directors. The Committee reviews a report on employee remuneration twice a year, either through a pay dashboard, which contains information on elements of financial and non-financial reward, the wider labour market, demographics and pay statistics across the organisation or through a subject specific paper. This detail provides important context to ensure that a consistent approach is adopted across the Group workforce including the Executive Directors.

Developments in the financial and non-financial elements of the employee proposition are reviewed regularly, as well as share scheme participation and emerging reward trends. The Committee reflects on the position of our gender and ethnicity pay. Feedback to the Committee from employees is through 'Be The Future' forum – our employee engagement forum through the Senior Leaders on matters concerning remuneration arrangements.

Our Reward Strategy and Approach for the Wider Workforce

Our well-established People Strategy across the Group is centred around talented people doing great things for customers and each other and creating the best place to work. The Reward strategy and framework which was established in 2019 was reviewed and updated during 2023/24. The framework reflects our changed Group composition, our latest business strategy and plans, and changing employee expectations. The Group values (see page 169) are incorporated. The framework will continue to set our approach for future developments in the reward landscape for colleagues.

Pennon's Group Reward Strategy continues to have three aims:

- | | |
|---|---|
| Aim 1
 | Ensure reward decisions will support: <ul style="list-style-type: none"> • Our business strategy for delivering to customers and communities, and promoting long-term sustainable growth • Our People strategy and values • Our alignment to stakeholder expectations (e.g. investors and regulators) |
| Aim 2
 | Ensure the reward package offered to employees is: <ul style="list-style-type: none"> • Designed and delivered fairly • Set up to enable the business to attract and retain the talent that it needs to be successful • Supports employee engagement and motivation • Allows employees to share in Group success |
| Aim 3
 | Clearly communicate to relevant stakeholders our employee reward and recognition principles and framework |

Rewarding our colleagues

Salary increases for wider workforce

As in 2024, we have focused our pay spend on those colleagues who have needed most support during the ongoing increases to cost-of-living. The 2025 pay award continues to focus on front line roles with an average increase valued at 3.9% inclusive of one day additional holiday for the majority of front line colleagues. We are proud that our employees will earn a minimum of £13.10 per hour (with the exception of apprentices who are on a formal training plan), which not only aligns with, but exceeds the real living wage by almost £1,000 annually, underscoring our dedication to being an employer of choice. For colleagues covered by collective pay bargaining, the award remains subject to ballot.

We will continue to evaluate work patterns for the mutual benefit of customers, colleagues and operational needs during 2025/26.

Wider workforce bonus arrangements

All colleagues across the Group are eligible to participate in variable pay schemes. Senior bonus arrangements follow the model applied to the Executive Directors for their annual bonus incentive. For the wider workforce, variable pay has been aligned with the Group Values, and has stretching targets which support delivery of our Business Plan for 2025-2030, focusing on water quality and resilience, storm overflows and pollution, our net zero agenda and customer service and affordability. The scheme maintains a measure for our imperative of all colleagues going HomeSafe each and every day.

Financial wellbeing and wider benefits

We offer a comprehensive range of benefits which have been extended over the past few years to include the roll out of a financial well-being and education partner for colleagues and their families. This includes an ill-health income protection policy which has provided support to a number of colleagues in 2024/25. We continue to operate a range of discounts, green initiatives and services to enhance our employee proposition.

Saving for the future

We know that our colleagues value our responsible approach to pension contributions. We are pleased that despite the ongoing cost-of-living increases, 93% of colleagues continue to participate in the defined contribution schemes.

Our ShareSave scheme was again opened for applications in 2024, continuing to support our belief that employees should have a stake and say in the business. The ShareSave sits alongside our evergreen Share Incentive Plan providing employees with monthly share purchase from pre-tax salary. The 2024 ShareSave scheme received strong support from our colleagues, with over 36% of colleagues joining the scheme, and we extended this and the Share Incentive Plan (SIP) to our colleagues in South East and Surrey Water. We have also seen ongoing growth in participation in the SIP this year of over 6%

Living Wage Foundation

We continue to pay above the Living Wage Foundation rates for all roles excluding those colleagues who are on our apprenticeship arrangements. Our accreditation as a Living Wage Foundation employer has been maintained since 2021. We continue to focus our pay spend on lower paid roles.

Wider workforce remuneration overview

In accordance with the 2018 UK Corporate Governance Code, the Committee reviews the level of information provided on pay matters in the wider organisation. The Wider Workforce papers provide the Remuneration Committee with an overview of the approach to pay across the Group, supplemented with topic specific papers:

- Helps support the Committee in reviewing workforce remuneration and related policies which continually evolves to provide greater insight.
- Provides an overview of pay arrangements across the business and key statistics on pay in different areas of the business.
- Updates on progress on our Reward Strategy implementation.
- Has oversight of the wider remuneration landscape to provide external context and industry specifics to inform on our benefits.
- Provides information on workforce demographics, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas.

The Committee intends to keep the content of the overview under review to ensure it remains suitable.

Our Group People Strategy

We have an approved people strategy which outlines our priorities and aspirations.

The role of reward underpins our people strategy, proactively supporting our ambition to be an employer of choice, able to retain top talent and drive business success, rather than a stand-alone strategic element.

- | | |
|----------------------------------|----------------------------|
| 1. Culture | 4. Compliance & process |
| 2. Attracting & retaining talent | 5. Organisational Design |
| 3. Training & competence | 6. Leadership & Succession |



Total Reward

Our people strategy is supported by our reward principles, which deliver our overall total reward framework:

Underpinned by our Pennon values

Supported by reward strategy & governance, job evaluation & benchmarking, systems & data



Support the delivery of Pennon people strategy

Our values

Be
YOU

Be you

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

Be
ROCK SOLID

Be rock solid

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

Be the
FUTURE

Be the future

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

Our Reward framework supports our People Strategy

Pillar	Highlights
Base pay 	<p>The Group's overarching principles for basic pay are as follows:</p> <ul style="list-style-type: none"> • Base pay should reflect the level of skills, responsibilities and accountabilities of the job, plus the market and region in which the business area operates. • We should maintain a market competitive edge to attract and retain talent. Market benchmarking against recognised surveys is conducted regularly. • We should maintain our status as an accredited Real Living Wage Employer, guaranteeing base pay at or above the Living Wage Foundation rates. • We should review pay annually with any resulting award being subject to affordability and business performance. • We should engage with Be The Future Forum, the WaterShare Customer Panel and Recognised Trade Unions on pay decisions. • We should undertake equal pay and gender/ethnicity pay analysis from time to time to ensure we comply with current equality legislation and provide equal total reward opportunities for roles of equal value.
Variable pay 	<p>The Group operates variable pay schemes, including annual bonus and incentive arrangements and all employees and temporary workers are eligible to participate. Throughout variable pay schemes, there is strong correlation in the targets, which align the whole organisation on goals linked to customer, communities and the environment. The maximum bonus levels are based on seniority and level of responsibility. At leadership level a portion of the bonus is deferred into shares for three years.</p> <p>Long-term incentive share awards are available to senior executives and Executive Directors, consistent with market practice. Our front-line teams receive overtime, call-out and standby payments, ensuring that when workloads are high, employees are fairly compensated. We remain mindful of the need to balance working hours, customer demand and available resource against the health, safety, wellbeing of our colleagues and following a successful pilot earlier in the year, our overarching principles on variable pay are as follows:</p> <ul style="list-style-type: none"> • Provide every colleague with the opportunity to earn an element of variable reward using appropriate mechanisms for different colleague populations, as agreed by each business area. • Have clear communication on rationale, purpose, performance measures, pay-out calculation and other rules for the variable pay schemes, to ensure colleagues fully understand their total reward opportunities. • Ensure the performance measures included in the balanced scorecard are aligned to our business strategy, values and take into consideration the views of shareholders, customers, regulators and other key stakeholders. • Encourage colleagues to have share ownership delivered through variable pay. • Remuneration Committee or relevant Executive Committee can apply appropriate discretion to bonus outturn, considering the 'how' as well as the 'what'.
Saving for the future 	<p>We offer highly competitive retirement benefits to our employees, which include additional life assurance protection. Membership of the Group pension scheme remains high with a 93% participation rate in our Defined Contribution (DC) scheme. As part of our Saving for the Future, all employees can participate in our HM Revenue and Customs-approved ShareSave and Share Incentive Plan, with a strong emphasis on employee buy-in and ownership. We invited our South East and Surrey colleagues into our schemes in 2024. Not only do our share schemes provide a mechanism for sharing in the long-term success of the Group but mean that colleagues and customers have a say and stake in the business.</p> <p>Our overarching principles on Saving for the Future are as follows:</p> <ul style="list-style-type: none"> • Provide every colleague with the opportunity to build up share ownership. • Clearly communicate and promote the existing share schemes to ensure maximum participation. • Ongoing exploration of HMRC-approved tax advantaged share scheme opportunities for broader offerings. • Provide every colleague with the access to our Defined Contribution pension scheme with the choice of employee/employer contribution levels. • Provide company matching in our Defined Contribution pension scheme to further support our colleagues saving for retirement. • Provide access to a fully interactive pension administrative platform and drop-in sessions to ensure employees understand the offering and implications to make informed decisions. • Comply with the government required pension enrolment requirements.
Benefits 	<p>We operate a range of benefits of which the majority are available to all colleagues. These are selected for their ability to enable colleagues to get the best value from their salary such as discounts, to ensure a work life balance which supports both family life and outside interests through generous holiday entitlements or those designed to bring financial security such as income protection or life assurance. A range of advisory services are available to support colleagues on occasions where additional support is needed, including financial support, health and wellbeing, legal advice and a range of employee-led support groups. From time to time, there may be necessary exceptions that apply to our core benefits, reflecting TUPE transfers or preserved contractual benefits. The principles for our benefits are as follows:</p> <ul style="list-style-type: none"> • Operate a set of core Group-wide benefits for all colleagues, and a wide range of other additional offerings to enable colleagues to select the most appropriate benefits tailored to their needs. • Ongoing evaluation of the effectiveness of the benefits offering, ensuring we take full advantage of our Group-wide purchasing power with benefits providers, and we are aligned with our Fair Tax Strategy and HMRC guidelines. • Actively engage with employees to understand their needs to continue shaping our benefits proposition. • Adopt technology to enable easy access to our benefits from home or work. • Continue to focus on developing our wellbeing and flexible working provisions and explore additional benefits provision opportunities to support our broader ESG agenda (e.g. green voluntary benefits, volunteering days etc).

Gender and Ethnicity pay reporting

We recognise our duty to contribute positively to society by cultivating an environment that promotes social mobility, prioritises diversity and inclusion, and ensures equitable treatment for all employees. Our aspiration is to become the Employer of Choice across our region, where trust is paramount, and every individual is valued for their contributions. Transparency lies at the heart of our commitment to diversity and inclusion. Reporting serves as a vital instrument in our journey towards openness, allowing us to candidly assess the gender and ethnic diversity of our workforce. Moreover, it enables us to share the proactive measures we have implemented and will continue to pursue to enhance diversity across all levels and roles within our organisation. We understand that fostering an inclusive workplace is imperative not only for attracting talent but also for retaining our valued colleagues and because it is the right thing to do.

During 2022/23, in line with our Change the Race Ratio commitments, we voluntarily published our Ethnicity Pay Gap data for the first time. The results reflect our journey in building representation of ethnic minority groups and gender diversity across Pennon, noting that the South West, where a large proportion of our business is based, has a lower diversity mix than other parts of the UK. Our ethnicity pay gap is 11.72%. Across the Group we have been working hard to attract a greater number of ethnically diverse candidates to apply for job vacancies, and we offer dedicated support to new employees through our graduate programme and support the 10,000 Black Interns Programme. We will continue to work to progress our diversity actions to build greater representation.

Our Group gender pay gap has reduced from 8.5% to 3.9%. This reflects the improvements we have made in increasing representation of females in the upper quartile from 16.9% in 2018 to 28% in 2024, and the ongoing focus on creating an environment for women to thrive and develop their careers.

During the year we have been recognised for our progression in gender equality by external bodies. Our placement in the FTSE 250 Women Leaders Review reflected our high participation of female Board members resulting in Pennon ranking third for Women on Boards in the FTSE 250.

We are committed to deliver on our ambitions to build diversity and inclusion across the Group and the water industry.

Our Group Values

Our Group values were launched in 2023 and underpin our Reward Strategy as well as our culture and will be reflected in individual and team remuneration, recognising and rewarding colleagues who showcase the Group values helping us to deliver what matters most to our customers and communities in the regions we serve.

Colleague engagement

RISE was renamed 'Be The Future' forum in 2024, reflecting the Group values. The forum has now been in place for three years, providing a two-way dialogue for all colleagues across the Group. This is regularly attended by senior leadership including the Pennon Chief Executive Officer, South West Water Director of People and Culture, the Pennon Chief People Officer and other members of the senior leadership. The forum is an established group provoking healthy debate and discussion on areas that matter to employees including reward. Representation is strong, with membership aligned to business areas to ensure that the issues that matter the most are raised. This group continues to be a key source of dialogue and employee views for shaping future reward developments. The Committee is kept informed of themes and feedback from their forum discussions.

We hold regular meetings with the recognised trades union representatives, keeping them informed of business developments and the People Strategy and recognising their role for colleague feedback and the insights they can provide on behalf of their members on a wide range of topics. Across the Group we consult on the pay of all colleagues. This will either be through the collective bargaining agreement in place with recognised trades unions or through our 'Be The Future' forum for those outside of these arrangements.

HomeSafe

Making sure our colleagues and contractors get home safe every day is fundamentally more important than remuneration. However, how we measure our performance, reward colleagues living by our values and the culture we create has a direct influence on the health and safety of each other and we will continue to support this important initiative through our wider workforce remuneration principals and Executive Remuneration policy.

How our remuneration approach meets Section 40 of the UK Corporate Governance Code

<p>Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.</p>	<p>The Committee seeks to promote transparent disclosure of remuneration arrangements, with full details of executive remuneration provided within the Remuneration Report each year. Incentive outcomes and the performance levels achieved against pre-set targets are clear.</p> <p>Consistent frameworks for annual incentives are used throughout all levels of the organisation, providing clarity of performance levels expected. The Committee welcomes dialogue on remuneration arrangements, with shareholders, our WaterShare+ Advisory panel and our colleagues either through our 'Be The Future' forum or other employee forums.</p>
<p>Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.</p>	<p>The remuneration arrangements in place are simple, comprising base pay, pension, benefits, short-term and long-term incentive awards and in fundamental construct remain consistent over time. Performance ranges where applicable are straightforward in nature. Maximum remuneration levels are set within the policy.</p>
<p>Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.</p>	<p>Remuneration arrangements are carefully considered by the Committee, to ensure they reflect our values and those of a responsible business.</p> <p>Long-term sustainable performance is central to our delivery for all stakeholders and this is reflected in our long-term incentive plan, balancing both financial resilience and customer and environmental standards. All incentive payments are scrutinised by the Committee and levels of reward positioned so that excess is avoided. The provisions for malus and clawback are in place across all leadership schemes.</p>
<p>Predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.</p>	<p>The Remuneration Policy sets the maximum levels for variable remuneration and for retirement benefits and other benefits, these are aligned to the wider organisation. All incentive payments are carefully scrutinised by the Committee using a discretion framework to assess audited results and making adjustment as appropriate when considering wider performance outcomes.</p>
<p>Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.</p>	<p>Careful consideration is given to the stretching targets that are selected, taking into account the long-term strategy of the Group and the expectations of all our stakeholders.</p>
<p>Alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy.</p>	<p>Delivery for customers, communities, the environment and all stakeholders is at the forefront of our incentive arrangements. The Committee receives regular information on remuneration outcomes and arrangements for the wider workforce, employee engagement and interacts with colleagues across the business.</p>

Statement of consideration of employment conditions elsewhere in the Company

In setting executive remuneration, the Committee takes account of employment market conditions and the pay and benefits differentials across the Group. The Committee considers annual summary reports of employee remuneration and the terms and conditions of employment within each operating company and has regard to these when considering remuneration for the Executive Directors and senior management. As part of this assessment the Committee considers various metrics including data on the ratio between CEO and all-employee pay, gender pay statistics and measures of employee engagement.

The Board engaged on remuneration matters with the wider workforce, through many mechanisms including the employee 'Be The Future' forum and the Big Chat and Open Door communications, on which more can be read on pages 26 to 27.

Statement of consideration of shareholder views

In developing the current Remuneration Policy, the Committee took into account general good governance, best practice and evolving shareholder views. We regularly engage with major shareholders to understand their views on executive pay, and their feedback informs our decision-making and the approach set out in our Policy.

As detailed on pages 164 to 165 to the extent that a further review of the Policy is initiated later in the year, the Committee would continue to engage with our major stakeholders as appropriate.

Single total figure of remuneration table (audited)

	Current Executive Directors		Former Executive Director		
	Susan Davy (£000)	Laura Flowerdew ¹ (£000)	Steve Buck ² (£000)		
	2024/25	2023/24	2024/25	2024/25	2023/24
Base salary	511	492	319	138	164
Benefits ³	50	21	14	5	6
Pension ⁴	51	49	32	14	16
Total fixed pay	612	562	365	157	186
Annual Bonus (cash) ⁷	Nil	Nil	Nil	Nil	Nil
Annual Bonus (deferred shares) ⁷	Nil	Nil	Nil	Nil	Nil
LTIP – deferred reinvestment of shares ^{5,6}	191	250	45	Nil	Nil
Total fixed, variable and deferred remuneration	803	812	410	157	186
Total variable pay (actual)	191	250	45	Nil	Nil
Total variable pay (cash)	Nil	Nil	Nil	Nil	Nil
Re-investment into the business ⁸	314	61	5	Nil	15

1. Remuneration for Laura Flowerdew relates to the period from her appointment on 11 July 2024 until 31 March 2025. The LTIP figure disclosed for Laura Flowerdew includes the LTIP 2022 award which was granted before she became an Executive Director.
2. Remuneration for Steve Buck relates to the period 1 April 2024 until he stepped down from his role and left the Group on 11 July 2024. For 2023/24, remuneration relates to the period from his appointment on 27 November 2023 until 31 March 2024.
3. Benefits comprise a car allowance, fuel allowance, medical insurance, and income protection. Of the amount disclosed for the CEO, £28k relates to prior years' fuel allowance which was incorrectly underpaid since appointment as CEO in 2020.
4. See page 177 for further information on retirement benefits.
5. For 2024/25, the 2022 LTIP has been valued based on the average share price during the three-month period to 31 March 2025 of 431p, together with an estimate of the accrued dividends payable on the vesting shares. In line with the plan rules, this award has been adjusted to reflect the rights issue. None of the award value is due to share price appreciation.
6. For 2023/24, the 2021 LTIP has been restated to reflect the adjusted share price upon vest based of 459.4p. This value includes accrued dividends over the vesting period. These LTIP awards are subject to a two-year holding period.
7. In light of the ongoing consultation by Ofwat on how the Water (Special Measures) Act will be operated in practice, the Committee has noted, but not approved, the formulaic outturn of the 2024/25 annual bonus. No payments will be made to the Executives until there is further clarity on the new legislation framework to assess performance. Once the final rules have been published, the Committee will review outcomes and the best course of action, with further disclosure provided in due course.
8. This represents the re-investment made by the Executives, the 2024/25 figure relates to the rights issue in January 2025. Susan Davy re-invested and acquired 93,382 ordinary shares at 264p per share, and then tail-swallowed to acquire a further 25,557 ordinary shares. Laura Flowerdew re-invested and acquired 1,732 ordinary shares at a price of 264p per share. For 2023/24 the figure relates to the equity raise in January 2024 where Susan Davy made a personal investment of £61k, and Steve Buck made a personal investment of £15k.

Notes to the single figure table

Fixed pay

In order to ensure that the remuneration is considered in a holistic way, as noted in the Chair's statement, salary for the CEO for 2025/26 will be considered as part of the broader review of remuneration.

The current CFO was appointed with a plan for structured and phased salary increases. The salary from 1 April 2025 is £475k. This is just under the salary of her predecessor, and broadly aligned with FTSE 250 practice. The Committee considered sector practice and market pay levels observed during the recruitment process, as well as Laura's knowledge of the sector, and is of the view that her salary is appropriately positioned.

Retirement benefits for both Executive Directors have been set at 10% of salary since appointment, which is aligned to the rate available to the majority of the wider workforce. Further detail on pension arrangements is set out on page 177.

Variable pay

In line with our previous approach, following guidance from Ofwat, all performance-related pay for Executive Directors is funded to the Group level and therefore not funded by customers. In assessing performance for full year 2025, we have been mindful of the ongoing Water (Special Measures) Act, and the likely triggers for prohibition.

Annual bonus outturn for 2024/25

Consistent with prior years, the bonus is based on a rounded assessment of performance. In line with regulatory guidance, over 60% of the bonus is linked to delivery of stretching objectives in relation to our customers, communities and the environment. The bonus includes a profit measure which ensures that the Company maintains a focus on financial resilience, enabling us to invest in the future and deliver robust and sustainable performance for all of our stakeholders.

Given the direct Ofwat feedback, we have re-positioned the Pennon annual bonus for 2024/25 to create a clearer link to the performance of SWW and SES. In proportion, the annual bonus scheme is 90% water business (70% SWW, 20% SES) and 10% Pennon Group. This continues to be consistent with the existing remuneration policy, with financial, customer and environment measures embedded in these schemes. In all relevant cases objectives are based on achievement of stretching business plan targets, agreed with Ofwat as part of K7.

The performance under the different elements of the bonus, including performance against the scorecard for each area of the business is summarised in the tables below. As shown by the tables, the formulaic outcome from the annual bonus is 42.4% of maximum.

Overall, we are delivering for investors as well as customers – with robust relative performance on common ODIs, with overall cumulative ODI performance at 70%. Underpinning all of our activities is a robust funding position, with Pennon Group gearing at 64%, and total water group RCV gearing of 61%. 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. The boil water notice in May 2024 for Brixham customers was already taken into account by the Committee in the foregoing of the 2023/24 annual bonus by all members of the executive team.

Consistent with our normal approach, the Committee also undertook a holistic assessment of performance in order to determine whether the formulaic outturn remains appropriate in the context of broader performance. The review considers performance from a number of different perspectives. The Committee also considered the outcome against best practice principles developed in collaboration with sector peers, as well as draft guidance relating to the operation of the Water (Special Measures) Act. The framework used in this assessment is summarised below:

Formulaic outcome



Holistic performance assessment

Culture and conduct

Focus on significant health and safety, culture and operational events

Consideration of external environment

Including the shareholder, employee and wider stakeholder experience

Alignment with customers, communities and the environment

Including customer experience, water quality and resilience, pollution incidents/EPA and emissions reduction

Input from other Board Committees

Including ESG and Health and Safety Committees, HR, Compliance, Internal Audit and WaterShare plus panel

Broader financial, operating and strategic performance

Including impact of exceptional and one-off events

Sector best practice principles and regulatory guidance

Assessment versus best practice principles developed by sector

Determination of performance outcome

The Water (Special Measures) Act was passed in February 2025, and the Act will be applicable to 2024/25 bonuses. While Ofwat have initiated a consultation on when bonuses may be prohibited, this is ongoing and final guidance is yet to be published. The Ofwat guidance is expected to set out specific additional performance criteria that will need to be met in order to determine whether a bonus can be paid in respect of the year. As the finalised guidance on how the Water (Special Measures) Act will be operated in practice is yet to be published, the Committee is unable to conclude on whether necessary performance criteria have been achieved. While the Committee has noted the current formulaic out turn of the 2024/25 annual bonus, and disclosed these in the interests of full transparency, no payments will be made to the Executives until there is further clarity on the new legislation framework to assess performance. Once the final rules have been published, the Committee will review outcomes and determine if and how any award is delivered and potential interaction with any future incentive framework.

As noted in the 2023/24 Annual Report and Accounts, the Committee determined that no bonus would be paid to Executive Directors (consistent with management's recommendation) and the Chief Executive Officer waived her entitlement to the bonus for 2022/23 and funds of an equivalent value were diverted into the next WaterShare+ issuance.

In the interests of transparency, the tables below provide the current formulaic outcomes.

Summary of annual performance outcomes

	Pennon Power	PWS	SWW	SES	Total
Weighting	5%	5%	70%	20%	100%
Outturn	75.0%	82.6%	38.7%	37.5%	
Total	3.8%	4.1%	27.1%	7.5%	42.4%

Measure	Weighting	Target	Actual	Outcome
				Review of delivery against milestones considered to warrant an outturn of 75% for this element ¹
Pennon Power	5%	Delivery against milestone events		3.8%

1. Project milestones included construction completed at Dunfermline, two sites under construction and one site with preferred bidder.

Measure	Sub-Weighting	Target	Actual	Outcome
SWW (70%)				27.1%
Financial resilience – PBT	30%	£46m	(£35m)	0.0%
Basket of Measures	28%	See overleaf		16.2%
EPA	7%	4*	2*	0.0%
Cat 1-2	5%	2 (A)	4 (R)	0.0%
Cat 1-3	5%	89	189	0.0%
Water Resources	3%	90%	93.3%	3.0%
Enabling Biodiversity	3%	14,000 ha	17,487 ha	3.0%
Bathing water quality	4%	98-100%	100%	4.0%
Social & Governance	15%			12.5%
Sustainalytics		80	84.5	
Fair Tax		Maintain	Maintain	
Sustainable Financing		75%	100%	
Health and Safety – LTIFR		0.25	0.24	
GHG Emissions		70%	70%	
Renewable Generation		13%	8%	
SWW Total				38.7%^{1,3}
Measure	Sub-Weighting	Target	Actual	Outcome
SES (20%)				7.5%
High Quality Water	12.5%			11.9%
CRI (95%)		2.0	0	11.9%
Water softening (2.5%)		0.0	10.4	0%
Taste Smell & Colour (2.5%)		0.5	0.58	0%
Customer Experience	12.5%			0.6%
CMeX (80%)		9th	14th	0%
DMeX (15%)		9th	12th	0%
First Contact Resolution (5%)		90.0	90.7	0.6%
Leakage Reduction (MI/d)	12.5%	22.1	21.5	12.5%
Supply interruptions	12.5%	5m0s	26m16s	0.0%
Mains Repairs (/000km)	12.5%	59.0	62.5	0.0%
Unplanned Outage	12.5%	2.34	4.07	0.0%
PCC Reduction (l/p/d)	12.5%	139.2	147.6	0.0%
Affordability	12.5%			12.5%
PSR (80%)		7.0%	15.5%	10.0%
Social Tariff (15%)		25,000	25,379	1.9%
Voids (5%)		2.2	2.02	0.6%
SES Total				37.5%^{2,3}
Measure	Sub-Weighting	Target	Actual	Outcome
PWS (5%)				4.1%
PBT	16.7%	Threshold -2%, Max 5%, £4.9m target	£5.4m	16.7%
Debt Reduction	16.7%	101% cash collection over billing p.a. & reduction of DSO days from 70 days	101% cash collection and DSO days of 68	16.7%
Revenue	16.7%	Annual growth target of >7%	£252.4m (8% growth)	16.7%
MPS	5%	Upper Quartile, target 92 Upper Quartile, 100%	Achieved 94.5	5.0%
CCW Written Complaints	5%	response within 10 days	Achieved, 100%	5.0%
Trustpilot score	5%	4.8	Achieved 4.85	5.0%
Abandoned rates	5%	Target performance of <8% Target performance, target	Achieved 5%	5.0%
Written complaints	5%	260	Not Achieved, 295	0.0%
Revenue Attrition (% of 2023/24)	5%	Below 2.5%	Not Achieved, 2.9%	0.0%
% Meter Readings per month average	5%	Target performance of 92%	Not Achieved, 91%	0.0%
Basket of Measures with binary achievement	15%	Social & Governance section of SWW	5/6 Achieved	12.5%
PWS Total				82.6%

1. The definitions of these key ODI measures are contained within the SWW Annual Performance Report and with ESG measures in the ESG playbook.

2. The definitions of these key ODI measures are contained within the SES Annual Performance Report.

3. All water metrics will be validated and out-turns ratified prior to any decision to award in line with the regulator.

Basket of Measures for SWW	SWW		BRL	
	Target	Actual	Target	Actual
CMeX	9th	15th	9th	5th
PSR Reach	7.0%	13.10%	7.0%	10.6%
Leakage (3-year) (Ml/d)	105.6	112-114	32.1	38.3
PCC (3-year) (l/p/d)	136.9	148.7	139.5	146.8
Supply interruptions	5m0s	14m23s	5m0s	7m23s
CRI	2.0	1.17	1.5	2.82
Mains repairs (/000km)	134.6	127.7	130.7	118.7
Unplanned outage	2.34%	2.11%	2.34%	1.22%
Internal Flooding (/no/10,000properties)	1.34	0.6		
Sewer collapses (/no/10,000km)	13.99	6.81		
Numeric Compliance	98% (A)	98%		
Measures Achieved		7/11		4/8
Total			16.2%	

- Achieved
- Not achieved

Long-term incentive outturn for 2024/25 (audited)

Ofwat have indicated that it is not their intention for the Water (Special Measures) Act to retrospectively apply to the 2022 LTIP award. However, using Ofwat's draft prohibition framework, we have assessed the award against consumer, environmental, financial resilience and criminal liability matters, concluding that the EA prosecutions in 2024, as well as the Brixham incident had already been recognised in the forgoing of annual bonuses in 2023/24. LTIP awards are funded at the Group level and are therefore not funded by customers.

The 2022 LTIP award was subject to performance related targets relating to RORE, sustainable dividends and a basket of customer measures. At the sector wide Select Committee in January 2025, EFRA Committee members challenged the absence of metrics relating to affordability and the approach to vulnerable customers in incentive arrangements. Given this, we have included these metrics within the basket of measures relating to customer experience. The 2022 LTIP is the last award not to include water quality metrics, which were introduced in 2023 in order to further align with Ofwat guidance.

