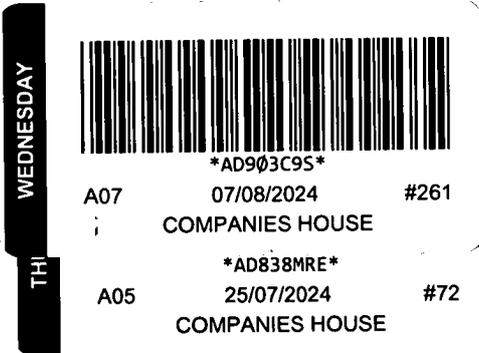


PENNON GROUP PLC
Company No: 2366640

Bringing Water to Life



WEDNESDAY
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COMPANIES HOUSE

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A05 25/07/2024 #72
COMPANIES HOUSE

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

Annual Report and Accounts

2024

Living our purpose, we are bringing water to life

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

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Financial Statements

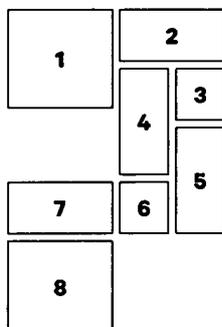
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The acquisition of Sutton and East Surrey Water (SES Water) on 10th January 2024 and the CMA's hold separate order has presented reporting challenges for the data for the 52 weeks ended 31st March 2024. Data presented in pages 32 to 39 relate to the Group, excluding SES Water. SES Water operational review information can be found at pages 40 to 41.

Cover photo credits/captions



1. New abstraction pontoon at Blackpool Pit, Cornwall.
2. Thickener plant and sludge transfer pumps, as part of the new GAC structure at Stithians Water Treatment Works, Cornwall.
3. New storm tank capacity to reduce reliance on storm overflows at our Hatherleigh, Wastewater Treatment Works, Devon.
4. New storm tank capacity storage at Lifton Wastewater Treatment Works, Devon.
5. Membrane Transportable Treatment Units building at Alderney Water Treatment Works, Bournemouth.
6. Works to divert surface water to reduce overload on the sewer system at Bere Alston Wastewater Treatment Works, Devon.
7. Newly constructed storm tank at Hawkchurch Wastewater Treatment Works, Devon.
8. Construction of the state-of-the-art ceramic membrane, Alderney Water Treatment Works, Bournemouth.

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 2023



Gender and Ethnicity Pay Gap Report 2023

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

Year at a glance - Our fundamentals are strong

Making progress on what matters to our customers

- **Breaking the drought cycle:** c.100% reservoir peak capacity achieved with 1/3 improvement as a result of our investment.
- **Maintaining gains on storm overflows and pollutions:** We are expected to retain a 2★ EPA rating with a road map to EPA 4★.
- **Driving environmental gains:** c.127,000 cumulative hectares of drinking water catchments restored, over 250,000 trees planted, both ahead of target.
- **Affordability:** 132,000 customers benefiting from our schemes.

Sound business - growing sustainably

- **Peak capital delivery for the wholesale water businesses:** investment increased 63% year on year to £583m. Cumulative RCV growth (organic and acquisitive) of c.65% excluding SES Water.
- **The Pennon Power programme on track:** investment of £59m in 2023/24, ramping up EBITDA contribution from H2 2024/25 with delivery of 39 GWh and 60 MWh battery storage.
- **Delivering on our acquisition strategy:** Bristol Water acquisition benefits programme on track, c.£17m annualised operating synergies to 2023/24. SES Water acquisition is fast tracking through the CMA process.

Solid building blocks in place

- **Accelerated transition to K8:** 'Amplify' a 10-year delivery alliance with suppliers, already mobilised on c.1,000 projects.
- **Transformational programmes:** Improvements in operational effectiveness delivering annualised synergies of £26m in 2023/24, targeting £86m run rate into K8.
- **Investing in people:** One in 10 colleagues have been through our apprenticeship or graduate programmes.
- **Leveraging technology:** Using predictive modelling in our wastewater operations.

Robust financial position

- **Water group gearing:** 63.5% reflecting increased capex spend and timing of RCV build, within K7 policy.
- **Liquidity:** c.£1.2bn raised since March 2023, in addition to the successful equity raise of £180m for the SES Water acquisition.
- **Cost management:** operational efficiency programmes keeping cost increases below inflation despite impacts of unprecedented wet weather.

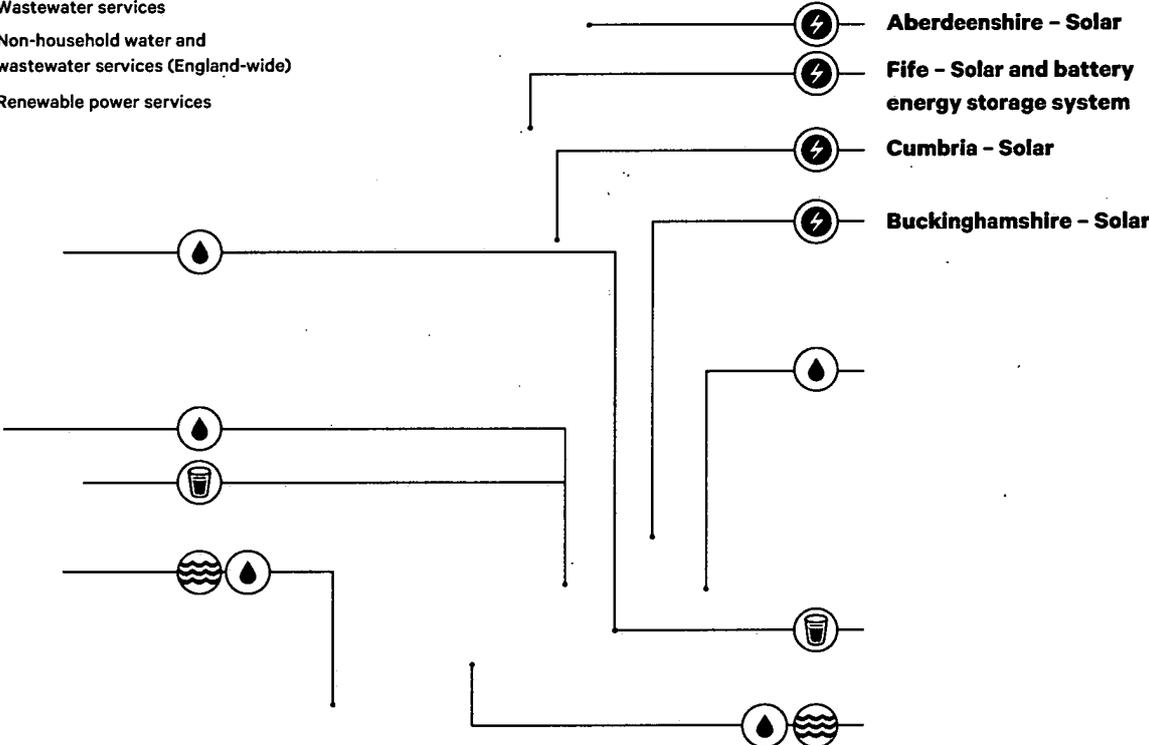
Pennon at a glance

Pennon is an environmental infrastructure group focused on the UK water sector. Our team of around 4,000 talented colleagues work around the clock to deliver over 1 billion litres of water to 4.24 million people every day.

Our locations

Key:

-  Water services
-  Wastewater services
-  Non-household water and wastewater services (England-wide)
-  Renewable power services



Our businesses

c. 1.8m
population served

490m litres
of drinking water per day

Supplying Cornwall, Devon and small areas of Dorset and Somerset

c. 500,000
population served

160m litres
of drinking water per day

Supplying parts of Dorset, Hampshire and Wiltshire
Acquired in 2015

c. 1.2m
population served

280m litres
of drinking water per day

Supplying the city of Bristol and surroundings
Acquired in 2021

c. 2,000
population served

700,000 litres
of drinking water per day

Assumed responsibility in 2020

c. 740,000
population served

160m litres
of drinking water per day

Supplying parts of Surrey, Kent and South London
Acquired in 2024

All figures as at 31st March 2024, other than population and litres of drinking water per day which are as at 31st March 2023, as shown in Annual Performance Report - January 2024.

Our businesses *continued*

95,000

customers accounts including Rolls Royce, Pets at Home and Nuffield Health

4.8

out of 5 Trustpilot score

135 GW hours

of future annual power generation

Enough electricity to power

50,000 homes

115,000

customers accounts including Aldi, Pirelli and Vision Express

4.9

out of 5 Trustpilot score

Our Group

Operations

23,000

kilometres of sewers

41

reservoirs

29,000

kilometres of water pipes

66

water treatment works

655

wastewater treatment works

860

miles of coastline

Customers

4.24m

people served

23,000

customers moved onto social tariffs in FY23/24

£100m

of financial support provided to customers since 2020

98%

of South West Water and Bournemouth Water customers find their bill affordable

100%

of Bristol Water customers find their bill affordable

Communities

Over 500

water-saving devices distributed across the South West per day

4,000

children taught in 116 lessons using South West Water education resources

Over

55,000

people at 28 events reached by our Awesome Water campaign

Over 1,300

LeakBot devices sent out to homes across Devon and Cornwall to detect customer leaks

People

4,000

colleagues

470

apprentices supported since 2020

85

graduates recruited to graduate programme since its launch in 2021, with 55% female and over half ethnically diverse or international

200

days of work experience opportunities created for year 12 students from low-income backgrounds across Exeter and Bristol expanding to Plymouth, Truro and St Austell in 2024

Chair's letter

Gill Rider

Group Chair

In my last letter as Chair, I want to thank our 4,000 employees that live and work in the communities we serve. They continue to work tirelessly to deliver a water system that everyone can be proud of. Our responsibility goes beyond pipes, treatment works and reservoirs; it's about ensuring the natural rivers and 860 miles of coastline continue to thrive and to make our waters the benchmark for quality. It's also about ensuring that customers have a clean and plentiful supply of water. From apprentices to graduates, data scientists to lab technicians, environmentalists, engineers and customer service teams, everyone who works at Pennon shares the same ambition.

Today we are investing more than ever to improve our assets, in new and innovative ways, both nature first and future proof, building resilience in the face of a changing climate and population growth. It's no longer acceptable to build more concrete, or complex infrastructures, that have long term environmental impacts. From using reed beds to smart ponds and smart water butts, we want to protect the planet and use less. Our investment in Pennon Power will support our commitment to ensuring 50% of our energy needs come from renewable sources as part of our Net Zero ambitions.

In 2022, the South West experienced one of the driest years on record, with reservoirs hitting their lowest ever levels as we worked to protect both river health and ensure a continuous supply of clean drinking water to our customers. We moved quickly, innovating to repurpose ex quarries and mines to store water across Devon and Cornwall. Together with this, and by



You can read more on how we are engaging with our stakeholders in our Section 172(1) statement on page 128.

“We’re doing this, for a water system that everyone can be proud of”

investing in desalination, we will continue to use innovative techniques to re-use what we have and break the cycle of drought.

Whilst 2022 was one of the driest, 2023 will be known for being one of the wettest. Whilst good for water resources, this has triggered more use of storm overflows and more pollution incidents than any of us agree is right. If we could go back to the Victorian era when the UK's infrastructure was built, we would make significant changes, and the design is the same the world over. What does set us apart from the rest of the world, is the monitoring. As one of the first water companies to achieve 100% monitoring, we will use the data and information to target our efforts to fix this.

We know this will take time and we can fix this, because 30 years ago, half of our sewage in the South West did go directly untreated into the sea. In a journey starting in the 1990s with Clean Sweep, and a £13 billion investment, we created a legacy of wastewater services, and a first for the South West. The result is that we now have some of the best bathing water quality in the UK, up from c29% in the 90s to 100% for the last three years running. Whilst excellent in between May and September, (when bathing water quality is monitored) it's clear we need to go further, ensuring excellent water all year round. We do need to reduce the use of storm overflows.

Post 2025 and as part of a wider £2.8 billion investment plan across the Greater South West, our plans will also support 2,200 jobs directly and in the supply chain. It's a plan grounded in extensive customer research, and the Board and I met regularly with the independent Chair and deputy Chair of the Watershare+ panel who led the engagement. We also received feedback from our 90,000 customers who are shareholders through our WaterShare+ scheme. We're pleased this plan received strong support from customers, stakeholders and our shareholders – to invest more in the region, and we believe it's also aligned with Ofwat's objectives.

At the same time, the Board has committed to extend our zero-water poverty pledge to 2030, with a £200 million support package, as we find new ways to help our customers to save money. From our “Stop the Drop” to “Water is Precious” campaigns and innovative tariffs, we are helping customers to save water, save money and change how we all use water.

That same care for customer service is being demonstrated in the growth of our non-household retail businesses Pennon Water Services and Water2Business. And with the acquisition of SES Water earlier this year, and our continued focus on the local delivery of local services, the Board are pleased to be able to enhance SES Water's ongoing financial resilience to better deliver for customers and stakeholders and demonstrate our ongoing commitment to the UK Water Sector.

Finally, I want to extend my thanks to our Board, our CEO Susan and her executive team for their support. I am grateful to have worked alongside such a talented and dedicated team over many years and I look forward to continuing my relationship with Pennon as a customer.

Gill Rider

20th May 2024

“The fundamentals are strong for a more sustainable future”

Susan Davy

Group Chief Executive Officer

Our fundamentals are strong

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

With a strong balance sheet and good liquidity, we retain the agility and ability to respond when it matters most and for the longer term, and in delivering on our strategy focused on UK Water. We are growing sustainably, whether through acquisition or investment, with an efficiently funded and robust balance sheet, growing shareholder value. And this in turn, is ensuring we can make good operational progress, delivering on our 4 priorities and what matters most to our customers.

We are listening

The UK Water sector remains firmly in the spotlight, with regulatory, political and public scrutiny at an all-time high. It's difficult for any water company to ignore. We are listening

Our customer and community roadshows have been a personal highlight for me as we have directly faced into public anger of the sector, head on and we have focused on talking about what really matters most. From Bristol to Bournemouth, and across Devon, Cornwall and the Isles of Scilly, and soon to be in Sutton and East Surrey Water, we are slowly changing perceptions, one conversation at a time. At the same time, we have embarked on our largest ever direct customer engagement, gathering the views and feedback of over 250,000 customers and 1,000 stakeholders as part of our £2.8 billion PR24 business plan submission.

At Pennon, we all work in water because it is too important not to

150 years ago, water professionals were seen as one of the founding champions of public health. This is at our core of what we do. Today, climate change is the single biggest threat facing people and planet, water companies also need to demonstrate that we are also custodians of the environment, and as we look ahead.

That's why when asked, I always say that we all work in water because it is too important not to. Our c.4,000 employees, who live and work in the communities we support are bolstered by the wider supply chain, now collectively known as Amplify and nearly doubling the number of people we support as one of the largest private employers in the Greater South West. We are also a growing team, through our acquisition of SES Water, and we were delighted to be able to safeguard c.470 jobs.

In the year, we have also signed the Armed Forces Covenant and become a disability confident employer and continue to increase our responsibility on social mobility as a tier 1 funder of the Social Mobility Partnership, launching work experience clusters, and as we look to offer 5,000 work placements for young people by 2030.

I want to pay tribute to everyone who works for the Group and with us, as we couldn't deliver any of this without talented people doing great things for customers and each other and they are the real heroes in delivering this set of results.

Doing what's right

This has also been a year where we have refreshed our values, an opportunity to galvanise everyone who works for Pennon and our supply chain, as we grow and continue to evolve how we deliver for customers.

Our CEO's review *continued*

communities and the environment. I am proud of our new values. Developed bottom up with employee engagement sessions and with our top 100 leaders and in response to our customer and stakeholder feedback as part of PR24 preparations, our values will help us to stand apart.

They epitomise everything we do as a good corporate citizen, as we continue to deliver strong performance in external ESG benchmarks, retain the Fair Tax mark for the 6th year running, move 23,000 customers on to social tariffs and welcome over 2 million visitors to our lakes and reservoirs. This ensures that any customer or visitor to the region is never more than an hour away from water, and able to use them for health and recreation.

We remain the only water company in the sector to reinvest outperformance directly with customers, by giving them a unique opportunity to become shareholders in their local water company with Watershare+. With over 78,000 customer shareholders, all stakeholders can be assured that customers directly benefit. As we have acquired businesses as part of our growth strategy, Watershare+ is now one of the first commitments we make.

As CEO, it's also my job to lead from the front, and champion living our values. With executive remuneration continuing to be in the media, and regulatory spotlight, I recommended to the Remuneration Committee, that the annual bonus was foregone. It's the right thing to do.

A sound business - growing sustainably

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

Our operations in the Group require reliable and efficient power supply and we are investing to increase our renewable energy provision through Pennon Power, with its first EBITDA contribution due in 2024/25, supporting our Net Zero ambitions and targeting to meet 40% of energy requirements of the Group. We are also delivering on our acquisition and consolidation strategy. We are realising the benefits we set out as part of the Bristol Water acquisition, and having acquired SES Water in January, safeguarding their financial resilience through a successful equity raise, we are now fast-tracking through the CMA process, ahead of plan.

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

Turning to performance, we remain resolutely focused on our 4 customer priorities across the Greater South West. We are investing to protect water quality and enhance resilience; tackling storm overflows at our beaches and eradicating pollutions across Devon and Cornwall and driving environmental gains, wherever we serve. At the same time, we have successfully managed customer bills to be lower than they were 10 years ago, and as we pledge to eradicate water poverty. Bills in the region are no longer the outliers in the sector they once were, in the aftermath of post privatisation, and the £13 billion legacy costs involved in putting waste water treatment into the region for the first time.

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

With 10 named storms and 12 yellow weather warnings since September, it is a sobering statistic that 5 of the 10 wettest Februarys have been in the last 5 years, and with average rainfall increasing by 50% when compared to long term averages in the second half of the year. On one hand with more rainfall, we have been able to break the back of the drought we experienced in 2022, and in doing what we said we would by achieving 100% strategic reservoir capacity for Devon and Cornwall by April, ahead of target.

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

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

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

The significantly increased wastewater flows have also impacted our headline performance for wastewater pollutions and the use of storm overflows, with rising groundwater levels and increasing flows into the network. Historically, 70% of our pollutions have occurred in our networks. The work we have done over the last few years is working, with performance stabilising. We are achieving sector-leading internal sewer flooding performance, outperforming regulatory targets for sewer collapses and blockages and maintaining the gains we have made previously in reducing network pollutions.

Turning to the 20% increase in flows we have seen in 2023; we are focused on infiltration work. We have redoubled efforts at both our treatment works and pumping stations, where the higher levels of flows have driven spikes in performance. By reinvigorating action plans, our treatment works performance has recovered from the degradation we saw last year, stabilising performance into 2024, with a combination of inlet and storm tank cleansing and risk-based generator servicing, site-based compliance, reedbed surveys and refurbishments. Efforts have now turned to the 1250 pumping stations, with improved site MOTs, and enhanced cleansing as well as tackling power resilience.

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

Our four strategic priorities

Water quality and resilience



Storm overflow and pollutions



Net zero and environmental gains



Addressing affordability and delivering for customers



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

The same higher levels of flows impacting pollutions, has made demonstrable improvements in storm overflows numbers, challenging to see at a headline number. On a like for like basis, the investments we are making today, are delivering underlying performance improvements and which we will see in future years. Of the c.280 interventions planned, they have all been completed or are underway. And we're equally focused on a nature first approach.

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

One of the benefits of taking a nature-based approach is reduced costs for customers over the longer term. With a nature first approach to investment, our award-winning catchment management programme is leading the way for biodiversity gains as well as continuing to help the way others manage their land, improve water quality, biodiversity and climate resilience.

Activities range from installing water side fencing, building ponds, improving farm tracks, slurry storage, under sowing maize, as well as planting trees and buffer strips to catch and filter water. With c.127,000 cumulative hectares restored, we are also exceeding our tree planting target at over 250,000.

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

In tackling affordability, it is about two things, keeping bills as low as they can be for all customers, and secondly, supporting those who are struggling. We have always been focused on being as efficient as we can be in delivering services, and in keeping bill increases to 2025 well below inflation. In fact bills for Devon and Cornwall are lower today than they were 10 years ago. That's why we continue to support customers and communities having provided over £100 million of customer support with 132,000 customers benefiting from one or more of our affordability initiatives tariffs, building awareness of our customer outreach engagement programmes. As a result, 100% of customers in Bristol find their bills affordable and 98% across other regions.

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 to one in every 10 households and will extend this scheme to SES Water customers for the first time.

A sustainable future in the UK Water Sector

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

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

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

“We have a robust financial position with solid financial performance and well positioned for the next regulatory period.”

Robust Financial Position

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

We have raised £1.2 billion of liquidity since March 2023, and completed the successful equity raise of £180 million for the SES Water acquisition. Our water group gearing at 63.5% is in line with policy, reflecting the increased investment spend in assets and the timing of RCV build and with a near doubling of sector-leading base returns. And the development of the B2B retailers, Pennon Water Services and Water2Business, are delivering a c.50% increase in EBITDA and increase in market share through providing excellent customer services.

We have carefully considered the final dividend position for 2023/24, considering the new guidance from Ofwat in March 2024. We've made an assessment on the performance of the Group in the round, including the performance of the B2B retailers and the development of Pennon Power, and the overall robust performance of our water businesses.

It's in this context, we think it's right to reflect on Ofwat's guidance on dividends. The final Pennon dividend has therefore been adjusted to reflect the fines linked to a SWW prosecution we had in May 2023, where we were fined £2.4 million, with the ultimate shareholders of the Group, bearing that impact, and not customers. The revised recommended final dividend is 30.33 pence per share.

In Summary

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

The building blocks are in place, focusing on not only what we do, but how we do business. And this in turn, is ensuring we are making good operational progress, delivering on our 4 priorities and what matters most to customers.

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

And finally

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



Susan Davy
Group Chief Executive Officer

20th May 2024

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Pennon, a business that listens and acts

How we listen

We constantly listen carefully to our stakeholders to understand their concerns on the important issues of the day and to review and refine our strategy and actions to deliver maximum benefit to the communities we serve. Our engagement approach involves regular dialogue so that we can build open, meaningful relationships, based on trust and transparency. Understanding our stakeholders' needs and priorities helps to shape our strategy and social purpose as well as shape our Board decisions. For more information on how stakeholder feedback shapes our Board decisions, read our Section 172(1) statement on pages 128 and 129.

In the table below, we outline in detail our approach to engagement with each of our key stakeholders.



Customers

Who they are

Our businesses supply water and wastewater services to 3.5 million residents across the South West region. We also have 10 million visitors a year to the region who receive our services. Through our acquisition of SES Water, – a further 740,000 people are also served by the Group.

We serve 210,000 business customers nationally across England through our non-household retail businesses.

Why we engage	How we engage	Key challenges and how we are responding
<p>Understanding customer needs, expectations and concerns helps us to share our engagement with the people we serve and find better ways of meeting their needs.</p> <p>We engage with our customers and communities every day, whether by phone, in communities or through one-to-one interactions. We understand their concerns and priorities and share their sense of urgency about improving our network.</p> <p>We also know that broader engagement is vital, whether it's educating children about the water cycle, supporting customers who need additional help through one-to-one meetings, or answering questions at public events.</p> <p>We also engage and work with the Consumer Council for Water (CCW) - the voice for water consumers.</p>	<ul style="list-style-type: none"> • Our customer contact and support centres – we now hold the BSI ISO 22458 KiteMark for Vulnerability and Inclusive Service. • Customer feedback – has driven improvements to MyAccount and Incident Management. • WaterShare+ Customer Advisory Panel – an independent group of customer, business, and social representatives. The membership of the Panel is strengthened with expert advisors from the Consumer Council for Water, the Environment Agency and Natural England. 1 in 14 of our customers are now shareholders thanks to the WaterShare+ scheme. • PR24 Business Plan - we engaged with more than 250,000 customers to inform the strategic priorities for our plan to reflect the views of households, visitors, retailers and housing developers. • Customer AGM. • WaterFit Live – our interactive map with real-time storm overflow, and investment information for coastal communities. • Awesome Water – attending over 28 events and reaching 55,000 people through fun, interactive displays and activities. • Roadshows and local events – bringing the experts into communities to address concerns and answer key questions. • Customer research and focus groups. • Community, charity and education projects. • Neighbourhood and Water-Saving Community Funds. • Communication campaigns – water-efficiency and leakage messaging targeting households, businesses and visitors to the region. 	<ul style="list-style-type: none"> • The provision of clean, safe drinking water continues to be the number one priority for our customers – we are focused on building new resources, investment to upgrade infrastructure and reducing leakage. • Reducing pollution and protecting our bathing waters – we are building trust through a commitment to a programme of sampling and monitoring. WaterFit Live is evolving to share the near-real-time status of all 1,600 overflows including rivers and is supported by face-to-face roadshows in coastal communities to respond to customer concerns. • Ensuring we are a socially responsible business - focus on achieving net zero by 2030, focusing on key environmental projects. We are also creating an independent WaterFit environmental advisory board. • As the cost-of-living crisis continued, keeping bills affordable for everyone and supporting those who need additional help is crucial. • We are focused on extending our zero water poverty pledge to 2030, ensuring fair pricing for all customers and to accelerate smart metering.