The table below provides an overview of performance against the targets set:

Measures	Threshold ¹ (25% of maximum)	Maximum (100% of maximum)	Achievement	Vesting Outcome ² (% of maximum)
RORE				
(33% of award)	6%	8%	6.6%	15.9%
Sustainable dividend measure				
(33% of award)	2.6	3.6	2.64	9.4%
Basket of Customer Measures³				
(33% of award)				
C-MeX SWW (11.5%)	11th	1st	14th	0%
C-MeX BRL(3.8%)	11th	1st	5th	3.3%
R-MeX SWW (2.2%)	9th	1st	7th	1.2%
R-MeX BRL (0.7%)	9th	1st	10th	0%
D-MeX SWW (2.2%)	9th	1st	10th	0%
D-MeX BRL (0.7%)	9th	1st	6th	0.5%
MPS SWW (2.2%)	9th	1st	5th	1.9%
MPS BRL(0.7%)	9th	1st	5th	0.6%
Trustpilot Score (3.0%)	4.5	5.0	4.8	2.1%
Affordability – PSR Reach SWW (2.2%) ⁴	7%	10%	13.1%	2.2%
Affordability – PSR Reach BRL (0.7%) ⁴	7%	10%	10.6%	0.7%
Affordability – % water poverty SWW (2.2%) ⁴	98%	100%	100%	2.2%
Affordability – % water poverty BRL (0.7%) ⁴	98%	100%	100%	0.7%
Overall vesting outcome				41.1%

- For below-threshold performance for any of the performance conditions, 0% vests in respect of that performance condition.
- Straight-line vesting between points.
- For the relative measures, 25% vesting for threshold performance, 85% vesting for upper-quartile performance and maximum vesting for market leading performance. Straight-line vesting between these points. For these relative metrics, 75% is based on South West Water performance with the balance based on Bristol Water.
- As noted above, affordability metrics were added to the performance framework to reflect feedback from EFRA Committee members. Without the addition of these metrics, the formulaic outturn would have been 37.1% of maximum.

Assessment of overall performance

Vesting of the award is subject to an 'underpin' relating to overall Group performance. Consistent with the approach described for the annual bonus, the Committee utilises a holistic performance assessment framework to support this review which considers performance from a number of different perspectives.

For the 2022 award, the following factors were noted, and in addition the Committee noted that it had been agreed that the annual bonus would not be taken in 2023 and 2024 in response to in year performance and external factors:

- The progress made against customer related metrics in K7 across the Group as recognised in Ofwat's Water Company Performance Report in 2024 and performance against the stretching business plan.
- Record investment in K7 – with £647 million in 2024/25, at the run rate for K8 and RCV growth of 75% over K7.
- A robust funding position, with Pennon Group gearing at 64%, and total water group RCV gearing at 61%.
- The water businesses are supporting more customers than ever before with over 140,000 across the group benefiting from the support tariffs. By unlocking over £124m of financial support the water businesses have increased affordability to 100% for customers in the South West and Bristol – meeting their pledge of having zero customers in water poverty by March 2025.
- A reduction of complaints, with Bristol recognised as a top performer for complaints and customer service, with opportunities to improve across the Group – with South West reducing complaints by 7% over 2024/25.
- The Return of Regulated Equity for SWW and Bristol Water businesses are relatively strong, at 10.4% on a nominal basis, and 6.0% on a real notional WaterShare basis.

Overall, the Committee was satisfied that the vesting outcome of 41.1% of maximum represented a fair reflection of overall Group performance over the last three years.

Vested awards granted to Executive Directors will not be released in 2025. Instead, awards will remain subject a two-year holding period to ensure participants remain invested in the longer-term performance of the business. Awards are also subject to malus and clawback provisions. Consistent with guidance provided by Ofwat, these awards to Executive Directors are funded at the Group level, rather than being recharged to the individual water companies, and will therefore not be funded by customers.

Retirement benefits and entitlements (audited)

Details of the Directors' pension entitlements and pension-related benefits during the year are as follows. Effective from 1 August 2020, the maximum pension contribution made by the Company is 10% of salary.

	Company contributions to defined contribution arrangements (£000)	Cash allowances in lieu of pension (£000)	Total value for the year (£000)	Age and date of retirement (for pension purposes)
Susan Davy	10	41	51	65 (17 May 2034)
Laura Flowerdew	32	Nil	32	65 (5 February 2041)
Steve Buck	3	11	14	65 (16 February 2034)

Executive Directors are eligible to join the Defined Contribution Company Pension Scheme.

Arrangements for the Outgoing Pennon Chief Financial Officer (audited)

Steve Buck stepped down from the Board as Chief Financial Officer in July 2024. All remuneration arrangements relating to Steve Buck's departure were consistent with the Directors' Remuneration Policy ('Policy') and the Company's incentive plan rules.

Steve received a payment in lieu of notice (in respect of salary) for his contractual notice period (£488.8k). This entitlement was reduced by £122k, following application of the mitigation clause. In addition to standard benefits, he was entitled to legal support and relocation costs.

As disclosed in last year's report, under the terms of his appointment Steve received a buy-out in respect of incentives pertaining to his previous employment, which lapsed on joining Pennon. Steve received a total of £417k (delivered as cash (£355k) and shares (£62k)) in respect of buy-out awards due in July 2024. An additional £81k lapsed following the application of the mitigation clause. All other buy-out awards lapsed in full.

Entitlement to the LTIP award granted during 2023/24 will be pro-rated for time and will remain subject to performance assessed at the end of the performance period. The award remains subject to the two-year post-vesting holding period and remains subject to malus and clawback. Steve was not eligible for an annual bonus for 2024/25 and no LTIP was granted in respect of the year.

Steve is also subject to the post-employment shareholding requirement.

Non-Executive Directors' remuneration

Single figure of remuneration (audited)

	2024/25			2023/24		
	Fees (£000)	Taxable benefits (£000)	Total fees (£000)	Fees (£000)	Taxable benefits (£000)	Total fees (£000)
Gill Rider ¹	83	0	83	240	0	240
David Sproul ²	187	0	187	–	–	–
Iain Evans ³	93	0	93	85	0	85
Claire Ighodaro ⁴	61	0	61	78	0	78
Jon Butterworth	73	0	73	70	0	70
Loraine Woodhouse	84	0	84	74	0	74
Dorothy Burwell	67	0	67	65	0	65

- Gill Rider resigned from the Board on 24 July 2024.
- David Sproul was appointed to the Board as Chair Designate on 1 July 2024 and assumed the role as Chair on 24 July 2024.
- Iain Evans was appointed as Senior Independent Director 1 September 2023.
- Claire Ighodaro resigned from the Board on 31 December 2024.

Non-Executive Directors' fees and benefits

During the year, the fees for Non-Executive Directors were reviewed and increased with effect from 1 April 2025. Non-Executive fees were increased by 3.2% which is below the average increase awarded to the wider workforce which is valued around 3.9%, inclusive of additional holiday allowance, depending on pay level, with some receiving above this to maintain our real living wage commitment. The table below sets out the fee structure in full.

Non-Executive Director fees

Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Group's strategy.	From 1 April 2025	From 1 April 2024
Chair fee ¹	£300,000	£249,455
Basic Non-Executive Director fee	£69,280	£67,132
Additional fees		
Senior Independent Director	£11,445	£11,090
Chair of Audit Committee	£17,162	£16,630
Chair of Remuneration Committee	£14,887	£14,425
Chair of ESG Committee	£14,887	£14,425
Chair of Health and Safety Committee	£5,722	£5,545

- When appropriate for the efficient carrying out of duties, the Chair is provided with a driver and a vehicle. The Chair is entitled to expenses on the same basis as for other Non-Executive Directors. The new Chair was appointed at the same fee level as the outgoing Chair, with a commitment to align the fees with similar sized FTSE listed businesses from 1 April 2025 and taking into account the time commitment associated with the role.

Directors' service contracts and letters of appointment

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown below.

Executive Directors	Date of appointment	Notice period
Susan Davy	31 July 2020	12 months
Laura Flowerdew	11 July 2024	12 months
Non-Executive Directors	Date of initial letter of appointment	Expiry date of appointment
David Sproul	1 July 2024	30 June 2027
Iain Evans	16 June 2018	31 August 2027
Jon Butterworth	1 August 2020	31 July 2026
Loraine Woodhouse	1 December 2022	30 November 2025
Dorothy Burwell	1 December 2022	30 November 2025
Andrea Blance	8 April 2025	7 April 2028

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side. The contract has a normal retirement age of 67, except where otherwise agreed by both the Executive Director and the Company.

The policy is for Non-Executive Directors' letters of appointment to contain a three-month notice period from either side. All Non-Executive Directors are subject to annual re-election and letters of appointment are for an initial three-year term.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown above.

Outside appointments

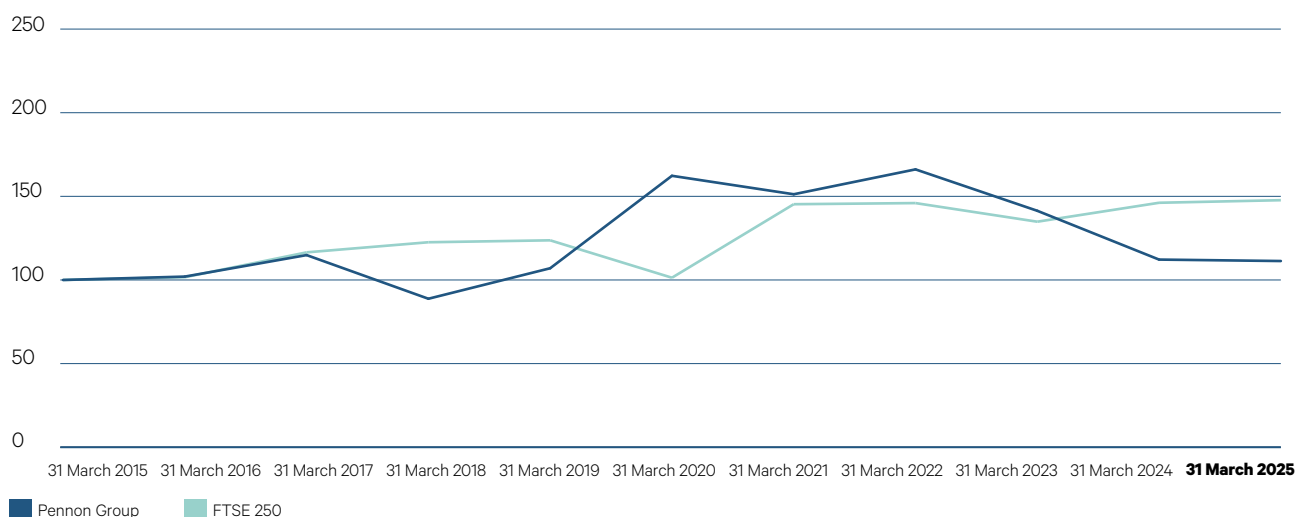
Executive Directors may accept one board appointment in another company. Board approval must be sought before accepting an appointment. Fees may be retained by the Director. Susan Davy remained a Non-Executive Director of Restore plc throughout 2024/25. Laura Flowerdew does not hold any additional appointments. No other outside company appointments are held by the Executive Directors other than with industry bodies or governmental or quasi-governmental agencies.

Additional contextual information

Historical TSR

The graph below shows the value, over the 10-year period ended on 31 March 2025, of £100 invested in Pennon Group on 1 April 2015 compared with the value of £100 invested in the FTSE 250 Index. The FTSE 250 Index is a broad equity market index of which the Company was a constituent until the end of the period.

Total shareholder return – since April 2015



Historical Chief Executive Officer remuneration

As the Company did not have a Chief Executive Officer until 1 January 2016, the table below provides historical single figure information in the form of the average remuneration of the Executive Directors for years up to and including 2014/15. Their remuneration was considered to be the most appropriate to use as they were the most senior executives in the Company.

From 2015/16 onwards the Chief Executive Officer's remuneration for the year is shown.

	2015/16 ¹	2016/17	2017/18	2018/19	2019/20	2020/21	2020/21 ²	2021/22	2022/23 ³	2023/24 ⁴	2024/25 ⁵
	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Susan Davy	Susan Davy	Susan Davy	Susan Davy	Susan Davy
Single figure of remuneration (£000)	1,119	1,318	1,153	1,351	2,135	1,337	1,930	1,527	543	812	803
Annual bonus pay-out (% of maximum)	84.0	84.0	87.0	91.0	78.0	79.2	78.1	30.7	0.0	0.0	-
LTIP vesting (% of maximum)	37.9	20.4	0.0	32.0	86.6	89.9	89.9	88.2	0.0	60.2	41.1

1. Pennon Chief Executive Officer for the year, including remuneration received between 1 April 2015 and 31 December 2015 when in position as Chief Executive of South West Water.
2. Chris Loughlin stepped down as Chief Executive Officer on 31 July 2020 and was succeeded by Susan Davy. Consistent with the single figure, the figures for Susan Davy relate to the whole of 2020/21, including the portion of the year when she was Chief Financial Officer. The LTIP award for Chris Loughlin was pro-rated to reflect service within the performance period.
3. For 2022/23, Susan Davy recommended that her bonus and 2020 LTIP were forgone. An equivalent value was diverted for a future issuance under the Company's WaterShare+ scheme.
4. For 2023/24, in recognition of the current external environment, the Committee determined that no bonus would be paid to Executive Directors in respect of the year. This was consistent with management's recommendation for a zero bonus outturn. The single remuneration figure has been adjusted from the figure published in the 2023/24 remuneration and the actual valuation of Susan Davy's 2021 LTIP award based on the adjusted price on the date of vesting, being 459.41p.
5. For 2024/25, in light of the ongoing consultation by Ofwat on how the Water (Special Measures) Act will be operated in practice, the Committee has noted the formulaic outturn of the 2024/25 annual bonus. No payments will be made until there is further clarity on the new legislation framework to assess performance.

Percentage Change in Directors' Remuneration

	Percentage Change 2020/21			Percentage Change 2021/22			Percentage Change 2022/23			Percentage Change 2023/24			Percentage Change 2024/25		
	Salary/ Fees	Benefits	Bonus	Salary/ Fees	Benefits	Bonus	Salary/ Fees	Benefits	Bonus	Salary/ Fees	Benefits	Bonus	Salary/ fees	Benefits	Bonus
Executive Directors															
Susan Davy ¹	11%	0%	35%	4%	-23%	-58%	0%	-27%	-100%	3.5%	0%	0%	0%	134.4%	0%
Laura Flowerdew ²	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Steve Buck ³	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Executive Directors															
Gill Rider ⁴	126%	-	-	28%	-	-	3%	-	-	3.5%	-	-	-	-	-
Iain Evans ⁵	4%	-	-	1%	-	-	3%	-	-	12%	-	-	10.3%	-	-
Claire Ighodaro ⁴	97%	-	-	9%	-	-	3%	-	-	3.5%	-	-	-	-	-
Jon Butterworth	-	-	-	35%	-	-	3%	-	-	3.5%	-	-	4%	-	-
Loraine Woodhouse ⁶	-	-	-	-	-	-	-	-	-	25%	-	-	13.4%	-	-
Dorothy Burwell	-	-	-	-	-	-	-	-	-	3.5%	-	-	4%	-	-
All employees															
Pennon Group plc	-12%	3.1%	11%	3%	-28%	-11%	4%	-30%	-73%	12.8%	-39%	-3.4%	7.1%	33.8%	-70.8%
UK employees	1%	5.7%	18%	2%	-19%	-14%	4%	-20%	-45%	6%	-21%	-2.2%	4.2%	29.3%	78.8%

- Susan Davy's benefits increased for 2024/25 due to a correction of her fuel allowance as referenced under the single figure table on page 173.
- Laura Flowerdew was appointed to the Board as Chief Financial Officer on 11 July 2024.
- Steve Buck stepped down from the Board and his role as Chief Financial Officer on 11 July 2024. Comparison is based on full-year equivalent.
- The percentage change for 2020/21 for Gill Rider reflects her appointment as Chair and increase in fees, and for Claire Ighodaro a combination of change of role to Remuneration Committee Chair and her first full year on the Board.
- Iain Evans was appointed as Senior Independent Director effective 1 September 2023 leading to an increase in fees.
- Loraine Woodhouse was appointed as Chair of Audit Committee 1 September 2023 leading to an increase in fees. Comparison is based on full-year equivalent for 2022/23.

Relative importance of spend on pay

	2023/24 (£ million)	2024/25 (£ million)	Percentage Change
Overall expenditure on pay ¹	114.8	140.3	22.2%
Distributions to ordinary shareholders	111.7	126.9	13.6%
Purchase of property, plant, and equipment (cash flow)	598.1	666.7	11.5%

- Excludes non-underlying items

The above table illustrates the relative importance of spend on pay compared with distributions to equity holders. The purchase of property, plant, and equipment (PPE), as per the Cash Flow Statement (purchase of PPE and intangible assets less proceeds from sale of PPE), has also been included as this was the most significant outgoing for the Company in the past financial year.

Chief Executive Officer pay ratio

Our CEO pay ratio stands at 19:1 for the median employee for 2024/25. The ratio is slightly lower than in 2023/24 due to differences in the LTIP as the only variable pay element for the CEO. It continues at this lower level than the ratio in preceding years, partially due to our strategy of developing pay for front line roles including our commitment to paying above the Real Living Wage, which has led to an increase in median pay.

Year	Method	25 th percentile (P25) pay ratio	Median (P50) pay ratio	75 th percentile (P75) pay ratio
2024/25	A	26:1	19:1	15:1
2023/24	A	27:1	21:1	16:1
2022/23 ¹	A	20:1	16:1	12:1
2021/22 ²	A	59:1	44:1	36:1
2020/21	A	95:1	69:1	55:1
2019/20	A	87:1	68:1	50:1

- For 2022/23, the CEO recommended that her bonus and 2020 LTIP award were forgone. An amount of the equivalent value was to be diverted into a future issuance under the Company's WaterShare+ scheme. The CEO pay ratio for this year therefore does not include any variable incentive pay.
- The CEO ratio for 2021/22 is lower than previous years, partially due to the lower salary and pension benefit received by Susan Davy, compared to her predecessor. The total single figure used in the ratio in 2020/21 was a combined total single figure pro-rated to reflect the change in CEO mid-year.

Option A has been used for the calculations as it is the most statistically accurate approach. The employees at the lower quartile, median and upper quartile (P25, P50 and P75 respectively) have been determined based on a calculation of total remuneration for the financial year 1 April 2024 to 31 March 2025. The calculations were performed at the end of 2024/25.

Base salary for part-time employees and new joiners within the applicable period has been converted to full-time equivalents for the purpose of the calculations.

The 2023/24 single figure has been updated as a result of reflecting the actual valuation of the closing share price on the first date of vesting of the LTIP award and the Rights Issue adjustment on the number of shares.

For 2024/25 the total remuneration for the employees identified at P25, P50 and P75 is £31,002, £41,392 and £53,977 respectively. The base salary of 2024/25 for the employees identified at P25, P50 and P75 is £24,124, £25,299 and £50,016 respectively. Further detail on our approach to pay in the wider organisation is set out on page 168. As the Committee spends a considerable amount of time on matters relating to remuneration arrangements for the wider workforce, we are comfortable that the median pay ratio is consistent with our wider policies on pay, reward and progression and reward for the Group as a whole.

Share awards and shareholding disclosures

Share awards granted during 2024/25 (audited)

The table below sets out details of share awards made in the year to Executive Directors.

Executive Director	Type	Basis of award	Face value £000	Percentage vesting at threshold performance	Performance/restricted period end date
Susan Davy	LTIP – conditional award	150% of salary	767	25% of maximum	17 July 2027
Laura Flowerdew			637		17 July 2027
Susan Davy	Deferred Bonus Shares – nil cost options	50% of bonus awarded	0	n/a	n/a
Laura Flowerdew			0		

LTIP awards were calculated using the share price of £6.46 for all participants, being the average closing price over the five dealing days preceding the normal date of grant for the 2024 LTIP, which was 17 July 2024. LTIP awards are also subject to an additional two-year holding period. For the 2024 LTIP, unfortunately we have not been able to finalise the targets for this award. Although we had originally intended to finalise these during H1 of 2024/25, the election of a new Government followed by the prospect of new legislation and evolving guidance from Ofwat made it impossible to set targets with certainty that any scorecard would be acceptable under the new regime. Therefore our intention is that any scorecard applied to the 2025 LTIP award will also be applied to the 2024 LTIP award. There were no deferred bonus awards granted during 2024/25 as in recognition of the external environment, the Committee determined that no bonus would be paid for 2023/24 to Executive Directors in respect of the year. This was consistent with management's recommendation for a zero bonus outturn.

In line with the plan rules, all outstanding LTIP awards have been adjusted to reflect the rights issue.

Directors' shareholding and interest in shares (audited)

The Remuneration Committee believes that the interests of Executive Directors and senior management should be closely aligned with the interests of shareholders.

To support this the Committee operates shareholding guidelines of 200% of salary for both the Chief Executive Officer and Chief Financial Officer. Deferred bonuses and LTIP awards subject to a holding period only may count towards the guidelines on a net-of-tax basis. Shareholding requirements are noted on page 167.

On 29 January 2024 the Group announced a Rights Issue to raise additional capital. Susan Davy re-invested and acquired 93,382 ordinary shares (bought at 264p per share) and tail-swallowed to acquire a further 25,557 shares, taking her shareholding to in excess of 300% of salary. Laura Flowerdew re-invested and acquired 1,732 ordinary shares (bought at 264p per share).

The beneficial interests of the Executive Directors in the ordinary shares of the Company as at 31 March 2025 and 31 March 2024 together with their shareholding guideline obligation and interest are shown in the table below.

	Share interests (including connected parties) at 31 March 2025	Share interests (including connected parties) at 31 March 2024	Vested LTIP awards in holding period ¹	Deferred bonus shares ¹	SAYE	Performance shares (subject to performance conditions)	Shareholding guideline	Shareholding guideline met?
Susan Davy	367,591	189,940	54,430	9,233	2,744	282,415	200%	Yes
Laura Flowerdew ²	3,200	273	Nil	2,380	3,819	156,858	200%	No
Steve Buck ³	10,986	2,054	Nil	13,249	Nil	19,841	200%	No

1. These shares awards are not subject to further performance criteria and may therefore count towards the guideline on a net-of-tax basis.

2. Laura Flowerdew was appointed on 11 July 2024. It is therefore expected that her shareholding will be built up over the course of her tenure.

3. Performance shares for Steve Buck have been pro-rated to reflect service during the performance period.

Since 1 April 2025, 223 additional ordinary shares and 68 additional ordinary shares have been acquired respectively by Susan Davy and Laura Flowerdew as a result of their direct participation in the Company's Share Incentive Plan and reinvestment of dividends under that Plan via the Dividend Reinvestment Plan (DRIP). There have been no other changes in the beneficial or non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2025 and 24 May 2025.

Non-Executive Directors' shareholding (audited)

The beneficial interests of the Non-Executive Directors, including the beneficial interests of their spouses, civil partners, children, and stepchildren, in the ordinary shares of the Company are shown in the table below.

Director	Shares held at 31 March 2025	Shares held at 31 March 2024
Gill Rider	4,554	4,554
David Sproul	–	–
Iain Evans	–	–
Claire Ighodaro	–	–
Jon Butterworth	2,054	2,054
Loraine Woodhouse	3,389	2,054
Dorothy Burwell	3,389	2,054

There have been no changes in the beneficial interests or the non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2025 and 1 May 2025.

There is no formal shareholding guideline for the Non-Executive Directors; however, they are encouraged to purchase shares in the Company.

Shareholder dilution

The Company can satisfy awards under its share plans with new issue shares or shares issued from treasury up to a maximum of 10% of its issued share capital in a rolling 10-year period to employees under its share plans. Within this 10% limit the Company can only issue (as newly issued shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans. The percentage of shares awarded within these guidelines and the headroom remaining available as at 31 March 2025 is as set out below:

	Awarded	Headroom	Total
Discretionary schemes	0.88%	4.12%	5%
All schemes	2.32%	7.68%	10%

Details of Directors' share awards (audited)

The following table provides the outstanding share interests of Director's granted under the share schemes.

	Year of grant	Options outstanding as at 31 March 2024	Granted in year	Lapsed in year	Exercised in year	Options outstanding as at 31 March 2025 ⁵	Exercise price	Earliest nominal exercise date ⁴
Susan Davy	July 2019 LTIP ¹	80,994			80,994	–		03/07/2024
	June 2021 Deferred Bonus Plan	12,661			12,661	–		29/06/2024
	July 2021 Sharesave	2,047		2,047		–	879p	01/09/2024
	July 2021 LTIP ¹	62,456		8,026		54,430		30/06/2026
	June 2022 LTIP ¹	68,668				87,366		12/06/2027
	July 2022 Deferred Bonus Plan ⁷	9,233				9,233		18/07/2025
	July 2023 LTIP ¹	103,253				131,368		20/07/2028
	July 2024 Sharesave ⁶	2,217				2,744	405p	01/09/2027
	July 2024 LTIP ³	–	118,720			151,047		17/07/2029
Laura Flowerdew	June 2022 LTIP ¹	16,191				20,599		12/06/2027
	July 2022 Sharesave ⁶	869				1,075	668p	01/11/2025
	July 2023 LTIP ¹	24,604				31,303		20/07/2028
	July 2023 Deferred Bonus Plan ⁷	2,380				2,380		17/07/2026
	July 2024 Sharesave ⁶	2,217				2,744	405p	01/09/2027
	July 2024 LTIP ³	–	98,684			125,555		08/02/2029
Steve Buck	February 2024 LTIP ¹	98,711		78,870		19,841		08/02/2027
	July 2024 Deferred Bonus Plan ⁷	–	13,249			13,249		11/07/2025

1. The performance measures applicable to the LTIP awards are detailed in the Annual Report in the year of grant, or subsequently on the Company's website if the performance measures are finalised after the Annual Report.

2. The CEO recommended that her 2020 LTIP award was forgone.

3. The performance criteria applicable to the 2024 LTIP award have not been disclosed yet, these will be detailed on the Company's website once agreed.

4. Awards are subject to an additional two-year holding period.

5. In line with the plan rules, all outstanding LTIP awards have been adjusted to reflect the rights issue.

6. Sharesave awards were adjusted to reflect the rights issue.

7. Participants of live Deferred Bonus Plan awards had any additional shares that arose from the rights issue issued as ordinary shares.

Malus and Clawback

Malus and Clawback provisions are embedded in the employment contracts of Executive Directors and relevant scheme documentation.

Malus and clawback provisions apply to all incentive awards. These provisions enable awards to either be forfeited prior to delivery, repaid or made subject to further conditions where the Committee considers it appropriate in the event of any significant adverse circumstances. For awards granted under the term of this policy, the circumstances in which Malus and Clawback may be applied include a financial misstatement, error in calculation, material failure of risk management, serious reputational damage, serious corporate failure or misconduct.

In respect of the annual bonus, clawback may be applied for the period of three years following determination of the cash bonus. Under the LTIP, Clawback may be applied until the end of the holding period.

The Committee have not applied any action under the provisions of Malus and Clawback during 2024/25.

The Remuneration Committee and its advisors

Claire Ighodaro, Lorraine Woodhouse, Iain Evans and Dorothy Burwell were members of the Remuneration Committee through the year, with Claire Ighodaro stepping down on 31 December 2024. Gill Rider (who stepped down on 24 July 2024), David Sproul (who joined on 1 July 2024 and succeeded Gill Rider as Chair), Jon Butterworth and Susan Davy attend by invitation as required. During the year, the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from Adele Barker (Pennon Chief People Officer) and from Deloitte LLP.

During 2018/19, Deloitte LLP was reappointed directly by the Committee with a refreshed advisory team, following a comprehensive re-tendering process. Deloitte LLP's fees in respect of advice which materially assisted the Committee during 2024/25 were £204,050 (arrived at from an hourly rate basis of charging). During the year, Deloitte LLP also provided broader reward and forensic and regulatory advisory services to the Group. Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte LLP has been objective and independent.

Statement of voting at general meeting

The table below sets out the voting by the Company's shareholders on the resolutions to approve the Directors' remuneration report at the 2024 AGM and the remuneration policy at the 2023 AGM, including votes for, against and withheld.

Annual report on remuneration (2024 AGM)	
For % (including votes at the Chair's discretion)	95.63%
Against %	4.37%
Withheld number	962,723
Remuneration policy (2023 AGM)	
For % (including votes at the Chair's discretion)	93.63%
Against %	6.37%
Withheld number	48,501

A vote withheld is not counted in the calculation of the proportion of votes for and against a resolution.

Directors' remuneration report compliance

This Directors' remuneration report has been prepared in accordance with the provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (as amended). It also complies with the requirements of the Financial Conduct Authority's Listing Rules and the Disclosure and Transparency Rules. The UK Corporate Governance Code also sets out principles of good governance relating to directors' remuneration, and this report describes how these principles are applied in practice. The Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions. The above regulations also require the external auditor to report to shareholders on the audited information within the annual report on remuneration which is part of the Directors' remuneration report. The external auditor is obliged to state whether, in its opinion, the relevant sections have been prepared in accordance with the Companies Act 2006.

The external auditor's opinion is set out on pages 188 to 193 and the audited sections of the annual report on remuneration are identified in this report.

On behalf of the Board



Andrea Blance
Chair of the Remuneration Committee

3 June 2025

Directors' report



Andrew Garard

Pennon General Counsel and Company Secretary

Introduction

The Directors present their Annual Report and Accounts for the year ending 31 March 2025. The Directors' Report comprises this report and the entire Governance section including the Chair's Governance Statement. It has been prepared in accordance with the provisions of the Companies Act 2006 and regulations made under it. In accordance with the Financial Conduct Authority Listing Rules, the information to be included in the 2024/25 Annual Report and Accounts, where applicable under Listing Rule 9.8.4, is set out in this Directors Report. Other information relevant to this Report, and which is incorporated by reference, can be located as follows:

Information	Page Number
Particulars of important events affecting the Company and/or its subsidiaries which have occurred since the year end	n/a
Likely future developments of the Group	18 to 19
Risk management systems	70 to 79
Certain employee and employee engagement matters as well as the disclosures below	26 to 27
How the Board have engaged with employees and had regard for employee interests	26 to 27, 32 to 39 and 142
Business relationships/engagement with suppliers, customers and others	22 to 31 and 142 to 144
Carbon and greenhouse gas emissions, energy consumption and energy efficiency action	91 to 93
Financial risk management	206 to 208
	203 to 204 and 222
Financial instruments	222

This Directors' Report (including pages 128 to 187, which form part of this report) fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules.