WaterShare+ Customer Panel at the WaterShare+ AGM - Oct 2023



Communities

Who they are

Our businesses operate in the heart of local communities and we engage with the groups that represent them and provide forums for our customers to come together as a community to express their views.

Why we engage	How we engage	Key challenges and how we are responding
<p>We are integral to the communities across our region and we are committed to listening and engaging regularly to understand their needs, working together to ensure water for all and protecting our environment today and for future generations.</p> <p>Our charitable donations and community funds support hundreds of amazing causes making a real difference to the lives of people and the places they love. Our education programme has the goal of inspiring future champions across the region to learn about the value of water in fun and interactive ways.</p> <p>Our community outreach programme works directly in the communities we serve. It achieves this by offering support to those who need a little extra help when it matters most and talking directly to customers about environmental challenges and how we can work together to secure the future we all want to see.</p> <p>For over a decade, we have been working with local community partners to protect and restore our environment using nature-based solutions to make a difference. This includes working with local farmers to create more sustainable farming practices, planting trees and restoring the South West's precious peatlands to boost nature and reduce harmful runoff into waterways. Our partnerships with charities also seek to provide health and recreational benefits to local communities through the use of our lakes and reservoirs – helping us support the health and wellbeing in our region.</p>	<ul style="list-style-type: none"> • Our Stakeholder Forum – that has brought over 1,000 stakeholders across the region together over the last two years to review and co-develop plans. • A roadshow programme across the South West Water region, focused on providing information at a local level and delivered in coastal communities. This provides a forum to talk about local upcoming plans, and listen to and answer customer concerns. • Print, digital and social media – including our 'Water is Precious' campaign and engaging our communities in behavioural change campaigns such as Love Your Loo, and Think Sink! • An education programme working with primary schools. This has delivered a record year, with 116 lessons relating to the water cycle, sewer misuse and water efficiency to over 4,000 children. • The Awesome Water programme; this consisted of 28 event days across the South West involving over 55,000 people. This enabled direct feedback and the sharing of important messages around sewage misuse, water efficiency, drought and the hosepipe ban. • The South West Water Neighbourhood Fund; this has been running for three years, in that time we have given out £100,000 to 56 different charities and groups helping 22,000 individuals across the South West. • Bristol Water 'Together for good' programme; this is a community lottery providing the opportunity for a different charity or community scheme to win £500 towards a project that benefits the community. • Bi-annual Conservation and Recreation Forum. • Specific partner engagement to support access to our land and sites for recreation in the South West – e.g. South West Lakes Trust. 	<ul style="list-style-type: none"> • Our region has over a third of the nation's bathing waters and it is important that we protect these vital recreational areas – we have for three years maintained 100% bathing water quality where we operate. • We continue to progress rivers into bathing waters, with our River Dart and Tavy pilot studies complete allowing communities to successfully seek designation on 4 stretches of river. • We provide access to our 40 inland lakes and reservoirs, so that local communities can continue enjoying them for health and recreation – used by two million visitors a year. • All of this means that any customer or visitor is never more than an hour away from a bathing water, with nature and recreation on everyone's doorstep.

Our Exmouth Community Roadshow



People

Who they are

A total of c.4,000 (including SES Water) people work across the Group and its brands, in corporate and operational roles. It's our people that keep things moving 24/7 to deliver drinking and wastewater services and to ensure our customers receive clean and safe drinking water.

Why we engage	How we engage	Key challenges and how we are responding
<p>Our employees are our greatest asset. We provide the opportunity for them to be engaged at multiple levels of the business and through a variety of two-way dialogue and feedback channels so we can listen to them and make improvements based on their feedback of what's important to them. We continually engage and communicate with our people on topics such as their health, safety and wellbeing, our organisational culture, promoting diversity and inclusion, training and development. We use a variety of mechanisms to engage with colleagues including pulse surveys, listening sessions, employee forums and trade union representation.</p>	<ul style="list-style-type: none"> • Great Place To Work pulse surveys and work with senior leaders to develop local action plans. • 100% employee representation either through RISE (employee forum) or collective bargaining agreements with our Trade Union partners GMB and Unite in our operational teams. • Two-way communication activities, including fortnightly Big Chats, 'Ask Susan', monthly senior leadership calls and listening sessions. • Executive and Board site visits. • Employee training programmes. • Internal communication activities including, weekly internal newsletter, social channels eg. Viva Engage and our Group-wide intranet. • Monthly 'Time to Talk' sessions, primarily focusing on wellbeing, featuring both internal and external speakers. • Regular 'This is Me' features including videos and podcasts. • Regular appraisals and one-to-ones. 	<ul style="list-style-type: none"> • Proactively recognising and addressing 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 with continued investment through HomeSafe. • Supporting diversity and inclusion by launching our new employee networks. • Involving existing colleagues as we recruit and train the next generation of employees through our apprenticeship, internship and graduate programmes. • Addressing employee survey feedback by enhancing Group communications and employee pay and bonuses.



Environment

What they are

Beaches, bathing waters, rivers and our natural environment set us apart as a region. We recognise that is what makes us unique. They also creates a similarly unique set of challenges and opportunities. We recognise that to meet these properly, we need to collaborate and to build strong, value-filled partnerships with a wide range of environmental stakeholders in the region. These stakeholders include South West Lakes Trust, Westcountry Rivers Trust, local Wildlife Trusts, Natural England and various conservation, environmental and recreational interest groups and charities.

Why we engage	How we engage	Key challenges and how we are responding
<p>We seek to identify and build strategic relationships around shared ambitions and objectives. By working in collaboration with our partners we can amplify the impact of our work. Our core activities are directly linked to the health and wellbeing of the people and environment of our unique region. We seek to carry out our business in a sustainable and responsible way and recognise that to do this, collaboration and partnership working are key.</p> <p>It is our role to listen and respond, innovate and help find solutions to the challenges we all face today and for generations to come. We see that we need to work collectively to do this. For example, through our CREWW partnership with Exeter University. We want to ensure we are delivering on our environmental commitments and support stakeholders in the work they do, in partnership with us.</p>	<ul style="list-style-type: none"> • Regular meetings and liaison with environmental partners in our operational areas in relation to specific strategic projects and objectives. • Regular attendance by operational colleagues at local, regional and national working groups, forums and partnership meetings to ensure our priorities and actions are represented and that insight gathered is fed back into the business. • Our senior leadership team, including CEO Susan Davy, meets routinely with CEOs and leaders of environmental organisations and charities. • Regular meetings with the Environment Agency as our environmental regulator, both at strategic and catchment level. • Every two months we host our 'Let's Talk Water' stakeholder forum to share progress on our environmental programme and share ideas for collaboration. 	<ul style="list-style-type: none"> • We keep stakeholders abreast of latest news from the business through regular review and revision of our stakeholder communication and engagement programme. • We ensure the business keeps abreast of stakeholder news and development through regular review and revision of our engagement programme.



Suppliers Who they are

As a large organisation we work with a large and diverse supply chain. Our supply chain partners play a vital role in supporting sustainable growth and cost-base efficiency across the business.

Why we engage	How we engage	Key challenges and how we are responding
<p>We want to be ready to meet the challenges of the future through our investment programmes and have made extensive preparations to ensure that our programme is deliverable. We are ready to meet the step change in the scale of the programme for K8.</p> <p>We are committed to ensuring our supply chain partners align with the same values, standards and behaviours we expect of ourselves. Through rationalising and segmenting our supply base to reflect either strategic, key, preferred or transactional relationships, we are developing an approach that maximises our engagement with each supply chain partner. As a signatory to the EU Skills Accord, we work collaboratively to support skills development and investment throughout the supply chain and as part of our ESG and Net Zero strategies we engage our supply chain so that we can better understand and manage our collective environmental impact through collaboration.</p>	<ul style="list-style-type: none"> We unveiled our major new alliance, Amplify, with some of the country's best engineering companies to deliver South West Water's major infrastructure plan for 2025-2030, worth £2.8 billion. It will drive investment into the local economy, creating around 2,000 new jobs, with new treatment works and reservoirs among the investments planned as part of the company's ongoing commitment to its customers, communities, and the environment. To help deliver these projects, BAM Nuttall, Clancy, Mott McDonald Bentley, Tilbury Douglas, MWH Treatment and Network Plus Envolve are Amplify's main construction partners, following a highly competitive tendering process. They will be supported by a range of consultancy organisations: Stantec, Long O'Donnell, and Turner & Townsend will provide project management; Aecom, ChandlersKBS and Turner & Townsend will ensure best value for money; while Aecom, Arcadis, Pell Frischmann, Stantec and WSP will produce innovative designs. Supplier reviews and audits. Code of Conduct for Supply Chain Partners. Sustainable Procurement Policy. Formal contracts and framework agreements. E-procurement and Risk Management platforms. 	<ul style="list-style-type: none"> We are driving alternative ways of working through our new partnership. We are adopting a 'nature first' approach and securing the best talent and expertise from our partners. Our established mobilisation board is already working on the delivery of current schemes. We minimise risk of supplier failure and/or insolvency through comprehensive due diligence checks, and continually seek to strengthen resilience within our supply chain.



Investors Who they are

We have a range of debt providers, institutional equity investors and retail investors, including customers, following the launch of WaterShare+, with one in 14 customers in the South West Water region opting to become shareholders.

Around 50% of Pennon's shares are held by UK-based investors including individuals, pension funds, and charities. Over a third of the Group's c.4,000 employees (including SES Water) are shareholders.

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

Why we engage	How we engage	Key challenges and how we are responding
<p>As a publicly listed company, access to capital and debt markets is vital to fund our growth. We run an extensive global investor relations programme to ensure that debt providers and institutional equity investors, retail shareholders and research analysts are informed of our business, its strategy and prospects.</p>	<ul style="list-style-type: none"> Comprehensive institutional equity investor relations programme. Engagement with investor representative bodies including proxy agencies via the Investor Forum. Our AGM is attended by retail shareholders and provides them with the opportunity to put questions to the Board. Through our unique WaterShare+ scheme, customers have the opportunity to become shareholders in Pennon Group, giving customers a stake and a say in their water company. Working with our independent WaterShare+ Customer Advisory Panel gives us an opportunity to continuously engage our customers and to share our work and hear feedback on our business performance and business plans. We engage with our debt investors through regular meetings and investor conferences to ensure our lenders are up to date with our plans and funding strategy. 	<ul style="list-style-type: none"> In October 2023 we submitted our Business Plan for 2025-30 to Ofwat. We published an Investor Summary of our plan and held an investor presentation where we explained our plan and answered investor questions. In January 2024 we announced that we had acquired 100% of the holding company of SES Water and raised c.£180 million gross, excluding transaction costs, through an equity issuance to institutional and retail investors. An investor presentation was held where we explained the rationale and benefits of the acquisition for the Group and its stakeholders. In April 2023 South West Water issued its first syndicated private placement of £300 million. We met with a number of potential UK and US investors to explain our business and funding strategy.



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).

Why we engage	How we engage	Key challenges and how we are responding
<p>We ensure that our business plans address our regulators' priorities and concerns relating to our strategy, performance, risks and opportunities, and delivery for customers.</p> <p>We also engage with key trade and customer bodies, including CCW – the voice for water consumers.</p> <p>Our independent WaterShare+ Customer Advisory Panel is now well established and provides reviews and challenges of all aspects of our business performance and business plans.</p>	<ul style="list-style-type: none"> • Regular meetings. • Action plans, reports and reviews. • Consultations. • Workshops and our Stakeholder Forum. • One-to-one meetings. 	<ul style="list-style-type: none"> • With technological advances and a heightened focus on the environment, our customers and stakeholders want us to go further to protect the environment by assessing and responding to water quality and water scarcity issues. This is against the backdrop of changing weather patterns, increased growth and urbanisation, and wider pressures on household incomes. We are collaborating with our regulators to ensure the regulatory framework can meet these challenges, and support the identification of the right business plans to meet current and future needs.



Policy makers

Who they are

We create open and transparent relationships with the widest range of policy makers, from local MPs, who seek to reflect the priorities of their constituents, to UK government who ultimately set water priorities and policy, through bodies such as the Department for Environment, Food & Rural Affairs (Defra), Natural England, 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 ensure that Pennon's values are heard across the political divide. In addition, and as a FTSE-listed business, we collaborate with third parties such as the CBI and Chambers of Commerce, to ensure that the voice of business in the UK is heard.

Why we engage	How we engage	Key challenges and how we are responding
<p>Water is a precious national resource, requiring water companies and policy makers to work together to deliver the best possible outcomes for the environment, customers and communities. As one of the largest employers and businesses in the Greater South West, we have a responsibility to support the local economy and support growth in the region. Working with regional and national political stakeholders, we are able to talk about our best-in-class skills agenda to those across our area, delivering vital up-skilling across the Greater South West as we play our part in growing the economy.</p>	<ul style="list-style-type: none"> • We are a member of Water UK, which works with government, regulators and stakeholders to develop policy on water and the sustainable delivery of water services in the UK. • We meet on a regular basis with MPs, hosting site visits and constituency-based meetings, as well as events in Westminster. We also contribute to round table debates whilst briefing MPs and ministers ahead of parliamentary debates, setting the narrative before a word is spoken. • We regularly respond to consultations, such as the Government's consultation on wet wipes, which has seen cross-party promises to ban non-flushables in the next parliament. • We are one of the founding members of the Back the South West campaign, and in July 2021, published our response to the G7 legacy, 'Levelling Up the Great South West'. This has helped focus our social mobility activity and recruitment opportunities across the region, offering varying roles and opportunities for the range of our communities, providing jobs across our operations and bringing talent and diversity into the business. 	<ul style="list-style-type: none"> • Our sector faces generational change, with challenges from population growth, climate change, rising environmental standards from the Environment Act and evolving customer and political priorities. These challenges will require further investment, and continuing evolution of the sector's regulatory framework, to be able to flex to meet changing priorities and meet the needs sustainably, whilst keeping customer bills low. • We continue to work collaboratively with policy makers, to ensure we can deliver these commitments, now and in the future, playing our societal role as well as investing for the future. For example, South West Water's c.£82 million investment in Green Recovery for the region, our Net Zero plans to 2030, and our evolving WaterFit Live programme, which sets out our plan to improve river and sea health, working in collaboration with others in the region.

How we act

2023/24 investment highlights

Financial year 2023/24 has seen our largest in-year capex investment to date coupled with the first phase of funding to enable the creation of Pennon Power. Here are some of our Group highlights mapped against our four strategic priorities:



Water quality and resilience

3

new sources in development including desalination plant

£369.3m

of total investment in clean water



Storm overflows and pollutions

2,732m³

of storage increases

£213.6m

of total investment in wastewater



Net zero and environmental gains

4

Solar Sites acquired

£59m

of investment



Addressing affordability and delivering for our customers

23,000

Customers moved onto social tariffs in the year

£18.3m

of financial support to customers

Water quality and resilience – Increasing water resources

In 2022/23 we announced our approach to breaking the cycle of drought in the South West which would be achieved through enhancing our supplies across Devon and Cornwall as well as targeting water efficiency. These measures are part of a £125 million shareholder injection and would bring an increase in resources in Cornwall and Devon by 45% and 30% by 2025.

During 2023/24 we have broken the drought cycle with our strategic reservoirs reaching 100% peak capacity in early April 2024 – a third of this storage was achieved through our interventions.

A new supply at Gatherley was delivered in the year (adding to the Lyd pumping scheme last year), reaching our 30% target for Devon.

We have also achieved 30% in Cornwall with the completion of a new 22km pipeline network and raw water pump station at another redundant quarry in Mid-Cornwall, named Blackpool Pit. This new pipeline network and pump station will supply raw water straight to Cornwall's strategic water treatment works in Lostwithiel. The abstraction pontoon at Blackpool Pit is pictured opposite.

We continue with our investments at Porth Rialton and desalination to deliver the remaining 15% for Cornwall.

Storm overflows and pollutions – increasing storm storage capacity and reducing infiltration

Hatherleigh

New storage tank installed at our Hatherleigh site with a capacity of 120m³

Prior to the project being completed the site had no existing storm storage. Following agreement with the Environment Agency, a below-ground storm tank with a capacity of 120m³ was installed at the end of Q1 2023; this was a year ahead of the original regulatory deadline. As part of the programme a new inlet pumping station control kiosk and instrumentation for the storm tank were also installed.

The investment has led to a c.90% year-on-year reduction in spills in calendar year 2023, with this trend continuing into Q1 2024. This is set against a backdrop of increasing frequency and volume of rainfall since installation.

Chittlehamholt

New balancing tank installed at our Chittlehamholt site with a capacity of 62m³

Completed at the end of Q4 2023, the project comprised the installation of a balancing tank to reduce flows during periods of high rainfall, and an intervention to remove an unpermitted connection to the sewer network which materially increased flow into the system.

The combination of the investment made and action taken by South West Water has led to a c.70% year-on-year reduction in spills in Q1 2024.

Beals Mill

New rising main control infrastructure

Beals Mill has historically been a site where we have experienced our highest number of spills; hence it was at the top of our list of engineering priorities this year.

A number of interventions to reduce infiltration of groundwater into the sewer network have been completed in the year. These include the replacement of the rising main on the network, the rehabilitation of 31 manholes within the area and 600 million of new sewer lining.

Attention now moves to ancillary works, to ensure the full spill reduction benefits are achieved.

Bere Alston

Bere Alston Wastewater Treatment Works

The investment at Bere Alston has focused on reducing groundwater infiltration into the sewer network and removing the flow of surface water from the combined drainage and sewer network in the area.

Works included the installation of 1,640 million of new sewer lining, the rehabilitation of 60 manholes, 245 dig-down repairs to pipework and the separation of three areas of surface water from the combined system.

Storm overflows and pollutions – WaterFit Live

We launched Waterfit Live ahead of the 2023 bathing season, to give customers more information about the impact of our wastewater network on their local beach. Our interactive beach maps provide a live view to see if a storm overflow is in operation at their local beach and the potential for it to be temporarily affecting bathing water quality.

Alongside the map, we have also shared information about the bathing water quality at that beach, the improvement over time, and the work we are undertaking to further enhance water quality at our bathing waters through our WaterFit programme.

Our community engagement programme has responded to interest around the near-real-time information we have been sharing on storm overflows, by holding both online and face-to-face events with local communities such as Exmouth, Harlyn Bay and Lyme Regis.

As well as giving customers the opportunity to challenge us, these roadshows have allowed us to explain our short- and long-term plans, provide data on sampling in their local area and explain how we manage the impact of new developments on our network. We also gathered feedback from local communities that will help shape investment priorities and the way in which we continue to engage with them in the future.

Addressing affordability and delivering for our customers - water poverty model and affordability toolkit

To achieve our target of eradicating water poverty by 2030, we have worked with CACI and ICS to develop a water poverty model, supported by an extensive suite of data, allowing us to identify with high levels of probability those customers who are in water poverty and in need of our support.

To deliver this we have announced our largest ever package of support, of over £200 million by 2030.

This includes:

- Proactive auto-enrolment of customers onto tariffs to remove them from water poverty.
- Affordability toolkits to give customers flexibility in how they receive support.
- Taking a water-efficiency-first approach.
- Working with partners to ensure we engage with and support customers.

Using this tool, we have already identified those in water poverty and begun to auto-enrol these customers onto support tariffs. In the South West Water area, we auto-enrolled 8,000 customers onto our WaterCare tariff in 2022/23 and a further 18,000 in 2024/25; with more customers set to benefit into 2025 and beyond.

Our approach to helping those in water poverty is supported by our affordability toolkit. This provides a range of options to help customers lower their water bill, including switching to a metered tariff, payment breaks, water efficiency advice and home visits, low tariffs and help with managing debt.

Net zero and environmental gains - Pennon Power, Fife

In April 2023, Pennon Power acquired its first renewable energy site for development in Dunfermline, Fife. The site 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. The annual generation from this single asset will be equivalent to the entire current Group renewable energy portfolio.

Since acquisition, a series of activities have been completed to prepare the site for construction including design specification, geotechnical investigations, grid connection designs, planning condition discharge and identifying an EPC contractor to build the site.

Construction contracts were signed in early 2024, and the site is currently working towards commissioning of the solar array in late 2024, with the battery storage unit connecting in Q1 2025.

Groundworks pull-out testing conducted in preparation of construction of the solar array.

How we are preparing for the future

We are not just focused on meeting the immediate challenges we face. CREWW, is a 25-year research partnership between South West Water and the University of Exeter (UoE). It builds on many years of collaboration between the two organisations including our catchment management programme, Upstream Thinking (first pioneered in 2006) which has acted as a beacon of change which others in the water sector have followed.

CREWW is bringing together subject matter experts from SWW and UoE, under one roof, who will combine 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 us to better deliver for our customers, the region and the environment.

Officially opened in March 2024, the new dedicated, operationally net zero research facility is underpinned by a £21 million capital and research investment by South West Water. It is the only water sector partnership to receive support from the UK Research Partnership Investment Fund (UKRPIF), as well as being the largest RPIF-sponsored project in the South West.

CREWW has already begun working on projects including the creation of a state-of-the-art laboratory which will tackle the scourge of microplastics in our environment. The project represents an investment of £1.4 million from South West Water and will initially develop our understanding of the presence of microplastics in sewage sludge to inform our wastewater operations. In the long-term, the ambition is to provide guidance and support to any stakeholders involved in sewage operations, their management or monitoring, as well as regulators. The project team at CREWW is headed up by Professor Tamara Galloway, an internationally renowned scientist in the field of microplastics. Tamara and her team work alongside wastewater experts from South West Water, including Helen Dobby, the company's Head of Environmental Performance.

Susan Davy and Lisa Roberts, Vice Chancellor and CEO, Exeter University, opening the CREWW building, March 2024

The markets in which we operate

Household water sector

The industry was privatised in 1989 in response to the demands for high-quality water and the need to clean up routine pollution to rivers and seas. Since then, £200 billion has been invested, catching up the previous decades of under-investment, improving services and protecting the environment.

Every day, homes and businesses receive a continuous supply of world-class water – ranked consistently as among the best in the world. Household and non-household consumers have seen significant improvements to customer service. And with the installation and upgrade of vital infrastructure across communities, environmental standards are higher than they have ever been, with improvements to the quality of rivers, lakes and coastal waters.

This is particularly so in the regions we serve. When South West Water was privatised, nearly half of all sewage in the region was untreated and discharged directly into the sea. Testing carried out to assess levels of harmful bacteria showed bathing water quality was low, with only 28% passing the most stringent tests. We invested, including through our Clean Sweep programme, to ensure that world class wastewater services were put in place for the first time – so that all sewage is now treated through one of our 655 treatment works.

Privatisation was set alongside the establishment of independent regulators, which has provided powerful incentives to the industry to innovate and transform in order to drive efficiency, deliver against the obligations, and ensure a stable operating environment for investors.

Greater innovation and efficiencies have been delivered alongside record investment – due to the sector's stable regulation, which has long attracted investors. Investors are essential to the sector, providing investment that has supported record levels of investment whilst keeping bills affordable, with bills remaining at around £1 a day. Without this investment, all water companies would collect all expenditure requirements through customer bills on a 'pay as you go' basis – which would make bills much more volatile and higher than they are today.