Cautionary statement: This Annual Report has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Corporate

Articles of Association: The Articles of Association may only be amended by special resolution of the shareholders. The current Articles were adopted as the Articles of Association of the Company at the conclusion of the 2024 AGM and are available on our website.

Auditors: The External Auditor for the 2024/25 financial year was PricewaterhouseCoopers LLP. The Independent Auditors' Report starting on page 188 sets out the information contained in the Annual Report which has been audited by the External Auditor. The Audit Committee considered the performance and audit fees of the External Auditors and the level of non-audit work undertaken.

Change of control: No person holds securities in the Company carrying special rights with regard to control of the Company. All of the Company's share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions proration for time where appropriate.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as bank loan agreements, Eurobond documentation, hybrid capital securities documentation, private placement debt and employees' share plan. This may result in certain funding agreements being altered or repaid early. The impact of employees' share plans is not considered significant.

Other Agreements: There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

Final dividend: The Board recommends a final dividend of 19.43 pence per ordinary share to be paid on 4 September 2025 to shareholders on the register on 25 July 2025, making a total dividend for the year of 31.57 pence per share. The aggregate cost of the final dividend will be £91.7 million and total dividend £133.7 million. The Strategic Report on pages 1 to 127 analyses the Group's financial results in more detail and sets out other financial information.

Political Contributions: The Company has authority, in accordance with Section 366 of the Companies Act 2006, to make political donations to political parties, political organisations and incur political expenditure subject to limits approved by shareholders. No political donations were made or political expenditure incurred and no contributions were made to a non-UK political party (2023/24: nil)

Other Contributions: During the year, the Group provided a total of £64,529 in charitable donations (2023/24: £25,000).

Directors

Details of the Directors who served in the year and to the date of this Report can be found on page 129. Biographies for Directors currently in office can be found on pages 132 to 133 and on our website. During the year, Steve Buck resigned as a Director of the Company on 11 July 2024, Gill Rider resigned as a Director of the Company on 24 July 2024, Claire Ighodaro resigned as Director of the Company on 31 December 2024, Laura Flowerdew was appointed as a Director of the Company on 11 July 2024 and David Sproul was appointed as a Director of the Company on 24 July 2024.

The appointment and replacement of Directors is governed by the Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Directors may from time to time appoint one or more Directors. Any such Director shall hold office only until the next AGM and shall then be eligible for appointment by the Company's shareholders in accordance with the Corporate Governance Code. Subject to annual shareholder approval, Non-Executive Directors are appointed for an initial three-year period and annually thereafter. Each Director will retire and submit themselves for election at the forthcoming AGM.

Conflicts of Interest: The Board has adopted a Conflicts of Interest Policy. The Board has considered in detail the current external appointments of the Directors that may give rise to situational conflicts and, where appropriate, has authorised potential conflicts. Such authorisation can be reviewed at any time but is always subject to annual review.

Purchase of own ordinary shares: Subject to applicable law and the Company's Articles of Association, the Directors may exercise all powers of the Company, including the power to authorise the Issue and/or market purchase of the Company's shares (subject to an appropriate authority being given in general meeting by the shareholders to the Directors). The Articles and a schedule of Matters Reserved for the Board can be found on our website.

At the 2024 AGM, the Directors were given the authority to purchase up to a maximum number of 28,603,969 of the Company's ordinary shares at a minimum price of the nominal value of the share and a maximum price of not more than the higher of:

- i. 5% of the average of the middle market quotations for such ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased; and
- ii. an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venue where the purchase is carried out (the Share Buy-Back Authority).

In the period from 1 April 2024 until 23 May 2025, no further ordinary shares of 61.05 pence each in Pennon were repurchased using the Share Buy-Back Authority. All shares purchased under the Share Buy-Back Authority have been cancelled. Information on transactions in own shares is also publicly available via the regulatory information service and on Pennon's website at www.pennon-group.co.uk/investor-information/rns-announcements.

No shares were made subject to a lien or charge during the year under review and up to the date of approval of this Annual Report and Accounts. As at 1 April 2025, 5,628 shares were held in treasury, representing 0.001% of the issued share capital. No treasury shares were re-issued during the year.

Directors' insurance and indemnities: The Company has maintained Directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers throughout the year. The Company has entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope that complies with the requirements of the Companies Act 2006, which were in force throughout the year and remain in force.

Disclosures

Listing Rule 9.8.4 disclosures: There is no information to be disclosed under Listing Rule (9.8.4R.) The Company has no long-term incentive arrangements in place under LR 9.4.2R where the only participant is a Director and the arrangement is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the individual.

DTR 3.1.2R: Details of the Directors who held office during the year and their biographical details are set out on pages 132 to 133. The Directors' interest in the ordinary shares and options of the Company are disclosed within the Directors' Remuneration Report on pages 166 to 183.

Financial Risk Management: The Directors have carried out a robust assessment of the principal and emerging risks facing the Group, including in relation to its business model, future performance, solvency and liquidity. Details of our principal risks and association mitigations are set out on pages 70 to 79. Note 3 to the Financial Statements gives details of the Group's financial risk management policies and related exposures. This note is incorporated by reference and deemed to form part of this Report.

Going Concern: The going concern basis has been adopted in preparing these financial statements. At 31 March 2025 the Group has access to undrawn committed funds and cash and cash equivalents totalling £977.9 million, including cash and other short-term deposits of £417.9 million and £560.0 million of undrawn facilities. Cash and cash equivalents excludes £58.2 million of restricted funds deposited with financial institutions which are available for access, subject to being replaced by an equivalent valued security. The Group has an expected headroom of £379.6 million at 30 September 2026.

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 70 to 79, 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 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 30 September 2026. The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic impacts such as inflation and interest rate increases and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Group collectively. The combined weighted impact of the risks occurring is a cash outflow of c.£108.5 million – this value is considered equivalent to an extreme one-off event that could occur by 30 September 2026; the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the 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.

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. Having considered these factors, the Directors have a reasonable expectation that the Group will meet the requirements of its covenants and has adequate resources to continue in operational existence for the period to at least the end of the going concern assessment period of 30 September 2026, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Data: As part of our business activity, the Group processes large amounts of personal data. The Group recognises that to enable this use of personal data it is critical that we continue to build on our approach to applying privacy in a lawful and ethical way. A programme of work to support this has been led by our data governance team. The work includes making improvements to our data governance framework and delivering our data privacy function. We have a number of policies, procedures and tools to support this. Compliance with these policies is mandatory. All colleagues undergo regular training to remind them of their responsibilities under these policies.

Employment policies and employee involvement

Continuous Improvement: The Group has a culture of continuous improvement through investment in people at all levels within the Group. The Group is committed to pursuing equality and diversity in all its employment activities, including recruitment, training, career development and promotion and ensuring there is no bias or discrimination in the treatment of people. In particular, applications for employment are welcomed from persons with disabilities, and special arrangements and adjustments as necessary are made to ensure that applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible the opportunity is taken to retrain people who become disabled during their employment to maintain their employment within the Group.

Policies: The Group has policies in place covering health and safety, equal opportunities, diversity and inclusion, ethics and employee relations. Further detail of the contents of the diversity and inclusion policy are set out in the report of the Nomination Committee on page 149. Also, information regarding the employee diversity is provided on page 36. The Board's activities in relation to assessing and monitoring culture can be found in the Corporate Governance Statement on page 135.

Freedom of Association: Pennon respects the right to freedom of association and employees are consulted regularly about changes which may affect them either through their trade union appointed representatives or consultation groups or by means of their elected representatives at the Employee Engagement Forum. These forums, together with regular meetings with particular groups of employees, are used to ensure that employees are kept up to date with the business performance of their employer and the financial and economic factors affecting the performance of the Group. The Group also cascades information to all employees to provide them with important and up-to-date information about key events and to obtain feedback from them on a monthly basis. Further details of employee engagement and employment matters relating to the Group are set out on pages 26 to 27 and 32 to 39 of the Strategic Report.

Share Ownership: The Group encourages share ownership among its employees by operating an HMRC approved Sharesave Scheme and Share Incentive Plan. Following shareholder approval at the 2024 AGM, this scheme and plan were amended to provide for the increased savings limits approved by the Government. At 31 March 2025, approximately 33% (31 March 2024: 36%) of the Group's employees were participating in these plans.

Modern Slavery Act: Our people are fundamental to our business, and we remain committed to and passionate about supporting our staff, customers and communities to thrive by creating an environment where everyone can feel safe and supported. We have a clear zero-tolerance approach to modern slavery and are committed to playing our part in helping eradicate it by having systems and processes to monitor, assess and reduce the risk of forced labour and human trafficking.

We remain focused on improving our risk assessment and the widening of our engagement. We have continued to engage and raise awareness, through internal training, and by continuing as a member of Slave Free Alliance. We are part of a utilities sector working group which shares best practice across our industry. We will continue to work hard to tackle this issue collaboratively with our partners, employees, suppliers, and peers to evolve our approach to ensure it remains effective. Our latest Modern Slavery Statement can be found here: www.pennon-group.co.uk/sites/default/files/attachments/pdf/pennon-modern-slavery-statement-2023.pdf.

Greenhouse gas emissions: Details of our GHG emissions can be found in the Strategic Report on pages 91 to 92.

Energy usage: Details of our Energy usage can be found in the Strategic Report on page 93.

Research and development: Research and development within the Group involving water and wastewater treatment processes amounted to £1.1 million during the year (2023/24: £0.6 million).

Overseas branches: The Company has no overseas branches.

Shares

Issued Share Capital: Details of the Company's issued share capital, consisting of ordinary shares of nominal value 61.05 pence each are set out in note 33 to the financial statements. All of the issued shares are fully paid up and quoted on the London Stock Exchange.

On 18 February 2025 the Company issued 185,928,002 Ordinary Shares of 61.05 pence each in the Company following a 13 for 20 Rights Issue. More information can be found on page 238.

In addition, the Company issued and allotted 3,386 ordinary shares in the Company under the terms of the Pennon Sharesave Plan 2024.

Rights: The rights attaching to the Company's ordinary shares are set out in the Articles of Association. There are no securities carrying special rights.

Restrictions: There are no restrictions on the transfer of issued ordinary shares of the Company or on the exercise of voting rights attached to them, except:

- where the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006; or
- where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.

There are no persons with special rights regarding control of the Company. No shares issued under the employee share schemes have rights with regard to control of the Company that are not exercisable directly by the employee.

Substantial Shareholders: Details of significant direct or indirect holdings of securities of the Company are set out in the shareholder analysis on page 254. The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities or on voting rights.

Authority to Purchase Own Shares: The Directors also intend to renew the power to make purchases of the Company's own shares in issue as set out above up to an aggregate nominal value of:

- i. £96,036,631 (such amount to be reduced by any shares allotted or rights granted under (ii) below in excess of £96,036,631); and
- ii. £192,102,076 by way of a pre-emptive offer (such amount to be reduced by any shares allotted or rights granted from (i) above), similar to that approved by shareholders at the 2024 AGM. In addition, shareholders approved at the 2024 AGM, resolutions giving the Directors a limited authority to allot shares for cash other than pro rata to existing shareholders. These resolutions remain valid until the conclusion of this year's AGM. Similar resolutions will be proposed at the 2025 AGM. The Directors have no present intention to issue ordinary shares other than pursuant to the Company's employee share schemes.
- iii. The Directors were also given the authority by shareholders at the 2019 AGM to allot a single non-cumulative redeemable preference share of one penny nominal value (the WaterShare+ Share), the rights and restrictions in relation to which are set out in Article 5A of the Company's Articles of Association. The share was allotted on 20 October 2020.

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the directors whose names and functions are listed in the governance report confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

The Directors' Report consisting of pages 171 to 187 was approved by the Board on 3 June 2025.

By order of the Board



Andrew Garard
Pennon General Counsel and Company Secretary

3 June 2025

Independent auditors' report to the members of Pennon Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Pennon Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2025 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 March 2025; the Consolidated statement of profit or loss, Consolidated statement of comprehensive income, Statements of changes in equity and Consolidated cash flow statement for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 7 to the Financial Statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and company financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Overview

Audit scope

- Following our assessment of the risk of material misstatement of the consolidated financial statements, we identified five components where we performed a full scope audit of their complete financial information, either due to size or risk characteristics.
- We further identified three components where we performed audit procedures over specific financial statement line items.
- The audit work on all the components as well as audit procedures over centralised balances, the consolidation and the company was undertaken by the Group audit team.

Key audit matters

- Revenue recognition in relation to the accrued income for measured water services (group)
- Valuation of the expected credit loss provision for household customer trade receivables (group)
- Carrying value of investment in subsidiary undertakings (parent)

Materiality

- Overall group materiality: £10,400,000 based on 1% of Revenue.
- Overall company materiality: £17,900,000 based on 1% of Total assets.
- Performance materiality: £7,800,000 (group) and £13,400,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter

Revenue recognition in relation to the accrued income for measured water services (group)

The Group's revenue streams include the provision of water and waste water services.

Revenue from measured water services requires an estimation of the level of usage/consumption of water and/or wastewater services between the last meter read date and the balance sheet date. The directors apply judgment through manual adjustments for factors such as seasonality and operational data trends regarding consumption, which are adjusted on top of the system generated information covering volume usage and the last meter reading. We focused on this area because the manual adjustments are judgmental and therefore the position adopted is subjective.

Refer to Notes 4 and 5 to the financial statements and the Matters of significance for 2024/25 section of the Audit committee report.

How our audit addressed the key audit matter

As part of our audit of the directors' judgment over the level of manual adjustments required:

- We have performed walkthrough procedures to understand the process for calculating the measured water services accrual, with a specific focus on the directors' methodology, including reviewing accounting papers supporting the estimation;
- We reviewed the report produced by the directors' expert, who were engaged to review the processes and systems used to calculate the measured water services accrual;
- We performed lookback procedures over the directors historical forecasting to assess the accuracy of the manual adjustments applied; and
- We developed an independent range estimate to assess the reasonableness of the estimate generated by the directors.

Based on our procedures, the conclusion that the level of manual adjustments applied was reasonable is consistent with the evidence obtained.

Valuation of the expected credit loss provision for household customer trade receivables (group)

The expected credit loss provision for household customer balances is calculated using a combination of system generated information on historic debt recovery rates and the directors' judgement of whether manual adjustments are necessary to reflect the future likely level of future cash collections where these are expected to not be represented by historic losses.

We focussed on this area because the key assumptions driving whether manual adjustments are required are subjective and require the directors to apply judgment. The key assumption related to these manual adjustments is whether historic level of collections is indicative of the ability to collect at the same levels in the future. The risk of non-recovery from customers varies, depending on a number of factors which include, but are not limited to; increases to future rates, discontinuation of customer support programmes such as GC50, whether the household customer no longer occupies a property in the area and the level of expected leakage.

Refer to Notes 4 and 22 to the financial statements and the Matters of significance for 2024/25 section of the Audit committee report.

Carrying value of investment in subsidiary undertakings (parent)

Investment in subsidiary undertakings are accounted for at cost less provision for impairment. Investments are tested for impairment if indicators exist. If such indicators exist, the recoverable amounts of the investments in subsidiary undertakings are estimated in order to determine the extent of the impairment loss, if any. Any such impairment loss is recognised in the income statement.

A review for indicators of impairment was performed by the directors, including considering the latest available forecasts and developments in the Group during the year. The assessment identified no impairment indicator in respect of the investment in subsidiary undertakings.

Refer to note 20 to the financial statements.

As part of our audit of the directors' judgment over the level of manual adjustments required:

- We have performed walkthrough procedures to understand the process for calculating the expected credit loss provision, with a specific focus on the directors' methodology for applying manual adjustments;
- We have considered external macroeconomic data such as Real Household Disposable Income reports, as well as employment, inflation, interest rate trends and the post balance sheet collections data for April 2025 to assess the impact on the provision held;
- We developed an independent range estimate to assess the reasonableness of the estimate generated by the directors; and
- We have understood the nature and relevance of the manual adjustments posted validating the basis of the adjustment to supporting evidence.

Based on our procedures, the conclusion that the level of manual adjustments applied was reasonable is consistent with the evidence obtained.

We evaluated the directors' determination of whether there were any other indicators of impairment. Our procedures included:

- comparing the carrying value of investment with the market capitalisation of the Group at 31 March 2025; and
- considering the Group's current trading performance.

Overall, we found the assessment of the carrying value of investment in subsidiary undertakings and associated disclosures to be consistent with the evidence obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group financial statements are a consolidation of multiple components across the UK, comprising the group's operating businesses and centralised functions. These components maintain their own accounting records and controls and report to the head office finance team for consolidation purposes.

In establishing the overall approach to the Group audit, we identified five components which, in our view, required an audit of their complete financial information whether due to their size or risk characteristics: including South West Water and Pennon Water Services as the largest two. We also added three components to our scope where we performed audit procedures over specific financial statement line items to ensure sufficient coverage within the group consolidation. All in-scope component work was performed by the Group engagement team. The Group consolidation, centralised balances and financial statement disclosures were audited by the Group audit team.

The impact of climate risk on our audit

In planning our audit, we considered the potential impact of climate change on the Group's financial statements. We made enquiries of the directors to understand the process for assessing climate-related risks and opportunities, the extent of the potential impact of climate change risk on the Group's financial statements and the Group's preparedness for this. The TCFD statement describes and explains how climate change could have an impact on the group's business. Using our knowledge of the business we considered whether the risks identified are consistent with our knowledge of the business and remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any additional risks of material misstatement, or material inconsistencies between the financial statements and the other climate related information presented.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£10,400,000.	£17,900,000.
How we determined it	1% of Revenue	1% of Total assets
Rationale for benchmark applied	Based on the benchmarks included in the annual report and accounts, revenue is considered a key metric for the users of the financial statements that represents a generally acceptable auditing benchmark.	Based on the nature of the company, trading is not the entity's main function. The company has transactions that are there to support the group in its trading and so total assets is considered appropriate and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £2,250,000 to £9,450,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £7,800,000 for the group financial statements and £13,400,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) and £895,000 (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical integrity of the cash flow forecasts and the models supporting these forecasts and reconciling them to Board approved budgets. The directors' assessment covered the period of 15 months from the date of approval of the Annual Report and Accounts to September 2026, we focused on this period and also considered the subsequent six months to March 2027;

- Understanding the key assumptions the directors have applied in developing their base case and severe but plausible downside scenarios. We challenged various aspects of the directors' base case and downside scenarios including consideration of other potential downside risks that were not factored into the directors' downside scenario;
- Assessing the accuracy of the cash flow forecast prepared in the prior years so as to obtain assurance of the ability of the directors to prepare accurate forecasts;
- Obtaining and understanding the terms of the Group's financing and available credit facilities and in particular the financial covenants that the Group is subject to. We have verified the existence of the facilities in place on which the directors have based their liquidity forecast;
- Reviewing the directors' analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period;
- Assessing the extent of mitigating actions that could be taken by the directors, if necessary, to increase liquidity or to prevent a trigger or default event arising against the covenants in place;
- Assessing the appropriateness of the disclosures within the financial statements as disclosed in the accounting policies, relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2025 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Environmental regulations, Ofwat regulations and the FCA Listing rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries that improve financial performance and management bias in significant accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions among the engagement personnel covering the potential for material misstatements due to error or fraud, the risks associated with related parties and emphasis on the need to maintain professional scepticism throughout the engagement;
- Inquiries of the directors and others within the entity, including those outside of finance, as to their knowledge, awareness and concerns regarding fraud, or breaches in laws and regulations;
- Identification and testing of journal entries that met our risk criteria, in particular any journal entries posted with unusual account combinations that hit our risk criteria and incorporating an element of unpredictability in the nature, timing and extent of audit procedures performed;
- Testing significant accounting estimates and judgements made by the directors;
- Reading the minutes of the Board meetings to identify any inconsistencies with other information provided by management;
- Reviewing internal audit reports insofar as they related to the financial statements; and
- Reviewing legal expense accounts and other correspondence to identify items which may indicate the existence of material legal claims.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 24 July 2024 to audit the financial statements for the year ended 31 March 2025 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Other matter

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R – 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

Colin Bates (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Bristol

3 June 2025

Consolidated statement of profit or loss

For the year ended 31 March 2025

	Notes	Before non-underlying items 2025 £m	Non-underlying items (note 6) 2025 £m	Total 2025 £m	Before non-underlying items 2024 £m	Non-underlying items (note 6) 2024 £m	Total 2024 £m
Revenue	5	1,047.8	–	1,047.8	907.8	–	907.8
Operating costs	7						
Employment costs		(151.1)	(11.7)	(162.8)	(114.8)	(0.7)	(115.5)
Raw materials and consumables used**		(51.7)	(0.2)	(51.9)	(37.4)	–	(37.4)
Other operating expenses**		(499.7)	(25.7)	(525.4)	(410.2)	(25.2)	(435.4)
Financial assets impairment		(9.7)	–	(9.7)	(7.1)	–	(7.1)
Earnings before interest, tax, depreciation and amortisation	5	335.6	(37.6)	298.0	338.3	(25.9)	312.4
Depreciation and amortisation	7	(187.1)	–	(187.1)	(172.0)	–	(172.0)
Operating profit/(loss)	5	148.5	(37.6)	110.9	166.3	(25.9)	140.4
Finance income	8	15.0	–	15.0	12.6	–	12.6
Finance costs	8	(199.4)	–	(199.4)	(162.8)	–	(162.8)
Net finance costs	8	(184.4)	–	(184.4)	(150.2)	–	(150.2)
Share of post-tax profit from associated companies	20	0.8	–	0.8	0.7	–	0.7
(Loss)/profit before tax	5	(35.1)	(37.6)	(72.7)	16.8	(25.9)	(9.1)
Taxation credit/(charge)	9	7.0	8.9	15.9	(4.3)	4.9	0.6
(Loss)/profit for the year		(28.1)	(28.7)	(56.8)	12.5	(21.0)	(8.5)
Attributable to:							
Ordinary shareholders of the parent				(57.9)			(9.5)
Non-controlling interests				1.1			1.0
Earnings per ordinary share (pence per share)*	11						
Basic				(16.1)			(2.9)
Diluted				(16.1)			(2.9)

* Earnings per ordinary share restated for 2024, see note 11.

** Raw materials and consumables used and other operating expenses have been restated, see note 2.

The above results were derived from continuing operations.

The notes on pages 200 to 247 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2025

	Notes	Before non-underlying items 2025 £m	Non-underlying items (note 6) 2025 £m	Total 2025 £m	Before non-underlying items 2024 £m	Non-underlying items (note 6) 2024 £m	Total 2024 £m
(Loss)/profit for the year		(28.1)	(28.7)	(56.8)	12.5	(21.0)	(8.5)
Other comprehensive income/(loss)							
Items that will not be reclassified to profit or loss							
Remeasurement of defined benefit obligations	30	3.5	–	3.5	(7.7)	–	(7.7)
Income tax on items that will not be reclassified	9	(0.9)	–	(0.9)	2.2	–	2.2
Total items that will not be reclassified to profit or loss		2.6	–	2.6	(5.5)	–	(5.5)
Items that may be reclassified subsequently to profit or loss							
Loss on cash flow hedging*		(19.7)	–	(19.7)	(34.7)	–	(34.7)
Hedging losses recycled to profit or loss*		15.4	–	15.4	18.3	–	18.3
Income tax on items that may be reclassified	9	2.4	–	2.4	4.1	–	4.1
Total items that may be reclassified subsequently to profit or loss		(1.9)	–	(1.9)	(12.3)	–	(12.3)
Other comprehensive income/(loss) for the year net of tax	36	0.7	–	0.7	(17.8)	–	(17.8)
Total comprehensive (loss)/income for the year		(27.4)	(28.7)	(56.1)	(5.3)	(21.0)	(26.3)
Total comprehensive (loss)/income attributable to:							
Ordinary shareholders of the parent				(57.2)			(27.3)
Non-controlling interests				1.1			1.0

* Movements on cash flow hedges were presented net in 2024, the presentation has been restated to present as gross, see note 2 for further detail.

The notes on pages 200 to 247 form part of these financial statements.

Consolidated and Company balance sheets

At 31 March 2025

	Notes	Group		Company	
		2025 £m	Restated* 2024 £m	2025 £m	2024 £m
Assets					
Non-current assets					
Goodwill	15	179.9	179.9	–	–
Other intangible assets	16	62.2	60.3	–	–
Property, plant and equipment	17	5,849.4	5,374.3	–	0.1
Other non-current assets	19	8.7	8.7	104.6	54.1
Financial assets at fair value through profit	24	0.6	0.9	0.6	0.9
Deferred tax assets	31	–	–	23.6	20.7
Derivative financial instruments	23	22.4	17.4	0.1	0.2
Investments in subsidiary undertakings	20	–	–	1,562.7	1,153.2
Investments in associated companies	20	1.8	1.0	–	–
Retirement benefit assets	30	22.0	26.6	4.0	3.5
		6,147.0	5,669.1	1,695.6	1,232.7
Current assets					
Inventories	21	12.8	13.2	–	–
Trade and other receivables	22	391.8	355.4	53.8	151.8
Current tax receivable	27	0.9	6.0	–	–
Derivative financial instruments	23	9.8	23.4	0.7	1.0
Cash and cash equivalents	25	417.9	134.0	45.0	79.2
Restricted funds	25	58.2	37.4	–	–
Retirement benefit assets	30	9.2	–	–	–
		900.6	569.4	99.5	232.0
Liabilities					
Current liabilities					
Borrowings	28	(257.4)	(240.7)	(51.5)	(8.0)
Financial liabilities at fair value through profit	24	(0.3)	(0.1)	(0.3)	(0.1)
Derivative financial instruments	23	(0.5)	(5.4)	(0.1)	(0.1)
Trade and other payables	26	(331.0)	(346.5)	(19.6)	(11.5)
Current tax liabilities	27	–	–	(1.9)	(3.2)
Provisions	32	(6.8)	–	(0.3)	–
		(596.0)	(592.7)	(73.7)	(22.9)
Net current assets/(liabilities)		304.6	(23.3)	25.8	209.1
Non-current liabilities					
Borrowings	28	(4,296.9)	(3,775.5)	(195.6)	(245.6)
Other non-current liabilities	29	(171.3)	(154.9)	–	–
Derivative financial instruments	23	(1.6)	(3.3)	–	–
Deferred tax liabilities	31	(530.6)	(548.4)	–	–
Provisions	32	(0.5)	(1.1)	–	–
		(5,000.9)	(4,483.2)	(195.6)	(245.6)
Net assets/(liabilities)		1,450.7	1,162.6	1,525.8	1,196.2
Shareholders' equity					
Share capital	33	288.1	174.6	288.1	174.6
Share premium account	34	755.0	398.2	755.0	398.2
Capital redemption reserve	35	157.1	157.1	157.1	157.1
Retained earnings and other reserves	36	248.0	431.3	325.6	466.3
Total shareholders' equity		1,448.2	1,161.2	1,525.8	1,196.2
Non-controlling interests		2.5	1.4	–	–
Total equity		1,450.7	1,162.6	1,525.8	1,196.2

* The 2024 balance sheet has been restated, see note 2 for further detail.

The loss for the year attributable to ordinary shareholders' equity dealt with in the accounts of the Parent Company is £13.5 million (2024: £34.4 million profit). The notes on pages 200 to 247 form part of these financial statements. The financial statements on pages 194 to 247 were approved by the Board of Directors and authorised for issue on 3 June 2025 and were signed on its behalf by:

Laura Flowerdew

Chief Financial Officer

Pennon Group plc

Registered Office: Peninsula House, Rydon Lane, Exeter, Devon, England EX2 7HR. Registered in England Number 02366640.

Statements of changes in equity

At 31 March 2025

Group	Share capital (note 33) £m	Share premium account (note 34) £m	Capital redemption reserve (note 35) £m	Retained earnings and other reserves (note 36) £m	Non-controlling interests £m	Total equity £m
At 31 March 2023	159.5	237.6	157.1	570.6	0.4	1,125.2
(Loss)/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)
<i>Transactions with equity shareholders:</i>						
Dividends paid	–	–	–	(111.7)	–	(111.7)
Shares issued	15.1	164.9	–	–	–	180.0
Transaction costs arising on shares issued	–	(4.7)	–	–	–	(4.7)
Adjustment 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
(Loss)/Profit for the year	–	–	–	(57.9)	1.1	(56.8)
Other comprehensive income for the year	–	–	–	0.7	–	0.7
Total comprehensive (loss)/income for the year	–	–	–	(57.2)	1.1	(56.1)
<i>Transactions with equity shareholders:</i>						
Dividends paid	–	–	–	(126.9)	–	(126.9)
Rights issue*	113.5	377.5	–	–	–	491.0
Transaction costs relating to rights issue	–	(20.5)	–	–	–	(20.5)
Transaction costs arising on shares issued	–	(0.2)	–	–	–	(0.2)
Adjustment in respect of share-based payments (net of tax)	–	–	–	2.0	–	2.0
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	–	–	–	(1.2)	–	(1.2)
Total transactions with equity shareholders	113.5	356.8	–	(126.1)	–	344.2
At 31 March 2025	288.1	755.0	157.1	248.0	2.5	1,450.7

* On 17 February 2025 the Company completed a rights issue to existing shareholders on the basis of 13 ordinary shares for every 20 fully paid ordinary shares held. As a result, 185,928,002 ordinary shares with an aggregate nominal value of £113.5 million were issued for cash consideration of £491.0m. Transaction costs directly attributable to the rights issue of £20.5 million were incurred and have been accounted for as a deduction from share premium, cash paid in relation to the transaction costs amounted to £15.4m with the rest held on the balance sheet as payable.

The notes on pages 200 to 247 form part of these financial statements.