Consolidation and mergers across the sector over the last 30 years have provided benefits to customers, setting new benchmarks for the sector. Today, there are 16 privately owned water companies – of which 11 provide water and wastewater services and five provide water only services. Collectively these provide clean water through a mains network that is 340,000km long, and wastewater services through 567,000km of sewers and 6,000 wastewater treatment plants.

Pennon is one of the three FTSE-listed companies that supply water and wastewater services across England and Wales. Pennon's group of companies provides water and wastewater services to a population of c.4.24 million across the South of England.

The non-household retail market

The non-household retail market allows up to 1.2 million businesses and other non-household customers across the country to choose which retailer they buy water and wastewater services from.

The non-household market operates through a controlled portal operated by Market Operator Services Limited. This has required the separation of the wholesale and retail arms of water businesses.

Pennon Water Services was established to manage the non-household retail business for Pennon via a retail venture with South Staffordshire plc. Our reach into non-household has grown from the addition of Water2Business and SES Business Water to the group.

The power market

Pennon Power is a start-up business, wholly owned by Pennon Group to generate clean energy. The energy market is regulated by the independent energy regulator, Ofgem. To date Pennon Power has acquired four projects in the UK and each site has a capacity less than 50MW which is considered to be small-scale solar development for planning purposes, this means planning permission was granted by the relevant local planning authorities. Each of the projects has attained planning consent and Pennon Power will construct them. Once operational the projects will generate enough electricity each year to power c.50,000 homes.

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 to contribute towards Group profitability.

The water sector regulatory framework

Water companies have a vital role in society, operating in the public interest to ensure safe and reliable water and wastewater services for all.

As a provider of water and wastewater services, we are subject to regulation on price and performance by economic, quality and environmental regulators. This regulatory framework is designed to safeguard the best interests of customers and the environment.

Defra sets the overall water and sewerage policy framework in England, while our regulators focus on specific aspects including water and sewerage policy, economic, environmental, drinking water quality and the customers we serve.

Our regulators

Department for Environment, Food and Rural Affairs (Defra)

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, and 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)

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.

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.

Natural England

Natural England is the government's advisor on the natural environment, with the aim to protect and improve the natural environment.

Market Operator Services Limited (MOSL)

The non-household retail market allows up to 1.2 million businesses and other non-household customers across the country to choose which retailer they buy water and wastewater services from. MOSL manages the day-to-day running of the non-household retail market, ensuring that wholesalers and suppliers who trade in the competitive market work together effectively.

Our regulatory positioning

What we do now is crucial in terms of delivering plans now and planning for the future. And, as we operate at the forefront of the changing regulatory water markets, we remain well placed to respond to change and to identify further growth opportunities.

Our strategy is to be a responsible leader for the regions we serve today and every day. Our vision is to create collaboration opportunities and drive transformational changes through innovation across the value chain of the water sector.

We are focused on demonstrating leadership within the water sector. At the heart of this is how we manage water and the water cycle.

We are pioneering new technologies and methods to improve customer service, efficiency and resilience while working closely with industry peers, as appropriate, and with our supply chain, to identify and implement best working practices across all areas of the business:

- We are continuing to upgrade and modernise our networks and assets to address climate change and accommodate a growing population.

- We are leveraging digital technology to better monitor and understand factors that impact water quality and availability, enhancing our ability to track and understand consumption to support customer engagement and affordability, optimising performance, and to understand and prioritise the innovations in water quality management.
- We are learning more about the use of nature-based solutions which restore or imitate natural processes – such as improving water storage by creating smart ponds or restoring peatlands. We see these as mainstream, scalable options for water management.
- We are exploring opportunities to build water resilience through non-climate-dependent water sources, such as repurposing quarries and wastewater treatment and reuse – with only a fraction of wastewater currently reused this is important area for future development.

With the opportunities that we see, we welcome the development of market mechanisms within the sector to drive innovation and value for customers, the environment and stakeholders.

Our Future Plans: 2025 to 2030

The five-yearly business planning cycle

Every five years, we submit our future plans to the economic regulator, Ofwat.

Our business plans set out our investment proposals, performance improvements and targets, the benefits of our plans for customers and communities, and the impacts on customer bills.

In October 2023 all 16 regional companies submitted their business plans to Ofwat as part of the 2024 Periodic review of prices (PR24), covering the period 2025-30 (AMP8). This saw an unprecedented £96 billion of investment planned for AMP8 – a near-doubling of the £51 billion of AMP7.

Our plan for the South West

In October 2023 we shared our Plan for Change 2025-2030.

Our PR24 Business Plan represents a step-change in our long-term strategic approach. It includes a clear outline for all stakeholders of our purpose and strategic ambition, and our priorities for the next 25 years and five year focus. This has reinforced how we will prioritise, plan and manage for the future and ensure that we are focused on things that matter the most to people, communities and the local economies where we operate.

Our plan 2025-2030 is a no surprises plan, as we continue to do what we said we would. It's a plan that goes further in tackling the biggest challenges in our region, as we invest to protect water quality and enhance resilience, tackle storm overflows at our beaches, eradicate pollutions and protect the environment from climate change.

Our £2.8 billion investment will create c.2,000 jobs in the region, as we commit to providing 1,000 apprentices and graduate opportunities to 2030. It will provide much needed job security in the wider supply chain across the region. It's also a balanced plan, between water and wastewater, and one we are well placed to deliver. To further bolster our best-in-class approach to accountability, we are developing our new Environmental Advisory Panel to hold us to the same high standards as our WaterShare+ Customer Advisory Panel protecting customer interests.

Overall this plan has received strong support that we should invest more, with universal agreement that the priorities are the right ones. We therefore consider that it meets Ofwat's quality and ambition assessments, with an outcome framework anchored in customers' expectation and aligned with Ofwat's objectives for PR24.

In summary, our 2025-2030 business plan is a plan building on the momentum we have today, and which goes further in tackling the biggest challenges in our region, as we invest to protect water quality and resilience, tackle storm overflows at our beaches, eradicate pollutions and protect the environment from climate change. With a laser like focus on efficiency, it is also a plan that supports customer affordability. Our £2.8 billion investment is an ambitious plan, the right plan, and the right deal for our region.

The next steps in PR24

In October 2023 all companies submitted their business plans to Ofwat following 18 months of analysis and engagement. Ofwat will issue its PR24 Draft Determinations in June, and its Final Determinations in December.

Ofwat's timetable for PR24:

2023

2nd October

Submitted our business plans to Ofwat



2024

12th June

Ofwat issues Draft Determinations (DD)



14th August

Company written response to the DD



September

Company representation meeting on the DD



December

Final Determinations issued

Customer driven plan

Our customers have been at the heart of developing our Business Plan for 2025 to 2030; to this end, we have had more direct feedback and engagement than ever before and we have listened to the views of more than 250,000 customers. These interactions have led to the creation of our four strategic priorities.

Our strategic priorities

Water quality and resilience



Storm overflow and pollutions



Net zero and environmental gains



Addressing affordability and delivering for customers



Price Review 2024 (PR24) investment highlights

Water quality and resilience

- Upgrading a third of water treatment works across our region and investing in two new treatment works in Bristol, alongside the completion of Bournemouth's state-of-the-art ceramic new treatment works.
- Resurrecting plans for the Cheddar 2 reservoir to boost water resources in the Greater South West.
- Creating a water grid to ensure all our strategic reservoirs are connected, ensuring we can move resources across the region.
- Reducing leakage levels to less than 10% on our network and less than 4% on customers' networks.

Storm overflow and pollutions

- By 2030, we will have tackled all storm overflows at our bathing beaches, shellfish waters and high-spilling sites given the importance of tourism to our region.
- In the meantime, and to restore confidence in our bathing waters, we will implement a first-of-its-kind monitoring regime so everyone can feel they can enjoy being in the water at their favourite beach.
- We are implementing our "Green First" approach to investment, working with nature to improve drainage and reduce storm overflows.

Net zero and environmental gains

- We will continue with our 'Promise to the Planet' to become Net Zero by 2030 by decarbonising our operations, and reducing emissions of nitrous oxide and repurposing methane.
- Expanding our nature recovery programme - extending Upstream Thinking into new catchments, planting 300,000 trees and re-naturalising waterways for wildlife - working with nature to build resilience.
- Transforming sludge treatment processes to protect rivers.

Addressing affordability and delivering for customers

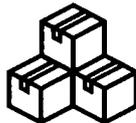
- Importantly, in a cost of living crisis, we appreciate how unwelcome it is for any bills to increase. In response, we have challenged ourselves to ensure that the necessary increases are fair. The Board has pledged to extend our commitment to ensure zero customers in water poverty to 2030.
- Delivering our largest ever package of support with over £200 million of affordability measures.
- Expanding our unique Watershare+ scheme to one in every 10 households.
- Introducing a range of fair tariffs to help customers use less and save more.



Doubling our investment to £2.8 billion



Delivering 1,000 apprenticeships and graduates



Quadrupling our supply chain



90,000 WaterShare+ customers



Creating 2,000 jobs



250,000 customers engaged

Our Ambitions to 2050

As a responsible business we have set out our Strategic Direction to 2050, driven by our purpose, to support the lives of people and the places they love for generations to come.

Each and every day we operate a water recycling system for the region. Over 30 years we have invested more than £13 billion in the areas we serve, innovating to deliver world-class drinking water, cleaner, safer bathing beaches and more reliable services. We have also supported nature to thrive and pioneered ways to give our customers a say in our business and a share in our success – all for a little over £1 a day.

Our Strategic Direction to 2050 sets out our ambition for this water system for the next 25 years. It sets out the leadership and action we will take, the action needed from others, and the opportunities we must collectively grasp if we are to ensure high-quality, reliable and resilient water services for future generations.

Significant challenges lie ahead and some are very real today. Between now and 2050 we are striving to provide the services society needs, expects and values.

Over the next 25 years we will invest to address storm overflows into beaches and rivers, minimise nutrients in rivers, innovate to remove plastics from sludge and maximise the beneficial use of sludge, achieve net zero, data transparency, decommission lead pipes, protect supplies from emerging contaminants, achieve world class leakage levels, build drought resilience, ensure affordable bills for all and do our bit to address the environmental crisis. We are truly on a journey to a water and wastewater system that we can all be proud of.

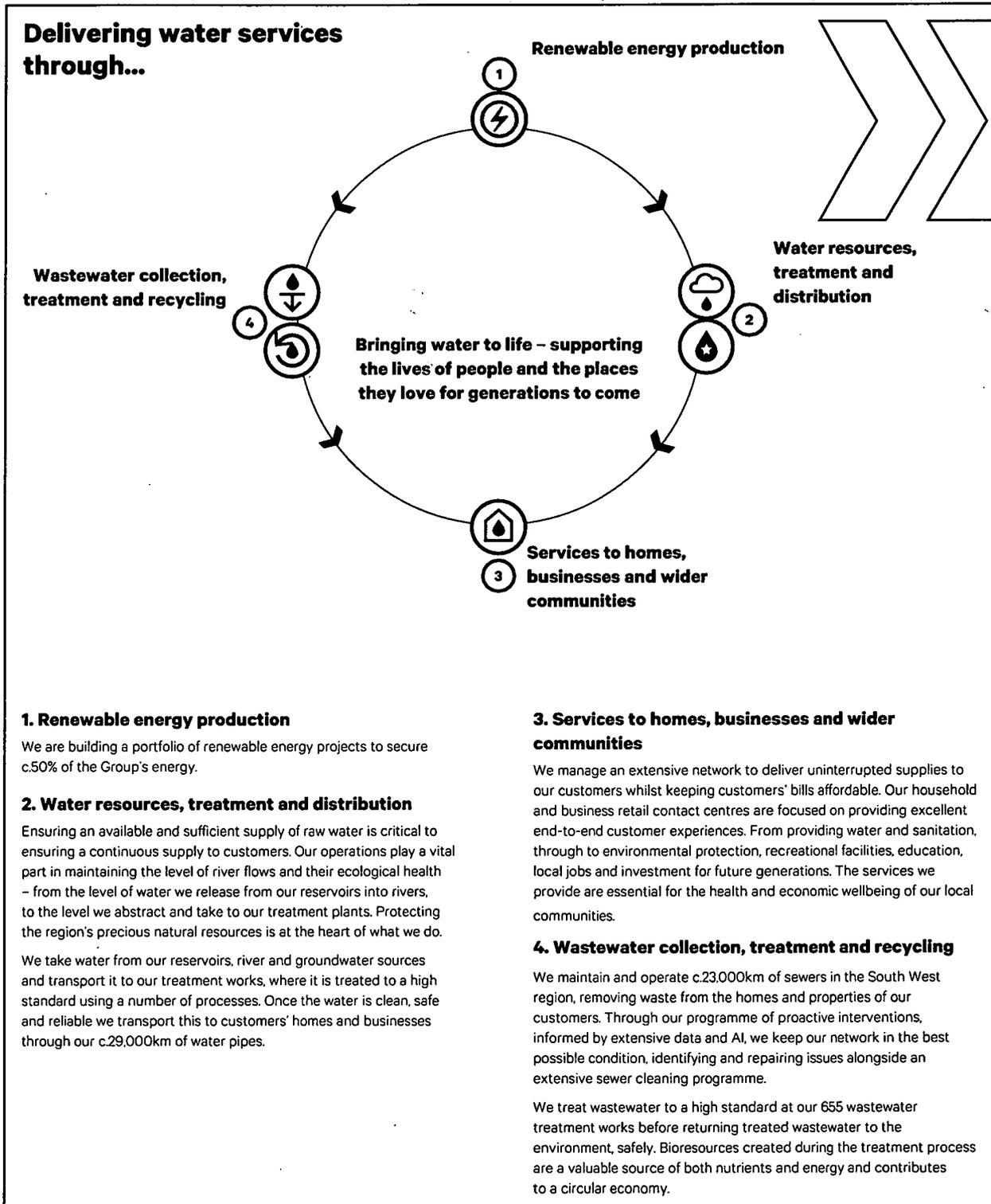
Sequencing and balancing this investment is a great challenge, and we have long term adaptive plans to make sure that we tackle the biggest challenges and deliver the greatest outcomes first.

Our aims and outcomes by 2050:

- Resilient infrastructure systems – able to withstand the impacts of changing and more extreme weather patterns and meet environmental standards.
- Incentives to innovate – innovation in frontier technologies to drive efficiency, and to enhance mitigation and adaptation to change.
- Working with nature – to manage flows in a different way, generating socio-economic benefits and biodiversity, – rather than pouring concrete.
- Improved water efficiency – conservation is essential for economic and environmental sustainability. Working with others to address water use across households and industry: agriculture to manufacturing.
- Growth and support for local economies – water is an economic driver that can facilitate growth and development, supporting agriculture, tourism, manufacturing, energy and mining.
- Support for the circular economy – maximising the beneficial use of waste and ending the use of high grade drinking-quality water to water gardens and clean driveways – through more local storage and recycling of rainwater.
- Building talent – ensuring our pool of talented, diverse people.
- Working with stakeholders – to together deliver transformational change. The water cycle is a common good, a finite resource, and crucial segment of our economy, that needs to be protected through multi-stakeholder approaches to partnerships and investment.
- Protect vulnerable customers – maintaining our pledge to end water poverty by 2025.

Our business model

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.



How we deliver



Environmental, social and governance (ESG) considerations are at the heart of how we deliver our business model. We pride ourselves on doing the right thing.

The quality of the services that we provide is of critical importance to our business, however we place equal weight on how we deliver those services through strong financial governance, a focus on the environment and investment in our people – in effect our ESG DNA. In this section, we reflect of how we have, this year, brought this approach to life.

Firstly, we focus on our approach to ensuring that we are financially sustainable, both from a balance sheet point of view and in relation to our ESG responsibilities; next we focus on our environmental delivery strategy which is central to everything we do; then we look at how we invest in our 4,000 colleagues to ensure they are valued and safe in turn delivering excellent customer service and driving growth and opportunity in the regions we serve.

Strong and ethical financial governance

We continue to maintain financial resilience underpinned by an ethical approach, as evidenced by retaining our Fair Tax Mark accreditation and adherence to our sustainable financing framework.

Financial resilience

Our current gearing is at a relatively low level compared to the sector, and as we move into the next regulatory period our gearing will benefit from regulatory true-up adjustments, taking our opening Regulatory Capital Value (RCV) to c.£5.4 billion excluding SES Water. Through 2025 to 2030 we anticipate

Fair Tax Mark

We are proud to have been awarded the Fair Tax Mark for the sixth year in a row in December 2023.

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.

nominal RCV growth of 38% (real – 25%) reflecting our long-term investments and the value being created for customers, the environment and our investors of which two thirds are pension savings, and charities, as well as employees and customers.

Having considered Ofwat's cost of capital and retail net margins, we have prepared our plan on that basis. We plan to continue to finance activities in a way that will maintain key financial ratios, consistent with a strong investment grade rating. We will take a balanced approach to the sharing

Our business model *continued*

of delivery and operational risks between our shareholders and our customers. We have set stretching targets and a cost base that assumes efficiency is delivered to ensure we play our part in making this plan efficient and affordable. We are confident in our abilities, and well positioned in our capital delivery capability across the South West. We have appointed new delivery partners with long-term contracts that can run out to 10 years. Advance planning for the transition to the plan's delivery model has been underway since September 2022, broadening our supply chain alliance, with partners already in place and delivering our current plans.

We have considered how else to rebuild trust with our actions. We have demonstrated restraint in our approach to executive pay and our dividend policy ensures we take a holistic view of performance including outcomes for both customers and the environment.

Sustainable Financing Framework

Created in 2018 and updated in 2021, Pennon Group's Sustainable Financing Framework, in alignment with the ICMA Green Bond Principles (GBP), Social Bond Principles (SBP) and the LMA Green Loan Principles (GLP) and Sustainability linked loan principles (SLL). Under the Framework, Pennon Group can issue securities as well as enter into financing relationships to support investment across the Group's activities. The Group aims to raise all new debt through the framework and in FY23/24 the proportion achieved was c.80%.

Investing in our environment

The environment and nature first solutions underpin three of our four strategic priorities set out in our K8 Business Plan evidencing our commitment to improving our communities and in turn the lives of our customers. We have delivered against this commitment in a multitude of ways as set out below.

Collaborating for nature recovery

Pennon is engaged and participating in a range of local and regional public, private and third sector partnerships tacking action to tackle climate change and nature recovery, including the local nature partnerships and catchment partnerships. We also convene forums and events, including our Let's Talk Water stakeholder forum, to engage partners and share best practice, reflecting together on progress and developing shared plans for the future. We are proud of the delivery partnerships with whom we monitor, collaborate and deliver our environmental improvement and biodiversity enhancement activities.

Beach clean at Portwinkle - Sept 2023

Biodiversity enhancement

Catchment management protects and improves river quality and critical water abstraction sources to provide clean, safe drinking water, reducing the need for treatment. It is supported by our customers as part of Pennon's commitment to protect and enhance the environment in the drinking water catchments in which we operate. This performance commitment is designed to incentivise an increase in the area of land under active improved catchment management as part of the 'Upstream Thinking' and the more recent 'Green Recovery' project interventions. The annual target for Upstream Thinking is 10,000 hectares of new land under active improved catchment management (50,000 more hectares over the five-year regulatory period). The Green Recovery programme will deliver a further 10,000 hectares of new land under active management during the four years it will be active leading up to 2025. In 2023/24 a further 11,854 hectares of land were added to our Upstream Thinking project whilst a further 3,364 hectares were added to the Green Recovery programme, resulting in an annual delivery of 15,218 hectares against an annual combined target of 13,000 hectares. This brings our cumulative position to 126,733 hectares of new areas under active catchment management since April 2015, well over the target for this plan period of 123,209 hectares.

Biodiversity compliance

In order for Pennon to avoid pollution harming the most special and rare habitats and species present across the South West, we have a particular focus on freshwater locations. This includes sites which are designated as a Site of Special Scientific Interest, as a Special Area of Conservation, as a Special Protected Area, or as a County Wildlife Site. During 2023/24, there were no pollutions events at any of these locations and therefore, as in the previous three years, the target was met. This outcome supports the Pennon commitment to achieving the outcomes of the Government Environmental Improvement plan and its ambitions to improve the condition of all Sites of Special Scientific Interest in the next ten years.

Preventing biodiversity deterioration

The maritime nature, climate and geography of the South West means that wildlife and nature are particularly under threat of deterioration from the presence and spread of invasive non-native species (INNS). INNS can impact on all aspects of the business with significant operational, compliance, reputational and financial risks and are considered to be one of the most significant causes of biodiversity loss globally. We have delivered biosecurity installations at Pennon sites, to prevent the introduction of new and spread of existing INNS and over the last year we have accelerated our delivery of guidance and awareness raising signage which are now installed at 121 sites. We have also installed biosecurity wash down facilities and are scoping two further watercraft washdowns. Our exemplar biosecurity wash down facilities at Roadford, includes a pressure washer for watercraft, an angling dip tank and a boot scrub.

Putting non-native trees to good use to help restore damaged peatlands

The Natural Resources Team have removed non-native trees from two wastewater treatment sites to remove large conifer trees as part of biodiversity improvements. The trees that have been removed have been replaced with native broadleaf species such as oak, hazel, lime and rowan that offer much greater benefits to birds and other species.

The logs from the cut conifer trees have been recycled for use in peatland restoration work at two South West Water sites – Burrator Reservoir in Devon and Park Pit in Cornwall. This work is being carried out by the South West Peatland Partnership, a £13 million project, led by South West Water, which is delivering peatland restoration in the South West of England.

The wood removed from the sites has been used by the South West Peatland Partnership to create leaky wooden dams, or timber rounds, which help to trap water in the environment, restoring dried and degraded peat bogs. The work will ultimately help to prevent run-off from the land into the watercourse, improving water quality in the area and trapping carbon in the landscape.

Investing in our People

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, 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 want to show that it is a dynamic and exciting time to be working in the water industry.

Over the past 10 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 provision, poor public transport and communication connections.

All this goes to show that whilst the greater South West region has traditionally had a reputation as a well-off area, in reality the picture is far more complex. This places an even greater responsibility on Pennon, as the largest private sector employer in the region, and given the wider supply chain we support.

Our Reward Strategy continues to evolve each year, noting the feedback we receive from colleagues ensuring it aligns to our People Strategy and our new Group Values. The key focus for this year has been on supporting colleagues during the cost-of-living crisis. Prioritising those colleagues that need it most and bringing forward the employee bonus payments to help those in most need.

At Pennon we take our social stewardship role seriously, whether that's through driving our environmental improvements or growing the number of jobs we support. Our exciting business plan, submitted to our regulators this year, targets the creation of 2,000 new jobs as part of a wider £28 billion investment planned across the Greater South West – a doubling of investment from the first half of this decade. Our business plan fosters our new 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 the Greater South West 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 be 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.

Colleagues from our Laboratory team
at Countess Wear, Exeter

Our new Group Values

Pennon Group has evolved in recent years, with the sale of Viridor in 2020, the acquisitions of Bristol Water and SES Water, and the formation of new divisions including Pennon Power. These changes created an opportunity to evaluate and refresh our corporate values that had been in place for some years, resulting in a new set of values that more properly reflect who the Group is today and represent our people at their best.

Corporate values are guiding concepts that shape our culture, behaviour, and decision-making processes. They help colleagues match their actions and behaviours with the company's overarching mission and objectives, giving a framework for how colleagues should engage with one another, with customers, and with other stakeholders. This will help strengthen Pennon's collective values, offer everyone with a set of authentic and emotive guiding principles, provide clear direction for supporting behaviours, and distinguish us from the rest of the industry.

It was critical to develop a set of values that not only reflect today's business and teams, but are also more than just words-on-a-poster. We intended to develop a set of values that are distinctively Pennon, are interwoven into daily actions, and are consistently demonstrated by our teams across the Group.

Our new values were developed after intensive involvement and listening sessions with the Pennon Executive Board, the larger leadership group, colleague representative groups such as the employee forum, and comprehensive colleague listening groups. Our values also incorporate the views of our customers collated during our biggest ever customer listening exercise conducted during PR24.

Our new values acknowledge a significant shift in how we seek to deliver our strategic priorities across the Group and are intended to serve as a unifying thread across all areas of the Group. The goal is to distinguish ourselves from all other water firms and environmental infrastructure businesses. The new values will differentiate how we carry out our plans.