Statements of changes in equity (continued)

For the year ended 31 March 2025

	Share capital (note 33) £m	Share premium account (note 34) £m	Capital redemption reserve (note 35) £m	Retained earnings and other reserves (note 36) £m	Total equity £m
Company					
At 31 March 2023	159.5	237.6	157.1	545.7	1,099.9
Profit for the year	–	–	–	34.4	34.4
Other comprehensive loss for the year	–	–	–	(1.0)	(1.0)
Total comprehensive income for the year	–	–	–	33.4	33.4
<i>Transactions with equity shareholders:</i>					
Dividends paid	–	–	–	(111.7)	(111.7)
Shares issued	15.1	164.9	–	–	180.0
Transaction costs arising on shares issued	–	(4.7)	–	–	(4.7)
Adjustment in respect of share-based payments (net of tax)	–	–	–	1.1	1.1
Charge in respect of share options vesting	–	–	–	(2.2)	(2.2)
Proceeds from shares issued under the Sharesave Scheme	–	0.4	–	–	0.4
Total transactions with equity shareholders	15.1	160.6	–	(112.8)	62.9
At 31 March 2024	174.6	398.2	157.1	466.3	1,196.2
Loss for the year	–	–	–	(13.5)	(13.5)
Other comprehensive income for the year	–	–	–	0.3	0.3
Total comprehensive loss for the year	–	–	–	(13.2)	(13.2)
<i>Transactions with equity shareholders:</i>					
Dividends paid	–	–	–	(126.9)	(126.9)
Rights issue*	113.5	377.5	–	–	491.0
Transaction costs relating to rights issue	–	(20.5)	–	–	(20.5)
Transaction costs arising on shares issued	–	(0.2)	–	–	(0.2)
Adjustment in respect of share-based payments (net of tax)	–	–	–	1.5	1.5
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	–	–	–	(2.1)	(2.1)
Total transactions with equity shareholders	113.5	356.8	–	(127.5)	342.8
At 31 March 2025	288.1	755.0	157.1	325.6	1,525.8

* On 17 February 2025 the Company completed a rights issue to existing shareholders on the basis of 13 ordinary shares for every 20 fully paid ordinary shares held. As a result, 185,928,002 ordinary shares with an aggregate nominal value of £113.5m were issued for cash consideration of £491.0m. Transaction costs directly attributable to the rights issue of £20.5m were incurred and have been accounted for as a deduction from share premium.

The notes on pages 200 to 247 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 March 2025

	Notes	Group	
		2025 £m	2024 (restated) £m
Cash flows from operating activities			
Cash generated from operations	37	233.6	261.7
Interest paid	37	(143.1)	(116.2)
Tax received		3.0	3.4
Net cash generated from operating activities		93.5	148.9
Cash flows from investing activities			
Interest received		11.1	7.1
Purchase of property, plant and equipment		(663.1)	(555.1)
Acquisition of subsidiaries, net of cash acquired	20, 43	–	(62.7)
Deposit of restricted funds*		(20.8)	(4.3)
Purchase of intangible assets		(5.5)	(43.8)
Proceeds from sale of property, plant and equipment		1.9	0.8
Net cash used in investing activities		(676.4)	(658.0)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		491.0	175.7
Share issue transaction costs		(15.4)	–
Purchase of ordinary shares by the Pennon Employee Share Trust		(1.2)	(14.)
Proceeds from new borrowing		920.0	574.5
Repayment of borrowings		(328.5)	(168.7)
Cash inflows from lease financing arrangements		25.0	64.8
Lease principal repayments (including net recoverable VAT paid/recovered)		(97.2)	(22.4)
Dividends paid		(126.9)	(111.7)
Net cash received from financing activities		866.8	510.8
Net increase/(decrease) in cash and cash equivalents		283.9	1.7
Cash and cash equivalents at beginning of the year*	25	134.0	132.3
Cash and cash equivalents at end of the year	25	417.9	134.0

* Cash and cash equivalents has been restated, see note 2 for further detail.

The notes on pages 200 to 247 form part of these financial statements.

Notes to the Financial Statements

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 255. 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. Sutton and East Surrey Water plc ("SES Water") provides water only services in the South East region. Sutton and South East Surrey Water Services ("SESWS") provides water and wastewater retail services to non-household customer accounts. 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. The Company 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 and SESWS.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented.

(a) Basis of preparation

The financial statements for the Group have been prepared on the historical cost accounting basis (except for fair value items, principally acquisitions, transfers of assets from customers and certain financial instruments as described in accounting policy notes (b), (u) and (n) respectively) and in accordance with UK-adopted international accounting standards.

The parent company financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006. The Company meets the definition of a qualifying entity as defined in FRS 100 'Application of Financial Reporting Requirements', accordingly the Company has elected to apply FRS 101 'Reduced Disclosure Framework'.

Therefore, the recognition and measurement requirements of United Kingdom adopted International Financial Reporting Standards have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as the parent company financial statements are Companies Act 2006 accounts.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - Paragraph 79(a)(iv) of IAS 1,
 - Paragraph 73(e) of IAS 16, 'Property, plant and equipment', and
 - Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (statement of cash flows information), and
 - 134-136 (capital management disclosures).

- IAS 7, 'Statement of cash flows'.
- The requirements of paragraphs 88C and 88D of IAS 12 Income Taxes.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

The Company has taken advantage of section 408 of the Companies Act 2006 not to present the parent company profit and loss account. The loss for the year is disclosed in the Company statement of changes in equity and the Company balance sheet.

The Group and parent company financial statements are presented in pounds sterling and all values rounded to the nearest one-hundred thousand pounds, except when otherwise indicated.

Restatements

In the prior year 'Cash and cash deposits' consisted of 'Cash and cash equivalents' and 'Restricted funds'. As restricted funds do not form part of cash and cash equivalents has been re-presented in the 2024 balance sheet. Cash and cash equivalents totalled £134.0 million and Restricted funds £37.4 million at 31 March 2024. An adjustment has also been reflected in the cash flow statement, the opening and closing values of cash and cash equivalents in the prior year have been restated to £132.3 million and £134.0 million respectively from £143.7 million and £145.4 million.

In the prior year 'Financial liabilities at fair value through profit' (FVTP) included a £2.5m current liability and £31.8m non-current liability. These items relate to an unamortised hedging adjustment following a decision to de-designate a hedging relationship on a bond in a prior period. The unamortised hedging adjustment has been reclassified to be shown as part of borrowings to align with the debt for which the hedge was entered into.

In the prior year purchases of water from wholesalers by SESWS were presented as raw materials in operating costs, to align with the existing group presentation this has been reclassified to other operating expenses, the total being £14.4m.

In the prior year movements on cash flow hedges were presented net in the statement of comprehensive income, the presentation has been amended to show the gross values in relation to the loss on cash flow hedging (2024: £34.7 million) and hedging gains recycled to profit or loss (2024: £18.3 million).

Adjustments to the prior period have been made in relation to the acquisition of SES as detailed in note 43.

A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

Going concern

The going concern basis has been adopted in preparing these financial statements. At 31 March 2025 the Group has access to undrawn committed funds and cash and cash equivalents totalling £977.9 million, including cash and other short-term deposits of £417.9 million and £560.0 million of undrawn facilities. Cash and cash equivalents excludes £58.2 million of restricted funds deposited with financial institutions which are available for access, subject to being replaced by an equivalent valued security. The Group has an expected headroom of £379.6 million at 30 September 2026.

2. Principal accounting policies *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 70 to 79, 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 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 30 September 2026. The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic impacts such as inflation and interest rate increases and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Group collectively. The combined weighted impact of the risks occurring is a cash outflow of c.£108.5 million; this value is considered equivalent to an extreme one-off event that could occur by 30 September 2026, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the 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.

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. 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 30 September 2026, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, management has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosure. The expected environmental impact of climate change on the water business has been modelled noting that the physical risks are increasing. It is likely that the Group will need to invest to protect certain assets such as sewage works and pumping stations against sea level inundation and these considerations form part of the planning process for new capital expenditure. Longer term investment, outlined in the strategic plans, will be needed to manage future risks. To achieve this, combined regulatory and government support within their policy frameworks will be essential. Whilst it is estimated additional spend will be required to manage future risks, the current available information and assessment did not identify any risks regarding the sufficiency of funds available to the Group to support this additional spend or any risk that would require the useful economic lives of assets to be reduced in the year or identify the need for impairment that would impact the carrying values of such assets or have any other impact on the financial statements. The impact assessments will be continuously updated to reflect the latest available information on the impact of climate change.

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2024 did not have a material impact on the net assets or results of the Group and the parent company. Existing borrowing covenants were not impacted by changes in accounting standards.

New standards or interpretations due to be adopted from 1 April 2025 are not expected to have a material impact on the Group's and the parent company's net assets or results.

(b) Basis of consolidation

The Group financial statements include the results of Pennon Group plc and its subsidiaries and joint ventures.

The results of subsidiaries and joint ventures are included from the date of acquisition or incorporation and excluded from the date of disposal. The results of subsidiaries are consolidated where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of joint ventures are accounted for on an equity basis.

Intra-group trading, loan balances and transactions are eliminated on consolidation.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business, together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets, is recorded as goodwill.

(c) Revenue recognition

Group revenue is recognised following delivery of performance obligations and an assessment of when control over the product or service is transferred to the customer. Revenue is only recognised when collection of consideration is highly probable.

Revenue is recognised either when the performance obligation in the contract has been performed (point in time recognition) or 'over time' as the performance obligations to the customer are satisfied. For each obligation satisfied over time, the Group applies a revenue recognition method that accurately reflects performance in transferring control of the services to the customer.

Where a contract with a customer includes more than one performance obligation, revenue is allocated to each obligation in proportion to a fair value assessment of the total contract sales value split across the services provided.

At the inception of a contract the total transaction price is estimated, being the fair value to which the Group expects to be entitled under the contract, including any variable consideration. Variable consideration is based on the most likely outcome of the performance obligations. Revenue excludes value added tax, trade discounts and revenue arising from transactions between Group companies.

Water (domestic and non-household retail)

For most of the services provided to domestic customers, contract terms are implied through statute and regulation in the absence of formal, written contracts. South West Water and SES Water have a duty under legislation to provide domestic customers with services regardless of payment and are not permitted to disconnect domestic customers for non-payment of bills. Charges are set via the periodic review price-setting process, regulated by Ofwat.

In respect of ongoing, continuous services to customers, such as the provision of drinking water and wastewater services, revenue is recognised over time.

Customers with an unmeasured supply are billed at the start of the year for the full amount of the annual charge but typically take advantage of a choice of payment arrangements to pay by regular instalments. The performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue is recognised under IFRS 15 as the stand-ready obligation is fulfilled over time.

2. Principal accounting policies *continued*

Customers with a metered supply are sent up to four bills per year, based either on actual meter readings or estimated usage. For these customers, revenue includes an estimation of the amount of unbilled usage at the period end. Payment options for domestic customers include an annual meter payment plan where customers agree to pay a fixed amount per month which is adjusted to reflect actual consumption at the end of the year. Revenue is recognised as water is supplied, based on estimate usage for unbilled elements.

A range of regulated services is offered to property developers and owners who require connection to the water and sewerage networks or need the networks to be extended or altered. Typically, these customers pay an estimate of the charges in advance as a deposit, which is treated as a contract liability and are billed or refunded the difference between the estimate and actual costs on completion of the work.

The principle components of these contributions are as follows:

- i) Where the performance obligation relates solely to a connection to the network, revenue is recognised at the point of connection when the customer is deemed to obtain control.
- ii) Where assets are constructed or provided by the Group or assets transferred to the Group, it is considered that there is an explicit or implied performance obligation to provide an ongoing water and/or wastewater service, with the result that revenue is recognised over a time no longer than the economic life of assets provided by or transferred to the Group.

Pennon Water Services provides specialist retail water and wastewater services to business customers. It raises bills and recognises revenue in accordance with its contracts with customers and in line with the limits established for the non-household periodic price-setting process where applicable.

Contract assets and liabilities

A trade receivable is recognised when the Group has an unconditional right to receive consideration in exchange for performance obligations already fulfilled. A contract asset is recognised when the Group has fulfilled some of its performance obligations but has not yet obtained an unconditional right to receive consideration. The amounts for contract assets, when applicable, are disclosed within note 19 (Other non-current assets) and note 22 (Trade and other receivables) as appropriate. A contract liability is recognised when consideration is received in advance of the Group performing its performance obligations to customers, including, when appropriate, transfers of assets from customers (per paragraph (u) below). The value of contract liabilities is disclosed within note 26 (Trade and other payables) and note 29 (Other non-current liabilities) as appropriate.

(d) Segmental reporting

Each of the Group's business segments provides services which are subject to risks and returns which are different from those of the other business segments. The Group's internal organisation and management structure and its system of internal financial reporting are based primarily on business segments. 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. Other components, including Pennon Group plc, are not reportable segments as they are not reported to Chief Decision makers. Segmental revenue and results include transactions between businesses. Inter-segmental transactions are eliminated on consolidation.

(e) Goodwill

Goodwill arising on consolidation from the acquisition of subsidiary undertakings represents the excess of the purchase consideration over the fair value of net assets acquired, less any subsequent impairment charges.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs) or group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (i).

When a subsidiary undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of goodwill.

(f) Other intangible assets

Other intangible assets include assets acquired in business combination and are capitalised at fair value at the date of acquisition. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful lives, with the expense charged to the income statement through operating costs.

(g) Property, plant and equipment

i) Infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS, and subsequent additions are recorded at cost less accumulated depreciation and impairment charges. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the Group. The cost of day-to-day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their useful economic lives, and are principally:

Dams and impounding reservoirs	100 to 200 years
Water mains	60 to 180 years
Sewers	75 to 150 years

Assets in the course of construction are not depreciated until commissioned.

ii) Other assets (being property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly to their residual value over their estimated economic lives, and are principally:

Land and buildings – freehold buildings	10 to 80 years
Land and buildings – leasehold buildings	Over the estimated economic lives or the lease period, whichever is the shorter
Operational properties	15 to 100 years
Fixed and moveable equipment	4 to 30 years

Assets in the course of construction are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Group. Borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. Assets transferred from customers are recognised at fair value as set out in accounting policy (u).

The assets' residual values and useful lives are reviewed annually.

Gains and losses on disposal are determined by comparing sale proceeds with carrying amounts. These are included in the statement of profit or loss.

2. Principal accounting policies *continued*

(h) Leased assets

All are accounted for by recognising a right-of-use asset and a lease liability except for:

- Low value assets; and
- Leases with a duration of 12 months or less.

Contracts are initially measured at the present value of contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. After initial measurement, lease payments are allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The interest element of cash payments in respect of these leases is included within interest payments in determining net cash generated from operating activities. The capital element of the cash payment is included within cash flows from financing activities. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or the remaining economic life of the asset if shorter.

Assets are included within property, plant and equipment as right-of-use assets at the present value of the minimum lease payments and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter.

The Group uses sale and leaseback transactions to finance its capital programme. A sale and leaseback transaction is where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. If the sale criteria are met a lease liability is recognised, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the right retained. Any gain or loss arising relates to the rights transferred to the buyer. If the criteria for a sale under IFRS 15 have not been met the asset is not derecognised and no sale is recorded.

(i) Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Assets subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Value-in-use represents the present value of projected future cash flows expected to be derived from a CGU, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the CGU. Impairments are charged to the income statement in the year in which they arise.

Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Where a previously impaired asset or CGU's recoverable amount is in excess of its carrying amount, previous impairments are reversed to the carrying value that would have expected to be recognised had the original impairment not occurred.

(j) Parent company: Investment in subsidiary undertakings

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid. Subsequently investments are reviewed for impairment on an individual basis annually or if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

(k) Investment in associated companies

Associated companies are entities over which the Group exercises joint control. Investments in associated companies are accounted for using the equity method of accounting. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associated company at the date of acquisition is recognised as goodwill and is included in the carrying value of the investment in the associated company.

The carrying value of the Group's investment is adjusted for the Group's share of post-acquisition profits or losses recognised in the income statement and statement of comprehensive income. Losses of an associated company in excess of the Group's interest are not recognised unless the Group has a legal or constructive obligation to fund those losses.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress includes raw materials and the cost of bringing stocks to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price less cost to sell. The costs of items of inventory are determined using weighted average costs.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short-term deposits held at banks. Bank overdrafts are offset against cash balances where there is a legally enforceable right to offset and there is an intention to settle the balances on a net basis. Otherwise, overdrafts are included within current borrowings.

(n) Financial instruments

Financial instruments are recognised and measured in accordance with IFRS 9. The Group classifies its financial instruments in the following categories:

i) Debt instruments at amortised cost

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition, interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through amortisation.

Borrowings are classified as current liabilities unless the Group has a right to defer settlement of the liability for at least 12 months after the balance sheet date.

ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for expected credit losses (ECLs). In accordance with IFRS 9, each Group entity performs an impairment analysis at each reporting date to measure the ECLs. Each entity does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Each subsidiary has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

2. Principal accounting policies *continued*

iii) Trade payables

Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

iv) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, principally interest rate swaps, cross-currency interest rate swaps and inflation swaps to hedge risks associated with interest rate and exchange rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value for the reported balance sheet.

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge); or
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

The gain or loss on remeasurement is recognised in the income statement except for cash flow hedges which meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are subsequently recognised in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at the end of each reporting period to ensure that the hedge remains highly effective.

The full fair value of a hedging derivative is apportioned on a straight-line basis between non-current and current assets and liabilities based on the remaining maturity of the hedging derivative.

Derivative financial instruments deemed held for trading, which are not subject to hedge accounting, are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

The Group uses cross-currency swaps for some of its foreign currency denominated private placement borrowings. The swaps either have the effect of (i) converting variable rate foreign currency borrowings into fixed rate sterling borrowings, (ii) converting fixed rate foreign currency borrowings into fixed rate sterling borrowings, or (iii) converting fixed rate foreign currency borrowings into floating rate sterling borrowings.

v) Financial instruments at fair value through profit

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on a hedged item through a fair value hedging relationship. The fair values of these financial instruments are initially recognised on the date the hedging relationship is entered into and thereafter remeasured at each subsequent balance sheet date. The gain or loss on remeasurement for the period is recognised in the income statement.

vi) Receivables due from subsidiary undertakings

Amounts owed by subsidiaries are classified and recorded at amortised cost and reduced by allowances for ECLs. Estimated future credit losses are first recorded on initial recognition of a receivable and are based on estimated probability of default. Individual balances are written off when management deems them not to be collectible.

(o) Taxation including deferred taxation

The tax charge for the year comprises current and deferred taxation. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity as appropriate.

Current tax

The current tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The amount is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the position is uncertain. The Group includes a number of companies, including the parent company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payments for group relief are included within the current tax disclosures.

Deferred tax

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised. Deferred tax liabilities are recognised for all temporary differences, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures where the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. Principal accounting policies *continued*

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(p) Provisions

Provisions are made where there is a present legal or constructive obligation as a result of a past event and it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made. Where the effect of the time value of money is material the current amount of a provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as notional interest within finance costs.

(q) Share capital and treasury shares

Ordinary shares are classified as equity.

Where the Company purchases the Company's equity share capital (treasury shares) the consideration paid, including any directly attributable costs, is deducted from equity until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable transaction costs, is included in equity.

The Group and Company balance sheet includes the shares held by the Pennon Group plc Employee Benefit Trust relating to employee share-based payments which have not vested at the balance sheet date. These are shown as a deduction from shareholders' equity until such time as they vest.

Share buy-back scheme and tender offer

Shares purchased for cancellation are deducted from retained earnings at the total consideration paid or payable, including any related expenses. Where the Group has an irrevocable commitment to purchase shares for cancellation at the balance sheet date, a liability is recognised in other creditors based on the share price at the balance sheet date and retained earnings reduced by the amount of the liability.

Shares purchased and held by the Group (treasury shares) are deducted from the treasury reserve at the total consideration paid or payable. On cancellation of treasury shares, the cost is transferred from the treasury reserve to retained earnings.

When treasury shares are issued at below cost, an amount representing the difference between the cost of those shares and issue proceeds is transferred to retained earnings. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(r) Dividend distributions

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid, final dividends when approved by shareholders at the Annual General Meeting.

(s) Employee benefits

i) Retirement benefit obligations

The Group operates defined benefit and defined contribution pension schemes.

Defined benefit pension schemes

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the year less the fair value of plan assets. If the value of a plan's assets exceeds the present value of its obligations, the resulting surplus is only recognised if the Group has an unconditional right to that surplus.

The defined benefit obligation is calculated by independent actuaries who advise on the selection of Directors' best estimates of assumptions, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation. The increase in liabilities of the Group's defined benefit pension schemes, expected to arise from employee service in the year, is charged against operating profit.

Changes in benefits granted by the employer are recognised immediately as a past service cost in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

Defined contribution scheme

Costs of the defined contribution pension scheme are charged to the income statement in the year in which they arise. The Group has no further payment obligations once the contributions have been paid.

ii) Share-based payment

The Group operates a number of equity-settled, share-based payment plans for employees. The fair value of the employee services required in exchange for the grant is recognised as an expense over the vesting period of the grant.

Fair values are calculated using an appropriate pricing model. Non-market-based vesting conditions are considered in the assumptions as to the number of shares which are expected to vest.

(t) Fair values

The fair value of interest rate, inflation and cross currency swaps is based on the market price to transfer the asset or liability at the balance sheet date in an ordinary transaction between market participants. The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of non-current bank loans and other loans, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

(u) Transfers of assets from customers

Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised as a contract liability on the balance sheet. The contract liability reduces, and revenue is recognised in the income statement, as performance obligations are satisfied. The period over which the credit is recognised depends upon the nature of the service provided, as determined by the agreement with the customer. Where the service provided is solely a connection to the network, the credit is recognised at the point of connection. If the agreement does not specify a period, revenue is recognised over a period no longer than the economic life of the transferred asset used to provide the ongoing service.

The fair value of assets on transfer from customers is determined using a cost valuation approach allowing for depreciation.

2. Principal accounting policies *continued*

(v) Foreign exchange

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the closing balance sheet rate. The resulting gain or loss is recognised in the income statement.

(w) Non-underlying items

Non-underlying items are those that in the Directors' view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance.

(x) Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment which provide the customer with ongoing access to the water and sewerage networks are treated as contract liabilities and released to revenue over the economic life of those elements of property, plant and equipment. Grants and contributions receivable in respect of expenses charged against profits in the year have been included in the income statement.

Government grants are recognised where there is reasonable certainty that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. The income from such grants is presented in the financial statements as a deduction from the expense to which it relates.

(y) Variable consideration

Variable consideration in connection with the purchase of individual assets outside of business combinations is recognised as a financial liability at fair value when the amount of consideration payable is contingent upon future events that are not within the direct control of the group. Initial recognition of the financial liability is at fair value. Where the variability of the consideration is directly linked to the quality or output of the asset received then any changes in the consideration is recognised by adjusting the carrying amount of the related asset.

(z) Acquisitions of groups of assets that do not constitute a business

The identifiable assets and liabilities in acquisitions of groups of assets that do not constitute a business, are initially measured at amounts specified in the relevant accounting standards, or determined based on an allocation of the cost. Details of acquisitions in the prior year meeting this definition can be found in note 16.

3. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, liquidity risk, market risk (interest rate and foreign currency risk), credit risk and inflation risk.

The Group's treasury function seeks to ensure that sufficient funding is available to meet foreseeable needs and to maintain reasonable headroom for contingencies, and manages inflation and interest rate risk.

The principal financial risks faced by the Group relate to liquidity, interest rate and credit counterparty risk.

These risks and treasury operations are managed by the Pennon Chief Financial Officer in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance, manage risk, optimise the use of surplus funds and manage overall interest rate performance. The Group does not engage in speculative activity.

(i) Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities which are designed to ensure the Group has sufficient available funds for operations and planned expansions equivalent to at least one year's forecast requirements at all times. Details of undrawn committed facilities and short-term facilities are provided in note 28.

Refinancing risk is managed under a Group policy that requires that no more than 20% of Group net borrowings should mature in any financial year.

The Group and water business have entered into covenants with lenders. While terms vary, these typically provide for limits on gearing (primarily based on the water business's regulatory capital value and unregulated EBITDA) and interest cover. Existing covenants are not impacted by subsequent changes to accounting standards.

3. Financial risk management *continued*

Contractual undiscounted cash flows, including interest payments, at the balance sheet date were:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due over 5 years £m	Total £m
Group					
31 March 2025					
Non-derivative financial liabilities					
Borrowings excluding lease liabilities	164.8	40.5	101.5	3,062.4	3,369.2
Interest payments on borrowings	183.0	160.3	519.1	1,763.7	2,626.1
Lease liabilities including interest	156.1	60.8	297.9	1,095.4	1,610.2
Trade and other payables	284.3	–	–	–	284.3
Derivative contracts					
Derivative contracts – net receipts	(6.9)	(5.0)	(14.0)	(5.3)	(31.2)
31 March 2024					
Non-derivative financial liabilities					
Borrowings excluding lease liabilities (restated, note 2)	186.3	191.0	335.2	2,145.0	2,857.5
Interest payments on borrowings	114.3	101.4	277.8	832.2	1,325.7
Lease liabilities including interest	89.8	153.6	215.5	1,192.6	1,651.5
Trade and other payables (restated, note 43)	335.9	–	–	–	335.9
Derivative contracts					
Derivative contracts – net receipts	(19.1)	(6.5)	(9.3)	(3.8)	(38.7)

ii) Market risk

The treasury policy states at least 60% of the Group's debt should be fixed, this is managed through fixed rate debt and the use of derivatives to ensure these levels are met. Of the Group's net borrowings a proportion is RPI index-linked. The interest rate for index-linked debt is based mainly upon an RPI measure; due to current Ofwat methodology the Group has considered other index linked indices which are also used in determining the amount of revenue from customers of South West Water. The Group uses a combination of fixed rate, index-linked borrowings and fixed rate interest swaps as cash flow hedges of future variable interest payments to achieve this policy. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not therefore an exposure for the Group. These instruments are analysed in note 23.

The Group has no significant interest-bearing assets upon which the net return fluctuates from market risk. Deposit interest receivable is expected to largely fluctuate in line with interest payable on floating rate borrowings. Consequently, the Group's income and cash generated from operations (note 37) are largely independent of changes in market interest rates.

For 2025 if interest rates on variable net borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £4.0 million (2024 post tax profit for the year and equity would have increased/decreased by £7.6 million), for the equity sensitivity fair value, with derivative impacts included. This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the expected volatility is within the range of 0%-2%.

For 2025 if the indices on index-linked borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £10.0 million (2024 post tax profit for the year and equity would have increased/decreased by £5.5 million). This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the expected volatility is within the range of 0%-2%.

Foreign currency risk occurs at transactional and translation level from borrowings and transactions in foreign currencies. These risks are managed through forward contracts, which provide certainty over foreign currency risk.

iii) Credit risk

Credit counterparty risk arises from cash and cash equivalents, derivative financial instruments and exposure to customers, including outstanding receivables. Further information on the credit risk relating to trade and other receivables is given in note 22.

3. Financial risk management *continued*

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. The Board has agreed a policy for managing such risk which is controlled through credit limits, counterparty approvals, and rigorous monitoring procedures.

The Group has no other significant concentration of credit risk. The Group's surplus funds are managed by the Group's treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet Board approved minimum criteria based on their short-term credit ratings and therefore be of good credit quality.

iv) Inflation risk

Market inflation has caused inflationary pressures across the Group, the Group has index linked facilities which are predominantly Retail Price Index (RPI) linked.

Inflation risk arises if the indexes increase meaning the Group will either be paying or accreting the inflation, this could put pressure on the gearing or interest cover ratios.

Inflation risk is mitigated through the index linked nature of our revenues and RCV calculations.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

The Group's policy is to have a minimum of 12 months pre-funding of projected capital expenditure. At 31 March 2025 the Group had cash and facilities, including restricted funds, of £1,036 million (2024: £601 million), meeting this objective.

In order to maintain or adjust the capital structure, the Group seeks to maintain a balance of returns to shareholders through dividends and an appropriate capital structure of debt and equity for each business segment and the Group.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings are analysed in note 38 and calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total shareholders' equity plus net borrowings. The Group currently manages a net borrowings position of £4,078.2 million (2024: £3,844.8 million). The gearing ratios at the balance sheet date were:

	2025 £m	2024 £m
Net borrowings (restated, note 2)	4,078.2	3,844.8
Total equity	1,450.7	1,162.6
Total capital	5,528.9	5,007.4
Gearing ratio	73.6%	76.6%

The water segment is also monitored on the basis of the ratio of its net borrowings to regulatory capital value. Ofwat's notional gearing target for the K7 (2020-25) regulatory period is set at 60%. The water segment is also monitored on the basis of the ratio of its net borrowings to regulatory capital value. The table below reflects water segment gearing that comprises South West Water Limited's group of companies and SES Water.

	Water 2025 £m	2024 £m
Shadow Regulatory Capital Value	5,983.1	5,536.0
Net borrowings	3,698.3	3,567.8
Net borrowings/Shadow Regulatory Capital Value	61.8%	64.4%

The Group has entered into covenants with lenders and, while terms vary, these typically provide for limits on gearing and interest cover. The Group has been in compliance with its covenants during the year.

(c) Determination of fair values

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial instruments are valued principally using level 2 measures as analysed in note 23.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying values, less expected credit losses, of trade receivables and payables are assumed to approximate to their fair values.

4. Critical accounting judgements and estimates

The Group's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However, given the judgemental nature of such estimates, actual results could be different from the assumptions used.

Estimates

Provision for doubtful debts

The Group has a material level of exposure to collection of trade receivables. Provisions in respect of these balances are calculated with reference to historical credit loss experience, adjusted for forward-looking factors which by their nature are subject to uncertainty. Analysis of actual recovery compared with provisioning levels have not, to date, resulted in material variances.

Under its regular review procedures at the balance sheet date, the Group applies a simplified approach in calculating ECLs for trade receivables and contract assets. Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Each subsidiary has established a provision matrix that is informed by its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment. The Group's policy is to write-off trade receivables where the expectation of recovery is considered highly unlikely.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2025 the Group's trade and other receivables were £509.1 million (2024: £480.7 million), against which £117.3 million (2024: £125.3 million) had been provided for ECLs (note 22). Whilst the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently the charge or credit to the Income Statement. In determining the allowance for ECLs a provisioning matrix is applied to the debt of customers in Devon, Cornwall and Bournemouth, as set out in note 22. An increase/decrease in the provision rates for current occupiers of 1% would lead to an increase/decrease in the level of provision by £1.4 million (2024: £1.4 million).

Retirement benefit obligations

The Group operates defined benefit pension schemes for which actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The most recent triennial valuation of the main scheme was as at 31 March 2022, the outcome of which is summarised in note 30.

The pension cost and liabilities under IAS 19 are assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on CMI 2023 actuarial tables with an allowance for future longevity improvement. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in those assumptions and future funding obligations are set out in note 30.

Useful economic lives of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made on the useful

lives of the assets. The estimates are based on engineering data and the Group's experience of similar assets. Asset lives are reviewed annually and amended where changes are made to assumptions relating to the expected life of the asset from judgement around usage and performance experience, technological advancement and other relevant factors. Overall assessments on the impact of climate change on long life assets have been completed and will be continuously updated for the latest available information. The most recent assessment of the impact on climate change, which includes the potential to mitigate adverse impacts, has not identified any specific impact on the useful economic lives of long-life assets. Environmental factors and climate change form part of the planning process for new capital expenditure, where the Group continues to apply a consistent policy on capitalisation. The depreciation charge is sensitive to amendments of the useful economic lives of these assets, a significant change in the estimated life of these assets could have a material impact on depreciation, this is therefore noted as a material other estimate.

Judgements

Non-underlying items

In establishing which items are disclosed separately as non-underlying, to enable a full understanding of the Group's financial performance, the Directors exercise their judgement in assessing the size, nature or incidence of specific items. See note 6 for further details.

Goodwill allocation

Goodwill arising on the acquisition of Surrey and East Sutton Water is allocated to the group of cash-generating units that are expected to benefit from the synergies of the combination, the 'Water CGU'. The Water CGU comprises the regions of South West Water, Bournemouth Water, Bristol Water and Surrey and East Sutton Water. The Water CGU operates under one management structure with functional integration across the operating segment generating the synergies of the combination. SES operated under separate management whilst the CMA's Initial Enforcement Order (IEO) was in place, however the acquisition was cleared by the CMA in June 2024, allowing integration to proceed. The recoverable amount is the higher of fair value, less costs to sell, and value-in-use. Value-in-use represents the present value of projected future cash flows expected to be derived from a CGU, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the CGU. Impairments are charged to the income statement in the year in which they arise.

Capitalisation of property, plant and equipment

The property, plant and equipment of the Group relates primarily to infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls) as well as other assets which include fixed plant and operational properties. Given the nature of these assets, the Group incurs expenditure including both asset enhancement as well as repairs and maintenance, which involves judgement in allocation of costs between operating and capital expenditure. The Group continues to apply a consistent policy and approach on capitalisation of property, plant and equipment.

Other estimates

Revenue recognition

Management assessed and resolved that the level of estimation for revenue recognition of accrued revenue relating to water and wastewater should not be considered critical as the estimates are largely calculated on a systematic basis. However, management consider the total level of estimation of accrued revenue relating to water and wastewater to be material and highlight this as a material other estimate.

5. 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 segment (business retail) reflects the services provided by Pennon Water Services and SESWS. The other segment comprises smaller ancillary business as well as intermediate holding companies not further separated in reports to the Board.

Segment assets include goodwill and other intangible assets, property, plant and equipment, inventories, trade and other receivables and cash and cash equivalents. Segment liabilities comprise operating liabilities and borrowings and exclude taxation. The other segment liabilities include the Company's financing arrangements and Group taxation liabilities. Capital expenditure comprises additions to property, plant and equipment.

	Water £m	Non- household retail £m	Other £m	Eliminations £m	Group £m
2025					
Revenue	820.5	320.3	12.8	(105.8)	1,047.8
Employment Costs	(126.3)	(7.8)	(17.0)	–	(151.1)
Raw materials and consumables used	(48.3)	(0.9)	(2.5)	–	(51.7)
Operating costs	(307.7)	(304.1)	(3.4)	105.8	(509.4)
Operating Profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)	338.2	7.5	(10.1)	–	335.6
Depreciation and amortisation	(184.4)	(0.3)	(2.4)	–	(187.1)
Operating Profit before non-underlying items	153.8	7.2	(12.5)	–	148.5
Finance income	13.1	0.4	18.8	(17.3)	15.0
Finance costs	(202.5)	(3.3)	(10.9)	17.3	(199.4)
Share of post-tax profit from associated companies	–	–	0.8	–	0.8
Loss before tax and non-underlying items	(35.6)	4.3	(3.8)	–	(35.1)
Non-underlying items	(36.1)	–	(1.5)	–	(37.6)
Loss before tax	(71.7)	4.3	(5.3)	–	(72.7)
2024					
Revenue	745.8	253.5	11.8	(103.3)	907.8
Employment Costs	(98.6)	(6.2)	(10.0)	–	(114.8)
Raw materials and consumables used	(37.1)	(0.4)	–	–	(37.5)
Operating costs	(274.3)	(239.2)	(7.0)	103.3	(417.2)
Operating Profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)	335.8	7.7	(5.2)	–	338.3
Depreciation and amortisation	(165.9)	(0.8)	(5.3)	–	(172.0)
Operating Profit before non-underlying items	169.9	6.9	(10.5)	–	166.3
Finance income	7.2	0.4	15.6	(10.6)	12.6
Finance costs	(165.3)	(2.4)	(5.7)	10.6	(162.8)
Share of post-tax profit from associated companies	–	–	0.7	–	0.7
Loss before tax and non-underlying items	11.8	4.9	0.1	–	16.8
Non-underlying items	(25.2)	–	(0.7)	–	(25.9)
Loss before tax	(13.4)	4.9	(0.6)	–	(9.1)

1. Intra-segment transactions between and to different segments are under normal market-based commercial terms and conditions. Intra-segment revenue of the other segment is at cost.

	Water £m	Non- household retail £m	Other £m	Eliminations £m	Group £m
Balance sheet					
31 March 2025					
Assets (excluding carrying value in associated companies)	6,657.6	105.3	479.0	(204.8)	7,037.1
Carrying value in associated companies	–	–	10.5	–	10.5
Total assets	6,657.6	105.3	489.5	(204.8)	7,047.6
Liabilities	(5,327.6)	(115.2)	(358.9)	204.8	(5,596.9)
Net assets	1,330.0	(9.9)	130.6	–	1,450.7
31 March 2024					
Assets (excluding carrying value in associated companies)	5,802.3	209.7	432.4	(215.6)	6,228.8
Carrying value in associated companies	–	–	9.7	–	9.7
Total assets (restated, note 43)	5,802.3	209.7	442.1	(215.6)	6,238.5
Liabilities (restated, note 43)	(4,845.6)	(130.6)	(315.3)	215.6	(5,075.9)
Net assets	956.7	79.1	126.8	–	1,162.6

5. Segmental information *continued*

Segment liabilities of the water segment comprise of operating liabilities and borrowings. The other segment includes Company only assets and liabilities as well as Group taxation liabilities and should be considered in conjunction with the eliminations column.

	Notes	Water £m	Non-household retail £m	Other and eliminations £m	Group £m
Other information					
31 March 2025					
Intangible asset additions	16	4.1	2.1	(0.7)	5.5
Amortisation of other intangible assets	7	4.0	0.3	(2.0)	2.3
Capital expenditure (Property, plant and equipment)	17	606.1	–	40.9	647.0
31 March 2024					
Intangible asset additions	16	4.2	0.4	40.4	45.0
Amortisation of other intangible assets	7	3.5	0.2	–	3.7
Capital expenditure (Property, plant and equipment)	17	585.6	0.1	18.8	604.5

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:

	Water £m	Non-household retail £m	Other £m	Total £m
Year ended 31 March 2025				
Segment revenue – underlying	820.5	320.3	12.8	1,153.6
Inter-segment revenue	(100.6)	(0.2)	(5.0)	(105.8)
Revenue from external customers	719.9	320.1	7.8	1,047.8
Significant service lines				
Water	719.9	–	–	719.9
Non-household retail	–	320.1	–	320.1
Other	–	–	7.8	7.8
	719.9	320.1	7.8	1,047.8
Year ended 31 March 2024				
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

The Group's country of domicile is the United Kingdom and this is the country in which it generates the majority of its revenue. The Group's non-current assets are all located in the United Kingdom.

6. Non-underlying items

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

	Notes	2025 £m	2024 £m
Operating costs			
Brixham water quality incident ¹		(21.0)	–
Restructuring/Transformational costs ²		(15.8)	(13.9)
SES Water Group acquisition costs ³		(0.7)	(9.6)
Renewables Projects acquisition related costs ⁴		(0.1)	(0.6)
Drought costs ⁵		–	(1.8)
Earnings before interest, tax, depreciation and amortisation		(37.6)	(25.9)
Net tax credit arising on non-underlying items above ⁶	9	8.9	4.9
Net non-underlying charge		(28.7)	(21.0)

- On 15 May 2024 an outbreak of cryptosporidium was detected in the water supply in the Brixham area of Devon, causing South West Water to issue a notice to customers in the area to boil water before consuming. £21.0 million (2024: £nil) of costs have been incurred which include enhanced customer compensation, provision of bottled water over an eight-week period, and extensive interventions to clean and filter the network. £0.8m of the costs incurred were employment costs.
- £15.8 million (2024: £13.9 million) of costs were incurred in connection with the business transformation of the Group, £10.9 million (2024: £0.7 million) of which were employment costs. These restructuring and transformation costs are one-off in nature and incidence, with the benefits from incurring these costs expected to endure into the future on a recurring basis. Further costs are not expected to arise in the year ended 31 March 2026.
- In the year the Group incurred expenses of £0.7 million (2024: £9.6 million) in connection with the acquisition of SES Water Group. Due to the one-off nature and incidence of the costs they have been classified as non-underlying.
- Expenses in connection with the strategic review of renewal energy generating investments, not directly attributable to the intangible assets acquired, totalled £0.1 million (2024: £0.6 million). Due to the one-off nature and incidence of the costs they have been classified as non-underlying.
- In financial year 2022/23, a combination of elevated demand from increased tourism and record-breaking extremes of prolonged dry and hot weather led to extremely low water storage levels in the Cornwall region. Drought permits were issued allowing increased extractions, and water-saving measures for the South West Water region were implemented for the first time since 1995. To ensure the region could be supplied with water over the summer and continuing into 2023, South West Water instigated a series of mitigating measures and one-off expenditure to address the situation. £1.8 million of specifically identifiable costs were recognised in the first eight months of 2023/24.
- The net tax credit arising on non-underlying items relates to a deferred tax credit in respect of tax losses carried forwards. The prior year credit reflected a £4.9 million current tax credit also in respect of transformation losses carried forwards.

7. Operating costs

	Notes	2025 £m	2024 £m
Employment costs (underlying)	13	151.1	114.8
Raw materials and consumables*		51.7	37.4
Other operating expenses before non-underlying items include:			
Profit on disposal of property, plant and equipment		(1.2)	(0.8)
Short-term/low value asset lease expense		6.2	3.6
Trade receivables impairment	22	9.7	7.1
Depreciation of property, plant and equipment:			
• Owned assets	17	147.7	133.7
• Under leases	17	37.0	34.6
Amortisation of other intangible assets	16	2.3	3.7
Impairment of assets	17	0.1	–

* Raw materials and consumables used and other operating expenses have been restated, see note 2.

Operating costs include a charge of £37.6 million (2024: £25.9 million) relating to non-underlying items, as detailed in note 6.

Fees payable to the Company's auditor in the year were:

	2025 £000	2024 £000
Fees payable to the Company's auditor and its associates for the audit of parent company and consolidated financial statements	922	465
Fees payable to the Company's auditor and its associates for other services:		
The audit of Company's subsidiaries	1,511	969
Audit-related assurance services	360	133
Other non-audit services	1,866	111
Total fees	4,659	1,678
Fees payable to the Company's auditor in respect of Pennon Group pension schemes:		
Audit	–	35

A description of the work of the Audit Committee is set out in its report on pages 151 to 155 which includes an explanation of how the auditor's objectivity and independence are safeguarded when non-audit services are provided by the auditor's firm.

8. Net finance costs

	Notes	2025			2024		
		Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt							
Bank borrowings and overdrafts		(138.6)	–	(138.6)	(113.0)	–	(113.0)
Interest element of lease payments		(49.9)	–	(49.9)	(44.0)	–	(44.0)
Other finance costs		(10.9)	–	(10.9)	(5.8)	–	(5.8)
Interest received		–	11.1	11.1	–	7.1	7.1
Net gains on derivative financial instruments – transfer from OCI		–	2.3	2.3	–	3.8	3.8
		(199.4)	13.4	(186.0)	(162.8)	10.9	(151.9)
Notional interest							
Retirement benefit obligations	30	–	1.6	1.6	–	1.7	1.7
Net finance costs		(199.4)	15.0	(184.4)	(162.8)	12.6	(150.2)

In addition to the above, finance costs of £27.7 million (2024: £15.5 million) have been capitalised on qualifying assets included in property, plant and equipment, at an average borrowing rate of 5.7% (2024: 6.4%).

Other finance costs include £1.1 million (2024: £1.1 million) of dividends payable on listed preference shares issued by Bristol Water plc, which are classified as debt (see note 28).

9. Taxation

	Before non- underlying items 2025 £m	Non- underlying items (note 6) 2025 £m	Total 2025 £m	Before non- underlying items 2024 £m	Non- underlying items (note 6) 2024 £m	Total 2024 £m
Analysis of charge/(credit) in year						
Current tax charge/(credit)	0.8	(0.5)	0.3	(0.6)	–	(0.6)
Deferred tax (credit)/charge	(7.8)	(8.4)	(16.2)	4.9	(4.9)	–
Tax (credit)/charge for year	(7.0)	(8.9)	(15.9)	4.3	(4.9)	(0.6)

UK corporation tax is calculated at 25% (2024: 25%) of the estimated assessable profit for the year.

UK corporation tax for the Group is stated after a charge relating to prior year current tax of £0.3 million (2024: £0.6 million credit) and a prior year deferred tax charge of £0.7 million (2024: £nil). These items relate to prior year adjustments in respect of capital allowances claimed in accordance with UK tax legislation (2024 additional interest deductions).

The tax for the year differs from the theoretical amount which would arise using the standard rate of corporation tax in the UK of 25% (2024: 25%) as follows:

	2025 £m	2024 £m
Reconciliation of total tax credit		
Loss before tax	(72.7)	(9.1)
Loss multiplied by the standard rate of UK corporation tax of 25% (2024: 25%)	(18.2)	(2.3)
Effects of:		
Expenses not deductible for tax purposes	0.8	1.6
Associate profits not taxable	(0.2)	(0.2)
Adjustments to tax charge in respect of prior years	1.5	(0.6)
Depreciation charged on non-qualifying assets	1.0	0.9
Adjustment in respect of deferred revenue contributions	(0.7)	–
Other	(0.1)	–
Tax credit for year	(15.9)	(0.6)

	2025 £m	2024 £m
Reconciliation of current tax credit		
Loss before tax	(72.7)	(9.1)
Loss multiplied by the standard rate of UK corporation tax of 25% (2024: 25%)	(18.2)	(2.3)
Effects of:		
Relief for capital allowances in place of depreciation	(26.5)	(37.0)
Disallowance of depreciation charged in the accounts	39.6	36.5
Other timing differences	(6.6)	(5.3)
Expenses not deductible for tax purposes	0.8	1.6
Associate profits not taxable	(0.2)	(0.2)
Adjustments to tax charge in respect of prior years	0.3	(0.6)
Depreciation charged on non-qualifying assets	1.0	0.9
Tax losses carried forward	15.9	9.3
Relief for capitalised interest and foreign exchange gains/losses	(5.8)	(3.5)
Current tax charge/(credit) for year	0.3	(0.6)

The Group's current tax charge is lower (2024: lower) than the UK headline rate of 25% (2024: 25%), primarily due to losses generated which are carried forward to offset against future taxable profit.

The Group benefits from the 100% full expensing and 50% enhanced allowances in respect of qualifying spend relating to certain qualifying assets (largely plant and machinery). The Group incurs significant capital expenditure each year as it maintains and enhances its assets for the benefit of its customers, communities and the environment. These enhanced allowances have increased capital allowance claims for the year and contributed significantly to the current tax credit for the year. There is also a consequently higher deferred tax liability and charge due to the additional capital allowance deductions.

9. Taxation *continued*

Certain types of expenditure are not deductible for tax purposes. These types of expenditure are set out in tax legislation. The main category of expenditure not deductible during the year are acquisition costs relating to the purchase of the SES Group and various renewables businesses, where these are classified as capital in nature for tax purposes.

Profits from associates and joint ventures are included in the consolidated accounts on an after-tax basis, as such these profits are not taxable in the Group accounts.

Depreciation charge on non-qualifying assets generates a permanent adjustment which increases the tax charge. Non-qualifying assets are those which do not qualify for writing down tax allowances including certain fixed assets typically in relation to older buildings and premises where tax relief is not available.

Tax losses generated in the year and carried forward generate a deferred tax rather than current tax credit, hence the adjustment to current tax. When utilised, the adjustment will be reflected through a movement from deferred to current tax.

Other timing differences relate to the timing of relief for items including pensions, general provisions and financial derivatives. The reduction in the year relates mainly to additional pension contributions made to fund deficits in the scheme.

Immediate tax relief is available in respect of capitalised interest and foreign exchange gains/losses.

In addition to the amounts recognised in the statement of profit or loss, the following tax charges/(credits) were recognised:

	2025 £m	2024 £m
Amounts recognised directly in other comprehensive income		
Deferred tax charge/(credit) on defined benefit pension schemes	0.9	(2.2)
Deferred tax credit on cash flow hedges	(2.4)	(4.1)
Amounts recognised directly in equity		
Deferred tax charge on share-based payments	–	0.1

OECD Pillar 2

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing the Pillar Two global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. Under the legislation, the group will be required to pay, in the UK, top-up tax on profits of its subsidiaries that are taxed at a Pillar Two effective tax rate of less than 15%. 2024/25 is the first accounting period where the Group is within scope of the Pillar Two rules. The UK is the only jurisdiction in which the Group operates therefore an assessment of any potential Pillar Two tax exposure for 2024/25 has been performed focusing solely on the application of the UK domestic top-up tax rules. The assessment performed by the Group is based on country-by-country reporting principles and financial statements information for 2024/25. Based on that information, the UK is expected to meet the conditions of the transitional safe harbours such that no top-up tax arises. The Group is continuing to assess the impact of the Pillar Two income taxes legislation and related updates on its future financial performance.

10. (Loss)/profit of the parent company

	2025 £m	2024 £m
(Loss)/profit attributable to ordinary shareholders' equity dealt within the accounts of the parent company	(13.5)	34.4

As permitted by Section 408 of the Companies Act 2006, no statement of profit or loss or statement of comprehensive income is presented for the Company.

11. 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 (note 36), 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.

Basic and diluted earnings per share figures and the weighted average number of shares for the comparative period have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share. Amounts as originally stated at 31 March 2024 were (3.6)p basic and diluted earnings per share, 6.2p basic and diluted adjusted earnings per share and 266.6 million weighted average number of shares.

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.

11. Earnings per share *continued*

	2025	2024 (restated)
Number of shares (millions)		
For basic earnings per share	360.5	322.5
Effect of dilutive potential ordinary shares from share options	–	–
For diluted earnings per share	360.5	322.5

Basic and diluted earnings per ordinary share

Earnings per ordinary share before non-underlying items and deferred tax are presented as the Directors believe that 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:

	2025			2024 (restated)		
	(Loss)/profit after tax £m	Earnings per share		(Loss)/profit after tax £m	Earnings per share	
		Basic p	Diluted p		Basic p	Diluted p
Statutory earnings attributable to ordinary shareholders of the parent	(57.9)	(16.1)	(16.1)	(9.5)	(2.9)	(2.9)
Deferred tax (credit)/charge before non-underlying items	(7.8)	(2.1)	(2.1)	4.9	1.5	1.5
Non-underlying items (net of tax)	28.6	7.9	7.9	21.0	6.5	6.5
Adjusted earnings	(37.1)	(10.3)	(10.3)	16.4	5.1	5.1

12. Dividends

	2025 £m	2024 £m
Amounts recognised as distributions to ordinary equity holders in the year		
Interim dividend paid for the year ended 31 March 2024 11.60p (restated) (2023: 10.71p restated) per share	40.1	33.9
Final dividend paid for the year ended 31 March 2024 25.07p (restated) (2023: 24.60p restated) per share	86.8	77.8
	126.9	111.7
Proposed dividends		
Proposed interim dividend for the year ended 31 March 2025 12.14p (2024: 11.60p restated) per share	42.0	40.2
Proposed final dividend for the year ended 31 March 2025 19.43p (2024: 25.07p restated) per share	91.7	86.7
	133.7	126.9

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

The proposed interim dividend for 2025 was paid on 4 April 2025 and the proposed final dividend is subject to approval by shareholders at the AGM.

Proposed dividends per share for the 2024 comparative period have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share and as detailed in note 11. The proposed interim dividend for the year ended 31 March 2025 of 14.69p as announced previously has been restated to 12.14p as adjusted by the bonus factor.

13. Employment costs

	Notes	2025 £m	2024 £m
Wages and salaries		175.5	134.9
Social security costs		17.5	14.2
Pension costs	30	16.2	13.8
Share-based payments	33	2.0	1.1
Total employment costs		211.2	164.0
Charged:			
• Employment costs (excluding non-underlying items)		151.1	114.8
• Employment costs (non-underlying items)		11.7	0.7
• Capital schemes – property, plant and equipment		48.1	47.8
• Research and development		0.3	0.7
Total employment costs		211.2	164.0

Details of Directors' emoluments are set out in note 14. There are no personnel, other than Directors, who as key management exercise authority and have responsibility for planning, directing and controlling the activities of the Group. Members of other executive committees assist the Directors in their duties but do not hold authority to control the activities of the Group.

13. Employment costs *continued*

	2025	2024
Employees (average full-time equivalent number)		
The average monthly number of employees (including Executive Directors) was:		
Water	3,528	3,051
Non-household retail	259	192
Other	123	90
Total	3,910	3,333

14. Directors' emoluments

	2025 £000	2024 £000
Executive Directors:		
• Salary	968	895
• Share-based payments	680	1,103
• Other emoluments, including payments in lieu of pension provision	121	111
Non-Executive Directors	648	649
	2,417	2,758

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) and share interests is shown in the Directors' remuneration report on pages 166 to 183.

Remuneration of key management personnel

	2025 £000
Salaries and short-term employee benefits	3,724
Share-based payments	854
	4,578

Key management personnel (KMP) remuneration has been disclosed for the first time in this financial year to align with restructuring into the four new business units. KMP remuneration comprises all directors and certain senior managers who are members of the executive team.

15. Goodwill

	£m
Cost:	
At 1 April 2023	163.9
Acquisition of SES Water Group (restated, note 43)	16.0
At 31 March 2024 (restated)	179.9
At 31 March 2025	179.9
Carrying amount:	
At 1 April 2023	163.9
At 31 March 2024 (restated)	179.9
At 31 March 2025	179.9

Goodwill acquired in a business combination is allocated at acquisition to the CGU expected to benefit from that business combination. During the year ended 31 March 2024, the Group acquired the SES Water Group, adding £16.0 million to goodwill (see note 43).

All goodwill represents the water business, therefore this is the lowest level at which goodwill is monitored and tested.

Impairment testing of goodwill

The Group tests goodwill for impairment annually, or more frequently if there are any indications that impairment may have arisen.

Impairment testing is carried out based on the fair value less costs of disposal method. The recoverable amount of the water business segment is assessed using level 2 fair value hierarchy techniques, with reference to the market value of the water business, using a market-based observable premium, based on historical water industry merger and acquisition activity, to regulated capital value (RCV) as defined by Ofwat. Costs to sell are calculated using the sale of Viridor by Pennon in 2020 as an estimate. RCV for the water business is disclosed in note 3, historical water industry transactions provide a range of premia that could be used in the calculation, for the current financial year applying a premium to RCV was not required to maintain impairment headroom.

The results of tests performed during the year demonstrate significant headroom in the water CGU, and it is judged that no reasonable change in the key assumptions would cause the carrying amount of the CGUs to exceed the recoverable amount.

16. Other intangible assets

	Renewable Energy Generation £m	Software development (restated, note 43) £m	Total £m
Cost:			
At 1 April 2023	–	22.3	22.3
Arising on acquisitions	–	4.2	4.2
Additions	40.3	4.7	45.0
Disposals	–	(1.3)	(1.3)
At 31 March 2024	40.3	29.9	70.2
Additions	–	5.5	5.5
Transfers/reclassifications	–	3.6	3.6
Disposals	–	–	–
At 31 March 2025	40.3	39.0	79.3
Accumulated amortisation:			
At 1 April 2023	–	7.4	7.4
Charge for year	–	3.7	3.7
Disposals	–	(1.2)	(1.2)
At 31 March 2024	–	9.9	9.9
Charge for year	–	2.3	2.3
Transfers/reclassifications	–	3.6	3.6
Impairment charge	–	1.3	1.3
At 31 March 2025	–	17.1	17.1
Carrying amount:			
At 1 April 2023	–	14.9	14.9
At 31 March 2024	40.3	20.0	60.3
At 31 March 2025	40.3	21.9	62.2

Additions to intangible assets during the year ended 31 March 2024 included £40.3m as a result of acquiring renewable energy sites with rights to generate energy in the future. The sites acquired have been accounted for under “asset purchase” accounting as opposed to “business combination” accounting, having considered the facts and circumstances surrounding the sites acquired. The intangible assets acquired relate to energy generation rights on all four sites purchased and a battery energy storage system on a single site, these assets will be amortised over periods expected to be between 35 and 45 years in line with the rights acquired. These assets will be tested for impairment annually until they are available for use.

The carrying values of other intangible assets are reviewed annually or when events or changes in circumstance indicate that the carrying amounts may not be fully recoverable.

An adjustment has been made to reclassify cost and accumulated depreciation in relation to assets acquired on the acquisition of Bristol Water plc totalling £3.6m.

17. Property, plant and equipment

Group	Land and buildings (restated, note 43) £m	Infrastructure assets (restated, note 43) £m	Operational properties £m	Fixed and moveable plant and equipment (restated, note 43) £m	Construction in progress £m	Total £m
Cost:						
At 31 March 2023	188.8	2,863.3	971.6	2,377.0	290.4	6,691.1
Additions	1.3	65.0	14.3	118.6	405.3	604.5
Arising on acquisition	14.2	268.6	92.2	74.1	5.2	454.3
Assets adopted at fair value	–	10.6	–	–	–	10.6
Disposals	–	(1.4)	–	(3.4)	–	(4.8)
Transfers/reclassifications	1.3	36.7	12.5	82.6	(133.1)	–
At 31 March 2024	205.6	3,242.8	1,090.6	2,648.9	567.8	7,755.7
Additions	1.5	68.3	8.9	99.1	469.2	647.0
Assets adopted at fair value	–	17.4	–	–	–	17.4
Disposals	(0.7)	(1.3)	(1.0)	(13.8)	–	(16.8)
Transfers/reclassifications	3.0	40.1	14.6	74.4	(134.1)	(2.0)
At 31 March 2025	209.4	3,367.3	1,113.1	2,808.6	902.9	8,401.3
Accumulated depreciation:						
At 31 March 2023	27.3	402.9	332.1	1,451.9	–	2,214.2
Charge for year	4.3	41.0	21.4	105.3	–	172.0
Disposals	–	(1.4)	–	(3.4)	–	(4.8)
At 31 March 2024	31.6	442.5	353.5	1,553.8	–	2,381.4
Charge for year	2.7	49.0	23.9	113.1	–	188.7
Disposals	(0.1)	(1.5)	(0.9)	(13.6)	–	(16.1)
Impairment loss	–	–	–	(0.1)	–	(0.1)
Transfers/reclassifications	–	(8.6)	2.2	4.4	–	(2.0)
At 31 March 2025	34.2	481.4	378.7	1,657.6	–	2,551.9
Net book value:						
At 31 March 2023	161.5	2,460.4	639.5	925.1	290.4	4,476.9
At 31 March 2024	174.0	2,800.3	737.1	1,095.1	567.8	5,374.3
At 31 March 2025	175.2	2,885.9	734.4	1,151.0	902.9	5,849.4

Of the total depreciation charge of £188.7 million (2024: £172.0 million), £1.6 million (2024: £1.5 million) has been charged to capital projects, £2.4 million (2024: £2.2 million) has been offset by deferred income and £184.7 million (2024: £168.3 million) has been charged against profits. Asset lives and residual values are reviewed annually. During the year borrowing costs of £27.7 million (2024: £15.5 million) have been capitalised on qualifying assets, at an average borrowing rate of 5.7% (2024: 6.4%).

Groups of assets forming cash generating units are reviewed for indicators of impairment. No indicators of impairment were identified during the year.

Asset lives are reviewed annually. No significant changes were required in 2024/25.

An adjustment has been made to reclassify cost and accumulated depreciation in relation to assets acquired on the acquisition of Bristol Water plc totalling £2.0m.