The new values are:

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.

Our business model *continued*

Immersing the organisation

A complete Values launch programme has been established to ensure that the values are followed as guiding principles by all colleagues. This began in January 2024 and will continue through 2025.

To properly embed the values, we need behavioural change accompanied by a new structure for recruitment, induction, performance management, and reward. Setting the tone from the top is also important in ensuring that these principles are reflected across the company and the Group.

To ensure a successful launch and embedding of the new values, as well as to accelerate our cultural transformation, the strategy includes the development of a behavioural framework and training, both in workshop format for leaders and e-learning for all colleagues. This supporting training component will ensure that all colleagues understand what the values mean and how their actions at work affect performance. Senior executives will participate in face-to-face workshops as part of a series of leadership sessions held throughout the year.

An internal communication campaign will also continue for several months through all business areas, informing colleagues about what each of the values implies, how they can bring these to life, and where they will see the values interwoven into daily company operations.

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 in anticipation of 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 our 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 in 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 119 on how the Board monitors culture.

Great place to work

To enhance our Great Place To Work (GPTW) Colleague Survey, we have introduced pulse surveys during the year to give colleagues additional opportunities to provide structured feedback during the year. The pulse surveys provide a regular stream of feedback in addition to the full survey which we conduct annually. We are delighted to be recognised as a Great Place To Work and continue to work hard to keep engaging and supporting our employees to enable them to be able to bring their best to work and to ensure we are creating the best work environment and supporting them appropriately.

Listening and acting on employees' views

Under the Financial Reporting Council's (FRC) code of standards, companies are required to explain how they are incorporating employee views in Board decisions. You can read more on how the Board is engaging and making decisions in our Section 172(1) statement on pages 128 and 129.

Speak Up

Our Speak Up whistleblowing policy continued to operate throughout the year, providing another engagement channel. Speak Up helps to create an open, transparent and safe working environment, where employees feel able to speak up and are supported if they do so. Read more on Speak Up on page 143 in the Corporate Governance report.

Additionally, all employees are invited to pose questions or comments to our senior leaders through our new 'open door' communication channels. This new approach brings together several employee communication channels and encourages employees and senior leaders to keep connecting more.

Enhancing our employee communications

Each year, we review and seek to enhance our employee communications and engagement channels.

Our regular Big Chat video calls with our CEO and the executive team continue to be very well supported by employees, with strong engagement. Items discussed largely focus on the topical business issues of the time plus key employee highlights. We have also broadened the group of speakers, involving colleagues from all areas and levels across the company.

Our Time to Talk sessions focus on a broad range of topics and are supported by many external specialist speakers and facilitators. Topics discussed include mental health, the cost-of-living crisis, financial wellbeing, apprenticeships and business-specific initiatives including nature and catchment management.

Our internal communications tool and discussion platform, Viva Engage, is growing in popularity and is now used regularly by over 2,000 Group employees.

For our remote teams working tirelessly around the clock, we host regular breakfast meetings supported by our senior leaders. These have proved to be helpful in promoting more effective two-way communication with front-line operational teams.

WaterWorks is the name given to the monthly performance measures dashboard, which helps employees keep updated on how we are delivering for our customers, communities and the environment. It's important that all our employees are regularly updated on these critical measures regardless of which part of the Group they work for.

Talent development

We have a strong commitment to investing in the development of our employees and in building and recognising 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. For the second year running, we were delighted to be awarded Gold Membership status of the 5% Club as we have around 10% of our employees undertaking apprenticeships or on a formal structured graduate programme. We are the only utility sector company to achieve the Gold Membership accolade and have done so for two years. Achieving Gold status demonstrates our long-term commitment to investing in structured apprenticeship and graduate programmes for our employees.

Apprenticeships

We are delighted that one of our apprentices, Meg Ginsberg, was awarded a Special Recognition Award at the National Apprenticeship Awards for being an outstanding apprentice and ambassador. Meg is a Project Management Apprentice in our Engineering Department. Despite being a wheelchair user, nothing holds Meg back and she thrives in this role, leading by example and promoting apprenticeship and women in engineering at every opportunity.

We have a long-standing commitment to apprenticeships. After doubling our commitment and target for apprenticeships where we now pledge to support 1,000 roles by 2030, we are delighted to report we are ahead of schedule and have welcomed 470 since 2020. 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 new graduate programme in 2021 and setting a long-term commitment to recruit 100 graduates, we have doubled this commitment to now support 200 new graduates on a structured two-year development programme by 2030.

Since the launch, the graduate programme has recruited 85 talented graduates, with 55% being female and over 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 learning 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, such as personal impact and purpose-led leadership and skills areas such as coaching and mentoring, inclusive leadership, and building high-performing teams.

Throughout 2023/24, we delivered 20,000 training days, ensuring that on average each employee received 50 hours of training – 7 days.

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. 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.

Separately, data from Champion Health, our online wellbeing platform provider, supports the outcomes from the Great Place to Work survey. 93% of employees who completed the health assessment were motivated to change, with their three key areas being improving energy levels, reducing stress and improving mental wellbeing.

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 over 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 trained over 100 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 established a 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.
- **Champion Health:** Our Champion Health portal gives colleagues a broad range of resources, advice and guidance across all areas of wellbeing, from healthy recipes to fitness regimes, mental health support and health assessments. It is free to both employees and their families.
- **FinWell partnership:** We have launched a new partnership with FinWell, a financial wellness organisation, to provide employees with help, support and advice about their personal finances.
- **Inside Out partnership:** Our close partnership with the Inside Out Leaderboard provides a tangible way of demonstrating leadership, commitment and action to the mental health agenda.
- **EAP Helpline:** Our Employee Assistance Programme (EAP) had a 6% uptake compared to the industry average of 1.39%. The service is also available for employees' families.

Our 2023 cohort of graduates

HomeSafe Bite-size Live event - July 2023

HomeSafe, the Group's flagship health and safety programme

HomeSafe has targeted three specific areas this year, building on the foundations delivered last year to drive continued improvements in all health and safety activities. This focus has seen the Group's Lost Time Injury Frequency Rate (employees and agency, excluding contractors) almost halve in the year, and furthermore seen a 75% reduction in actual lost working days, delivering an additional 450 productive days back into the business.

The three areas we focused on:

1. Visible Safety Leadership

- HomeSafe Live events
 - i. 17 conferences across Devon, Cornwall, Bournemouth and Bristol. Led by the Senior Management Team from all departments.
 - ii. Over 2,300 employees attended fun engaging sessions, with real-life experiences of the consequences of not 'Taking Ownership'.
 - iii. Leaders owning HomeSafe, celebrating success with the intention of encouraging others to develop good practice and behaviours.
 - iv. Leaders hosting safety 'stand-downs' to discuss recent events and immediate lessons to be adopted.
 - v. The use of external expert speakers delivering real life stories of the impact of incidents.
 - vi. A '12 days of Christmas' campaign where each day for 12 days one department 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:

- With a focus on over 20 leading indicators, driving up performance against these areas and embedding these behaviours as the 'way we work'.
- Building on our 2.2.2 approach to incident reporting and investigating, ramping up the pace and quality of our response to ensure individuals were supported immediately in the event of an incident, improvements identified and shared rapidly across the Group.

3. Using 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.

These focus areas were supported through the core elements within the HomeSafe strategy, building our internal competence, elevating our Site Pride initiative across all areas, strengthening the health and safety team, achieving ISO45001 accreditation, and implementing a process safety framework.

The Lost Time Injury Frequency Rate (LTIFR) for employees and agency staff continues to be the Group's primary measure of health and safety performance. Following reductions year on year for the last three years for the Group, this year we delivered a 46% reduction in actual Lost Time Injury (LTI) numbers, with 15 LTIs in the year compared to 28 last year, and an LTIFR of 0.30 compared to 0.59 last year.

While the number of incidents reduced, we also significantly reduced the severity and impact of these incidents, through a focus on rapid intervention, treatment and support to the individual involved, delivering a 75% reduction in the actual number of days lost due to injury. This means we delivered an extra 450 productive days back into the business through improved safety performance.

We continue to broaden the reach of HomeSafe to everyone working for or on our behalf, and this was in evidence at a joint event between our Bristol Water Operations team and Network Plus who provide water networks expertise within Bristol, bringing to life HomeSafe across the broader supply chain.

While we have delivered year-on-year improvements, we continue to recognise that HomeSafe is not a project to be completed. It continues to be the way we work and deliver all our performance commitments. Our roadmap to HomeSafe 2025 has provided the framework to deliver improved health and safety performance across the Group.

Over the year we will evolve our strategy, plans and approach to look ahead to HomeSafe 2030, building on the strong successful elements of HomeSafe while aligning our strategy to the new Group values, ensuring we support our people to be the best version of themselves and that everyone goes HomeSafe every day.

Diversity, equity and inclusion

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

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

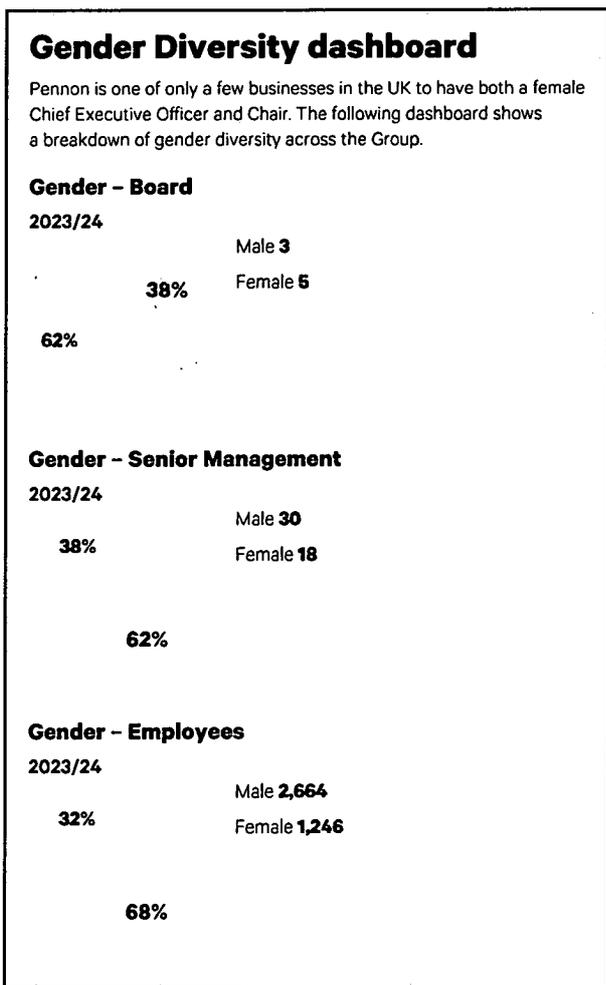
It is important to be open and transparent about the gender and ethnic diversity of our employees and this report is a key tool for us to do that, whilst also allowing us to share the measures we have taken and will be taking to continue to create a more diverse workforce across all roles and levels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

Induction day for some of the 2023 apprenticeship intake



Last year, 30% of job applicants were female and similarly 30% 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.

Inclusion Week at Pennon - Sept 2023

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. In June 2023 we celebrated signing the Armed Forces Covenant and also signed up to be a Disability Confident Employer at 'Committed' status during the year.

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 seeing significant increases in the number of applications we are receiving from ethnically diverse applicants and women into what is still a male-dominated industry.

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 sat on the overall ED&I Steering Group to ensure collaboration across the whole ED&I agenda and drives communication between the groups.

We have also introduced flexible bank holidays, 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.

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.

This year we launched our 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 it entails. In January, we launched our Reciprocal Mentoring pilot, 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 design 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 two years we have supported 10 placements and are set to support at least 15 for this coming year. Following successful completion of their internships, most students returned to university to complete their degrees. We are pleased that so far, four of our interns have already secured permanent position on our graduate programme. This important scheme not only offers Black students an opportunity to understand our business but also to improve the levels of ethnic diversity across our industry.

Diversity awareness and training

We have continued our programme of unconscious bias training and have rolled this out to the majority of our senior leadership and hiring managers during the year. We have held 'lived experience' group sessions to understand what it is like to work at Pennon for employees from minority groups. The outputs have been shared with our Diversity Committee to understand these perspectives and consider appropriate actions when issues are raised.

Our gender and ethnicity pay gap

In recent years, the composition of Pennon Group has further evolved with the acquisition of Bristol Water plc 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 remained fairly consistent this year and stands at 8.51%, but sits lower than the national average of 14.3%. Our median gender pay gap has seen a decrease of over 1% to 14.4%, indicative of a shift in the representation of women, notable within the upper quartiles, where we have seen an uplift from 21.4% to 25.6% 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 11.9%. 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, Truro and St Austell to follow later this year. During the FY23/24 year we have doubled our commitment to apprentice and graduate recruitment and set new targets to support 1,000 apprentices and 200 graduates on structured programmes by 2030. We have set a new commitment and target to offer 5,000 work placements for young people by 2030, significantly growing our previous work in this area. We believe this initiative is vitally important in helping young people understand our Company and the water industry, and supporting them in their early careers.

Slave-Free Alliance membership

Pennon has maintained its membership of the Slave-Free Alliance, which is part of Hope for Justice, the global anti-slavery charity. Our membership demonstrates our commitment to the highest employment standards for both our direct employees and those within our supply chain. Our Modern Slavery Report is published annually and can be found on our website www.pennon-group.co.uk.

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.

Pennon welcomes SES Water to the Group

Pennon is delighted to welcome SES Water colleagues to the growing Pennon Group and looks forward to working with them all during the coming year.

In 2024/25, SES Water will continue to deliver in line with their People Plan, the three priority areas being - Building capability for the future, Developing a culture that thrives and Enabling our business to be future ready.

SES Water invest in their people through learning, development, effective communications, reward and recognition. Unlocking the potential of all their people by investing in their skills development, leadership capability, professional development, creating a performance management culture, and opportunities for career progression through internal transfers and promotions. Throughout 2023/24 SES Water delivered 934 training days, in addition to those studying an apprenticeship or professional qualification.

In the past year, a new Working Group was established, aligned with the key themes of diversity, inclusion, wellbeing, the environment, and health and safety. By adopting this collaborative approach and a new internal communications plan, more opportunities have been made available for everyone to get involved with the activities they are most enthusiastic about and brings the Company purpose to life.

Finally, making work life easier for colleagues through investment in new physical equipment and the HR digital transformation programme is fundamental to being ready for the future. SES Water has upgraded their people systems and processes from an online Welcome Portal for new colleagues during the recruitment process to sickness and absence management, digital correspondence and learning management.

SES Water has long term commitments in the arena of social responsibility and wants their people to feel they can make a difference working as part of a business set in the heart of the community they serve.

A new Working Group was established in 2023/24 which collaborates with many stakeholders to create an internal events calendar for the year, aligned with our purpose and our People Plan. This has provided colleagues with opportunities to participate in events and support some great local causes.

467
SES Water employees

36%
Female employees

7.1%
Mean gender pay gap

153
Colleague volunteering days

(As at 31st March 2024)

Our operational review

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

Water Quality and Resilience

Investing to secure resilience, now and into the future

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

Building water resources

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

Our programme to diversify the Group's portfolio of water resources in Devon is now complete, with two thirds of the programme of work in Cornwall also complete. Wet weather through 2023/24 has benefited our storage position augmenting the investments that have contributed one-third of the gains to strategic storage in the region, with the early achievement of 100% storage for our strategic reservoirs ahead of 31st March 2024.

Supply Schemes

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

In addition to these, our desalination plant in South Cornwall is on track to be operational in 2024/25 and our Porth Rialton water abstraction and treatment scheme will be operational under its winter licence in 2024/25. With these projects, we are improving the long-term resilience of the region following a year-long drought in 2022/23.

We are on track to reach our target of a 45% increase in Cornwall water resources by 2025, having already achieved our targeted 30% increase in Devon water resources one year ahead of schedule.

In Bristol, supply levels remain in surplus but our long-term plans include investment in Cheddar 2 Reservoir which will support resources across the wider South West region.

Water quality

Compliance Risk Index (CRI)

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

Our CRI score for South West Water of 3.02 is slightly higher than last year but is again likely to be better than the industry average. We continue to make progress through our 'Quality First' programme with investment at our Water Treatment Works and there were no failures in the treatment processes in 2023. Our performance is above target and has been impacted due to higher incidents on our networks, particularly at consumer taps following network burst events. We have implemented an enhanced mains flushing programme to mitigate this risk further.

In Bristol, our CRI performance remains challenging for the region, and performance for Bristol was a score of 7.05. Our investigations have identified the condition of the treated water tank and a valving arrangement as the likely causes for these failures. While we have implemented remedial actions, longer-term improvements are required within our future regulatory investment programmes.

Further enhanced maintenance and resilience improvements are being delivered across our Bristol water treatment works with specific sites targeted for improvement. Consistent with our action plan published for South West Water, we are rolling out our Quality First programme in Bristol, targeting key areas for improvement, which includes tank cleaning and mains flushing.

Water Quality Upgrades

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

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 1.66 per 1,000 population, have increased slightly compared to last year, and are outside the performance commitment target for this year. This increase in contacts has followed a continued temporary suspension on maintenance flushing of the drinking water network during the periods of temporary use restrictions, following the drought in 2022, which in some areas lasted until September 2023.

Bristol has separate regulatory targets for taste and smell contacts, as well as separate targets for appearance contacts. 2023 saw improved performance in both of these metrics and there has been a substantial reduction in water quality contacts over this reporting period. The target for taste and smell was achieved reflecting the Company's focus in this area, with a systematic flushing programme which is helping to alleviate those tastes and smells that may develop in the mains water before it reaches the customer. Although the appearance metric was missed, this year saw the Company's best performance in this area to date and to further improve performance, we are increasing our flushing activities across a greater proportion of the network to be flushed.

Reducing leakage and supply interruptions

Leakage

We recognise that the prevention of water being lost in leakage from our (and customers) pipes and assets is a key issue for all customers and is something we work continuously to reduce.

In South West Water we are focused on reducing leakage with a target of c.15% by 2025 (based on a three-year average). Leakage in 2023/24 has been impacted by two 'cold snaps' in November and January as well as a decline in the number of reported leaks (where the wetter weather has reduced the visibility water arising from leaks). This has placed greater focus on our detection activities which have increased, pressure management to continue to calm our network and using innovation. We have also focused on reducing losses from our trunk mains and continuing to support customers to identify and fix leaks within their supply pipes. Whilst this year is higher than 2022/23, the three year rolling average performance commitment has been met. We know that there is still more we need to do to find, fix and prevent leaks and we continue to focus on action plans to significantly reduce leakage in 2024/25 to meet this target.

Bristol Water has not performed well with regard to leakage. In order to make improvements going forward, we are focused on enhanced data and monitoring with c.7,000 acoustic monitors installed to support quicker and more accurate detection. In addition, a key mains replacement programme is 60% complete and will support further resilience of our networks. As a result of our activities leakage in the year has reduced, but remains elevated and with the impact of the cold weather (over the last two years) we have not met our performance commitment in this area.

Minimising customer supply interruptions

We understand the inconvenience that supply interruptions can cause. The importance of 'always on' supplies, maintaining both public health and customer confidence is one of our key priorities. In both South West and Bristol, a relatively small number of events of scale have continued to impact our performance.

Three significant events in Devon and Cornwall occurred in June, although these were partially mitigated through re-valving and deployment of Alternative Water Supply tankers. For South West Water, we continue to develop and deliver against our action plans, including increased 24/7 alternative water supply availability, incident management improvements, training and further calm network assessments. After June, performance in the remainder of the year returned to normal levels, however larger events continue to disproportionately impact our overall performance, which was 9 minutes 20 seconds for the year.

Bristol has been primarily impacted by third-party damage in Hallen and a complex Christmas Day burst trunk main in Winterbourne – these two incidents accounted for 70% of supply interruptions in the Bristol area, with overall performance of 9 minutes 24 seconds.

Whilst we have not delivered against our performance commitment this year, we expect to still be above the industry average (based on 2022/23 comparative data).

Managing demand and ensuring efficiency

Demand reductions

To reduce demand we are focused on minimising our own use, tackling leakage and reducing customer demand through water efficiency.

We have successfully reduced our own use by 11Ml/day over the last two years and we continue to improve efficiency within our processes.

Per capita consumption (PCC)

This measure is to incentivise companies to conserve natural resources and to target and support customers in using less water. Like all companies we saw a significant change in usage as a result of the COVID pandemic where behaviours and consumption for household customers has permanently changed. Therefore, both South West Water and Bristol Water will not meet this performance commitment this year.

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

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

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

Water availability

Following one of the hottest and driest years on record in 2022 we introduced water restrictions in Cornwall and parts of Devon which were in place until September 2023. We have invested record amounts to deliver our drought plan and by the end of March 2024 total reservoir levels for South West Water stood at nearly 100%, ahead of our targeted levels.

Whilst the recent wetter winter has helped reservoir levels, our interventions and the hard work of customers to reduce their water usage has combined to recharge our reservoirs ahead of the summer months and peak demand for the region's water resources – with one third of capacity delivered by our interventions. On a longer term basis, many of the investments will deliver a sustained increase in capacity where we have seen most challenge and demand on our network, whether through the new reservoir Blackpool Pit on Bodmin Moor, a new treatment works at Porth Rialton or a new desalination works in Par. We are therefore confident that there will be no restrictions in the coming year.

Bristol's water resources remain robust and storage at the ends of March 2024 was c.100%, as it was in March 2023, despite the challenges of hot, dry conditions in 2022.

Maintaining asset health

Mains repairs

When our mains get damaged or fail, it is vitally important that these are repaired to ensure that we do not waste valuable water and that customers are kept in supply.

South West Water has had a focus on optimising the operation and control of our network by pressure management and other 'network calming' activities. This has included the delivery of training through our innovative network training centre. We also minimise the likelihood of mains bursts by replacing targeted sections or whole areas of poorly performing pipes.

For 2023/24, our performance has returned to target in both areas, despite an increased focus from our leakage programme, with performance of 134.6 in South West Water and 124.8 in Bristol per 1,000km of mains respectively.

Unplanned outages

Water treatment unplanned outage provides a means of assessing 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 1.15% 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, outages at Purton Treatment Works, which commenced in the prior year, carried on into the early part of 2023/24. However, following resolution of the immediate issues, performance for the year achieved target with performance of 2.58% unplanned outages. A multi-year programme is ongoing to reduce future risks through the replacement of relevant assets.

Storm Overflows and Pollutions

2023 has seen some of the most tumultuous weather on record – particularly in the second half of the year. Across the South West Region, 2023 was the fifth wettest year on record, with a 34% increase in rainfall from 2022 and we experienced 50% more rainfall than the long-term average in the second half-of the year, peaking at 130% in July. We have also experienced ten named storms back to back in the latter months of the year, along with yellow weather warnings which has tested the resilience of our assets and operations. This exceptional weather continued into the early part of 2024 which has continued to place pressures on our wastewater infrastructure.

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

Reducing flooding incidents

Sewer flooding

We understand how distressing sewer flooding can be and that how we react when these situations occur is a good indicator of the commitment of care to our customers.

In 2023/24, despite the wetter weather, we have again seen significant outperformance, with performance of 0.76 internal sewer flooding incidents per 10,000 connections against a target of 1.44. This is a slight increase in the metric from 2022/23, resulting from a small increase in the number of overloaded sewers following heavy rainfall. We have however outperformed this target in each of the four years of the regulatory period and are one of the best performers in the industry for this measure.

Despite the very high level of rainfall experienced in the winter the total number of external sewer flooding incidents has reduced by 13% compared to the prior year. Although we have missed the target for this metric (performance of 1,578 incidents with a target of 1,260), a clear focus on avoiding repeat flooding incidents with an increase of planned cleansing and routine jetting, is having a positive impact.

Improving asset health

Sewer collapses and blockages

Targets for both sewer collapses and sewer blockages have been met for 2023/24, with performance of 11.4 collapses per 1,000km of sewer and 6,448 blockage incidents respectively. We are proud to report that 2023/24 was our best-ever performance on blockages.

Proactive management of our network, including enhanced cleansing removing debris from sewers, an increase in the number of repairs as well as sewer overflow inspections being completed. In addition, a focus on improving compliance of commercial premises who dispose fat, oil and grease into our sewers, as well as other operational change initiatives, have all contributed to this achievement.