17. Property, plant and equipment *continued***Assets subject to secured financing arrangements**

When the group enters into sale and leaseback arrangements, the accounting for the arrangement depends on whether the transaction meets the criteria within IFRS 15 for a sale to have occurred. If the sale criteria are met, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the right retained. If the criteria for a sale under IFRS 15 have not been met the asset is not derecognised and a liability to make ongoing payments is recognised as part of the leases liability included within borrowings. The table below shows amounts held within property, plant and equipment for assets subject to these arrangements:

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Group						
Cost:						
At 31 March 2023	4.1	383.9	335.1	384.0	–	1,107.1
Additions	12	20.1	1.8	41.7	–	64.8
Arising on acquisition	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
At 31 March 2024	5.3	404.0	336.9	425.7	–	1,171.9
Additions	–	22.1	0.8	2.1	–	25.0
Disposals	–	–	–	–	–	–
Transfers/reclassifications	–	–	–	–	–	–
At 31 March 2025	5.3	426.1	337.7	427.8	–	1,196.9
Accumulated depreciation:						
At 31 March 2023	0.5	69.8	90.6	189.1	–	350.0
Charge for year	0.1	5.3	5.8	20.8	–	32.0
Disposals	–	–	–	–	–	–
At 31 March 2024	0.6	75.1	96.4	209.9	–	382.0
Charge for year	0.1	6.2	5.8	21.5	–	33.6
Disposals	–	–	–	–	–	–
At 31 March 2025	0.7	81.3	102.2	231.4	–	415.6
Net book amount:						
At 31 March 2023	3.6	314.1	244.5	194.9	–	757.1
At 31 March 2024	4.7	328.9	240.5	215.8	–	789.9
At 31 March 2025	4.6	344.8	235.5	196.4	–	781.3

17. Property, plant and equipment *continued*

IFRS 16 – Right of Use Assets

Right-of-use assets classifying as leases under IFRS included in property, plant and equipment above were:

Group	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Cost:						
At 31 March 2023	31.3	–	–	5.0	–	36.3
Additions	0.6	–	–	3.2	5.5	9.3
Arising on acquisition	–	–	–	0.8	–	0.8
Disposals	–	–	–	(0.9)	–	(0.9)
At 31 March 2024	31.9	–	–	8.1	5.5	45.5
Additions	1.0	–	–	2.6	(0.3)	3.3
Disposals	–	–	–	(0.1)	–	(0.1)
Transfers/reclassifications	2.1	–	–	–	(2.1)	–
At 31 March 2025	35.0	–	–	10.6	3.1	48.7
Accumulated depreciation:						
At 31 March 2023	4.6	–	–	2.7	–	7.3
Charge for year	1.1	–	–	1.5	–	2.6
Disposals	–	–	–	(0.8)	–	(0.8)
At 31 March 2024	5.7	–	–	3.4	–	9.1
Charge for year	1.4	–	–	1.9	–	3.3
Disposals	–	–	–	(0.1)	–	(0.1)
At 31 March 2025	7.1	–	–	5.2	–	12.3
Net book amount:						
At 31 March 2023	26.7	–	–	2.3	–	29.0
At 31 March 2024	26.2	–	–	4.7	5.5	36.4
At 31 March 2025	27.9	–	–	5.4	3.1	36.4

18. Financial instruments by category

The accounting policies for financial instruments that have been applied to line items are:

	Notes	Fair value		Amortised cost		Total £m
		Derivatives used for fair value hedging £m	Derivatives used for cash flow hedging £m	Debt instruments at amortised cost £m	Trade receivables and trade payables £m	
Group						
31 March 2025						
Financial assets						
Amounts owed by associated companies	19	-	-	8.7	-	8.7
Trade receivables	22	-	-	-	270.0	270.0
Derivative financial instruments	23	0.4	31.8	-	-	32.2
Cash and cash equivalents and restricted funds	25	-	-	476.1	-	476.1
Total		0.4	31.8	484.8	270.0	787.0
Financial liabilities						
Borrowings	28	-	-	(4,554.3)	-	(4,554.3)
Derivative financial instruments	23	-	(2.1)	-	-	(2.1)
Trade and other payables	26	-	-	-	(281.7)	(281.7)
Total		-	(2.1)	(4,554.3)	(281.7)	(4,838.1)
31 March 2024						
Financial assets						
Amounts owed by associated companies	19	-	-	8.7	-	8.7
Trade receivables	22	-	-	-	250.0	250.0
Derivative financial instruments	23	0.3	40.5	-	-	40.8
Cash and cash equivalents and restricted funds	25	-	-	171.4	-	171.4
Total		0.3	40.5	180.1	250.0	470.9
Financial liabilities						
Borrowings*	28	-	-	(4,016.2)	-	(4,016.2)
Derivative financial instruments	23	-	(8.7)	-	-	(8.7)
Trade and other payables (restated, note 43)	26	-	-	-	(332.8)	(332.8)
Total		-	(8.7)	(4,016.2)	(332.8)	(4,357.7)

* Restated, see note 2 for further explanation.

19. Other non-current assets**Non-current receivables**

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Amounts owed by subsidiary undertakings	-	-	95.9	54.1
Amounts owed by related parties (note 42)	8.7	8.7	8.7	-
	8.7	8.7	104.6	54.1

Non-current receivables were due:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Between 1 and 2 years	-	8.7	12.2	8.0
Over 2 years and less than 5 years	8.7	-	45.3	24.1
Over 5 years	-	-	47.1	22.0
	8.7	8.7	104.6	54.1

The fair values of non-current receivables were:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Amounts owed by subsidiary undertakings	-	-	95.9	54.1
Amounts owed by associates	8.7	8.7	8.7	-
Other receivables	-	-	-	-
	8.7	8.7	104.6	54.1

19. Other non-current assets *continued*

The fair values of the above non-current receivables are valued using level 2 measures.

On 31 January 2025 the £8.7m (2024: £8.7m) loan receivable with Water 2 Business Limited ("W2B") an indirect associate was transferred from Bristol Water Holdings Limited ("BWH") to the Company.

20. Investments

Subsidiary undertakings

	£m
Company	
At 31 March 2023	1,316.6
Investment in subsidiary undertakings:	
SES Water Group acquisition	90.2
SES Water Group share issue	5.0
Pennon Power share acquisition	25.0
Impairment of investment in subsidiary undertakings	(283.6)
At 31 March 2024	1,153.2
Investment in subsidiary undertakings:	
SES Water Group share issue	80.0
PIL share issue	1.0
SWW share issue	330.0
Impairment of investment in subsidiary undertakings	(15)
At 31 March 2025	1,562.7

There are no indicators of impairment in the current year.

In December 2024 the company subscribed for 1,000,000 new shares in Peninsula Insurance Limited, for consideration of £1,000,000.

On 31 March 2025 the company subscribed for 330,000,000 new shares in South West Water Limited, for consideration of £330,000,000.

On 12 December 2024 the company subscribed for 60,000,000 new shares and on 31 March 2025 for 100,000,000 new shares in Sutton and East Surrey Group Holdings Limited, for consideration of £30,000,000 and £50,000,000 respectively.

On 31 January 2025 the investment in Water 2 Business Limited ("W2B"), an indirect associate, was transferred from Bristol Water Holdings Limited ("BWH") to the Company. Accordingly, the investment in the BWH's parent company Bristol Water Holdings UK Limited was reduced by £1,500,000.

On 10 January 2024 the Company 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 SESGHL Group which comprises Sutton and East Surrey Water plc ("SES Water"), a regulated water only company, and certain other ancillary businesses.

On 28 March 2024, the Company subscribed for 10,000,000 new ordinary shares in Sutton and East Surrey Group Holdings Limited, for consideration of £5,000,000.

On 1 February 2024, the Company subscribed for 25,000 new ordinary shares in its wholly-owned subsidiary undertaking, Pennon Power Limited, for consideration of £25,000,000.

During the year ended 31 March 2024, the Company received a dividend of £283.6 million from its subsidiary, Viridor Waste 2 Limited, reducing that entity's net assets to £nil. Accordingly, the Company impaired its investment in Viridor Waste 2 Limited.

20. Investments *continued***Investment in associates and joint ventures**

Name of entity	Principal activity	Place of business/country of incorporation	% of ownership	Measurement method
Water 2 Business Limited ("W2B")	National retailer in the non-household market and provides retail water services to non-household customers	England	30%	Equity
Bristol Wessex Billing Services Limited ("BWBSL")	Meter reading, billing, debt recovery and customer contact management services	England	50%	Equity
Searchlight Collection Limited	Debt collection services	England	50%	Equity

The carrying value of the Group's share of these investments in associates and joint ventures at 31 March 2025 is £1.8 million (2024: £1.0 million). The Group's share of the profits and other comprehensive income of these investments in associates and joint ventures for the year ended 31 March 2025 is £0.8 million (2024: £0.7 million).

The Group's joint ventures and associates are all private companies and there are no quoted market prices available for the shares. Summarised financial information for the joint ventures and investments in associates is set out below:

Summarised balance sheets

	2025 £m			2024 £m		
	W2B	BWBSL	Searchlight	W2B	BWBSL	Searchlight
Current						
Cash and cash equivalents	2.2	1.7	–	–	1.3	–
Other current assets	71.3	1.2	0.1	66.9	2.1	0.1
Total current assets	73.5	2.9	0.1	66.9	3.4	0.1
Non-current assets	4.2	–	–	4.9	–	–
		–				
Financial liabilities (excluding trade payables)	–	–	–	(12)	–	–
Current liabilities (including trade payables)	(42.5)	(2.9)	–	(37.9)	(3.4)	–
Total current liabilities	(42.5)	(2.9)	–	(39.1)	(3.4)	–
Non-current liabilities	(29.4)	–	–	(29.4)	–	–
Net assets	5.8	–	0.1	3.3	–	0.1

Summarised statement of comprehensive income

	2025 £m			2024 £m		
	W2B	BWBSL	Searchlight	W2B	BWBSL	Searchlight
Revenue	327.3	19.7	0.2	278.3	18.5	0.2
Cost of sales and other operating expenses	(321.5)	(19.7)	(0.2)	(273.1)	(18.5)	(0.2)
Interest	(2.1)	–	–	(1.9)	–	–
Pre-tax profit	3.7	–	–	3.3	–	–
Taxation charge	(1.1)	–	–	(1.0)	–	–
Total comprehensive income	2.6	–	–	2.3	–	–

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of these amounts) adjusted for differences in accounting policies between the Group and associates. W2B's year end date is 30 June. BWBSL's and Searchlight's year ends are 31 March. The Group's carrying amount of the investments held is £1.8 million (2024: £1.0 million) which comprises 30% of the Group's share of equity of W2B. For BWBSL and Searchlight, the net equity is £nil (2024: £nil). The Group's share of profit from associated companies is £0.8 million (2024: £0.7 million) which comprises 30% of the Group's share of W2B, restricted by brought forward losses.

21. Inventories

	Group	
	2025 £m	2024 £m
Raw materials and consumables	12.1	11.0
Work in progress	0.3	1.6
Finished goods	0.4	0.6
	12.8	13.2

22. Trade and other receivables – current

	Group		Company	
	2025 £m	2024 (restated, note 43) £m	2025 £m	2024 £m
Trade receivables	387.3	375.3	–	–
Less: allowance for expected credit losses in respect of trade receivables	(117.3)	(125.3)	–	–
Net trade receivables	270.0	250.0	–	–
Amounts owed by subsidiary undertakings	–	–	51.2	148.5
Amounts owed by associated companies	0.2	0.2	0.2	–
Other receivables	45.6	40.4	1.5	2.5
Accrued income	57.4	45.5	–	–
Prepayments	18.6	19.3	0.9	0.8
	391.8	355.4	53.8	151.8

Trade receivables include accrued income relating to customers with water budget payment plans.

Accrued income includes £34.8million (2024: £28.3 million) in respect of metered accrual revenue in the retail water business. Metered accrual revenue relates to performance obligations that have been fully extinguished in providing services to customers prior to the reporting date. Payment in respect of these services is a matter of time following issuance of invoices.

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value.

There is no concentration of credit risk in trade receivables. The Group has a large number of customers who are dispersed and there is no significant loss on trade receivables expected that has not been provided for.

The Group applies the simplified approach in calculating the expected credit losses for trade receivables allowing a provision matrix to be used which is based on the expected life of trade receivables, default rates for different customer categories within the collection process and forward-looking information.

As at 31 March, an analysis of the ageing of trade receivables is as follows:

	2025 £m	2024 £m
Group		
Not due	64.6	40.9
Past due 1 – 30 days	31.1	45.7
Past due 31 – 120 days	29.3	29.5
More than 120 days	262.3	259.2
	387.3	375.3

The aged trade receivables above are taken directly from aged sales ledger records.

The Group's operating businesses specifically review separate categories of debt to identify an appropriate allowance for expected credit losses as outlined in note 2(n) ii). South West Water Limited and SES Water have a duty under legislation to continue to provide domestic customers with services regardless of payment. Given the different nature of customer demographics within South West Water's operating area, SES Water's operating area and the non-household retail business of PWS and SESWS, different provision matrices are adopted by each business. The provision matrix adopted for household customers in the most significant operating region of Devon, Cornwall & Bournemouth is outlined in the table below, showing the range of provision rates dependent on phase of collection. The table also includes the gross debt and provision rates for other customer areas:

	Trade receivables 2025 £m	Allowance for expected credit losses 2025 £m	Trade receivables 2024 £m	Allowance for expected credit losses 2024 £m
Devon, Cornwall & Bournemouth (household customers)				
• Current occupier < 12 months: 1% - 30%	68.7	0.4	44.8	0.2
• Current occupier 12 – 24 months: 10% – 60%	12.4	2.9	23.1	3.2
• Current occupier 24 – 36 months: 15% – 80%	10.9	3.0	11.5	2.8
• Current occupier > 36 months: 20% – 100%	91.6	39.9	89.2	48.2
• Previous occupier: 55% – 100%	51.3	32.1	53.3	31.3
Bristol	37.4	17.6	37.8	8.6
SES	54.6	16.7	53.3	16.7
Pennon Water Services (Non-household retail)	50.1	4.7	40.6	14.3
Other	10.3	–	21.7	–
	387.3	117.3	375.3	125.3

22. Trade and other receivables – current *continued*

No material expected credit loss provision has been recognised in respect of amounts owed by subsidiary undertakings.

The movement in the allowance for expected credit losses in respect of trade receivables was:

	2025 £m	2024 £m
At 1 April	125.3	106.5
Arising on acquisition	–	19.8
Provision for expected credit losses	9.7	7.1
Receivables written off during the year as uncollectable	(17.7)	(8.1)
At 31 March	117.3	125.3

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and where a failure to make payments on overdue invoices indicate the debt is unrecoverable.

23. Derivative financial instruments

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Derivatives used for cash flow hedging				
Non-current assets	22.3	17.2	–	–
Current assets	9.5	23.3	0.4	1.0
Current liabilities	(0.5)	(5.4)	(0.1)	(0.1)
Non-current liabilities	(1.6)	(3.3)	–	–
Derivatives used for fair value hedging				
Non-current assets	0.1	0.2	0.1	0.2
Current assets	0.3	0.1	0.3	0.1

The Group's financial risks and risk management policies are set out in note 3. The fair value of derivatives is split between current and non-current assets or liabilities based on the maturity of the cash flows. The ineffective portion recognised in the statement of profit or loss arising from hedging relationships was £nil (2024: £nil).

A net £4.3 million debit (2024: £16.4 million debit) was recognised in other comprehensive income for cash flow hedges, including a £0.1 million credit (2024: £0.2 million credit) recognised in profit and loss relating to cash flow hedges previously recognised through other comprehensive income and recorded in the hedging reserve.

Interest rate swaps, primarily cash flow hedges, and fixed rate borrowings are used to manage the mix of fixed and floating rates to ensure at least 60% of Group net borrowings are at fixed rate.

At 31 March 2025 the Group had interest rate swaps, to swap from floating to fixed rate, and hedged financial liabilities with a notional value of £636.0 million and a weighted average maturity of 5.3 years (2024: £939.0 million, with 3.5 years). The weighted average interest rate of the swaps for their nominal amount was 2.92% (2024: 1.85%).

At 31 March 2025 the Group had cross currency swaps and hedged financial liabilities with a notional value of £56.1 million (2024: £64.0 million) and a weighted average maturity of 4.1 years (2024: 4.5 years). The weighted average interest rate of the swaps for their nominal amount was 5.6% (2024: 5.8%). The swaps are denominated in USD and EUR to match the underlying currency exposures.

The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the swaps are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item.

The impact of the hedging instrument on the balance sheet is as follows:

Group	Notional amount £m	Carrying amount £m	Line item in the balance sheet	Change in fair value used for measuring ineffectiveness in the period £m
As at 31 March 2025				
Interest rate swaps	636.0	27.7	Derivative financial instruments	10.3
RPI swaps	–	–	Derivative financial instruments	(4.6)
Cross currency swaps	56.1	(1.3)	Derivative financial instruments	–
As at 31 March 2024				
Interest rate swaps	939.4	38.0	Derivative financial instruments	(14.4)
RPI swaps	300.0	(4.6)	Derivative financial instruments	(0.2)
Cross currency swaps	64.1	(1.3)	Derivative financial instruments	(2.4)

23. Derivative financial instruments *continued*

Company	Notional amount £m	Carrying amount £m	Line item in the balance sheet	Change in fair value used for measuring ineffectiveness in the period £m
As at 31 March 2025				
Cross currency swaps	16.0	0.4	Derivative financial instruments	(0.4)
As at 31 March 2024				
Cross currency swaps	24.0	0.8	Derivative financial instruments	(0.3)

Valuation hierarchy

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The Group's financial derivatives are valued using level 2 measures:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Assets				
Derivatives used for cash flow hedging	31.8	40.5	0.4	0.9
Derivatives used for fair value hedging	0.4	0.3	0.4	0.3
Total assets	32.2	40.8	0.8	1.2
Liabilities				
Derivatives used for cash flow hedging	(2.1)	(8.7)	(0.1)	(0.1)
Total liabilities	(2.1)	(8.7)	(0.1)	(0.1)

24. Financial instruments at fair value through profit

	Group		Company	
	2025 £m	2024 (Restated) £m	2025 £m	2024 £m
Current liabilities	(0.3)	(0.1)	(0.3)	(0.1)
Non-current assets	0.6	0.9	0.6	0.9

An unamortised hedging adjustment has been reclassified to borrowing in the current year and the prior year restated. See note 2 for further explanation.

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on the hedged item which had been designated in a fair value hedging relationship.

25. Cash and cash equivalents and restricted funds

	Group		Company	
	2025 £m	2024 (restated) £m	2025 £m	2024 £m
Cash at bank and in hand	166.2	78.8	44.8	29.2
Short-term bank deposits	0.2	50.0	0.2	50.0
Other deposits	251.5	5.2	-	-
Cash and cash equivalents	417.9	134.0	45.0	79.2
Restricted funds	58.2	37.4	-	-
Total	476.1	171.4	45.0	79.2

Cash and cash deposits have been re-presented on the balance sheet to separately disclose cash and cash equivalents and restricted funds. See note 2 for further explanation.

Group short-term deposits have an average maturity of one working day (2024: one working day).

Group other deposits (including restricted funds) have an average maturity of 14 days (2024: 73 days).

Restricted funds include £46.1 million (2024: £26.0 million) to settle long-term lease liabilities (note 28) and £12.1 million (2024: £11.4 million) held in an instant access account. Restricted funds are available for access, subject to being replaced by an equivalent valued security.

26. Trade and other payables – current

	Group		Company	
	2025 £m	2024 (restated, Note 43) £m	2025 £m	2024 £m
Trade payables	138.8	227.5	0.9	2.6
Contract liabilities	46.7	10.6	–	–
Other tax and social security	2.6	3.1	0.3	0.4
Accruals	54.4	37.4	6.1	7.4
Other payables	88.5	67.9	3.5	1.1
Amounts owed to subsidiary undertakings	–	–	8.8	–
	331.0	346.5	19.6	11.5

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

The movement in the contract liabilities was:

	Group	
	2025 £m	2024 £m
Contract liabilities		
At 1 April	165.5	159.0
Revenue recognised in the year	(9.9)	(4.8)
Consideration received in advance of completion of performance obligations*	62.4	5.9
Amounts acquired on acquisition	–	5.4
At 31 March	218.0	165.5

The analysis of contract liabilities between current and non-current is:

	Group	
	2025 £m	2024 £m
Current	46.7	10.6
Non-current (note 29)	171.3	154.9
	218.0	165.5

Performance obligations related to the current contract liabilities balance above are expected to be satisfied, and revenue will be recognised, within the financial year ended 31 March 2026.

* The Group previously presented cash received in advance from customers within trade debtors in the balance sheet and some contributions received from developers in trade payables. These have been reclassified to contract liabilities in the current year.

27. Current tax assets/(liabilities)

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Current year debtor/(creditor)	(0.1)	0.4	0.4	(0.4)
Prior year tax items	1.0	5.6	(2.3)	(2.8)
	0.9	6.0	(1.9)	(3.2)

28. Borrowings

	Group		Company	
	2025 £m	(restated, Note 2, 43) 2024 £m	2025 £m	2024 £m
Current				
Bank and other loans	222.0	178.3	49.5	–
Private placements	–	8.0	–	8.0
Fixed rate bonds	2.5	2.5	–	–
Amounts owed to subsidiary undertakings	–	–	2.0	–
	224.5	188.8	51.5	8.0
Leases	32.9	51.9	–	–
Total current borrowings	257.4	240.7	51.5	8.0
Non-current				
Bank and other loans	506.3	733.5	99.9	148.9
Private placements	841.9	719.1	95.7	96.7
Fixed rate bonds	886.4	241.8	–	–
RPI index-linked bonds	1,030.5	997.4	–	–
Listed preference shares	12.5	12.5	–	–
	3,277.6	2,704.3	195.6	245.6
Leases	1,019.3	1,071.2	–	–
Total non-current borrowings	4,296.9	3,775.5	195.6	245.6
Total borrowings	4,554.3	4,016.2	247.2	253.6

An unamortised hedging adjustment has been reclassified from fair value through profit and loss to borrowings in the current year and the prior year restated, see note 2 for further information. The unamortised hedging adjustment is included within fixed rate bonds in current and non current borrowings above. The hedged item was the £150 million bond issued by South West Water Finance Plc in 2010 which matures in July 2040. The hedging relationship was de-designated in a previous period at which point the fair value amount recognised at that point ceased to be revalued. The fixed financial liability at the point of de-designation is released to the income statement over the remaining life of the debt.

South West Water Finance Plc issued a £250 million fixed rate bond in December 2024 maturing in 2032 with a cash coupon of 5.75%.

South West Water Finance Plc issued a £400 million fixed rate bond in July 2024 maturing in 2041 with a cash coupon of 6.375%.

South West Water Finance Plc issued a £150 million fixed rate bond in July 2010 maturing in 2040 with a cash coupon of 5.875%.

South West Water Finance Plc issued a £200 million RPI index-linked bond in July 2008 maturing in 2057 with a cash coupon of 1.99%. Bournemouth Water Limited issued a £65 million RPI index-linked bond in April 2005 maturing in 2033 with a cash coupon of 3.084%. This instrument was transferred to South West Water Limited in April 2017. Prior to acquisition by Pennon, Bristol Water Plc issued RPI index-linked bonds totalling £91 million maturing in 2032 with a cash coupon of 3.635%. These were transferred to South West Water Limited in February 2023.

Sutton and East Surrey Water Plc issued a £100 million RPI index-linked bond in March 2001 maturing in 2031 with a cash coupon of 2.874%.

Fair value adjustments of £109.8 million (2024: £125.7 million) in relation to the acquisition of Bournemouth Water Limited, Bristol Water Plc and SES Water have been allocated to the instruments to which they relate.

The listed preference shares were issued by Bristol Water Plc at £1 in 1992. They are held by external shareholders and are listed on the London Stock Exchange. Shareholders are entitled to receive dividends at 8.75% per annum on the par value of the shares on a cumulative basis; these dividends are payable half yearly on 1 April and 1 October. On winding up, the preference shareholders rank ahead of Bristol Water ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members. The preference share capital consists of 12,500,000 8.75% irredeemable cumulative preference shares of £1 each. The preference shares are classified as liabilities in the consolidated balance sheet of the Group and the related dividends are classified as finance costs.

All bank and other loans and private placement debt (carrying value £1,570.2 million, 2024 £1,637.5 million) require compliance with financial covenants which relate to gearing and interest cover ratios. The group has complied with these covenants throughout the reporting period. There are no indications that the group would have difficulties complying with the covenants when they will next be tested.

28. Borrowings *continued*

The fair values of borrowings are valued using level 2 measures, unless otherwise stated below, (as set out in note 23) were:

	2025		2024	
	Book value £m	Fair value £m	Book value (restated, Note 2,43) £m	Fair value £m
Group				
Bank and other loans	222.0	222.0	178.3	178.3
Fixed rate bonds	2.5	–	2.5	–
Private placement	–	–	8.0	8.0
	224.5	222.0	188.8	186.3
Leases	32.9	32.9	51.9	–
Total current borrowings	257.4	254.9	240.7	186.3
Group				
Bank and other loans	506.3	556.1	733.5	704.7
Private placements	841.9	842.2	719.1	737.2
Fixed rate bonds (level 1)	781.4	784.0	136.2	145.2
Fixed rate bonds	105.0	61.6	105.6	64.6
RPI index-linked bonds (level 1)	224.6	233.0	216.4	230.5
RPI index-linked bond	805.9	602.2	781.0	658.6
Listed preference shares	12.5	18.5	12.5	20.1
	3,277.6	3,097.6	2,704.3	2,560.9
Leases	1,019.3	1,007.4	1,071.2	–
Total non-current borrowings	4,296.9	4,105.0	3,775.5	2,560.9
Total borrowings	4,554.3	4,359.9	4,016.2	2,747.2

Under IFRS 7 the disclosure of the fair value of leases is not required.

Where market values are not available, fair values of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates.

During the year ended 31 March 2025, as part of an ongoing programme to renew and raise new financing, the group entered into £800 million of new Public Bonds issuances and Private placements with an average maturity of 13.8 years.

During the year ended 31 March 2024, as part of its ongoing programme to renew and raise new financing, the Group entered into £200 million of new terms loans and leasing facility arrangements, with an average maturity of 6 years, £300 million private placements with an average maturity of 12 years, £25 million 20-year private placement and £100 million of new and renewed revolving credit facilities.

The maturity of non-current borrowings, excluding leases, was:

	Group	
	2025 £m	(restated, Note 43) 2024 £m
Between 1 and 2 years	71.8	191.0
Over 2 years and less than 5 years	268.2	335.2
Over 5 years	2,937.6	2,178.1
	3,277.6	2,704.3

The weighted average maturity of non-current borrowings, excluding leases, was 12.3 years (2024: 12.0 years).

28. Borrowings *continued*

Undrawn committed borrowing facilities at the balance sheet date were:

	Group 2025 £m	2024 £m
Floating rate:		
Expiring within 1 year	65.0	50.0
Expiring after 1 year	495.0	380.0
	560.0	430.0

Information on leases

The Group has leases for various assets as shown in note 17.

The maturity of lease liabilities was:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Within 1 year	32.9	51.9	–	–
Over 1 year and less than 5 years	169.8	187.4	–	–
Over 5 years	849.5	883.8	–	–
	1,052.2	1,123.1	–	–

Analysed as:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Current	32.9	51.9	–	–
Non-current	1,019.3	1,071.2	–	–
	1,052.2	1,123.1	–	–

Lease liabilities includes liabilities of £1,007.2 million (2024: £1,086.7 million) that are subject to secured financing arrangements (see note 17) and lease liabilities under IFRS 16 of £45.0 million (2024: £36.4 million).

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

The discount rate used to calculate the lease liabilities above involves estimation. Where the Group cannot readily determine the rate implicit in the lease the Group uses an estimated incremental borrowing rate (IBR). At 31 March 2025 the range of IBRs used was between 5.1% and 6.9% (2024: between 6.1% and 6.8%) and the weighted average IBR across all leases was 6.2% (2024: 6.3%). If the weighted average rate used increased or decreased by 10bps, this would result in a c.0.9% increase or reduction in the present value of lease liabilities recognised at 31 March 2025 (2024: c.1.0%).

The period for repayment of certain leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £46.1 million at 31 March 2025 (2024: £25.9 million), are currently being held to settle the lease liability subject to rights to release by negotiation with the lessor. The deposits are subject to a registered charge given as security to the lessor for the balance outstanding.

Cash outflows in respect of leasing relate to principal repayments of £94.3 million (2024: £19.0 million) and interest repayments of £63.0 million (2024: £53.1 million), in addition to inflows from lease financing arrangements of £25.0 million (2024: £64.8 million).

Other information required to be disclosed under IFRS 16 is included in note 17.

29. Other non-current liabilities

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Contract liabilities	171.3	154.9	–	–
	171.3	154.9	–	–

Non-current contract liabilities relate to consideration received in advance of the Group performing its performance obligations to customers where performance obligations will not be completed within 12 months of the balance sheet date. The overall movement in total contract liabilities is disclosed in note 26. Contract liabilities reflect the fair value of assets transferred from customers in the water segment. The majority of the contract liabilities included above are expected to unwind after five years.

30. Retirement benefit obligations

During the year the Group operated a number of defined benefit pension schemes and also defined contribution schemes. The principal plan within the Group is the Pennon Group Pension Scheme (PGPS), which is a funded defined benefit, final salary pension scheme in the UK. Following the acquisition of Bristol Water and SES, the Group also assumed defined benefit obligations through Bristol Water's and SES's membership of Water Companies Pension Scheme ('WCPS').

The Group's pension schemes are established under trust law and comply with all relevant UK legislation. The assets of the Group's pension schemes are held in separate trustee administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of schemes' trustees is determined by the schemes' trust documentation. The Group has a policy for the PGPS that one-half of all trustees, other than the Chair, are nominated by members of the schemes, including pensioners.

Bristol Water's membership of WCPS is through a separate section of that scheme. The assets of the section are held separately from those of the Group and are invested by discretionary fund managers appointed by the trustees of the scheme. The employees in the section ceased to earn additional defined benefit pensions on 31 March 2016. There were no employer contributions to the scheme from that date and from 30 June 2016, with the agreement of the trustees, deficit contributions also ceased. All eligible employees were offered membership of a stakeholder pension scheme.

In 2018 the trustees of the Bristol Water section of the WCPS purchased a bulk annuity policy to insure the benefits for members of the section. Following this, the method for valuing the liabilities of the pension scheme has remained the same. However, the scheme assets, in the form of the insurance policy, now materially match the value of the liabilities. The process to buy up and wind up the scheme is continuing, including discussions regarding the release of the surplus on completion of this process. SES's membership of WCPS is through a separate section of that scheme. The assets of the section are held separately from those of the Group and are invested by discretionary fund managers appointed by the trustees of the scheme. The employees in the section ceased to earn additional defined benefit pensions on 31 March 2019.

With effect from 31 March 2023 the trustees of the SES section of the WCPS purchased a bulk annuity policy to insure the benefits for members of the section. Following this the method for valuing the liabilities of the pension scheme has remained the same. However, the scheme assets, in the form of the insurance policy, now materially match the value of the liabilities.

PGPS is closed to future accrual.

In June 2023, the High Court handed down a decision (*Virgin Media Limited v NTL Pension Trustees II Limited and others*) which potentially has implications for the validity of amendments made by schemes, including the PGPS and other Group defined benefit schemes, which were contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. This decision was upheld by the Court of Appeal in August 2024. There is potential for legislative intervention following industry lobbying efforts that may retrospectively validate certain rule amendments that would otherwise be held void where the requirements of section 37 were not met. However, the Company has engaged with the relevant Trustee for PGPS and other Group defined benefit schemes who have confirmed that based on the governance processes in place and reviews of significant deed changes during the period in question, these bodies have no reason to believe that the relevant requirements were not complied with in relation to the Schemes with regard to the relevant period in question. Given that there is no indication of non-compliance with the relevant requirements, the PGPS and other Group defined benefit schemes' valuation as at 31 March 2025 does not reflect potential additional liabilities arising from the Virgin Media case.

Defined contribution schemes

Pension costs for defined contribution schemes were £14.9 million (2024: £12.0 million).

Defined benefit schemes

Assumptions

The principal actuarial assumptions at 31 March were:

	2025 %	2024 %
Rate of increase in pensionable pay	2.5	2.6
Rate of increase for current and future pensions	2.7	2.8
Rate used to discount schemes' liabilities and expected return on schemes' assets	5.8	4.8
Inflation	3.1	3.2

Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2023 actuarial tables with an allowance for future longevity improvement.

The average life expectancy in years of a member having retired at age 62 on the balance sheet date is projected as:

	2025	2024
Male	23.8	24.1
Female	26.6	26.8

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2025	2024
Male	24.9	25.5
Female	27.7	28.3

30. Retirement benefit obligations *continued*

The sensitivities regarding the principal assumptions used to measure the schemes' liabilities are:

	Change in assumption	Impact on schemes' liabilities
Rate of increase in current and future pensions	+/- 0.5%	+/- 4.4%
Rate used to discount schemes' liabilities	+/- 0.5%	+/- 5.6%
Inflation	+/- 0.5%	+/- 4.3%
Life expectancy	+/- 1 year	+/- 3.4%

The sensitivity analysis shows the effect of changes in the principal assumptions used for the measurement of the pension liability. The method used to calculate the sensitivities is approximate and has been determined taking into account the duration of the liabilities and the overall profile of each scheme's membership. This is the same approach as has been adopted in previous years.

The amounts recognised in the balance sheet were:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Present value of financial obligations	(673.3)	(774.2)	(120.5)	(138.0)
Fair value of plan assets	709.7	806.2	124.5	141.5
Surplus of funded plans	36.4	32.0	4.0	3.5
Less: restriction of surplus	(5.2)	(5.4)	-	-
Net asset recognised in the balance sheet	31.2	26.6	4.0	3.5

The movement in the net defined benefit obligation over the accounting period is as follows:

	2025			2024		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	(774.2)	800.8	26.6	(719.5)	748.8	29.3
Acquisition SES Water Group	-	-	-	(66.8)	70.1	3.3
Current service cost	(1.0)	(1.4)	(2.4)	(12)	(0.6)	(18)
Past service cost, curtailments and gains/losses on settlements	-	-	-	(0.2)	-	(0.2)
Interest (expense)/income	(36.0)	37.6	1.6	(33.5)	35.2	1.7
	(37.0)	36.2	(0.8)	(101.7)	104.7	3.0
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	-	(87.9)	(87.9)	-	(13.6)	(13.6)
Gain from change in demographic assumptions	7.2	-	7.2	5.9	-	5.9
Gain from change in financial assumptions	86.3	-	86.3	13.7	-	13.7
Experience (losses)/gains	(2.3)	0.2	(2.1)	(14.9)	12	(13.7)
	91.2	(87.7)	3.5	4.7	(12.4)	(7.7)
Contributions:						
Employers	0.1	1.8	1.9	-	2.0	2.0
Payments from plans:						
Benefit payments	46.6	(46.6)	-	42.3	(42.3)	-
	46.7	(44.8)	1.9	42.3	(40.3)	2.0
At 31 March	(673.3)	704.5	31.2	(774.2)	800.8	26.6

Recognition of surplus on principal pension scheme

In accordance with IAS 19 'Employee Benefits' the value of the net pension scheme surplus that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. In respect of the Group's principal pension scheme, PGPS, the surplus has been recognised as the Group believes that ultimately it has an unconditional right to a refund of any surplus assuming the full settlement of the plan's liabilities in a single event, such as a scheme wind up.

Bristol Water

The Group believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised. This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a tax deduction of 25% (2024: 25%) is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been applied to restrict the value of the surplus recognised for this scheme. The process to buy out and wind up the scheme continues and the Trustee has indicated its intention to return the surplus to the Company. The buy-out of the section is expected to complete within the next 12 months and therefore the £9.2m surplus relating to the Bristol Water Section has been recognised as a current asset on the balance sheet.

Sutton and East Surrey Water

The Group believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised. This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a tax deduction of 25% is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been applied to restrict the value of the surplus recognised for this scheme.

30. Retirement benefit obligations *continued*

The movement in the Company's net defined benefit obligation over the accounting period is as follows:

	2025			2024		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	(137.9)	141.4	3.5	(139.5)	144.2	4.7
Current service cost	(0.4)	–	(0.4)	(0.4)	–	(0.4)
Interest (expense)/income	(6.5)	6.6	0.1	(6.4)	6.6	0.2
	(6.9)	6.6	(0.3)	(6.8)	6.6	(0.2)
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	–	(16.2)	(16.2)	–	(21)	(21)
Gain from change in demographic assumptions	1.2	–	1.2	1.1	–	1.1
Gain from change in financial assumptions	15.8	–	15.8	28	–	28
Experience losses	(0.4)	–	(0.4)	(3.2)	–	(3.2)
	16.6	(16.2)	0.4	0.7	(21)	(14)
Contributions:						
Employers	–	0.4	0.4	–	0.4	0.4
Payments from plans:						
Benefit payments	7.7	(7.7)	–	7.7	(7.7)	–
	7.7	(7.3)	0.4	7.7	(7.3)	0.4
At 31 March	(120.5)	124.5	4.0	(137.9)	141.4	3.5

The schemes' assets relating to the Group were:

	2025			2024		
	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	92.2	–	13	163.7	–	20
Government bonds	16.4	–	2	13.5	–	2
Other bonds	91.7	49.1	20	117.2	55.7	22
Diversified growth	39.1	–	6	38.8	–	5
Property/Infrastructure	42.7	27.8	10	41.2	32.6	9
Insurance linked security	50.0	142.8	27	44.2	165.8	26
LDI investments	114.3	–	16	96.5	–	12
Other (including cash funds)	18.3	20.1	6	10.1	21.5	4
	464.7	239.8	100	525.2	275.6	100

The Company's share of the schemes' assets at the balance sheet date was:

	2025			2024		
	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	21.2	–	17	37.7	–	27
Government bonds	3.8	–	3	3.1	–	2
Other bonds	21.1	11.3	26	27.0	12.8	28
Diversified growth	9.0	–	7	8.9	–	6
Property/Infrastructure	9.8	6.4	13	9.5	7.5	12
Insurance linked security	11.5	–	9	10.2	–	7
LDI investments	26.3	–	21	22.3	–	16
Other	4.1	–	4	2.4	–	2
	106.8	17.7	100	121.1	20.3	100

30. Retirement benefit obligations *continued*

Through its defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The schemes hold a proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long term, but can give rise to volatility and risk in the short term. As the funding of the schemes improves, an increasing proportion of the schemes' assets are invested in less volatile asset classes such as cash and bonds which more closely reflect market movements in the schemes' liabilities. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The scheme uses LDIs ('Liability Driven Investment Funds') within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rates and inflation expectations. The structure allows the scheme to both hedge against the risks and retain capital investment in assets that are expected to generate higher returns. Whilst LDIs are an integral part of the hedging strategy, risk management and monitoring strategies are in place to ensure that the collateral requirements to maintain these structures are closely managed.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In conjunction with its investment advisers, the trustees have structured the schemes' investments with the objective of balancing investment returns and levels of risk. The asset allocation for the main scheme has three principal elements:

- Holding of cash funds and bonds which are expected to be less volatile than most other asset classes and reflects market movements in the schemes' liabilities
- A proportion of equities with fund managers having freedom in making investment decisions to maximise returns, and
- Investment of a proportion of the schemes' assets in alternative asset classes which give the potential for diversification (currently property, insurance linked securities and diversified growth).

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected increases in pensionable pay.

As funding of our principal pension scheme has improved the investment portfolio has been de-risked through increasing the scheme's real gilts hedging position through LDIs (Liability Driven Investments), which are commonly used by UK pension schemes.

The weighted average duration of the defined benefit obligation is 10 to 12 years (2024: 12 to 13 years).

The 2022 triennial actuarial valuation of the principal defined benefit scheme was agreed in 2024 with an actuarial valuation surplus of £7.6 million. No deficit recovery contributions are required as a result of the 2022 valuation. Additional contributions of £1.8 million were paid into the scheme in respect of scheme expenses (2024: £2.0 million). The Group monitors funding levels on an annual basis and the Group expects to pay only scheme expenses of around £1.8 million, during the year ended 31 March 2026.

The last formal actuarial valuation of the Bristol Water section of the WCPS was at 31 March 2017. The last formal valuation of the SES section of the WCPS was at 31 March 2022.

31. Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates.

Movements on deferred tax were:

	Group		Company	
	2025 £m	(Restated, note 43) 2024 £m	2025 £m	2024 £m
Liabilities/(assets) at 1 April	548.4	507.0	(20.7)	(18.6)
(Credited)/charged to the income statement	(7.8)	4.9	(3.0)	(0.7)
(Credited)/charged to other comprehensive income	(1.5)	(6.3)	0.1	(0.3)
Charged to equity, including impact of change in tax rate	–	0.1	–	–
Other non-underlying credits in the income statement	(8.5)	(4.9)	–	(1.1)
Amounts relating to acquired operations	–	47.6	–	–
Liabilities/(assets) at 31 March	530.6	548.4	(23.6)	(20.7)

Deferred tax assets have been recognised in respect of all temporary differences where it is probable that these assets will be recovered.

The Group has applied the exception to recognised and disclosing deferred tax related to Pillar Two income taxes.

The majority of the Group's deferred tax assets and liabilities are expected to be recovered over more than one year. All deferred tax assets and liabilities within the same jurisdiction are offset where it is appropriate to do so.

31. Deferred tax *continued*

The movements in deferred tax assets (after offset) were:

Group**Deferred tax liabilities**

	Derivatives £m	Property, plant and equipment depreciation £m	Fair value adjustments (restated, note 43) £m	Short-term liabilities including provisions £m	Retirement benefit obligations £m	Total £m
At 31 March 2023	29	4732	94.5	1.5	2.9	575.0
Charged/(credited) to the income statement	0.5	5.8	(5.5)	3.4	2.5	6.7
Credited to other comprehensive income	(4.1)	–	–	–	(22)	(6.3)
Reclassification	4.2	–	–	–	–	4.2
Transferred in on acquisition of SES	(3.5)	43.3	15.7	–	(0.9)	54.6
At 31 March 2024	–	522.3	104.7	4.9	2.3	634.2
Charged/(credited) to the income statement	–	39.1	0.5	(0.5)	0.7	39.8
Charged to other comprehensive income	–	–	–	–	0.9	0.9
At 31 March 2025	–	561.4	105.2	4.4	3.9	674.9

Deferred tax assets

	Derivatives £m	Share-based payments £m	Tax losses £m	Loan relationship deficits £m	Fair value adjustment £m	Total £m
At 31 March 2023	–	(1.0)	(27.5)	(8.4)	(31.1)	(68.0)
Underlying charged/(credited) to the income statement	–	0.3	(2.8)	(2.3)	3.0	(1.8)
Non-underlying credit to the income statement	–	–	(4.9)	–	–	(4.9)
Reclassification to deferred tax liabilities	(4.2)	–	–	–	–	(4.2)
Charged to equity	–	0.1	–	–	–	0.1
Transferred in on acquisition of SES	–	–	(7.0)	–	–	(7.0)
At 31 March 2024	(4.2)	(0.6)	(42.2)	(10.7)	(28.1)	(85.8)
Charged/(credited) to the income statement	1.1	(0.1)	(51.0)	(0.6)	3.0	(47.6)
Non-underlying credit to the income statement	–	–	(8.5)	–	–	(8.5)
Charged to equity	(2.4)	–	–	–	–	(2.4)
At 31 March 2025	(5.5)	(0.7)	(101.7)	(11.3)	(25.1)	(144.3)

Net liability

At 31 March 2024 548.4

At 31 March 2025 530.6

Deferred tax assets not recognised

Gross	Accelerated tax depreciation £m	Short-term liabilities including provisions £m	Tax losses and non-trade loan relationship deficits available indefinitely £m	Total £m
At 31 March 2023	–	–	–	–
(Credited)/charged to the income statement	–	(0.1)	0.2	0.1
Transferred in on acquisition from SES	0.4	0.3	21.8	22.5
At 31 March 2024	0.4	0.2	22.0	22.6
Origination and reversal of temporary differences in relation to SES	(0.1)	–	11.6	11.5
At 31 March 2025	0.3	0.2	33.6	34.1

31. Deferred tax *continued*

Tax effect	Accelerated tax depreciation £m	Short-term liabilities including provisions £m	Tax losses and non-trade loan relationship deficits available indefinitely £m	Total £m
At 31 March 2023	–	–	–	–
Transferred in on acquisition from SES	0.1	–	5.5	5.6
At 31 March 2024	0.1	–	5.5	5.6
Origination and reversal of temporary differences in relation to SES	–	–	2.9	2.9
At 31 March 2025	0.1	–	8.4	8.5

Following the acquisition of SES Water, the group has acquired temporary differences for which no deferred tax assets are recognised in relation to post 2017 tax losses (£25.5 million), non-trade deficits carried forwards in relation to the UK's corporate interest restriction rules (£8.1 million), fixed assets (£0.3 million) and provisions (£0.1 million). The group has concluded that it is appropriate to continue not to recognise a deferred tax asset on these temporary differences. While the Group is in a net deferred tax liability position, the Group consider there is not a right to offset these deferred tax assets against deferred tax liabilities. In addition, whilst the assets are available indefinitely, there is uncertainty regarding the availability of suitable future taxable profits.

Company

Deferred tax assets

	Retirement benefit obligations £m	Share-based payments £m	Tax losses £m	Total £m
At 31 March 2023	(1.3)	(0.7)	(16.6)	(18.6)
Charged/(credited) to the income statement	25	0.2	(3.4)	(0.7)
Non-underlying credit to the income statement	–	–	(1.1)	(1.1)
Credited to other comprehensive income	(0.3)	–	–	(0.3)
At 31 March 2024	0.9	(0.5)	(21.1)	(20.7)
Credited to the income statement	–	–	(3.0)	(3.0)
Credited to other comprehensive income	0.1	–	–	0.1
At 31 March 2025	1.0	(0.5)	(24.1)	(23.6)

Deferred tax charged/(credited) to equity or other comprehensive income during the year was:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Remeasurement of defined benefit obligations	0.9	(2.2)	0.1	(0.3)
Cash flow hedges	(2.4)	(4.1)	–	–
Share-based payments	–	0.1	–	–
	(1.5)	(6.2)	0.1	(0.3)

Capital allowances are available when a business incurs qualifying expenditure on capital items such as infrastructure assets. Capital allowances provide tax relief on these items in place of accounting depreciation which is not tax deductible. Over the period of ownership of an asset, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates typically vary from 3% up to 100%. Depreciation periods vary from 4 to 200 years. Due to the group's continuing capital investment programme, deductions for capital allowances are expected to exceed depreciation in future years.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. The adjustments for this are reflected in the current tax reconciliation. In 2023, the Government has introduced permanent full expensing and 50% first year allowances for certain qualifying expenditure. This provides an increase in current tax relief for the Group with a consequently higher deferred tax liability and charge due to the additional capital allowance deductions.

Short term temporary differences arise on items such as retirement benefit obligations, derivatives and share based payments because the treatment of such items are different for tax and accounting purposes. These differences reverse over future years following that in which they arise, as is reflected in the deferred tax charge in these financial statements. Specifically, retirement benefit obligations will crystallise over the life of the pension scheme and/or the period when spreading applies (this can be up to three years for spreading purposes), whilst share based payments will crystallise over the remaining life of the share schemes which are up to five years. Short term liabilities including provisions will typically crystallise in the following year.

The fair value liability relates to the revaluation of tangible fixed assets on the acquisition of Bournemouth Water, Bristol Water and SES Water. The fair value asset relates to the revaluation of debt on the acquisition of Bournemouth Water and Bristol Water. These items will be released over their remaining life which is up to 150 years.

Where interest charges or other costs are capitalised in the accounts, tax relief is given either as the charges are incurred or when the costs are taken to the income statement.

31. Deferred tax *continued*

Derivatives reflect the fair value movements on treasury derivatives; these can fluctuate considerably each year. The balance will crystallise when derivative items are either terminated or mature; the life of these items can be up to ten years.

Tax losses relate to trading losses and non-trade deficits carried forwards in relation to the UK's corporate interest restriction rules. These are available indefinitely. With respect to both items, these are recognised on the basis the UK Group has taxable temporary differences that are expected to reverse in the same periods as the unused tax losses and there is a right of offset.

32. Provisions

	Restructuring £m	Other £m	Total £m
Group			
As at 1 April 2023	0.4	–	0.4
Utilised	(0.4)	–	(0.4)
Arising on acquisition (restated, note 43)	–	1.1	1.1
At 1 April 2024	–	1.1	1.1
Charge	9.9	0.5	10.4
Utilised	(3.5)	(0.7)	(4.2)
At 31 March 2025	6.4	0.9	7.3

A provision for restructuring of £9.9 million was created in the year in connection with the business transformation of the Group; the majority of the provision relates to employment costs. This restructuring provision is expected to be utilised within one year. Other provisions include amounts in relation to dilapidations and onerous contracts, £0.4 million of these provisions are expected to be utilised within one year.

33. Share capital**Allotted, called-up and fully paid**

	Number of shares		£m
	Treasury shares	Ordinary shares	
Group and Company			
At 31 March 2023 ordinary shares of 61.05p each	5,628	261,315,489	159.5
For consideration of £460,000, 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
For consideration of £21,000, shares issued under the Company's Sharesave Scheme	–	3,386	–
Rights issue	–	185,928,002	113.5
At 31 March 2025 ordinary shares of 61.05p each	5,628	471,976,711	288.1

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

On 17 February 2025 the Company completed a rights issue to existing shareholders on the basis of 13 ordinary shares for every 20 fully paid ordinary shares held. As a result, 185,928,002 ordinary shares with an aggregate nominal value of £113.5 million were issued for cash consideration of £491.0 million. Transaction costs directly attributable to the rights issue of £20.5 million were incurred and have been accounted for as a deduction from share premium.

During the year ended 31 March 2024 the Group issued 24,657,535 new ordinary shares of 61.05 pence each in connection with the acquisition of SES Water Group (see note 43). The equity capital raise was used to reduce leverage in the enlarged group following the acquisition.

Employee share schemes

The Group operates a number of equity-settled share plans for the benefit of employees. Details of each plan are:

i) Sharesave Scheme

An all-employee savings-related plan is operated that enables employees, including Executive Directors, to invest up to a maximum of £500 per month for three or five years. These savings can then be used to buy ordinary shares, at a price set at a discount to the market value at the start of the savings period, at the third or fifth year anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Group before the option exercise period commences.

33. Share capital *continued*

Outstanding options to subscribe for ordinary shares of 61.05 pence each under the Company's share option schemes are:

	Date granted and subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March	
			2025	2024
3 July 2018	635p	2021 – 2023	–	1
9 July 2019	501p	2022 – 2024	–	69
19 July 2020	750p	2023 – 2025	27	30
6 July 2021	710p	2024 – 2026	53	306
5 July 2022	669p	2025 – 2027	206	302
4 July 2023	536p	2026 – 2028	495	753
2 July 2024	406p	2027 – 2029	1,383	–
			2,164	1,461

The number of shares and, where relevant, the exercise subscription prices above have been adjusted to reflect the impact of the rights issue which took place on 17 February 2025. The options outstanding at 31 March 2025 have been updated at the time of the rights issue and the options outstanding at 31 March 2024 remain at the pre rights issue value.

The number and weighted average exercise price of Sharesave options are:

	2025		2024	
	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	1,461	746	1,462	835
Granted	1,324	406	847	663
Additional options awarded as part of rights issue	493	492	–	–
Forfeited	(789)	543	(617)	828
Exercised	(4)	501	(72)	639
Expired	(321)	645	(159)	859
At 31 March	2,164	472	1,461	746

The weighted average price of the Company's shares at the date of exercise of Sharesave options during the year was 612 pence (2024: 689 pence). The options outstanding at 31 March 2025 had a weighted average exercise price of 472 pence (2024: 746 pence) and a weighted average remaining contractual life of 2.4 years (2024: 2.0 years). The number of exercisable Sharesave options at 31 March 2024 was 2,277 (2024: 1,000) and the weighted average exercise price of exercisable Sharesave options was 710 pence (2024: 799 pence).

The aggregate fair value of Sharesave options granted during the year was £1.0 million (2024: £0.7 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model at the date of issue of the options were:

	2025	2024
Weighted average share price (pence)	564	700
Weighted average exercise price (pence)	406	663
Expected volatility	27%	26%
Expected life	3.5 years	3.4 years
Risk-free rate	5.3%	4.5%
Expected dividend yield	7.8%	6.1%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years and five years periods depending on the life of the scheme.

ii) Long-term incentive plan (LTIP)

Executive Directors and senior management receive an annual grant of conditional shares. Share awards vest subject to the achievement of specific performance conditions measured over a performance period of not less than three years. More details concerning LTIPs, including performance conditions, is shown in the Directors' remuneration report on pages 176 to 177.

33. Share capital *continued*

The number and price of shares in the LTIP are:

	2025		2024	
	Number of ordinary shares (thousands)	Weighted average award price per share (p)	Number of ordinary shares (thousands)	Weighted average award price per share (p)
At 1 April	1,122	863	880	990
Granted	603	646	553	714
Additional shares awarded as part of rights issue	470	–		
Vested	(133)	753	(125)	784
Lapsed	(84)	1,093	(186)	1,069
At 31 March	1,978	773	1,122	863

The number of shares above have been adjusted to reflect the impact of the rights issue which took place on 17 February 2025. The granted shares outstanding at 31 March 2025 have been updated at the time of the rights issue and the granted shares outstanding at 31 March 2024 remain at the pre rights issue value.

The awards outstanding at 31 March 2025 had a weighted award price of 773 pence (2024: 863 pence) and a weighted average remaining contractual life of 3.3 years (2024: 3.1 years).

The aggregate fair value of awards granted during the year was £1.3 million (2024: £1.8 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depends on non-market performance vesting conditions.

iii) Annual Incentive Bonus Plan – deferred shares

Awards under the plan to Executive Directors and senior management involve the release of ordinary shares in the Company to participants. There is no performance condition since vesting is conditional upon continuous service with the Group for a period of three years from the award. The number and weighted average price of shares in the Annual Incentive Bonus Plan are:

	2025		2024	
	Number of ordinary shares (thousands)	Weighted average award price per share (p)	Number of ordinary shares (thousands)	Weighted average award price per share (p)
At 1 April	217	863	141	1,065
Granted	22	665	124	700
Vested	(45)	(1,141)	(41)	1,079
Lapsed	(86)	(729)	(7)	972
At 31 March	108	803	217	863

The awards outstanding at 31 March 2025 had a weighted average award price of 803 pence (2024: 863 pence) and a weighted average remaining contractual life of 1.6 years (2024: 1.3 years). The Company's share price at the date of the awards ranged from 665 pence to 1,141 pence (2024: 700 pence to 1,141 pence).

The aggregate fair value of awards granted during the year was £0.1 million (2024: £0.9 million), determined from market value. No option pricing methodology is applied since dividends paid on the shares are receivable by the participants in the scheme.

Further details of the plans and options granted to Directors, included above, are shown in the Directors' remuneration report.

34. Share premium account

	£m
Group and Company	
At 31 March 2023	237.6
Shares issued under the Sharesave Scheme	0.4
Other shares issued	164.9
	402.9
Less: Transaction costs arising on share issues	(4.7)
At 31 March 2024	398.2
Rights issue	377.5
	775.7
Less: Transaction costs arising on share issues	(0.2)
Less Transaction costs directly attributable to rights issue	(20.5)
At 31 March 2025	755.0

35. Capital redemption reserve

The capital redemption reserve represents the redemption of B shares and cancellation of deferred shares arising from a capital return to shareholders undertaken during 2006, together with the redemption of shares during the years ended 31 March 2023 and 31 March 2022.

	£m
Group and Company	
At 1 April 2023	157.1
At 31 March 2024	157.1
At 31 March 2025	157.1

36. Retained earnings and other reserves

	Own shares £m	Hedging reserve £m	Retained earnings £m	Total £m
Group				
At 31 March 2023	(3.5)	38.9	535.2	570.6
Loss for the year	–	–	(9.5)	(9.5)
Other comprehensive loss for the year	–	(12.3)	(5.5)	(17.8)
Dividends paid relating to 2023	–	–	(111.7)	(111.7)
Credit to equity in respect of share-based payments (net of tax)	–	–	1.1	1.1
Charge in respect of share options vesting	2.2	–	(2.2)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(1.4)	–	–	(1.4)
At 31 March 2024	(2.7)	26.6	407.4	431.3
Loss for the year	–	–	(57.9)	(57.9)
Other comprehensive (loss)/ income for the year	–	(1.9)	2.6	0.7
Dividends paid relating to 2024	–	–	(126.9)	(126.9)
Credit to equity in respect of share-based payments (net of tax)	–	–	2.0	2.0
Historic reserves transfer	1.8	–	(1.8)	–
Charge in respect of share options vesting	1.4	–	(1.4)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(1.2)	–	–	(1.2)
At 31 March 2025	(0.7)	24.7	224.0	248.0

The own shares reserve represents the cost of ordinary shares in Pennon Group plc issued to or purchased in the market and held by the Pennon Group plc Employee Benefit Trust to satisfy awards under the Group's Annual Incentive Bonus Plan.

The market value of the 127,801 ordinary shares (2024: 162,024 ordinary shares) held by the Trust at 31 March 2025 was £573,000 (2024: £825,000).

	Own shares £m	Retained earnings £m	Total £m
Company			
At 31 March 2023	–	545.7	545.7
Profit for the year	–	34.4	34.4
Other comprehensive loss for the year	–	(1.0)	(1.0)
Dividends paid relating to 2023	–	(111.7)	(111.7)
Credit to equity in respect of share-based payments (net of tax)	–	1.1	1.1
Charge in respect of share options vesting	–	(2.2)	(2.2)
At 31 March 2024	–	466.3	466.3
Loss for the year	–	(13.5)	(13.5)
Other comprehensive income for the year	–	0.3	0.3
Dividends paid relating to 2024	–	(126.9)	(126.9)
Charge to equity in respect of share-based payments (net of tax)	–	1.5	1.5
Credit in respect of share options vesting	1.4	(1.4)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(2.1)	–	(2.1)
At 31 March 2025	(0.7)	326.3	325.6

In making decisions about the level of dividends to be proposed the Directors take steps to check that retained earnings include a sufficient amount of realised profits and are therefore distributable within the requirements of the Companies Act 2006.

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

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

Cash generated from operations

	Group	
	2025 £m	2024 £m
(Loss)/profit for the year	(56.8)	(8.5)
Adjustments for:		
Share-based payments	2.0	1.2
Profit on disposal of property, plant and equipment	(1.2)	(0.7)
Depreciation charge	184.7	168.2
Amortisation of intangible assets	2.3	3.7
Intangible impairment charge	1.3	–
Share of post-tax profit from associated companies	(0.8)	(0.7)
Finance income	(15.0)	(12.6)
Finance costs	199.4	162.8
Taxation credit	(15.9)	(0.6)
Changes in working capital:		
Decrease/(increase) in inventories	0.4	(1.1)
Increase in trade and other receivables	(42.5)	(47.6)
Decrease in trade and other payables	(30.5)	(2.0)
Increase/(decrease) in provisions	6.2	(0.4)
Cash generated from operations	233.6	261.7

Reconciliation of total interest paid:

	Group	
	2025 £m	2024 £m
Interest paid in operating activities	143.1	116.2
Total interest paid	143.1	116.2

38. Net borrowings

	Group		Company	
	2025 £m	(restated, note 2, 43) 2024 £m	2025 £m	2024 £m
Borrowings – current				
Bank and other current borrowings*	(224.5)	(188.8)	(51.5)	(8.0)
Lease obligations	(32.9)	(51.9)	–	–
Total current borrowings	(257.4)	(240.7)	(51.5)	(8.0)
Borrowings – non-current				
Bank and other non-current borrowings*	(3,265.1)	(2,691.8)	(195.6)	(245.6)
Listed preference shares	(12.5)	(12.5)	–	–
Lease obligations	(1,019.3)	(1,071.2)	–	–
Total non-current borrowings	(4,296.9)	(3,775.5)	(195.6)	(245.6)
Total financing liabilities	(4,554.3)	(4,016.2)	(247.1)	(253.6)
Less:				
Cash and cash equivalents	417.9	134.0	45.0	79.2
Restricted funds	58.2	37.4	–	–
Total net borrowings	(4,078.2)	(3,844.8)	(202.1)	(174.4)

38. Net borrowings *continued*

The movements in net borrowings during the periods presented were as follows:

Group

	Net borrowings at 1 April 2023 £m	SES Water Group acquisition (restated, note 43) £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2024 (restated) £m
Bank and other current borrowings	(95.1)	(58.5)	52.9	(88.8)	0.7	(188.8)
Current lease obligations	(32.0)	(0.7)	73.9	(33.8)	(59.3)	(51.9)
Bank and other non-current borrowings	(1,994.9)	(301.7)	(458.7)	88.8	(25.3)	(2,691.8)
Listed preference shares	(12.5)	–	–	–	–	(12.5)
Non-current lease obligations	(1,032.7)	(0.5)	(64.8)	33.8	(7.0)	(1,071.2)
Total financing liabilities	(3,167.2)	(361.4)	(396.7)	–	(90.9)	(4,016.2)
Less:						
Cash and cash equivalents	132.2	–	1.8	–	–	134.0
Restricted funds	33.2	–	4.2	–	–	37.4
	(3,001.8)	(361.4)	(390.7)	–	(90.9)	(3,844.8)

The movement in net borrowings for the prior year has been corrected to show the gross cash flows and other non-cash movements relating to lease obligations whereby interest accrues to and is paid from net borrowings, these amounts were previously shown net within other non-cash movements. Transfers between non-current and current for these items has also been corrected.