Targeting improvements in the Environmental Performance Assessment (EPA)

The EPA is the Environment Agency's assessment of environmental performance. The assessment covers a combination of measures, with an overall ranking out of four stars. Our provisional rating for the 2023 calendar year is again 2 stars, maintaining improvements from the previous year. However, following the extreme levels of rainfall and high number of storms over the winter of 2023/24, the full benefits of our Pollution Incident Reduction Plan (PIRP) have not yet been seen and we have a road map to achieve a 4 star EPA status in 2025.

Pollution incidents

Total wastewater pollution incidents (category 1-3) remains our most challenging area. 2023 saw a deterioration in performance following the winter weather in 2023/24, which was the fifth wettest on record with a significant increase in the number of storms and intense periods of rain. The rain also led to exceptionally high groundwater, which also provides challenging operating conditions and tends to result in less time to respond to issues that arise at our treatment works pumping stations, as the issues escalate more rapidly.

Despite the overall increase in pollution incidents, serious pollution incidents (category 1 – 2) have remained stable. We know there is much more to do and we continue to target a step change in performance.

Our key initiatives to deliver continued improvements in pollutions performance include acceleration of additional telemetry on our sewer network (including 12,000 sewer level monitors and deployment of AI technology), continuation of our 'hotspot' investment programme at problematic locations and completion of a proactive rising mains replacement programme. Investment in power resilience and increased operational activities such as sewer cleansing and pumping station MOTS are all targeted in 2024.

Numeric compliance

Numeric permits place measurable conditions on the final effluent discharged to the environment and measure compliance with these conditions. Our performance of 96.2% was below the target for this year, following our best ever score of 99.4% in 2022/23.

We experienced some challenges at individual sites over the summer of 2023/24, however we took immediate action to contain issues with activities including reedbed surveys and remediation, enhanced targeted maintenance and enhanced monitoring and review of Critical Asset Plans.

We have enhanced our action plans across our treatment works, including regular reviews with the Environment Agency taking place. We are focused on delivering our 2024 target, with no wastewater failures in the first four months of the year.

Our operational review *continued*

Continued quality levels at our bathing waters

South West Water has over 860 miles of coastline to protect, representing over one-third of the UK's designated bathing waters. This is something we, and our customers, have always valued and prioritised.

In the 2023 bathing water season, 100% of bathing waters (where South West Water has assets that can impact on bathing waters) achieved the stringent quality standards for the third year in a row.

We were particularly pleased that the newly designated Plymouth Firestone Bay achieved excellent status. For the 2024 bathing water season, six further bathing waters in our region including four on the River Dart (Dittisham, Stoke Gabriel, Steamer Quay and Warfleet) will be included in the assessment.

Tackling spills from storm overflows

Despite the exceptional rainfall over the summer, we maintained 100% bathing water quality for the third consecutive year.

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

On a like for like basis (taking account of the first full year of monitoring and the impacts of exceptional rainfall and higher groundwater) the number of spills is lower reflecting the c.80 interventions delivered in 2023 and these actions will continue to support reductions into 2024. We have already ramped up our plans with c.60 interventions already delivered by the end of March 2024 – including 20 additional storm storage schemes.

We are seeing tangible benefits from our interventions which are focused on not only increasing storage but reducing the water entering our systems through groundwater infiltration and surface water separation.

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

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

Net Zero and Environmental Gains

Net Zero

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

Our Net Zero 2030 plan is well underway, and we are making good progress, reducing our carbon footprint by c.45% to date against our 2020/21 baseline.

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 to Pennon Group plc, has been formed as an entity to deliver on this element of the Net Zero strategy. To date, investment of c.£145 million has been announced by Pennon Power in four projects across the UK, generating up to 135 GWh once operational, along with a two-hour battery system providing 30 MW of storage. When combined with the smaller scale on-site solar generation roll out, this puts the Group on track to secure c.50% of its energy from renewable sources.

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

The first site to enter construction is a 45 MWP solar site with co-located battery storage in Dunfermline, acquired in May 2023. With total build costs expected to be c.£60 million, we are targeting a split connection with generation expected late in calendar year 2024, with the battery storage unit connecting in Q1 2025. A further three sites, located in Aberdeenshire, Cumbria and Buckinghamshire, were acquired in July 2023. These sites, with total anticipated build costs of c.£85 million, will add a further 98.5 MWP of generation capacity. The sites in Aberdeenshire and Cumbria are targeted to be operational early in financial year 2025/26, and Buckinghamshire following later in the year.

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

Environmental Gains

A healthy environment is important for our region, and in the face of climate change, ecological decline and greater recreational use of rivers and seas.

Nature and the environment is a priority for us, as we look to work with nature to provide sustainable solutions for the challenges we face. Putting the journey to net zero and nature recovery at the heart of what we do, working with partners, means we can create climate resilient places and infrastructure.

Catchment management and Upstream Thinking

Since 2010, we have been working with local delivery partners, farmers and landowners to deliver our award-winning Upstream Thinking programme. Today we have well established relationships with key delivery partners across the region including Cornwall Wildlife Trust, Devon Wildlife Trust, Natural England, Farming and Wildlife Advisory Group, South West Lakes Trust and Westcountry Rivers Trust.

To date, this approach has improved the management of 127,000 hectares of land across 80% of our drinking water catchments, outperforming our target of 123,000 hectares by March 2025; this has been achieved through working with partners to deliver initiatives across the region including Exmoor, Dartmoor and Bodmin Moor. We have restored 1,550 hectares of peatland since 2020. Over 250,000 trees have been planted since 2020, meeting our 2025 target one year early.

The range of pollutants which the programme helps to remove from the water course includes farming-derived nutrients, pesticides, faecal coliforms, sediment, veterinary medicines and antibiotics. The benefits of this investment are reliable clean water supplies, better wastewater dilution and natural flood management.

Nature recovery

Our sites include reservoirs, moorlands, major operational sites, former clay pits, estuaries, farmland and forests, and small urban sites with pumping stations and pipework. Many of our sites are already well-established havens for wildlife, with some designated as Special Areas of Conservation (SAC) and County Wildlife Sites (CWS).

We own and manage 1,251 hectares of Sites of Special Scientific Interest (SSSIs), of which 88.5% is in favourable condition and all but 9.5 hectares of the remainder is classed as in recovery.

We have proven experience of habitat restoration, including land adjacent to two former industrial mining quarries in Cornwall, Park Pit and Stannon. South West Water bought Park Pit and the surrounding industrial land on Bodmin Moor in 2007. At the time, ecologists described the area around Park Pit as a "moonscape of waste sand and mica". Fast forward to today, and the industrial wasteland has been transformed into a nature-rich heathland and reservoir.

We take our biodiversity responsibilities seriously – we have surveyed our land and ensured biodiversity enhancement plans to boost nature and to monitor and control the invasive non-native species are in place for all of our sites.

Addressing Affordability and Delivering for Customers

Keeping bills affordable

Managing affordability starts with ensuring we deliver quality services efficiently, keeping bills as low as possible and minimising any bills rises. So its only right that we continue to be at the forefront of the sector when it comes to cost efficiency.

In all the areas we serve, average bill increases for 2023/24 and 2024/25 were below the headline rates of inflation. Our current bill for South West Water is lower in real terms today than a decade ago, bolstered by initiatives such as WaterShare+ and our innovative tariffs and incentive schemes, which give customers lower bills for lower water usage. We are pleased that our latest water efficiency tariff across Cornwall has been successful, leading to a 5% reduction in water use and a rebate on customer bills.

Eradicating water poverty

In 2019 we made a pledge to eradicate water poverty and ensure everyone has an affordable bill by 2025, a full five years ahead of the industry target. This was set for South West Water and Bournemouth Water, with a similar target independently set by Bristol Water, to achieve 0% in water poverty.

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

98% of South West Water and Bournemouth Water households have been independently assessed as having an affordable bill. This is up from 96.8% last year. 100% of Bristol Water customers receive an affordable bill.

Over 132,000 unique customers have benefited from one or more of our affordability initiatives across South West Water, Bournemouth Water and Bristol Water to date.

We are focused on lifting a further 10,000 customers out of water poverty in the next year as we continue to evolve our affordability toolkit. This includes our innovative data model allowing us to identify and auto enrol customers who are within the group who are often the most vulnerable and hardest to reach onto social tariffs. We are also continue to work with local councils and debt partners to identify customers who may be in financial difficulty and may need support.

Supporting vulnerable customers

Our priority services programme is underpinned by the following pillars:

- Providing easy ways to register for our Priority Services Register, so those who may need support reading their bills or meters can find the right help.
- Data sharing with key utility partners so customers who need extra support are added to our Register.
- Ensuring customers who have needs that rely on a constant supply of water have the right help if an incident occurs interrupting that supply.

WaterShare+

We have a unique structure, through our WaterShare+ scheme, which gives customers the chance to either own a share in our business or receive a reduction in their water bills.

To date, we have shared £38m with customers through shares or bill reductions, and 1 in 14 households in the South West are now shareholders. We are looking to increase this to 1 in 10 by 2030 so that more customers have a stake in our business.

Business Retail

Pennon Water Services (PWS)

PWS continues to deliver for its business customers offering a range of attractive tariffs and value-added services, whilst also delivering year-on-year improvements in its revenue, EBITDA and PBT.

Serving its customers

PWS maintained its focus upon high quality customer interactions, resulting in a Trustpilot 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 4.94 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 90,000 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 supported a 16.5% reduction in its volume of complaints compared to the prior year.

Financial performance

Revenue increased by 8% from £218 million in 2022/23 to £233.8 million in 2023/24. A direct result of continued customer growth and low customer attrition despite a reduction in customer consumption in our incumbent areas.

EBITDA and PBT grew by 67% and 128% 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 high quality of services to maintain a stable market share of c. 6% in England and Wales. The market share for the UK is 5.2% including Scotland, serving over 154,800 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. 4% (2,105 megalitres) in the current year.

As a result, PWS has taken its cumulative position since the market opened to c. 51,000 megalitres, the equivalent of c. 20,330 Olympic-sized swimming pools. New contracts in the year included Agrial Fresh Produce, Aggregate Industries, and Welcome Break.

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

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 4.9/5, the highest of all water retailers. 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.£0.7 million of associated companies' profit after tax to the Group's results, supported by the addition of c.5,100 new customers. Water2Business has also topped the MOSL holistic retailer reporting tables for the entire 2023/24 financial year, demonstrating its commitment and effectiveness of data management, process control and customer service.

SES Water

How SES Water Deliver

Like the rest of Pennon Group, the SES Water approach to delivering its business model has ESG at its core.

Strong Financial Governance

The SES Water Board has a Code on principles of good governance (including financial governance) and assesses compliance with the UK Corporate Governance Code 2018 on an annual basis. The SES Water Board takes its obligations for good corporate governance extremely seriously and applies standards appropriate to the nature and ownership structure of the business. These standards are kept under continuous review and are amended in line with business developments and to reflect best practice.

With respect specifically to Financial Governance, the SES Water Board is provided with assurance that the principles of good governance are maintained via input from the SES Water Audit Committee and the SES Water Financing Committee. The former includes insights and recommendations from the external financial auditor, PwC, on various aspects of financial governance such as internal control improvements, enhancing transparent external reporting and assessments on areas of financial judgement, which management appropriately actions where required.

Investing in the Environment

SES Water has continued to invest in local catchment initiatives, contributing to land management changes and supporting local groups with enhanced nature conservation. SES Water achieved its third Biodiversity Benchmark with The Wildlife Trusts, delivering on their bespoke performance commitment and remain on track with their WINEP delivery.

SES Water has continued with its fleet decarbonisation and energy efficiency projects, whilst also progressing external assurance for its GHG emissions reporting.

SES Water colleagues are building strong partnerships with a range of stakeholders in readiness for their ambitious catchment work, including non-statutory proposals to invest in catchment resilience and long-term future sustainable water resources. Local estate projects are gaining momentum with integration to the South East's regional water resource and landscape planning.

Investing in the Community

SES Water has long term commitments in the arena of social responsibility and wants their people to feel they can make a difference working as part of a business set in the heart of the community they serve.

A new working group established in 2023/24 collaborated to create an internal events calendar for the year, aligned with the SES Water Purpose and People Plan. This has provided everyone with opportunities to participate in events and support some great local causes. For example, SES Water colleagues participated in the Give A Day (153 colleagues in total) initiative, supporting a wide range of local charities including Stripey Stork, Community Fridge, The Wildlife Aid Foundation, The Orpheus Centre, The Conservation Volunteers, Crossroads Care, and Methodist Homes Association.

Building relationships with local education providers further strengthens the early careers strategy implementation by continuing attendance at career fairs, offering a structured work experience week and apprenticeships. These measures are bolstered by the highly successful education programme held at the Flow Zone centre at Bough Beech Treatment Works.

Health & Safety

SES Water has had another excellent health and safety performance in the past year, with no Lost Time Accidents (LTAs), and no reportable incidents or injuries at year end. Numbers of minor Non-Lost Time Accidents (NLTAs) were also lower than the previous year. They were proud to achieve two RoSPA Gold Awards (The Royal Society for the Prevention of Accidents) – one for health and safety performance and the other for fleet safety and the management of occupational road risk.

Delivering for its Customers

SES Water prides itself on continually seeking to improve the quality of the service for its customers. The following is a summary of in year performance and Performance Commitments (PCs).

Leakage

The SES Water overall leakage reduction performance continues to meet its required three-year rolling target, and the Company remains on track to deliver the 15% in-year reduction required by 2025. SES Water has stayed at or below the maximum allowed level of leakage every year since the target was first set more than 20 years ago and has once again met our leakage reduction, which is industry leading.

Per capital consumption (PCC)

SES Water has progressed its universal metering programme and continued to support in-home water efficiency assistance. The Company also deployed a targeted water efficiency campaign from which it has gained important insight to inform its 2024 concept. SES Water has historically had relatively high PCC and whilst its 2023/24 PCC is reduced compared to 2022/23, it is in the process of designing a water efficiency pilot to inform the best value support it can give to its customers.

Improving Water Quality

SES Water has continued to deliver excellent water quality performance in 2023. It has determined its Compliance Risk Index (CRI) score to be just 0.01, with only three sample exceedances for lead or nickel, linked to the condition of service pipework and customer fittings, contributing to this score. SES Water expects its performance to be confirmed as an industry leader when the DWI publishes industry results in July 2024.

SES Water has had a very challenging target to minimise the number of customers that need to contact it about the taste, smell or appearance of their water. In 2023, SES Water received 0.58 contacts per 1000 population, which was above its target for the year of 0.50, and so it will receive a small financial penalty from Ofwat. Whilst it is disappointing that the business did not meet the target set, it expects its contact rate performance to continue to be in the industry upper quartile.

SES Water – Non-financial metrics

Clean, safe and reliable water

Clean, safe and reliable water (CRI score)

2023	0.01
2022	0.01
2021	0.00

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

2023	0.58
2022	0.64
2021	0.58

Unplanned outages (%)

2023	0.81
2022	0.93
2021	1.36

Supply interruptions (Duration per property per year)

2023	0:03:36
2022	0:03:51
2021	0:02:58

Leakage (3-year average – Megalitres per day)

2023	21.5*
2022	23
2021	23.6

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

2023	63.8*
2022	101.5
2021	57.9

* unassured forecast

Maintaining water resilience and asset health

SES Water continued work to make sure it operates, maintains and invests in its water treatment work assets, which has ensured it has once again outperformed its target on unplanned treatment work outages, achieving 0.81% against a target of 2.34%. SES Water continues to invest in the long-term resilience of its network and remains on target to have every property connected to two water treatment works by 2025. The level of mains repairs has improved significantly since last year, but the business will not meet its target and will receive a financial penalty from Ofwat this year. Despite that, its performance will likely remain upper quartile within the industry. SES Water's smart network, which helps it find and fix leaks in near real-time, has enabled them to reduce its leakage run times by up to 40%. SES Water are the first UK water company to roll out this intelligent technology across its entire water distribution network, with the aim of more than halving their leakage by 2045. SES Water have once again achieved its supply interruptions target as it nears the completion of a 15-year resilience programme it has been progressing since 2010. By 2025, every property across its region will be supplied by more than one treatment works if, due to operational challenges, this is needed. SES Water has also not had to implement any water restrictions within their area for over a decade.

Delivering for our customers

Supporting customers in financial hardship

2023	22,250
2022	19,476
2021	19,994

PSR reach

This is measured as the number of households that are registered as part of our Priority Services Register at the end of the Financial year, divided by the number of overall households in our supply area that have active accounts at the time.

2023	9.3%
2022	6.8%
2021	5.6%

Vulnerable support scheme awareness

The percentage of customers that answer "yes" to the question "Are you aware of the additional support SES Water offers customers in vulnerable situations through their 'Here for you' Scheme and Priority Services Register?" The survey takes place quarterly to a sample of 500 household customers (100 of which are on the vulnerable support schemes). The survey is conducted by a third-party research company (in this case Explain, SES Water's Voice of the Customer agency). The % reported is for all 4 quarters combined in the applicable year. Vulnerable support scheme awareness.

2023	39.5%
2022	38%
2021	32.1%

Customer Measure of Experience (C-MeX)

2023	72.45
2022	76.05
2021	76.35

Developer Measure of Experience (D-MeX)

2023	Subject to assurance
2022	84.91
2021	77.39

Our KPIs – non-financial metrics

Clean, safe and reliable water

Water quality (CRI score)

The Compliance Risk Index (CRI) is the Drinking Water Inspectorate's measure of water quality. In 2023/24 we continued with our 'Quality First' transformation programme. Performance in our SWB region (consisting of South West Water and Bournemouth Water but not Bristol Water, which is subject to separate cost and performance reporting to Ofwat) was impacted by tanks on one site. There were no failures from water treatment processes in 2023, and our performance remains upper quartile for the industry. Bristol Water was below average but is learning from the SWW approach and applying the 'Quality First' programme (rolled out with enhanced mains flushing, tank inspection and cleaning and staff survey and training) to improve Bristol Water's performance. Performance for 2023 was impacted by 3 events at our larger sites.

South West Water (SWB)	
2023	3.02
2022	2.39
2021	3.86
2023	7.05
2022	4.60
2021	4.19
Bristol Water	

Supply interruptions (Duration per property per year)

Performance across the Group is often impacted by colder weather and third-party damage. At SWB, 35 incidents contribute c. 5 minutes to performance, 10 events contributed c. 25 minutes to performance and third-party damage contributed c. 30 seconds. At Bristol Water, performance has been primarily impacted by third-party damage in Hallen and the complex Winterbourne Christmas Day burst trunk main. The two incidents have dominated performance this year accounting for c.70% of our supply interruptions (6 mins 41 secs).

Our underlying operational performance indicates that the 2024/25 target level (at 5 minutes) is achievable.

South West Water (SWB)	
23/24	00:09:18
22/23	00:08:42
21/22	00:13:40
23/24	00:09:24
22/23	00:08:03
21/22	00:02:31
Bristol Water	

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.

At SWB our performance had been consistently improving in line with our targets, however as a result of the drought conditions in summer 2022, we limited our flushing activities in areas until restrictions were lifted which has impacted performance in 2023/24. At Bristol Water there has been a substantial reduction in appearance contacts and taste and odour contacts over this reporting period.

South West Water (SWB)	
2023	1.66
2022	1.51
2021	1.55
2023	0.82
2022	1.21
2021	1.39
Bristol Water	

Leakage (3-year average – Megalitres per day)

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

Most companies saw an increase in annual leakage in 2022/23 reporting higher levels of bursts resulting from a hot, dry summer and the winter freeze-thaw. Whilst leakage has remained stable in South West Water and Bristol, in the year, the position in 2022/23 has an enduring impact on the regulatory three-year rolling performance.

South West Water (SWB)	
23/24	107.1
22/23	113.0
21/22	116.7
23/24	37.6
22/23	37.0
21/22	36.0
Bristol Water	

Unplanned outages (%)

Asset Health is essential for ensuring a robust supply of water to our customers. Mains repairs performance has improved despite an increase in repairs we have undertaken to reduce leakage and address bursts, ensuring that we have met targets in SWB and Bristol Water. In SWB, our unplanned outages increased, but remains well within the regulatory target for the year. Bristol Water unplanned outage performance improved over 2022/23, but an unplanned event at one of our largest treatment works in Bristol meant the target was narrowly missed for 2023/24.

South West Water (SWB)	
2023	1.15
2022	0.70
2021	0.96
2023	2.58
2022	6.27
2021	1.74
Bristol Water	

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

South West Water (SWB)	
23/24	134.6
22/23	141.1
21/22	111.4
23/24	124.8
22/23	170.8
21/22	106.4
Bristol Water	

Protecting the environment – robust wastewater delivery

Pollution incidents (number of wastewater incidents)

Category 1-3 pollutions is our most challenging area. The 2023 weather (fifth wettest on record and increased number of storms) and operating conditions (exceptionally high groundwater and scale of rainfall) has resulted in less time to respond to issues that arise at our 655 treatment works and c.1,200 pumping stations. This has meant the benefits of our Pollution Incidents Reduction Plan (PIRP) will not be seen until 2025. Serious pollutions (category 1-2) have however remained stable this year. We know there is more to do and we continue to target a further step change in performance.

	South West Water
2023	194
2022	108
2021	151

Numeric Compliance (%)

We measure the compliance of our discharges against our permits.

	South West Water
2023	96.19%
2022	99.40%
2021	97.46%

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.

	South West Water
23/24	126,733
22/23	111,515
21/22	95,453

Environmental Performance Assessment

A combination of a basket of measures, the EPA is the Environment Agency's assessment of environmental performance. Our performance this year results in a provisional 2 star rating this year.

	South West Water
23/24	2 ★
22/23	2 ★
21/22	1 ★

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

Sewer flooding is a key area that significantly impacts on customers. For 2023/24 we are maintaining our industry-leading internal sewer flooding performance and have delivered c.8% reduction in external flooding incidents, despite the prolonged periods of significant rainfall and high groundwater levels.

	South West Water
23/24	0.74
22/23	0.63
21/22	0.76

External sewer flooding (Number of incidents)

	South West Water
23/24	1,578
22/23	1,816
21/22	1,407

Sewer collapses (Incidents per 1,000km)

These measures reflect service impacts to our customers as well as being a lead indicator of asset health. Although there has been a slight increase in sewer collapses, both measures have outperformed the targets for 2023/24, and reflect the increased cleaning activity completed on our network.

	South West Water
23/24	11.42
22/23	8.3
21/22	6.7

Sewer blockages (Number)

	South West Water
23/24	6,448
22/23	7,056
21/22	6,545

Our KPIs – Non-financial metrics *continued*

Delivering for our 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. At SWB there are over 107,000 customers registered for PSR. This is an increase of 36% compared to the previous year. South West Water and Bristol Water have both outperformed our target (both companies had a target of achieving 7% customer registration by 2024/25).

South West Water	
23/24	93
22/23	91
21/22	83
23/24	80
22/23	88
21/22	89
Bristol Water	

Customer Measure of Experience (C-MeX)

C-MeX is Ofwat's measure for customer experience both for those customers who contact us as well as the perceptions of all our customers. For SWB, our C-MeX rankings have remained consistent year-on-year with results impacted by customer perception scores, whilst for Bristol performance has been consistently strong.

South West Water	Bristol Water
13th in ranking	3rd in ranking

Customer affordability (%)

We are targeting 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 which is improving year-on-year. For SWB we have achieved target in both: 'Percentage of Customers who find their Water Bill Affordable' and 'Number of Customers on one of our Support Tariffs' performance commitments for each year of the AMP so far.

South West Water	
23/24	98.0
22/23	96.3
21/22	93.3
23/24	100.0
22/23	100.0
21/22	99.0
Bristol Water	

Developer Measure of Experience (D-MeX)

D-MeX is Ofwat's measure of service experience for developers which directly compares us with our peers.

South West Water	Bristol Water
9th in ranking	3rd in ranking

Bathing waters

South West Water has over 860 miles of coastline to protect, representing over one third of the UK's bathing waters. In 2023 there were 151 designated bathing waters in the region, including one new bathing water at Plymouth Firestone Bay. However, only 150 bathing waters were classified as Watcombe was not classified by the EA due to access issues and so was excluded from the 2023 assessment (Watcombe was classified as 'excellent' in 2019).

In 2023, 100% of our bathing beaches where South West Water assets would have an impact on the bathing beach met the high standards set for water quality for the third year in a row (one bathing water (Porthluney) was classed as poor but SWW do not have any assets impacting this bathing water).

South West Water	
23/24	99
	100
22/23	99
	100
21/22	98
	100
	Met standards (%)
	Good/excellent (%)

Average Spills

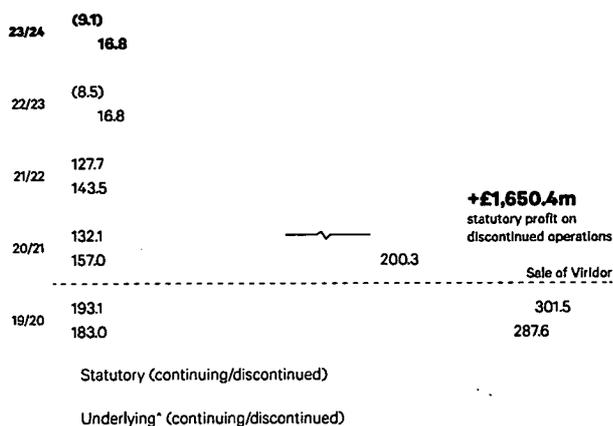
Our Waterfit programme is focused on protecting rivers and seas. During 2023, the average number of spills has increased - the increase this year can be accounted for by the amount of named storms and weather warnings in 2023. But we will continue to deliver our plans to reduce to an average of 20 spills per overflow by 2025.

South West Water	
23/24	43.4
22/23	28.5
21/22	38.9

KPIs – financial metrics

Annual¹

Operational



Profit before tax (£m)

Why is this KPI important to us?

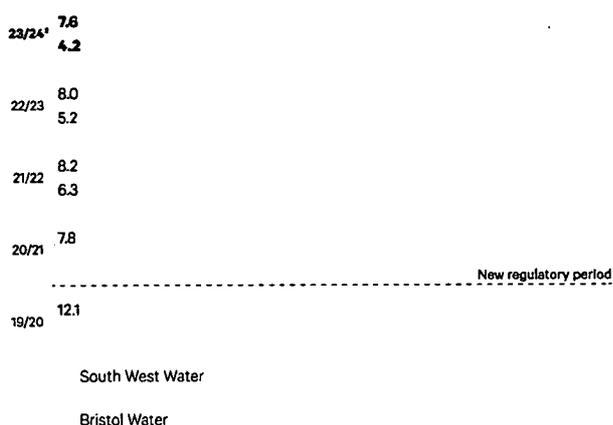
Profit before tax is a key measure of the Group's financial performance after deducting all operating and finance costs. Underlying Profit before tax is measured to exclude any distorting non-underlying items as explained in our Alternative Performance Measures on pages 239 to 242.

Our performance in 2024

Commentary on performance is set out in the Group Chief Financial Officer's report on pages 47 to 54.

Link to remuneration, bonus/LTIP

Annual bonus performance measure.



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

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 239 to 242.

Our performance in 2024

Commentary on performance is set out in the operational performance review on pages 32 to 41.

Link to remuneration, bonus/LTIP

LTIP performance measure.

23/24	4.1
22/23	4.5
21/22 ²	8.6
20/21 ³	9.1
19/20	9.3

Return on capital employed (ROCE) (%)

Why is this KPI important to us?

ROCE provides a measure of the return being generated by the Group compared to the total equity and debt capital deployed to generate that return.

Our performance in 2024

Commentary on performance is set out in the Group Chief Financial Officer's report on pages 47 to 54.

Link to remuneration, bonus/LTIP

LTIP performance measure.

1. For further information on the relevance to Executive Directors' remuneration see page 148.
2. Cumulative K7 measure.
3. South West Water ROCE measure used for 2020/21 and 2021/22. This provides a comparative figure to previous Group performance. See calculations provided in the alternative performance measures section on pages 239 to 242.

[^] Measures with this symbol are defined in the Alternative Performance Measures (APMs) as outlined on pages 239 to 242.

KPIs – financial metrics

Long-term

Year	Statutory (continuing/discontinued)	Underlying* (continuing/discontinued)
23/24	(3.6) 6.2	
22/23	nil 7.3	
21/22	4.9 50.2	
20/21	25.5 31.9	10.2 42.1
19/20	27.7 35.2	47.7 26.5 61.7

+393.0p
statutory EPS on
discontinued operations

Sale of Viridor

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 239 to 242.

Our performance in 2024

Commentary on performance is set out in the Group Chief Financial Officer's report on pages 47 to 54.

Link to remuneration, bonus/LTIP

LTIP performance measure.

Year	Dividend per share	EBITDA dividend cover* (times)
23/24	44.4 2.7x	
22/23	42.7 2.8x	
21/22	38.5 3.8x	
20/21	21.7 3.7x	
19/20	43.8 3.2x	

Sale of Viridor

Dividend per share (pence)

WaterShare

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 in 2024

Commentary on performance is set out in the Group Chief Financial Officer's report on pages 47 to 54.

Link to remuneration, bonus/LTIP

LTIP sustainable dividend measure.

Year	Group dividend cover (times)
23/24	0.1x
22/23	0.2x
21/22	1.4x
20/21	1.5x
19/20	1.4x

Sale of Viridor

Group dividend cover (times)

Why is this KPI important to us?

Group dividend cover ensures that the profitability of the Group supports the sustainable delivery of our dividend policy.

Our performance in 2024

Commentary on performance is set out in the Group Chief Financial Officer's report on pages 47 to 54.

Link to remuneration, bonus/LTIP

LTIP sustainable dividend measure.

Our CFO's review

Financial highlights of the year

Underlying profitability improving

Full year underlying profit before tax of £16.8 million following losses in the second half of 2022/23.

More information on pages 47 to 50

Investing for growth

Group capital investment up c.80% versus 2022/23, with investment weighted towards the end of the AMP.

More information on page 49

Robust liquidity and flexible financing strategy

Pennon Group available liquidity in excess of £1 billion.

More information on pages 51 to 52

Acquisition of SES Water

The business acquired on 10th January 2024, representing our ambitions to be a leader in the UK water sector.

More information on pages 49 to 50

Steve Buck

Group Chief Financial Officer

I am excited to have joined Pennon at this time in the Company's development. As I look back on the fourth year of our 2020-2025 business plan we continued to outperform the regulatory cost of equity, maintained financial discipline by managing gearing, raised debt to sustain liquidity and made an early start on cost reduction for K8. Furthermore, we are gaining momentum in the build out of our renewable energy generation sites through Pennon Power and see further positive progress in our non-household retail business, Pennon Water Services.

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

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

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

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

We recognise the pressure the ongoing cost-of-living crisis puts on our customers, so we are determined to continue to assist customers with access to a broad range of affordability measures to support those in financial need. Across all Group businesses, the potential impact of significant increases in the cost of living on affordability has been considered in assessing our expected credit loss charges.

Cash collections across the Group have remained robust during the financial year. Expected credit loss charges for 2023/24 of £6.3 million for South West Water (0.9% of revenue) are in line with previous levels (2022/23: 1.0%). For Pennon Water Services, the expected credit loss charge of £1.0 million (0.4% of revenue) is also in line with previous levels (2022/23: 0.4% of revenue).

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

Segmental performance – Water

South West Water

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

South West Water's statutory revenue for 2023/24 was £729.8 million compared with £673.5 million in 2022/23. Last year's revenue included non-underlying reductions of £27.8 million in respect of the second issuance under WaterShare+ (£20.2 million) and our 'Stop The Drop' demand reduction incentive (£7.6 million). Underlying revenue of £729.8 million for 2023/24 has increased by 4.1% compared with the prior period (2022/23: £701.3 million). The revenue growth of £28.5 million is explained above.

Underlying operating costs of £397.3 million are largely flat year on year with a small increase of £4.4 million (2022/23: £392.9 million). Normal inflationary increases have been offset by early benefits from our transformation programme and continuing integration efficiencies. Energy unit prices, which were specifically impacted by high levels of inflation over the last two years are now stabilising with a year on year decrease of £1.0 million. However, in order to de-risk the business from the volatility of the wholesale energy markets, some of the recent higher power prices were locked in through our hedging strategy. We expect the impact of those to decline over the coming year.

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

Major categories of Capital expenditure (£m)

£649.5m
TOTAL

South West Water (Water): **£369.3m**
South West Water (Wastewater): **£213.6m**
Pennon Power: **£59.0m**
Other: **£7.6m**

The net interest charge of £155.5 million is £10.2 million higher than prior year (2022/23: £145.3 million), reflecting an effective interest rate¹ of 5.6% (2022/23: 5.5%).

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

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

Major categories of Capital expenditure (£m)

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

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

SES Water

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

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

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

Segmental performance - non-household retail

Pennon Water Services¹

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

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

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

The non-household market continues to be very competitive with low margins, as a result, a clear focus on cost control and efficiencies is critical to the success of the business. The business has improved its performance year on year, with underlying operating costs growing marginally behind improving revenues, the business has improved its underlying EBITDA by c.72% to £7.4 million (2022/23: £4.3 million). This strong performance has resulted in the business reporting a profit before tax of £4.7 million (2022/23: £1.8 million), an increase of 161%.

Group net finance costs

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

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

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

Overall, the efficient funding mix and hedging strategy has resulted in an effective interest rate of 5.6% (2022/23 5.5%) for South West Water. The Group continues to efficiently secure funding for South West Water through its Sustainable Financing Framework and to ensure c.60% of its interest rate risk is mitigated in line with the Group Treasury Policy, which is achieved both through issuing fixed rate debt and effective interest rate hedging, with a further element being index-linked.

Progression of effective interest rates

2019/20	2020/21	2021/22	2022/23	2023/24
3.4	2.3	3.9	5.3	5.6

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 following a period of losses as the business reached scale, we are pleased to recognise £0.7 million of profit after tax

1. PWS - 80:20 joint venture with South Staffordshire.

from our associated company, in our 2023/24 results (2022/23: £0.3 million), an increase of 133%.

Acquisition accounting

As part of the requirements of acquisition accounting, we have determined the provisional fair values of the acquired balance sheet of SES Water. Goodwill arising from the acquisition of £15.6 million, based on these provisional fair values, has been recorded in the Group consolidated balance sheet and is attributable to the recognition of deferred tax liabilities on fair value gains recognised as part of the acquisition. The acquisition of the SES Water Group provides a strategic fit for Pennon Group plc as the Group expands its presence in water supply across Southern England.

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

Non-underlying items

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

The non-underlying charge includes:

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

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

Responsible approach to tax

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

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

- Current tax credit of £0.6 million, reflecting an effective tax credit rate of 3.6% (2022/23: credit of £2.7 million, 16.1%). The reduction in rate is due to the Group generating tax losses, all of which are carried forward for future relief. These tax losses reflect the enhanced capital allowances available because of full expensing and first year allowances, along with pension payments made during recent years where tax relief is now due, and capitalised interest which for tax purposes is deductible in the year incurred. Around 50% of the Group's capital additions qualify for enhanced capital allowances. This current tax credit relates to prior year adjustments in respect of additional interest deductions due in accordance with UK tax legislation.
- Deferred tax charge of £4.9 million (2022/23: credit of £0.9 million). This primarily reflects a current year deferred tax charge in relation to capital allowances in excess of depreciation charged across the Group, largely due to full expensing, and a charge in respect of pension payments paid in previous years and where tax relief is now due. These are offset by a credit for tax losses carried forward for utilisation in later periods. The prior year deferred tax charge is £nil.

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

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

Earnings per share

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

Our adjusted earnings per share excludes the impact of deferred tax charges and non-underlying items. For the Group, we have generated adjusted earnings per share* for 2023/24 of 6.2 pence (2022/23: 7.3 pence). Excluding the impact of the loss generated by SES Water in the period post acquisition, our adjusted earnings per share would be 7.2 pence.

Net debt movements

The Group's cash flow from operating activities for 2023/24 was £261.7 million (2022/23: £313.7 million). Cash collections have remained robust and we continue to monitor these closely and are focused on providing a broad range of affordability measures to support those in financial need. The reduction in operating cashflow reflects the lower levels of underlying profitability in the last two financial years, caused by inflationary pressures, alongside the cash impact of our Watershare+ and 'Stop the Drop' bill credits which were recognised in the income statement in H2 2022/23.

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

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

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

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

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

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

Sustainable net debt

Pennon Group – summarised net debt flow (£m)	2023/24 flows
Net debt excluding fair value uplifts 1 April	(2,841.4)
Opening balance 1 April	(2,965.4)
Cash generated from operations	261.7
Corporation tax received	3.4
Net interest paid	(109.1)
Capital investment	(598.1)
SES acquisition, net of cash acquired ¹	(62.7)
Debt acquired on acquisition including fair value adjustments	(360.1)
Proceeds from share issue	175.7
Ordinary dividends paid	(111.7)
Non-cash index-linked accretion	(46.8)
Other movements ²	3.9
Closing balance 31 March	(3,809.2)
Net debt excluding fair value uplifts 31 March	(3,683.5) ³

Robust liquidity and flexible funding strategy

As at 31st March 2024, the Group has £601.4 million of cash and committed facilities. This consists of cash and cash deposits of £171 million (including £26 million of restricted funds representing deposits with lessors against future lease obligations) and £335 million of undrawn committed facilities. A further £500 million has been raised since March 2024, providing the Group with in excess of c.£1 billion of available liquidity, providing enough funding to support its obligations for at least the next 18 months.

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

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

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

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

This will see South West Water obtain two strong investment grade credit ratings during 2024 and it plans to establish a EMTN⁴ programme to facilitate further public issuances and maintain our diverse financing portfolio.

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

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

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

1. Reflecting £90.2 million on acquisition of SES Water, offset by £27.5 million cash acquired.
2. Includes unwind of fair value adjustments.
3. Carrying value of fair value acquisition adjustments to net debt as at 31st March 2024 – £32.8 million Bournemouth Water, £79.3 million Bristol Water and SES Water £13.6 million.
4. Euro Medium Term Note.

Our CFO's review *continued*

South West Water¹ net debt at 31st March 2024 is a mix of fixed / swapped (£2,147 million, 65%), floating (£696 million, 21%) and index-linked borrowings (£452 million, 14%), which reflects our diverse debt portfolio and compares to an industry average² of fixed / swapped 40%, floating 7% and index-linked 53%. New debt raised during this regulatory period has been fixed to align to iBoxx indices in line with Ofwat's approach to allowed cost of debt. Where appropriate, derivatives are used to fix the rate on floating rate debt.

At 31st March 2024, South West Water's net debt to RCV ratio³ stood at 63.5% (31st March 2023 60.8%). This is due to increased capital expenditure and reduced operating cashflows.

South West Water's cost of finance, with an effective interest rate in 2023/24 of 5.6%¹, continues to benefit from the diverse portfolio of debt.

Strong investment grade gearing levels

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

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

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

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

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

Retaining value in the regulated business

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

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.

Bristol Water was transferred to South West Water in February 2023 and all the debt is now managed on the South West Water standard covenant package as unsecured and unrated.

Following its acquisition, SES Water continues to maintain its current Group structure, which will be reviewed as part of the integration process.

Pennon Water Services funding is predominantly provided by Pennon. Pennon will continue to use funds to support the Group's ongoing operations as appropriate.

1. Based on South West Water Group, including Bristol Water excl. SES.
2. UK water position as at 31st March 2023 as per published Annual Performance Reports – weighted average.
3. Based on South West Water group including Bristol Water net debt/shadow RCV.

South West Water RCV⁴

2020	2021	2022	2023	2024
£3,573m	£3,393m	£4,209m	£4,716m	£5,186m

South West Water

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.

We continue to hold the Fair Tax Mark. Launched in 2014, the Fair Tax Foundation's purpose is to encourage and recognise businesses through their Fair Tax Mark accreditation scheme. This is an independent accreditation scheme for businesses paying their fair share of corporation tax and reporting on their tax practices transparently. We have also inspired other water companies to apply for the accreditation, thereby improving the tax transparency of the sector in which we operate.

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.

South West Water Net Debt Structure (£m)

£3,295m
TOTAL

Index-linked: **£452m**

Floating: **£696m**

Fixed: **£2,147m**

- 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 2023/24 – borne/collected

The Group's total tax contribution (TTC) for 2023/24 amounted to £100 million (excluding £144 million of VAT receipts) (2022/23 £95 million excluding £150 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 £52 million (2022/23 £41 million) including employees' Pay As You Earn (PAYE) and total NICs. The total amount of £52 million includes PAYE of £5 million (2022/23 £4 million) on pension payments made by the Group pension scheme. A net amount of £37 million (2022/23 £30 million) was collected on behalf of the authorities for employee payroll taxes.

Business rates of £30 million (2022/23 £35 million) were paid to local authorities. This is a direct cost to the Group and reduces profit before tax.

UK Corporation Tax receipts from HMRC in the year were £3 million (2022/23 £1 million payment) in relation to over-payments made in prior years. There were no payments due in respect of 2023/24 as the Group has generated tax losses in the year.

Payments to the Environment Agency and other regulatory bodies total £20 million (2022/23 £17 million). This reduces profit before tax.

Fuel excise duty of £1 million (2022/23 £1 million) related to transport costs. This reduces profit before tax.

VAT repayments of £144 million (2022/23 £150 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 18th November 2021. On 27th June 2022, as part of its ongoing investigation, Ofwat announced enforcement action against South West Water Limited, the company is now included alongside five other companies which received enforcement notices in March 2022. The Group continues to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The Group has undertaken its own internal investigation and investment interventions have been undertaken at a small number of our sites. In addition, the Group has looked for opportunities for additional future investment to include further storm storage and an extension of its sewer misuse programme which has been shared with Ofwat. Ofwat have yet to formally respond on the investigation and the timing of a response is unknown, although has been potentially indicated for Summer 2024.

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

On 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

Total Tax Contribution

£100m
TOTAL

Employment taxes: **£52m**

Business rates: **£30m**

Corporation tax: **£-3m**

Environmental payments: **£14m**

Fuel excise duty: **£1m**

Other: **£6m**

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

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

Pensions

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

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

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

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

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

Our CFO's review continued

continues to work through the process to wind up the Bristol Water section of WCPS and has indicated its intention to return the surplus to the Company.

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

Dividends

The Group continues to strive to deliver on its commitments to customers, shareholders and stakeholders as our investments drive strong and sustainable results. Around 50% of Pennon's shareholders are UK-based investors including individuals, pension funds, and charities. Over a third of the Group's c.3,500 employees (excluding SES Water) are shareholders and following the second issuance of our unique WaterShare+ initiative, around 90,000 customers are now also shareholders.

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

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

The proposed dividends totalling £126.9 million are covered 2.7 times by underlying EBITDA (2022/23 2.8 times). Pennon Group plc has substantial retained earnings and a sustainable balance sheet to support its stated dividend policy. The strong fundamentals of its principal operating subsidiary, South West Water Limited, underpin this policy with its strong RORE and growing RCV. Dividends are charged against retained earnings in the year in which they are paid.

Investing for sustainable growth – renewable energy generation

In line with both our long-term sustainable growth strategy in UK environmental infrastructure and our commitment to deliver Net Zero by 2030, we have committed c.£145 million for investment in renewable energy generation. This strategy will also benefit the Group by reducing our exposure to future volatility in wholesale power markets and will deliver attractive and sustainable financial returns.

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

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

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

1. On track or ahead of target, or within regulatory tolerances (deadband).
2. All guidance measured on an underlying basis.
3. Excludes impact of Per Capita Consumption, as under review by Ofwat
4. Based on current market pricing and current hedged position of c.85% for 2024/25 and c.30% for 2025/26

Return on Regulated Equity¹

During K7 to date we have continued to deliver South West Water group RORE performance (excluding SES Water) of 7.3% cumulatively, equating to c.£160 million of outperformance. This consists of c.£255 million financing outperformance, net of c.£60 million totex² overspend, and c.£35 million ODI net penalty impact. This has enabled the funding of additional capital investment initiatives as noted above.

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

ODI performance across the South West Water group in 2023/24 has been impacted by the extreme weather events, including heavy rainfall through to March 2024. As a consequence, South West Water has incurred a penalty of c. £121m³ (FY2022/23: penalty c. £4.2m). South West Water continues to build on its ODI performance with c.70% either on track or ahead of target¹ across a broad range of challenging bespoke, common, and comparative measures. This performance will contribute to the potential ODI award at the end of K7. 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. £17m³ (FY2022/23: penalty of c. £5.9m).

Financial outlook²

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

Overall, we expect total operating costs in South West Water to be broadly flat compared to 2023/24 levels. Total power costs⁴ in 2023/24 were £110 million (wholesale costs £73 million, non-commodity costs £37 million). Whilst wholesale power cost levels are falling, we anticipate a more modest improvement in our overall power costs as the impact of hedging over the last two years continues to unwind. These expected reductions coupled with other efficiencies from our transformation programmes will be largely offset by normal inflationary pressures on other input costs. In particular we continue to recognise the pressures of the cost of living on our colleagues and pay increases of c.4% have been agreed. Total Group operating costs will increase overall, with growth in the non-household retail business outside our region increasing wholesale water costs, and the impact of an additional nine months of trading at SES Water.

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

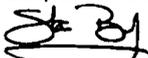
Increased debt levels to support our capital investment profile are expected to result in an overall increase in net finance costs. The total Group net finance costs are also expected to increase with the full year impact of SES.

Overall capital expenditure is expected to reduce in 2024/25. In South West Water, following the peak in 2023/24, we expect overall capital expenditure of c.£930 million in the last two years of K7. However we will continue to assess the benefits of early start expenditure for K8. The build-out of our Pennon Power renewable energy sites will continue. The full year impact of SES Water will represent a small increase in our overall capital expenditure.

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

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

Steve Buck
Group Chief Financial Officer



20th May 2024

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 customer and societal 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.

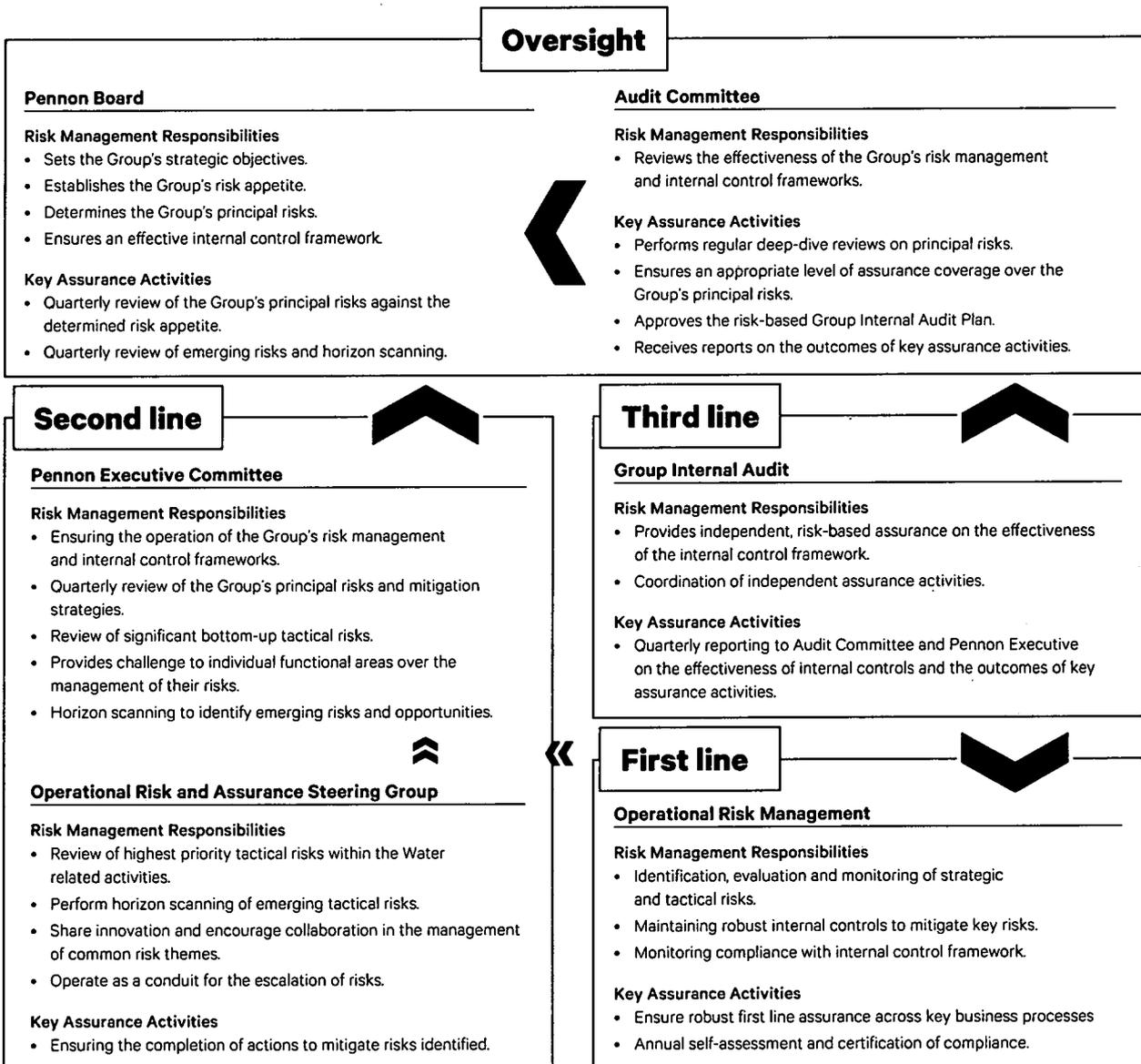
Pennon's risk management framework

Principal and emerging risks are regularly 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 and economic developments.