- * An unamortised hedging adjustment has been reclassified from fair value through profit and loss to borrowing in the current year (£32.2m) and the prior year restated, see note 2 for further information. This is reflected in Bank and other current borrowings (2025: £2.5m, 2024: £2.5m) and Bank and other non-current borrowings (2025: £29.7m, 2024: £31.8m). The 1 April 2023 values in the above table also reflect this adjustment to allow for comparison between periods. The total of the unamortised hedging adjustment as at 1 April 2023 was £36.4m reflected in Bank and other current borrowings (£2.4m) and Bank and other non-current borrowings (£34.0m).

	Net borrowings at 31 March 2024 (restated) £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2025 £m
Bank and other current borrowings	(188.8)	152.0	(190.7)	3.0	(224.5)
Current lease obligations	(51.9)	101.3	(20.4)	(61.9)	(32.9)
Bank and other non-current borrowings	(2,691.8)	(743.5)	190.7	(20.5)	(3,265.1)
Listed preference shares	(12.5)	–	–	–	(12.5)
Non-current lease obligations	(1,071.2)	35.2	20.4	(3.7)	(1,019.3)
Total financing liabilities	(4,016.2)	(455.0)	–	(83.1)	(4,554.3)
Less					
Cash and cash equivalents	134.0	283.9	–	–	417.9
Restricted funds	37.4	20.8	–	–	58.2
	(3,844.8)	(150.3)	–	(83.1)	(4,078.2)

Other non-cash movements for the Group in the year ended 31 March 2024 included the increase in borrowings from interest which is rolled into the amount repayable. Cash flows of £6.0 million in the year ended 31 March 2024 include the cash acquired on acquisition of SES Water Group of £27.5 million (see note 43).

39. Subsidiary and joint venture undertakings at 31 March 2025

Principal subsidiary companies	Registered office address	Country of incorporation, registration and principal operations
Water		
Bristol Water Plc	Bridgwater Road, Bristol, BS13 7AT	England
South West Water Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South West Water Finance Plc	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South West Water Customer Services Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Sutton and East Surrey Water Plc	66-74 London Road, Redhill, RH1 1LJ	England
Non-household retail		
Pennon Water Services Limited ⁽¹⁾	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Sutton and East Surrey Water Services Limited	66-74 London Road, Redhill, RH1 1LJ	England
Other		
Advanced Minerals Limited ⁽¹⁾	66-74 London Road, Redhill, RH1 1LJ	England
Allmat (East Surrey) Limited	66-74 London Road, Redhill, RH1 1LJ	England
Dunfermline Solar Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
East Surrey Holdings Limited	66-74 London Road, Redhill, RH1 1LJ	England
EEB16 Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
EEB17 Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
EEB31 Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Insurance Limited ⁽²⁾	Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ	Guernsey
Pennon Power Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SES Business Water Limited	66-74 London Road, Redhill, RH1 1LJ	England
SES Home Services Limited	66-74 London Road, Redhill, RH1 1LJ	England
Sutton and East Surrey Group Holdings Limited*	66-74 London Road, Redhill, RH1 1LJ	England
SESW Holding Company Limited	66-74 London Road, Redhill, RH1 1LJ	England
Surrey Downs Estates Limited	66-74 London Road, Redhill, RH1 1LJ	England
Surrey Downs Property Investment Limited	66-74 London Road, Redhill, RH1 1LJ	England
The Cheam Group Plc	66-74 London Road, Redhill, RH1 1LJ	England
Other trading companies		
Bristol Water Holdings Limited	Bridgwater Road, Bristol, BS13 7AT	England
Bristol Water Holdings UK Limited*	Bridgwater Road, Bristol, BS13 7AT	England
Dormant companies		
Avon Valley Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Bristol Water Core Holdings Limited ⁽³⁾	Bridgwater Road, Bristol, BS13 7AT	England
Peninsula Properties (Exeter) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Defined Contribution Pension Trustee Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Pension Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SES Water Limited	66-74 London Road, Redhill, RH1 1LJ	England
Source for Business Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South West Water Services Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SWW Pension Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
The Calcite Factory B.V. ⁽¹⁾	Moezelhavenweg 9, 1043 AM, Amsterdam	Netherlands
The Sutton District Water Plc	66-74 London Road, Redhill, RH1 1LJ	England

The subsidiary undertakings are wholly owned unless stated otherwise and all shares in issue are ordinary shares. All companies above are consolidated in the Group financial statements.

Joint Ventures and Associates	Registered office address	Country of incorporation	Stake (%)
Bristol Wessex Billing Services Limited	1 Clevedon Walk, Nailsea, Bristol, BS48 1WA	England	50
CREWW Executive Board Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England	50
Searchlight Collections Limited	PO BOX 930 Galmington Office, Galmington Trading Estate, Cornishway West, Taunton, Somerset, TA1 9LQ	England	50
Water 2 Business Limited	21e Somerset Square, Nailsea, Bristol, United Kingdom, BS48 1RQ	England	30

* Indicates the shares are held directly by Pennon Group plc, the Company.

1. 80% of share capital owned by Pennon Group plc. All shares in issue are ordinary shares.

2. Captive insurance company established with the specific objective of financing risks emanating from within the Group.

3. Dissolved 6 May 2025.

39. Subsidiary and joint venture undertakings at 31 March 2024 *continued*

Subsidiary audit exemption

Pennon Group plc has issued guarantees over the liabilities of the following companies at 31 March 2025 under section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

Company	Company number
Bristol Water Holdings Limited	02630760
Bristol Water Holdings UK Limited	04789566
Dunfermline Solar Limited	12683727
EEB16 Limited	10789260
EEB17 Limited	10790759
EEB31 Limited	11780715
East Surrey Holdings Limited	02660370
Pennon Power Limited	00736732
SESW Holding Company Limited	04151446
South West Water Customer Services Limited	07620338
Surrey Downs Estates Limited	02465343
Surrey Downs Property Investment Limited	02783440

40. Contingencies

Contingent liabilities

	Group		Company	
	2025	2024	2025	2024
	£m	£m	£m	£m
Guarantees:				
Performance bonds	20.0	13.8	15.0	13.8
	20.0	13.8	15.0	13.8

Guarantees in respect of performance bonds relate to changes to the collateral requirements for the non-household retail business with other wholesalers. The possibility of the bond being required is remote hence the fair value of the bond is not material.

Other contractual and litigation uncertainties

Ofwat and the Environment Agency (EA) announced an industry-wide investigation into sewage treatment works on 18th November 2021. On 27th June 2022, as part of its ongoing investigation, Ofwat announced enforcement action against South West Water Limited and the company is now included alongside all other waste water companies. 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 later in 2025. 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 23rd May 2023 Ofwat announced an investigation into South West Water's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to assurance processes which include independent checks and balances carried out by an external technical auditor. The 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 2nd February 2024 summons were received by South West Water Limited from the EA in relation to alleged non permitted discharges at 7 locations with a total of 30 charges. The EA have since withdrawn 6 of these charges relating to 1 site. At a hearing on 14th November 2024, South West Water pleaded guilty to 5 of the charges and the sentencing hearing for all 24 charges will take place in the third quarter of 2025 with judgment following at a later date.

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

The 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.

41. Capital commitments

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Contracted but not provided	167.9	211.5	–	–

42. Related party transactions

Group companies entered into the following transactions with associates and joint ventures which were not members of the Group. Bristol Wessex Billing Services Limited is a joint venture investments of South West Water Limited and Water 2 Business Limited is an associate investment of the Company.

	2025 £m	2024 £m
Sales of goods and services		
Water 2 Business Limited	29.5	19.8
Purchase of goods and services		
Bristol Wessex Billing Services Limited	4.1	4.0

Year-end balances

	2025 £m	2024 £m
Receivables due from related parties		
Water 2 Business Limited (including loan receivable of £8.7 million (2024: £8.7 million))	10.9	8.9
Bristol Wessex Billing Services Limited	0.2	–
Payables due to related parties		
Bristol Wessex Billing Services Limited	1.6	3.0

The receivables due from related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made, or are considered necessary, for doubtful debts in respect of these amounts due.

The loans to Water 2 Business Limited are due to be repaid on 28 February 2028 and carry interest at SONIA plus 2.00%.

Company

The following transactions with associates and subsidiaries which were not wholly owned by the Company occurred in the year:

	2025 £m	2024 £m
Sales of goods and services		
Water 2 Business Limited	0.1	–

Year-end balances

	2025 £m	2024 £m
Receivables due from related parties		
Water 2 Business Limited (including loan receivable of £8.7 million (2024: £8.7 million))	8.9	–

On 31 January 2025 the £8.7m (2024: £8.7m) loan receivable with Water 2 Business Limited ("W2B") an indirect associate was transferred from Bristol Water Holdings Limited ("BWH") to the Company.

The loans to Water 2 Business Limited are due to be repaid on 28 February 2028 and carry interest at SONIA plus 2.00%.

43. 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 was reviewed by the Competition and Markets Authority and given full clearance on 14 June 2024. For the year ended 31 March 2024, the SESGHL Group was consolidated into Pennon Group 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.

The net assets recognised in the 31 March 2024 financial statements were based on a provisional assessment of their fair value. This valuation exercise has now been finalised. Final Fair values on acquisition are shown in the table below. Corresponding amounts for the financial year ended 31 March 2024 have also been restated in the balance sheet.

43. Acquisition of SES Water Group *continued*

The fair value of trade and other receivables acquired as part of the business combination amounted to £63.1 million with a gross contractual amount of £82.6 million. At the acquisition date the Group's best estimate of the contractual cash flows expected not to be collected amounted to £19.5 million.

The Goodwill that arose on acquisition 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.

The details of the business combination are as follows:

	10 January 2024 Adjustments included until 31 March 2024 £m	Adjustments £m	10 January 2024 Adjustments included until 9 January 2025 £m
Fair value of consideration transferred			
Amount settled in cash	90.2	–	90.2
Total consideration transferred	90.2	–	90.2
Fair value of assets and liabilities recognised on acquisition			
Property, plant and equipment	441.6	12.7	454.3
Intangible assets	11.6	(7.4)	4.2
Inventories	2.1	–	2.1
Trade and other receivables	61.4	1.7	63.1
Cash and cash equivalents	27.5	–	27.5
Current tax receivable	0.4	–	0.4
Borrowings	(360.1)	(1.3)	(361.4)
Trade and other payables	(65.3)	(5.3)	(70.6)
Retirement benefit obligations	3.3	–	3.3
Deferred tax liabilities	(47.5)	(0.1)	(47.6)
Provisions	(0.4)	(0.7)	(1.1)
Identifiable net assets	74.6	(0.4)	74.2
Goodwill on acquisition	15.6	0.4	16.0
Outflow of cash to acquire subsidiary, net of cash acquired			
Consideration for equity settled in cash	90.2	–	90.2
Cash and cash equivalents acquired	(27.5)	–	(27.5)
Net cash outflow on acquisition	62.7	–	62.7

Acquisition related costs

Total acquisition related costs of £10.3 million, including £9.6 million incurred in the prior year, are not included as part of the consideration transferred and were recognised as an expense in the consolidated income statement within other operating expenses.

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. For the year ended 2024/25, the following APMs were added to or amended to those presented previously:

- The APM 'Effective interest rate' has been amended to provide a more meaningful insight by removing the impact of non-debt related interest costs in the net finance costs for effective interest rate calculation. The calculation for closing net debt has also been amended to add back the cash impact of the Group's equity injection into South West Water on 31 March 2025, which would otherwise distort the average net debt used in the calculation of the effective interest rate due to the equity injection being made on the last day of the financial year.

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 6 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:

Non-underlying items							
Underlying earnings reconciliation 31 March 2025	Underlying	Brixham	SES acquisition	Renewables acquisition	Transformation	Statutory results	Earnings per share
	£m	£m	£m	£m	£m	£m	p
EBITDA (see below)	335.6	(21.0)	(0.7)	(0.1)	(15.8)	298.0	
Operating profit/(loss)	148.5	(21.0)	(0.7)	(0.1)	(15.8)	110.9	
Loss before tax	(35.1)	(21.0)	(0.7)	(0.1)	(15.8)	(72.7)	
Taxation	7.0	5.2	–	–	3.7	15.9	
Loss after tax						(56.8)	
Non-controlling interests						(1.1)	
Loss after tax attributable to shareholders						(57.9)	(16.1)

Non-underlying items							
Underlying earnings reconciliation 31 March 2024	Underlying	Drought costs	SES acquisition	Renewables acquisition	Transformation	Statutory results	Earnings per share
	£m	£m	£m	£m	£m	£m	p
EBITDA (see below)	338.3	(1.8)	(9.6)	(0.6)	(13.9)	312.4	
Operating profit/(loss)	166.3	(1.8)	(9.6)	(0.6)	(13.9)	140.4	
Profit/(loss) 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	
Loss after tax						(8.5)	
Non-controlling interests						(1.0)	
Loss after tax attributable to shareholders						(9.5)	(2.9)

Underlying EBITDA

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

Effective interest rate

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

	2025 £m	2024 (restated) £m
Net finance costs before non-underlying items (note 8)	184.4	150.2
Remove: net finance income before non-underlying items not associated with South West Water Limited's group of companies	(13.8)	5.3
Net finance costs before non-underlying items associated with South West Water Limited's group of companies	170.6	155.5
Net interest on retirement benefit obligations	1.1	1.4
Capitalised interest	23.1	14.1
Non-debt related interest	(4.5)	–
Net finance costs for effective interest rate calculation	190.3	171.0
Group net debt (opening) (note 38)	3,844.8	3,001.8
Remove: Unamortised hedging adjustment	(34.3)	(36.4)
Remove: opening net debt not associated with South West Water Limited's group of companies*	(515.8)	(100.1)
Opening net debt for calculation	3,294.7	2,865.3
Group net debt (closing) (note 38)*	4,078.2	3,844.8
Remove: Unamortised hedging adjustment	(32.2)	(34.3)
Remove: closing net debt not associated with South West Water Limited's group of companies	(564.3)	(515.8)
Equity injection on 31 March 2025	330.0	–
Closing net debt for calculation	3,811.7	3,294.7
Average net debt (opening net debt + closing net debt divided by 2)	3,553.2	3,080.0
Effective interest rate (%)	5.4	5.6

* Prior year restatement (see note 28).

Effective cash cost of interest

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

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

Underlying interest cover

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

	2025 £m	2024 £m
Net finance costs after non-underlying items (note 8)	184.4	150.2
Net interest on retirement benefit obligations (note 8)	1.6	1.7
Net finance costs for interest cover calculation	186.0	151.9
Operating profit before non-underlying items (see 'Underlying earnings' above)	148.5	166.3
Interest cover (times)	0.8	1.1

EBITDA dividend cover

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

	2025 £m	2024 £m
Underlying EBITDA (see 'Underlying earnings' above)	335.6	338.3
Proposed dividends (note 12)	133.7	126.9
EBITDA dividend cover (times)	2.5	2.7

Group dividend cover

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

	2025 £m	2024 £m
Proposed dividends (note 12)	133.7	126.9
Loss for the year attributable to ordinary shareholders	(57.9)	(9.5)
Deferred tax (credit)/charge before non-underlying items (note 9)	(7.8)	4.9
Non-underlying items after tax in profit for the year (note 6)	28.7	21.0
Adjusted (loss)/profit for dividend cover calculation	(37.0)	16.4
Dividend cover (times)	-	0.1

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.

	2025 £m	2024 £m
Additions to property, plant and equipment (note 17)	647.0	604.5
Additions to intangible assets (note 16)	5.5	45.0
Capital investment	652.5	649.5

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.

	2025 £m	2024 £m
Cash flow statements: purchase of property, plant and equipment	663.1	555.1
Cash flow statements: purchase of intangible assets	5.5	43.8
Cash flow statements: proceeds from sale of property, plant and equipment	(1.9)	(0.8)
Capital payments relating to the Group	666.7	598.1

Return on capital employed

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

	2025 £m	2024 (restated) £m
Capital employed (opening):		
Net debt (note 38)	3,844.8	3,001.8
Remove: Unamortised hedging adjustment	(34.3)	(36.4)
Total equity invested (notes 33, 34, 35)	729.9	554.2
Opening capital employed for return on capital employed calculation	4,540.4	3,519.6
Capital employed (closing):		
Net debt (note 38)*	4,078.2	3,844.8
Remove: Unamortised hedging adjustment	(32.2)	(34.3)
Total equity invested (notes 33, 34, 35)	1,200.2	729.9
Closing capital employed for return on capital employed calculation*	5,246.2	4,540.4
Underlying operating profit (see 'Underlying earnings' above)	148.5	166.3
Capital employed for return on capital employed calculation (opening capital employed + closing capital employed divided by 2)*	4,893.3	4,030.0
Return on capital employed (%)	3.0	4.1

* Prior year restatements (see note 28).

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% and c.4.4% for Bristol Water for the period 2020 to 2025) 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 to 2025, the notional equity proportion is 40.0%.

Further information on this metric can be found in South West Water's annual performance report and regulatory reporting, published in July each year. The most recent can be found at: www.southwestwater.co.uk/about-us/how-are-we-performing.

Totex

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

Outcome Delivery Incentives (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.

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.

Five-year financial summary

	2025 £m	2024 £m	2023 £m	2022 £m	2021 £m
Income statement					
Revenue before non-underlying items	1,047.8	907.8	825.0	792.3	644.6
Operating profit before non-underlying items	148.5	166.3	153.1	237.2	215.3
Net finance costs before non-underlying items	(184.4)	(150.2)	(136.6)	(93.7)	(58.3)
Share of profit in joint ventures	0.8	0.7	0.3	–	–
(Loss)/profit before tax and non-underlying items	(35.1)	16.8	16.8	143.5	157.0
Net non-underlying items before tax	(37.6)	(25.9)	(25.3)	(15.8)	(24.9)
Taxation charge/(credit)	15.9	0.6	8.9	(112.1)	(24.8)
(Loss)/profit for the year	(56.8)	(8.5)	0.4	15.6	107.3
Attributable to:					
Ordinary shareholders of the parent	(57.9)	(9.5)	0.1	15.4	107.5
Perpetual capital security holders	–	–	–	–	–
Non-controlling interests	1.1	1.0	0.3	0.2	(0.2)
Dividends proposed/declared	133.7	126.9	111.7	102.0	91.8
Earnings per ordinary share (basic):					
Earnings per share*	(16.1p)	(2.9p)	–	4.0p	21.1p
Deferred tax before non-underlying items*	(2.2p)	1.5p	(0.2p)	2.1p	1.3p
Non-underlying items (net of tax)*	7.9p	6.5p	6.3p	30.2p	4.0p
Earnings per share before non-underlying and deferred tax*	(10.3p)	5.1p	6.0p	36.6p	26.4p
Declared dividends per share*	31.57p	36.67p	35.31p	31.84p	17.97p

* Prior year restatements (see notes 11 and 12).

	2025 £m	2024 £m	2023 £m	2022 £m	2021 £m
Capital expenditure					
Acquisitions (including investment in joint ventures)	–	90.2	–	425.1	–
Property, plant and equipment	647.0	604.5	353.7	237.3	168.3
Intangibles	5.5	45.0	4.6	3.6	0.2
Balance sheet					
Non-current assets*	6,125.0	5,669.1	4,743.0	4,527.0	3,277.1
Net current assets/(liabilities)	295.4	(23.3)	87.0	389.5	2,919.1
Non-current liabilities*	(4,969.7)	(4,483.2)	(3,704.8)	(3,641.9)	(3,211.4)
Net assets	1,450.7	1,162.6	1,125.2	1,274.6	2,984.8
Number of employees (average full time equivalent for year)					
Water	3,528	3,051	2,639	2,394	1,745
Non-household retail	259	191	158	177	160
Other businesses	123	90	67	65	82
	3,910	3,332	2,864	2,636	1,987

* Prior year restatements (see notes 11 and 12).

Glossary

C-MeX	Customer measure of experience, a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain
CPI	Consumer price index, a measure of inflation in a representative sample of retail goods and services using a geometric mean and excluding e.g. housing costs
CPIH	Consumer price index, a measure of inflation in a representative sample of retail goods and services using a geometric mean, including owner occupiers' housing costs
CREWW	The Centre for Resilience in Environment, Water and Waste, a Pioneering research centre for Resilience in Environment, Water and Waste, in partnership with Exeter University
D-MeX	Developer Measure of Experience, a measure of service experience for developers which directly compares us with our peers
EBITDA	Earnings before interest, tax, depreciation and amortisation
EDM	Event Duration Monitoring – A regulatory requirement to monitor the frequency and duration of releases from storm overflows
EFRA	Environment, Food and Rural Affairs Committee
EPA	The EPA is the Environment Agency's assessment of environmental performance.
ESG	Environmental, Social and Governance
Fair Tax Mark	An independent certification scheme which recognises organisations that demonstrate they are paying the right amount of corporation tax at the right time
GHG	Greenhouse gases
GRESB	The GRESB Foundation is an independent, not-for-profit organisation that sets global standards for assessing the ESG performance of real estate, infrastructure and other assets
HomeSafe	Our health & safety improvement programme
IEA	International Energy Agency
IPCC	The Intergovernmental Panel on Climate Change
Jacobs	Jacobs U.K. Limited, an independent management consultancy specialising in technical assurance in the utility sector
K7	The 2020 to 2025 regulatory price review period
K8	The 2026 to 2030 regulatory price review period
KPI	Key Performance Indicator, our measures of business performance against the key targets monitored by Board and Pennon Executive
LGBTQ+	Acronym for Lesbian, gay, bisexual, transgender, and queer plus
LTIFR	Lost Time Injury Frequency Rate
MOSL	The market operator for the non-household retail market in England
ODI	Outcome Delivery Incentives, many of which are common across all water companies while others are bespoke to South West Water
Ofwat	The Water Services Regulation Authority, or Ofwat, is the body responsible for economic regulation of the privatised water and sewerage industry in England and Wales
PR24	The 2024 'Price Review' for water companies in England and Wales was a process led by Ofwat to determine prices for the period 2025-2030
RCV	RCV is the financial base used by Ofwat to allow a rate of return and set prices at each Periodic Review
RNAGS	Reason for Not Achieving Good Status
ROCE	Return On Capital Employed
RORE	Return On Regulated Equity
RPI	Retail Price Index, a measure of inflation in a representative sample of retail goods and services using an arithmetic mean
STEM	Science, Technology, Engineering and Mathematics
Sustainable Financing Framework	The way we link financial impacts with sustainability impacts; the Framework aligns with the Green Bond Principles, the Social Bond Principles and the Green Loan Principles
SWB	South West Water – Refers to the combined company across all five regions (South West (Devon & Cornwall), Bristol, Bournemouth & Isles of Scilly)
SWW	South West Water – Refers to the four regions Devon, Cornwall, Bournemouth & Isles of Scilly
TCFD	Task force on climate-related financial disclosures
TCND	Task force on nature-related financial disclosures
Totex	total expenditure
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended
UKWIR	UK Water Industry Research
Water Group	South West Water including Bristol Water and SES Water
WaterShare	The programme through which we shared the benefits of outperformance against our 2015-20 business plan targets with water customers
WaterShare+	The enhanced benefit sharing mechanism introduced for water customers under our 2020-25 New Deal business plan
WaterShare+ Advisory Panel	Established to protect the interests of our customers. The Panel provides an independent review of our business plan commitments and Board pledges
WTW	Water Treatment Works – that part of a waterworks that is used to filter or condition water for the purpose of rendering water acceptable for human consumption or hygienic use
WWTW	Waste Water Treatment Works – We use this term, rather than sewage treatment works, to describe the facilities which return used water to a condition where it can safely be discharged to environmental waters.

Shareholder information

Financial calendar, including Dividend Reinvestment Plan (DRIP) alternative

Financial year end	31 March 2025
Full Year Results 2024/25	3 June 2025
Annual Report and Accounts Published	June 2025
Annual General Meeting 2025	24 July 2025
Ordinary shares quoted ex-dividend	24 July 2025*
Record date for final dividend	25 July 2025*
Final date for receipt of DRIP applications	8 August 2025*
Final dividend payment date	4 September 2025*
Trading Statement	September 2025
Half Year Results 2025/26	November 2025

* Subject to obtaining shareholder approval at the 2025 Annual General Meeting.

Shareholder analysis at 31 March 2025

Number of holding of shares	Number of shareholders	% of total shareholders	% of ordinary shares
1-100	2,450	17.66	0.02
101-1,000	6,228	44.90	0.62
1,001-5,000	4,155	29.96	1.88
5,001-50,000	762	5.49	1.77
50,001-100,000	61	0.44	0.94
100,001+	214	1.54	94.78
	13,870		

	Number of accounts	% of total accounts	% of total shares
Individuals	13,203	95.2	3.9
Companies	579	4.2	85.7
Trust companies (pension funds etc.)	2	–	–
Banks and nominees	86	0.6	10.4
	13,870		

Major Shareholders as at 31 March 2025

Shareholder	Shareholding in Pennon Group plc shares	% of issued share capital
Lazard Asset Management	42,386,915	8.98
KBI Global Investors	35,443,292	7.51
Impax Asset Management	27,567,981	5.84
Pictet Asset Management	21,903,395	4.64
ClearBridge Investments	19,902,892	4.22
BlackRock Advisors (UK)	18,673,048	3.96
Schroder Investment Management	18,387,407	3.90
Vanguard Group	17,153,809	3.63
Legal & General Investment Management	16,011,373	3.39

As at 23 May 2025, the Company has been notified of the following holdings of voting rights in the ordinary share capital of the Company: Impax Asset Management on 29 April 2025 of 23,581,545 shares (4.99%). The percentage of voting rights detailed above was calculated at the time of the relevant disclosures were made in accordance with Rule 5 of the Disclosure Guidance and Transparency Rules.

Registrar

All enquiries concerning shareholdings including notification of change of address, loss of a share certificate or dividend payments should be made to the Company's registrar, MUFG Corporate Markets Limited, who can be contacted as follows:

MUFG Corporate Markets Limited
Pennon Group Share Register
Central Square
29 Wellington Street
Leeds
LS1 4DL

Telephone: 0371 664 9234 (calls are charged at standard geographic rate and will vary by provider).

Lines are open 8.30am-5.30pm Monday-Friday, excluding public holidays in England and Wales.

Overseas telephone: +44 371 664 9234
(calls outside the United Kingdom will be charged at the applicable international rate).

Email: pennon@mpms.mufg.com

Website: www.signalshares.com

ShareGift service

Through ShareGift, an independent charity share donation scheme, shareholders who only have a small number of shares with a value that makes it uneconomical to sell them can donate such shares to charity. Donations can be made by completion of a simple share transfer form which is available from the Company's registrar, MUFG Corporate Markets Limited, or by contacting ShareGift on 020 7930 3737 (www.sharegift.org).

Individual savings accounts

Shareholders may gain tax advantages by holding their shares in the Company in an Individual Savings Account (ISA).

Dividend Reinvestment Plan (DRIP)

Subject to obtaining shareholder approval at the 2025 Annual General Meeting for the payment of a final dividend for the year ended 31 March 2025, full details of the DRIP and how to participate will be published on the Company's website at www.pennon-group.co.uk/dividends/dividend-reinvestment-plan-drip.

The full timetable for offering the DRIP is given opposite.

The DRIP provides shareholders with an opportunity to invest the cash dividend they receive on their Pennon Group plc shares to buy further shares in the Company at preferable dealing rates.

Corporate information

Registered office

Peninsula House
Rydon Lane
Exeter
Devon
EX2 7HR

Company registration number: 2366640

Company Secretary

Andrew Garard

Corporate brokers

Barclays Bank plc
Morgan Stanley & Co. International plc

Independent auditors

PricewaterhouseCoopers LLP

Online portfolio service

The online portfolio service, provided by MUFG Corporate Markets Limited, gives shareholders access to more information on their investments. Details of the portfolio service are available online at www.signalshares.com.

Electronic communications

The Company has passed a resolution which allows it to communicate with its shareholders by means of its website.

Shareholders currently receiving a printed copy of the annual report who now wish to sign up to receive all future shareholder communications electronically can do so by registering with MUFG Corporate Markets Limited's share portal.

Go to <http://www.signalshares.com> to register, select 'Account Registration' and then follow the on-screen instructions by inputting your surname, your Investor Code (which can be found on your proxy form) and your postcode, as well as entering an email address and selecting a password.

By registering to receive your shareholder communications electronically, you will also automatically receive your dividend confirmations electronically.

Electronic proxy voting

Pennon encourages the use of electronic proxy voting and no longer provides paper proxy forms alongside the AGM Notice. We believe that is both more efficient and consistent with our important environmental sustainability responsibilities and objectives.

You may register your proxy votes via www.signalshares.com.

Registering your vote electronically is entirely secure and ensures the privacy of your personal information. Alternatively, if you wish to vote by post you may request a hard copy proxy form by contacting our registrar, MUFG Corporate Markets Limited. Contact details are provided above.

Pennon's website

<http://www.pennon-group.co.uk> provides news and details of the Company's activities plus links to its subsidiaries' websites.

The Investor Information section contains up-to-date information for shareholders including detailed share price information, financial results, dividend payment dates and amounts, and stock exchange announcements. There is also a comprehensive shareholder services section which includes information on buying, selling and transferring shares, and how to notify a change in personal circumstances, for example, a change of address.

Beware of share fraud

The following is taken from the ScamSmart section of the Financial Conduct Authority's website (www.fca.org.uk/scamsmart).

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

Keep in mind that firms authorised by the Financial Conduct Authority (FCA) are unlikely to contact you out of the blue with an offer to buy or sell shares.

Do not get into a conversation; note the name of the person and firm contacting you and then end the call.

Check the Financial Services Register from <http://www.fca.org.uk> to see if the person and firm contacting you is authorised by the FCA.

Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.

Use the firm's contact details listed on the Register if you want to call it back.

Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.

Search the FCA Warning List of unauthorised firms at www.fca.org.uk/scamsmart.

Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme. Seek impartial advice from a financial adviser before you make an investment.

Remember: if it sounds too good to be true, it probably is!

5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000.

Report a scam

If you are approached by fraudsters, please tell the FCA using the share fraud reporting form at <http://www.fca.org.uk/scams> where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you can report this at any time to Action Fraud using their Online Fraud Report Tool at www.actionfraud.police.uk/reporting-fraud-and-cyber-crime or by calling 0300 123 2040.