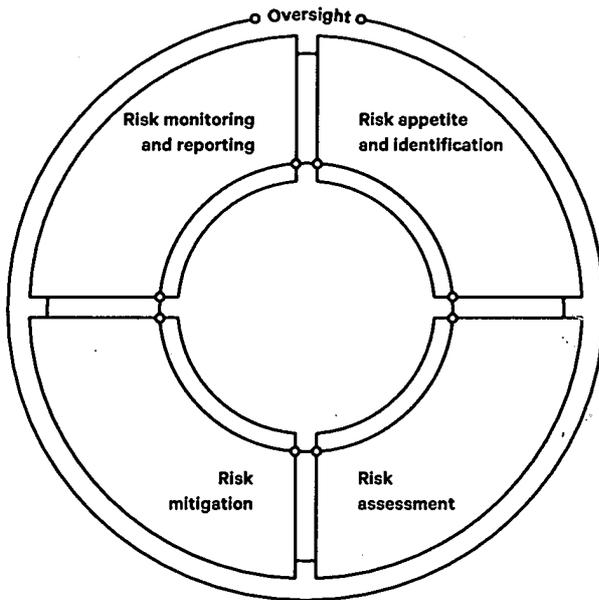
This is underpinned by an established risk management framework which forms part of our governance structure and is embedded into our processes, culture and ways of working ensuring that there is robust identification, review, challenge and assurance over the management of both our current and emerging risks and opportunities.



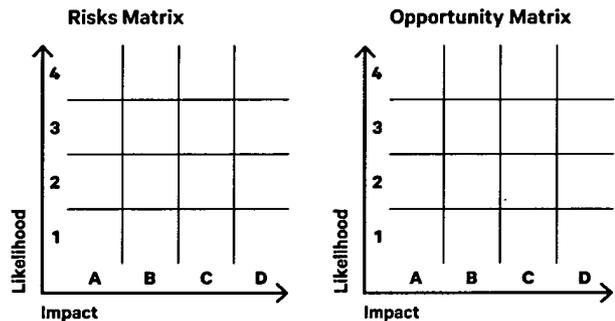
Our risk management *continued*

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.



Key: Likelihood of risk occurring over 5 year period
 1. Rare 2. Unlikely 3. Possible 4. Probable
 Only in Less than Even chance Above average
 extreme even chance
 circumstances

Key: Financial Impact (over 5 years)
 A. Minor B. Moderate C. Major D. Severe
 <2% Profit 2-5% Profit After 5-7.5% Profit >7.5% Profit
 After Tax Tax After Tax After Tax

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 through the ESG framework by the ESG Committee. Further detail is provided on page 144.

As the owner of a water and wastewater company, 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 78 to 110.

South West Water 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, South West Water engages 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, DNV, 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 ISO45001 accreditation of its Occupational Health and Safety Management System.
- The formation of the Operational Risk and Assurance Steering Group has enhanced the bottom up process through the collective review and discussion of key tactical risks, enabling greater collaboration and innovation.

Sutton and East Surrey (SES Water) Risk Management Framework

Following the acquisition of Sutton and East Surrey Water (SES Water) plc on 10th January 2024, the transaction is currently subject to review by the Competition and Market's Authority. In line with the requirements of the CMA's Initial Enforcement Order (IEO) SES Water has continued to operate separately from the wider Pennon Group.

Throughout 2023/24 SES Water has continued to operate their established risk management framework and processes to identify, manage and mitigate risks. This has included regular review of the SES Water principal and emerging risks and mitigation strategies by the Executive Management Team and twice a year principal risks are reviewed by the Audit Committee who report to the SES Water Board. SES Water will continue to separately operate their risk management processes until such a time that regulatory approval is received.

Management of South West Water within the Group's risk management framework

Pennon manages its risks in such a way that South West Water, as a regulated company, is 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.

Pennon's risk management and internal control frameworks ensure that it does not take any action that would cause South West Water to breach its licence obligations. Further, the Group's governance and management structures mean that there is full understanding and consideration of South West 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 assurance that it is not exposed as a result of activities elsewhere within the Group.

Horizon scanning

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 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"> Long 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-Long 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"> Long 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 of 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.

Our risk management *continued*

Principal risks and uncertainties

During the year the Board has carried out a detailed review of the Group's principal risks in the context of the Group's strategic objectives and priorities as well as the external environment within which it operates. This has included:

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

These principal risks have also been considered in preparing the viability statement on page 65.

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.

Key for pages 59 to 64 – Strategic priorities

- 1** Water Quality and Resilience
- 2** Storm Overflows and pollutions
- 3** Net Zero and Environmental gains
- 4** Addressing affordability and delivering for our customers

Net risk level

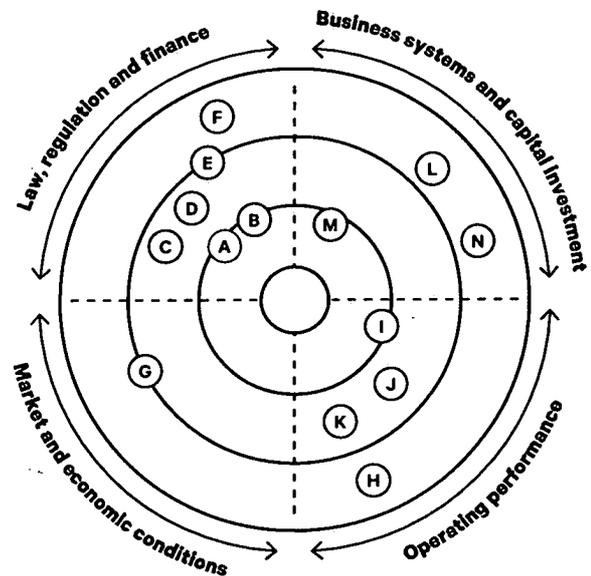
- High
- Medium
- Low

Direction of travel

- ▲ Increasing
- ↔ Stable
- ▼ Decreasing

Climate change and nature-based impacts

- T** Transitional climate change/nature based influence
- P** Physical climate change/nature based influence



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 in 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)	3	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	(G)	3, 4	Macroeconomic near term risks impacting on inflation, interest rates and power prices	▼
Operating performance	(H)	2	Failure to secure, treat and supply clean drinking water	↔
	(I)	1, 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	Difficulty in recruiting and retaining staff with the skills required to deliver the Group’s strategy	↔
Business systems and capital investment	(L)	1, 2, 3	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 security results in a breach of the Group’s assets, systems and data	▲
	(N)	4	Failure to receive CMA approval for the acquisition of SES Water	↔

Law regulation and finance

<p>Principal risk</p> <p>A</p> <p>Changes in Government policy</p>	<p>Strategic impact</p> <p>Strategic priorities 1, 2, 3, 4</p> <p>Climate change influence T</p> <p>Nature related influence T</p> <p>Changes in Government policy and direction may fundamentally impact our ability to deliver the Group's strategic priorities, impacting shareholder value.</p>	<p>Mitigation</p> <p>There remains a significant focus on the water sector across all political parties ahead of a General Election which is expected to take place later in 2024.</p> <p>We actively engage and respond to policy consultations and the Group regularly engages with a MPs and other political stakeholders, both directly and via Water UK. This includes highlighting the impact that our proposed capital investment of £2.8bn in the next regulatory period will have on our operational performance as well as our wider contribution to society and the economy.</p> <p>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.</p> <p>Appetite</p> <p>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.</p>	<p>Net risk/ Direction of travel</p> <p></p>
<p>Principal risk</p> <p>B</p> <p>Changes in regulatory frameworks and requirements</p>	<p>Strategic impact</p> <p>Strategic priorities 1, 2, 3, 4</p> <p>Climate change influence T</p> <p>Nature related influence T</p> <p>Changes to regulatory frameworks may impact on the deliverability and affordability of the Group's priorities, which can impact shareholder value.</p>	<p>Mitigation</p> <p>South West Water has an established and experienced regulatory function. A robust governance framework remains in place over the PR24 business plan.</p> <p>Following the submission of South West Water's business plan in October 2023, South West Water has been working proactively with Ofwat and other regulators as part of Ofwat's standard review process.</p> <p>A significant degree of uncertainty will remain until such time that Ofwat confirms their Draft Determination, particularly whether the levels of funding approved will be sufficient enable the significant levels of investment set out within the business plan.</p> <p>Appetite</p> <p>We accept that regulatory frameworks evolve which creates both risks and opportunities. We seek to minimise the potential risks by targeting changes which are NPV neutral over the longer-term to protect customer affordability and shareholder value.</p>	<p>Net risk/ Direction of travel</p> <p></p>
<p>Principal risk</p> <p>C</p> <p>Non-compliance with laws and regulations</p>	<p>Strategic impact</p> <p>Strategic priorities 1, 2, 3, 4</p> <p>Climate change influence T P</p> <p>Nature related influence T P</p> <p>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.</p>	<p>Mitigation</p> <p>The Group operates within robust and mature frameworks, which includes second line compliance functions, ensuring compliance with permit and other requirements of Ofwat, the Environment Agency and other relevant regulators. These frameworks are regularly reviewed and assured to ensure the Group remains compliant with the increasingly complex legal and regulatory landscape. The control framework has been further enhanced during the year with the creation of a dedicated internal Environmental Permit Assurance Team.</p> <p>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.</p> <p>The Group operates a confidential whistleblowing process which has been comprehensively reviewed during the year. This is overseen by the Executive-led Ethics Management Committee.</p> <p>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 ongoing.</p> <p>Appetite</p> <p>The Group maintains the highest standards of compliance and has no appetite for legal or regulatory breaches.</p>	<p>Net risk/ Direction of travel</p> <p></p>

Law regulation and finance

<p>Principal risk</p> <p>D</p> <p>Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments</p>	<p>Strategic impact</p> <p>Strategic priorities 1, 2, 3, 4</p> <p>Climate change influence T P</p> <p>Nature related influence T P</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>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>Since March 2023 over £700m has been secured through the Group's Sustainable Financing Framework.</p> <p>The Group retains £601.4m of cash and committed facilities as at 31st March 2024.</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>E</p> <p>Non-compliance or occurrence of an avoidable health and safety incident</p>	<p>Strategic impact</p> <p>Strategic priorities 1, 2</p> <p>Climate change influence P</p> <p>Nature related influence P</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>Mitigation</p> <p>The Group has continued to deliver and embed the 2025 Homesafe strategy. Established health and safety training, procedures and reporting systems are complimented with 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>During the year South West Water successfully achieved ISO45001 accreditation of its Occupational Health and Safety Management System and the Group achieved its best ever health and safety performance with 15 LTIs during the year – a reduction of 46% on the prior year.</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>F</p> <p>Failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase</p>	<p>Strategic impact</p> <p>Strategic priorities 3</p> <p>Climate change influence n/a</p> <p>Nature related influence n/a</p> <p>The Group could be called upon to increase funding to reduce the deficit, impacting our cost base.</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 31st March 2024 the Group's pension schemes remain in surplus of £26.6m. The triennial valuation of PGPS at 31st 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>

Market and economic conditions

Principal risk	Strategic impact	Mitigation	Net risk/ Direction of travel
<p>G</p> <p>Macroeconomic near term risks impacting on inflation, interest rates and power prices</p>	<p>Strategic priorities 3, 4</p> <p>Climate change influence T</p> <p>Nature related influence T</p> <p>Significant changes in inflation, interest rates and power prices could increase the Group's near term cost base.</p>	<p>The macroeconomic volatility has eased during the year with power prices and inflation softening. With ongoing global conflicts the potential remains for this position to change.</p> <p>The Group maintains a manageable debt maturity profile and diverse funding mix with c. 15% index linked which is continuously monitored. Additionally, a significant proportion of the Group's power prices has been hedged for the next 12 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> <p>Appetite 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 5 yearly regulatory reviews provide a natural long-term mitigation.</p>	<p>Net risk/ Direction of travel </p>

Operating Performance

Principal risk	Strategic impact	Mitigation	Net risk/ Direction of travel
<p>H</p> <p>Failure to secure, treat and supply clean drinking water</p>	<p>Strategic priorities 1</p> <p>Climate change influence TP</p> <p>Nature related influence TP</p> <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>The Group continues to diversify its water resource capacity and the resilience of our network and assets, informed by key plans including Water Resources Management Plan and drought plans. As a result of this investment and higher rainfall no water restrictions are anticipated for 2024. Furthermore, delivery of phase 1 of the desalination project is expected during 2024/25, 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> <p>Appetite The Group operates a low tolerance for significant operational failure of its water treatment assets or quality of water produced and seeks to mitigate these risks where possible.</p>	<p>Net risk/ Direction of travel </p>
<p>I</p> <p>Failure to improve wastewater performance resulting in environmental commitments not being delivered</p>	<p>Strategic priorities 2, 3</p> <p>Climate change influence TP</p> <p>Nature related influence TP</p> <p>An inability to improve waste wastewater could result in adverse environment impacts, financial penalties, regulatory enforcement and damage to the Group's reputation.</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 also ensure there is regular reporting on pollution, storm overflow and numeric compliance activities.</p> <p>Despite this progress the significant increase in rainfall and named storms during the second half of the year have increased wastewater flows and impacted headline performance for pollutions and use of storm overflows.</p> <p>Appetite 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>	<p>Net risk/ Direction of travel </p>

Operating Performance

Principal risk	Strategic impact	Mitigation	Net risk/ Direction of travel
<p>J</p> <p>Failure to provide excellent service or meet the needs and expectations of our customers and communities</p>	<p>Strategic priorities 4</p> <p>Climate change influence TP</p> <p>Nature related influence TP</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>The Group continues to enhance and invest in its customer services teams, expanding the channels by which it can interact with and support house-hold and business customers.</p> <p>The Group offers a range of schemes and tariffs to support customers with affordability challenges. Additionally, from April 2024 the Smart Saver tariff trial offers customers water rates reflecting their level of consumption.</p> <p>During the year both South West and Bristol Water successfully achieved kitemark certification to the vulnerable customer ISO22458 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. Both Pennon Water Services and Water2Business continue to maintain high customer satisfaction scores, with ratings 4.8 and 4.9 out of 5 respectively on Trustpilot.</p> <p>Appetite 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>K</p> <p>Difficulty in recruiting and retaining staff with the skills required to deliver the Group's strategy</p>	<p>Strategic impact Strategic priorities 1, 2, 3, 4</p> <p>Climate change influence T</p> <p>Nature related influence T</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>Mitigation The demands for high quality skills and expertise across the Group remains high, which mirrors the national and regional skills demands for our industry. The Group's People strategy, aligned to the new 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 supporting our customers and colleagues during the cost-of-living crisis, 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, concerns and obtain feedback. We undertake employee pulse surveys throughout the year, conduct Big Chat's for all employees to hear from our Executive most weeks, 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 meeting, breakfast meetings and toolbox talks which take place every day across the company, 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 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> 

Business systems and capital investment

<p>Principal risk</p> <p>L</p> <p>Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes in K8</p>	<p>Strategic Impact</p> <p>Strategic priorities 1, 2, 3</p> <p>Climate change influence T P</p> <p>Nature related influence T P</p> <p>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.</p>	<p>Mitigation</p> <p>Delivery of the investment included within South West Water's PR24 business plan will require a significant increase in the Group's capital programme.</p> <p>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 and Tier 1 contractors has been completed and is well progressed for Tier 2.</p> <p>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.</p> <p>Appetite</p> <p>The Board has a low appetite for risk associated with the delivery of key operational and capital programmes within our regulated business plan.</p>	<p>Net risk/ Direction of travel</p> 
<p>Principal risk</p> <p>M</p> <p>Inadequate technological security results in a breach of the Group's assets, systems and data</p>	<p>Strategic Impact</p> <p>Strategic priorities 1, 2, 4</p> <p>Climate change influence n/a</p> <p>Nature related Influence n/a</p> <p>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.</p>	<p>Mitigation</p> <p>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.</p> <p>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, communications and awareness to staff. South West Water continues to hold the ISO27001 accreditation.</p> <p>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.</p> <p>The Group also maintains established disaster recovery plans which are subject to regular review and testing.</p> <p>Appetite</p> <p>The Group seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Group's operations.</p>	<p>Net risk/ Direction of travel</p> 
<p>Principal risk</p> <p>N</p> <p>Failure to receive CMA approval for the acquisition of Sutton and East Surrey Water (SES)</p>	<p>Strategic Impact</p> <p>Strategic priorities 4</p> <p>Climate change influence n/a</p> <p>Nature related Influence n/a</p> <p>Failure to obtain the necessary regulatory approvals could result in the Group having to divest the acquired business, impacting on shareholder value.</p>	<p>Mitigation</p> <p>The Group has a senior project team with experience of the regulatory approvals process following the acquisitions of Bournemouth Water and, most recently, Bristol Water.</p> <p>The CMA have confirmed that it will refer the transaction for a Phase 2 review unless acceptable undertakings are offered. Pennon intends to offer appropriate undertakings and, in line with the CMA's guidance, the CMA will then consider whether to provisionally accept the proposed undertakings. Should those undertakings be provisionally accepted, in line with standard procedure, the CMA would then launch a consultation on those proposals.</p> <p>Robust controls have been implemented to ensure the Group is fully compliant with all CMA requirements during the process.</p> <p>Appetite</p> <p>Opportunities that support the Group's strategic priorities are assessed against an expected level of return adopting clearly defined factors and metrics.</p>	<p>Net risk/ Direction of travel</p> 

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 Company 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, 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 55 to 64 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 remains unchanged at five years, which recognises both the longer-term visibility in the regulatory environment of the South West Water business and the corporate activity, including acquisitions and other non-regulated investments, undertaken by Pennon.

Risks

The Board considers the preventative and risk management actions in place and the potential impact of the principal risks (as detailed on pages 55 to 64) 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 £601.4 million of cash and committed facilities as at 31st March 2024 and net assets of £1,162.6 million.

The Group has a mixture of fixed, floating and index-linked debt financing with a weighted average maturity of non-current debt, excluding leases, being 12 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:

- Engineering supply chain resilience.
- Water quality.
- Cyber security.

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 55 to 64, individual sensitivities (shown in the table below) have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Group's annual budget for FY 2024/25 and longer-term strategic business plan through to March 2029.

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 78 to 109. 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	Viability sensitivities tested
A: Changes in Government policy	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	Potential changes in the PR24 price review may impact allowed regulatory returns in the Water segment. The estimated average adverse impact on the Group's cash flows from a range of potential policy or determination changes has been applied as a sensitivity.
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 event	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.

Viability statement *continued*

Principal risk	Viability sensitivities tested
G: Macroeconomic near-term risks impacting on inflation, interest rates and power prices	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.
H: Failure to secure, treat and supply clean drinking water	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.
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 which more than doubles in AMP8.	
M: Inadequate technological control or cyber attack results in a breach of the Group's assets, systems and data	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.
N: Failure to receive CMA approval for the acquisition of Sutton and East Surrey Water (SES Water)	The costs associated with failing to receive CMA approval for the acquisition of SES Water have been modelled in a downside scenario.

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.£80 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 five-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.
- Raising additional funding.

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 five-year assessment period has been modelled. This scenario builds on the factors above and additionally assumes all the Group's principal risks incurring 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 five-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 136 to 141, 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 five-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)

Our approach to ESG ensures we are focused on what matters most. All that we do supports our commitment to provide environmental stewardship, whilst supporting our customers and local communities. We remain focused on employee welfare with health, safety, and wellbeing being at the heart of everything we do, whilst providing strong opportunities for development. Our approach is built on the foundations of our robust governance framework, upholding our new core values throughout the organisation and our value chain.

ESG Capitals

Creating value through our ESG approach

Everything we do links to a capital in some way – the development of our capitals framework is integral to better decision making for the future.

E

Our Natural Capital – Environment

- Freshwater
- Land (including soils)
- Species
- Ecological communities
- Coasts
- Atmosphere
- Waste

S

Our Social & Human Capital – Social

- Colleagues
- Customers
- Communities

G

Our Manufactured, Intellectual & Financial Capital – Governance

- Supply chain
- Responsible business
- Stakeholders and partnerships
- Finance

External benchmarking

Our ESG strategy and capitals framework has driven positive change in the business as we continue to embed sustainability in everything we do. We continue to show strong performance across external ESG assessments, demonstrating our commitment to, and management, of risk across our integrated ESG approach.

Latest external assessment scores:

12.0

ESG Risk

(Previous rating: 13.8)

82.5

ESG Rating

(Previous rating: 80)

AA

MSCI ESG Indexes

(Previous rating: AA)

B

CDP Climate Change

(Previous rating: B)

B

CDP Water security

(Previous rating: C)

57/100

Corporate Sustainability

Assessment (CSA)

(Previous rating: 60/100)

3.7/5

FTSE Russell ESG Score

(Previous rating: 3.9/5)

B+

Prime ISS corporate rating

(Previous rating: B)

A

GRESB Infrastructure Public Disclosure

(Previous rating: A)

Disclaimer

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ESG performance and targets

Materiality assessment

In 2021/22, we conducted a thorough materiality assessment with stakeholders to shape our strategy and ESG targets up to 2025, and plan to refresh our assessment in 2024/25. The results were disclosed in our 2022 Annual Report. Further stakeholder engagement occurred in December 2022 to inform our 2050 Strategic Direction report: <https://www.southwestwater.co.uk/about-us/documents/business-plan-2020-2025>

The 2023 publication of our 2025-2030 business plan emphasises customer engagement in identifying priorities to enhance customer satisfaction, community wellbeing, and environmental sustainability. This process involved gathering feedback on effective approaches and timelines for meeting statutory requirements. Insights from customers and stakeholders were instrumental in shaping our investment and service enhancement plans, with a focus on prioritising impactful initiatives.

This feedback, combined with assessments of business and external risks, guided the review of our material issues, affirming our alignment with key concerns. While the importance of certain issues has evolved, we remain committed to addressing high-priority matters.

UN Sustainable Development Goals (SDGs)

We actively engage with the UN SDGs to inform our approach and better understand our impact. We have mapped which of the UN SDGs our ESG targets most directly support. Our primary contribution is to SDG 6: Clean water and sanitation. Read more on our ESG targets on page 68 and to read more on our contribution towards the SDGs visit our website www.pennon-group.co.uk/sustainability

UN Global Compact

This year we have built on our support for the UN SDGs, by becoming a signatory of the world's largest corporate sustainability initiative, The UN Global Compact. Becoming a participant affirms our commitment to our ESG targets, as we work to embed the ten principles of the United Nations Global Compact covering human rights, labour, environment and anti-corruption into our ESG approach, whilst communicating our progress against these principles annually.

Highest importance to stakeholders	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.

Material issue and associated target	Annual performance against target	2023/24 target	2025 Target	SDG
Net Zero				
% energy usage from renewable generation	⊗	8%	13%	
Reducing greenhouse gas emissions	⊙	68%	70%	
Freshwater stewardship				
Reduce water use within our operational sites	⊙	7.5MI	10MI	
Biodiversity				
Trees planting (cumulative)	⊙	200,000	250,000	
Material issue and associated target	Annual performance against target	2023/24 target	2025 Target	SDG
Customer and community engagement				
Increase our community investment by 10% each year	⊙	20%	30%	
Diversity and skills				
% Female representation	⊙	32%	33%	
Increase REACH recruitment (excluding Bristol Water)	⊙	10%	10%	
Achieve 5% club status	⊙	Gold Accreditation	Gold Accreditation	
Health, safety and wellbeing				
Number of LTIs across the group	⊙	20	11	
Great Place to Work accreditation	⊙	Maintain	Maintain	
Measure/issue and associated target	Annual performance against target	2023/24 target	2025 Target	SDG
Trust and transparency				
ESG Rating (Sustainalytics Management Score)	⊙	78	80	
Fair Tax Mark accreditation	⊙	Maintain	Maintain	
% of active institutional investors met or offered to meet	⊙	72%	75%	
Sustainable finance				
New funding raised through Sustainable Financing Framework %	⊙	75%	75%	
Supply chain				
Supplier payment days (average)	⊙	35 days	30 days	
% of key and strategic suppliers that have established an ESG policy or equivalent	⊙	75%	100%	

Key: ⊙ Achieved ⊗ Not Achieved

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 2023/24 we have committed to even more ambitious targets, to go beyond reducing our operational emissions, and set out scope 1, 2 and 3 GHG emission reduction targets, targets to reduce emissions across our value chain, and to increase our use of renewable electricity.

Our three-pillar strategy remains unchanged

Pillar 1

Sustainable living



- 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

- In 2023/24 our wastewater back-up generators have been switched from using diesel fossil-fuel to using lower carbon HVO (Hydrotreated Vegetable Oil) made from waste oil.
- We are continuing with our programme of pump efficiency testing, pump repair and replacement. We have installed two new pumps at our Roadford Dam site, one low lift pump at Restormel water treatment works in Cornwall as well as one at Longham water treatment works in our Bournemouth region. We have proactively developed a new plan to refurbish our activated sludge processes on our wastewater treatment works as well as plans to replace some of our largest blowers providing air to those processes. We have also conducted site-based energy audits on our Bristol Water sites as part of compliance with Phase 3 of the Government's Energy Savings Opportunities Scheme (ESOS).
- We have embarked on a nitrous oxide (N2O) emissions monitoring trial at our Countess Wear (Exeter) wastewater treatment works, as well as a separate trial to measure fugitive emissions of methane (CH4) emissions at the same site.
- Our transition to electric vehicles continues with over 50 electric vehicles now on our fleet of vans and cars. Whilst the most of our transport fleet is still petrol or diesel fuelled, we plan to gradually transition to a 100% electric vehicle fleet during the next decade.

Pillar 2

Championing renewables



- 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.

- South West Water continues to source 100% renewable electricity (since 2022). We will negotiate to switch Bristol Water to 100% renewable electricity at the appropriate contract renewal time.
- Onsite renewables with third parties are a mix of CHP, hydro, solar and wind. SWW has achieved 9.1% and Bristol 1.1% on-site renewable energy generation.
- We have completed a feasibility study for the installation of floating solar PV arrays at a number of our reservoirs and are progressing to the next stages at one of our large drinking water sites.
- We have made a significant advance in sourcing off-site renewables through the third party owned Rexion Cross 500kW wind turbine, which is now feeding renewable electricity into our Roadford Reservoir site through a private wire. The turbine has the potential to generate 1.5GWh of energy each year which is approximately 15% of the total energy used on the site.

Pillar 3

Reversing carbon emissions



- 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.

- 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 2023-24 we have planted 80,327 trees to exceed our annual target of 50,000 trees and restored 493 hectares of peatland towards a total of 1,558 hectares restored so far throughout AMP7. Once completed our peatland restoration programme planned for AMP7 is expected to sequester around 650,000 tCO₂e over the next 50 years. Meanwhile the 253,000 trees now planted (AMP7 delivery) are expected to store an estimated 17,700 tCO₂e during the next 30 years.
- Looking forward, we have included a range of nature-based solutions in the PR24 Business Plan submission (2025-2030) to increase opportunities to lock up carbon through our activities. We continue to collaborate across the water industry to investigate other land and marine-based carbon sequestration opportunities, such as seagrass restoration and development of a soil carbon code.

Net Zero – our promise to the planet *continued*

Science Based Targets

As a Group we have committed to near-term Science Based Targets (SBTs). Our targets were validated and approved by the Science Based Targets Initiative in May 2024 and we will now focus on delivering our 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, presented below, support our water and wastewater greenhouse gas, and embodied carbon bespoke performance commitments.

The Group commits to reduce absolute scope 1 and scope 2 GHG emissions 68% by 2032/33 from a 2021/22 base year.

The Group commits to reduce absolute Scope 3 GHG emissions from 'well to tank' 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 FY2027/28.

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 78 to 109.

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 2023/24 performance is presented below.

Net Zero target	2023/24 Performance	2023/24 Target	2025 Target	2030 Target
% Energy usage from renewable generation	7.5%	8%	13%	50%
Reducing GHG emissions (%)*	71.9%	68%	70%	100%

These figures have been externally assured by DNV.

* Scope 2 market-based emissions only.

GHG emissions

Scope 2 market-based GHG emissions have reduced from 91,330 tCO₂e (restated figure due to fuel mix disclosure correction) to 25,662 tCO₂e this year from our 2020/21 baseline equating to a 71.9% 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.45.2%.

Full details of our 2023/24 GHG emissions are provided in our SECR report from page 71.

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 up to one-third of the water sectors total emissions. We are committed to reducing all sources of our carbon emissions, which is why we have developed a bespoke performance commitment to support our embodied carbon 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 technologies for embodied carbon accounting, and strategies to drive down our emissions.

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 hasten 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. Our bespoke approach will ensure an enduring Net Zero culture.

Renewable energy

We remain committed to our target of 50% of energy generation from a mix of renewable energy sources including onsite Solar PV, floating Solar PV, grid connected Solar PV, wind power, hydroelectricity and making more use of our bioresources for generating energy.

We have achieved 7.5 % energy from renewable sources across the group in 2023/24.

This performance is despite below average solar radiation last year and an enhanced maintenance regime across all our assets. In addition, we have continued delivery of our latest on-site solar and connection of a wind turbine to Roadford treatment works via a private wire arrangement. Overall, our installed renewable energy capacity now totals 18.5MW including connected private wire assets.

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. Worldwide there is difficulty in measuring process emissions, this means that it is difficult to establish a baseline and monitor changes in N₂O emissions. Measuring and monitoring is the first step; without it, we cannot establish the efficacy of N₂O reduction initiatives. We are piloting a N₂O monitoring technology at one of our wastewater treatment sites, Countess Wear. This pioneering initiative, where the treatment facility has recently been cleaned, will benchmark 'low' N₂O emissions under various scenarios, and allow us to assess seasonal variability in N₂O emissions over the course of the year. We have also commenced with a separate trial to directly measure fugitive emissions of methane (CH₄) at the same site. Findings from these trials will inform effective process emission reduction strategies in the future.

Transition plan

Through our established strategies, plans and policies, we are preparing for a changing climate and lower carbon economy. Our annual TCFD response on pages 78 to 109 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. We are aware of the work of the newly established Transition Plan Taskforce (TPT) to develop a 'gold standard' framework for transition plans. We are considering the TPT's guidance and will look to publish our Group Transition Plan in due course.

For further information on nature-related disclosures, please see our Taskforce on Nature-related Financial Disclosures on pages 78 to 109.

Net Zero Plan scope includes Scope 1 & 2 (market based) GHG emissions and the following Scope 3 activities: outsourced activities; power transmission & distribution, business travel, grey fleet (private vehicles used on Company business).

Sustainability Reporting

Streamlined Energy and Carbon Report (SECR)

Pennon Group plc GHG emissions

	2023/24		2022/23	
	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	5,467	5,467	8,003	8,003
Process and fugitive emissions	16,170	16,170	15,389	15,389
Transport: Company owned or leased vehicles	5,100	5,100	5,381	5,381
Total Scope 1 GHG emissions (tCO ₂ e)	26,737	26,737	28,773	28,773
Scope 2 GHG emissions (tCO ₂ e)	25,662	83,575	31,321	77,217
Total gross Scope 1 & 2 GHG emissions (tCO ₂ e)	52,399	110,312	60,094	105,990
Scope 3 GHG emissions ⁴ (estimated) ²	315,867	315,867	239,653	239,653
Total gross Scope 1, 2 & 3 GHG emissions (tCO ₂ e) ⁴	368,265	426,178	299,747	345,643
GHG emissions removals through purchases of Renewable Energy Guarantees of Origin (tCO ₂ e) ⁵	Included in scope 2 above	-	Included in scope 2 above	-
GHG emissions saved by exporting self-generated electricity (tCO ₂ e)	0	0	0	0
Total annual net GHG emissions (tCO ₂ e) ⁴	368,265	426,178	299,747	345,643
Energy consumption used to calculate Scope 1 and 2 GHG emissions (MWh) (see Energy usage section)	459,736	459,736	461,716	461,716
GHG emissions intensity measure: tCO ₂ e (gross Scope 1+2/£100,000 revenue) ³	6.0	12.7	7.3	12.9
Biogenic GHG emissions outside of Scopes (tCO ₂ e)	3,076	3,076	3,148	3,148

SES Water GHG emissions⁵

	2023/24	
	market based	location based
Scope 1 GHG emissions by source (tCO ₂ e)		
Direct emissions from burning of fossil fuels	516.54	516.54
Process and fugitive emissions	0	0
Transport: Company owned or leased vehicles	411.60	411.60
Total Scope 1 GHG emissions (tCO ₂ e)	928.14	928.14
Scope 2 GHG emissions (tCO ₂ e)	0	11,018.64
Total gross Scope 1 & 2 GHG emissions (tCO ₂ e)	928.14	11,946.78
Scope 3 GHG emissions (estimated)	1,281.42	1,281.42
Total gross Scope 1, 2 & 3 GHG emissions (tCO ₂ e)	2,209.56	13,228.20
GHG emissions removals through purchases of Renewable Energy Guarantees of Origin (tCO ₂ e)	Included in scope 2 above	-
GHG emissions saved by exporting self-generated electricity (tCO ₂ e)	0	0
Total annual net GHG emissions (tCO ₂ e)	2,209.56	13,228.20
Energy consumption used to calculate Scope 1 and 2 GHG emissions (MWh)	55,436.58	55,436.58
GHG emissions intensity measure: tCO ₂ e (gross Scope 1+2/£100,000 revenue)	1.39	17.84
Biogenic GHG emissions outside of Scopes (tCO ₂ e)	-	-

Notes:

Pennon Group plc total Scope 1 (26,737 tCO₂e), Scope 2 market-based (25,662 tCO₂e), Scope 2 location-based (83,575 tCO₂e) GHG emissions, market-based GHG emissions intensity measure (6.0 tCO₂e) (gross Scope1+2/£100,000 revenue), and location-based GHG emissions intensity measure (12.7 tCO₂e) (gross Scope1+2/£100,000 revenue). These figures have been independently assured by DNV.

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 2023/24 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 at a consequence of our actions, which occur at sources which we do not own or control.

- GHG emission figures are expressed in tonnes of carbon dioxide equivalents (tCO₂e) whereby emissions of carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), 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/reportandpresentations.
- Estimated GHG emissions for relevant Scope 3 categories calculated in 2023/24 are provided in our ESG Databook available on our website: www.pennon-group.co.uk/reportandpresentations.
- Based on relevant Group revenue for 2023/24 (excluding SES Water).
- 2022/23 Scope 3 figures restated to correctly account for waste generated in operations.
- SES Water's GHG Emissions figures have been assured in line with ISO14064-1.
- Renewable Energy Guarantees of Origin (REGOs) certificate assured by DNV for electricity consumption in period April 2023 to March 2024 for South West Water electricity consumption.

Operational Pennon Group plc GHG emissions by business

	South West Water	Bristol Water	Group total*
Scope 1 GHG emissions (tCO ₂ e)	20,870	5,548	26,737
Scope 2 GHG emissions (market based) (tCO ₂ e)	72	25,238	25,662
Total gross Scope 1 & Scope 2 GHG emissions (tCO ₂ e)	20,942	30,787	52,399
Operational intensity measure (kgCO ₂ e/MI) – Water	38.77	209.42	n/a
Operational intensity measure (kgCO ₂ e/MI) – Wastewater	111.15	n/a	n/a

Note:

For 'Water' measure MI = measured water into supply.

For 'Wastewater' measure MI = full measured flow treatment.

* Group total includes 670 tCO₂e from Pennon Water Services and Group shared service, and excludes SES Water.

Change in GHG emissions

Operational Scope 1 and 2 emissions (market-based) decreased by 12.8% from 2022/23, largely as a result of a reduction in the need for additional water pumping in 2023/24 as the weather was much wetter than 2022/23. This also coincided with a reduction in the use of diesel fuel for pumping and stand-by generation, as well as a reduction in the emissions factor applied to our Bristol Water grid electricity consumption. The revenue-based intensity metric has continued to reduce for the Group and the 'market-based' value now stands at 6tCO₂e/£100,000 turnover compared to a value of 7.3 tCO₂e/£100,000 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 2023/24 activity data for the Group. The estimated Scope 3 GHG emissions for 2023/24 for the Group are 314,999 tCO₂e compared to the equivalent figure in 2022/23 of 239,653 tCO₂e (Restated to correctly account for waste generated in operations). Bristol Water's Scope 3 activities have been calculated and reported within the Group figures for the first time. The change in reported emissions is due to better interrogation of the spend data used to drive Category 1 purchased goods and services calculation. This analysis showed that some financial spend lines were wholly down to financial transactions with zero emissions associated and therefore these activities were excluded from 2023/24 calculations.

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 2023 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 DNV. 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 484,374 MWh of energy in 2023/24, compared to 485,823 MWh in 2022/23. 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

	2023/24 (MWh)	2022/23 (MWh)	Methodology
Imported grid electricity ⁴	404,426	399,301	Metered data except some NHHM supply which is estimated by electricity supplier ²
Imported private wire electricity (renewable)	5,804	4,819	Metered data
Self-supplied renewable electricity	10,656	12,079	Metered data
Self-supplied heat	7,068	7,141	Estimated that 60% of heat generated by sewage gas CHP is beneficially used, the rest (40%) is released to atmosphere
Natural gas ⁴	25,407	23,471	Metered data – from billing (some element of estimates)
Liquid fuels (for stationary applications) ⁴	6,375	14,904	Estimated based on fuel use/spend data. Reported totals calculated based on raw data provided by the supplier
Energy used by fleet transport ⁴	24,639	24,107	Estimated based on fuel use/spend and mileage data ²
Total energy usage	484,374	485,823	
Intensity measure: MWh/£100,000 revenue ³	55.53	58.97	

Energy usage data notes:

1. Total energy usage (484,374 MWh) by has been independently assured by DNV.
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 2023/24.
4. Energy consumption used to calculate Scope 1 and 2 GHG emissions.

Energy efficiency action taken

Our energy efficiency interventions during 2023/24 are estimated to have avoided around c.6.5 GWh of additional energy use, or around 1.4% of our total energy consumption (excluding transport). We have taken further steps this year to focus on testing, repairing or replacing our largest rotating operational assets. These actions were prioritised based on the resilience offered to sites, as well as for optimising our energy consumption. We have been modernising our rotating assets, including the deployment of more efficient aeration equipment in the form of new blowers (air compressors), and we have also embarked on a programme of optimising our Ultra-Violet treatment infrastructure, including making sure the calibration of the equipment controlling is carefully set up to deliver the most efficient usage.

SASB Pennon 2023/24 disclosure

For the third year, we have aligned our non-financial disclosures to the Sustainability Accounting Standards Board (SASB) reporting framework.

SASB provides a set of industry specific standards (Water Utilities and Services industry), which each cover topics which are material to our investors. These topics contain a number of metrics we disclose against. SASB metrics include the full Group including Bristol Water and SES Water unless explicitly stated; however some metrics related to regulated figures are currently reported separately within the South West Water and Bristol Water Annual Performance Reports (APR's) respectively. The latest APR's were published in July 2023.

Metric	Code	2023/24 Disclosure
Energy Management		
(1) Total energy consumed,	IF-WU-130a.1	(1) 484,374 MWh
(2) percentage grid electricity and		(2) 83.5%
(3) percentage renewable		(3) 72.9%
		Pennon Annual Report, SECR, page 73
		*These figures are excluding SES Water
Distribution Network Efficiency		
Water main replacement rate	IF-WU-140a.1	Mains Repairs, (Number of repairs per 1,000km) SWW: 136.6 BRL: 126.5 SES: 63.8 *unassured forecast Pennon Annual Report, Mains Repairs, page 42
Volume of non-revenue real water losses	IF-WU-140a.2	Leakage (3-yr average) (ML/day) SWW: 107.0 BRL: 37.6 SES: 21.5 *unassured forecast Pennon Annual Report, Leakage, page 42
Effluent Quality Management		
Number of incidents of non-compliance associated with water effluent quality permits, standards, and regulations	IF-WU-140b.1	South West Water EPA data report, 5. Discharge permit compliance metric. Available at: https://www.gov.uk/government/publications/water-and-sewerage-companies-in-england-environmental-performance-report-2022
Discussion of strategies to manage effluents of emerging concern	IF-WU-140b.2	South West Water contribute to the Chemical Investigation Programme (CIP), please refer to CIP data portal – available at: https://ukwir.org/sign-up-and-access-the-chemical-investigations-programme-data-access-portal To see the findings from the latest CIP3 report, please refer to: CIP3 reports. Available at: https://ukwir.org/cip3-information

Metric	Code	2023/24 Disclosure
Water Affordability & Access		
Average retail water rate for (1) residential, (2) commercial, and (3) industrial customers	IF-WU-240a.1	<p>SWW: (1) avg: £486/year (£50 Government contribution applies) (2), (3) Details of wholesale charges can be found at: https://www.southwestwater.co.uk/businesses/wholesale-services/tariffs</p> <p>BRL: (1) avg: £185/year (clean water only) (2), (3) Details of wholesale charges can be found at: https://www.bristolwater.co.uk/hubfs/Wholesale%20Tariffs/BRL%20Wholesale%20Charges%20Schedule%202024-25.pdf</p>
(1) Number of residential customer water disconnections for non-payment, (2) percentage reconnected within 30 days	IF-WU-240a.3	0, we do not disconnect customers for non-payment.
Discussion of impact of external factors on customer affordability of water, including the economic conditions of the service territory	IF-WU-240a.4	We address affordability and vulnerability of customers within our service territory extensively within our business plan document available at: www.southwestwater.co.uk/siteassets/document-repository/business-plan-2020-2025/addressing-affordability-and-vulnerability.pdf
Drinking Water Quality		
Number of incidents of non-compliance associated with drinking water quality standards and regulations	IF-WU-250a.1	<p>Drinking Water Quality is reported in our Clean, safe and reliable water scores (CRI Score): SWW: 3.02 BRL: 7.05 SES: 0.01</p> <p>Also in our Taste, smell and colour contacts rates (contacts per 1,000 population): SWW: 1.66 BRL: 0.82 SES: 0.58</p> <p>Pennon Annual Report, Clean, safe and reliable water, (CRI Score), Taste, smell and colour contacts, pages 42 to 43</p>
Discussion of strategies to manage drinking water contaminants of emerging concern	IF-WU-250a.2	<p>For more information on our specific strategies to improve water quality, such as the Upstream Thinking Project, please visit: https://www.southwestwater.co.uk/environment/working-in-the-environment/upstream-thinking/the-project/</p> <p>For more information about Bristol Water's catchment sensitive farming partnership to improve water quality and enhance habitats please visit: https://www.bristolwater.co.uk/performancecommitments</p>
End-Use Efficiency		
Percentage of water utility revenue from rate structures designed to promote conservation and revenue resilience	IF-WU-420a.1	We do not apply different rate structures.
Customer water savings from efficiency measures, by market	IF-WU-420a.2	<p>In addition to reducing our own water use by over 11ML/day over the past two years, we provide funding to support local organisations every year through our Water-Saving Community Fund which helps to provide water efficiency improvements such as education campaigns, water butts and rain gardens.</p> <p>Pennon Annual Report, Water Saving Community Fund, page 33, and more information available at: https://www.pennon-group.co.uk/sustainability</p>

Sustainability reporting *continued*

Metric	Code	2023/24 Disclosure
Water Supply Resilience		
Total water sourced from regions with High or Extremely High Baseline Water Stress; percentage purchased from a third party	IF-WU-440a.1	You can visit our South West Water Drought Plan (2022)- available at: https://www.southwestwater.co.uk/siteassets/document-repository/environment/sww-bw-finaldrought-plan-september-2022.pdf For further information of classifications, please refer to the EA's Water Stressed Areas Classification report available at: https://www.gov.uk/government/publications/water-stressed-areas-2021-classification Under the EA classification Bristol Water do not source water from regions with high or extremely high-water stress
Volume of recycled water delivered to customers	IF-WU-440a.2	We do not currently deliver recycled water to customers, however South West Water Updated Draft Water Resources Management Plan 2024 (dWRMP24) highlights plans to do this in the future in locations such as Poole and Countess Wear. Read more here: https://www.southwestwater.co.uk/siteassets/documents/about-us/wrmp/revise-dwrmp/sww-dwrmp24-appendix-7-sea-report-dec23-main-report.pdf
Discussion of strategies to manage risks associated with the quality and availability of water resources	IF-WU-440a.3	Our dWRMP24 highlights our Drinking Water Safety Plan, and Modelling & Scenario Analysis. Read more here: https://www.southwestwater.co.uk/siteassets/documents/about-us/wrmp/revise-dwrmp/sww-dwrmp24-appendix-7-sea-report-dec23-main-report.pdf
Network Resiliency & Impacts of Climate Change		
Wastewater treatment capacity located in 100-year flood zones	IF-WU-450a.1	We have published our first Drainage and Wastewater Management Plan (DWMP), in accordance with new government regulations. Within this plan we have outlined which of our assets are at risk from coastal erosion and sea level rise, available at: https://www.southwestwater.co.uk/siteassets/documents/about-us/dwmp/our-plan/dwmp-our-plan.pdf
(1) Number and (2) volume of sanitary sewer overflows (SSO) and (3) percentage of volume recovered	IF-WU-450a.2	Please refer to our 2023 EDM Return - available at: https://www.southwestwater.co.uk/siteassets/documents/about-us/business-plans/2020-25/edm-return-south-west-water-storm-overflow-annual-2023--ea-publish-version.xlsx
(1) Number of unplanned service disruptions and (2) customers affected, each by duration category	IF-WU-450a.3	"Unplanned outages (%) and Supply interruptions (Duration per property per year): SWW: (1) 1.14 (2) 00:09:28 BRL: (1) 2.58 (2) 00:09:24 SES: (1) 0.81 (2) 00:03:36 Pennon Annual Report, page 42
Description of efforts to identify and manage risks and opportunities related to the impact of climate change on distribution and wastewater infrastructure	IF-WU-450a.4	South West Water WRMP, Section 5. Forecasting our supply requirements, chapter 4. Impacts of climate change on water supply. Please refer to: South West Water Draft Water Resource Management Plan (WRMP) 2024 - available at: https://www.southwestwater.co.uk/environment/water-resources/waterresources-management-plan/ Climate change Adaptation Report, 2021. Appendix A: Detailed risk management matrix - available at: https://www.southwestwater.co.uk/siteassets/document-repository/environment/climatechange-adaption-2021.pdf Bristol Water Bristol Water's Draft Water Resource Management Plan (WRMP) 2024, Chapter 9. Climate Change - available at: https://www.bristolwater.co.uk/about-us/our-plans/water-resources/ Please see our Pennon Group plc TCFD statement available in our Pennon Annual Report, pages 78-109
Activity Metric		
Number of (1) residential, (2) commercial, and (3) industrial customers served, by service provided	IF-WU-000.A	Populations served: SWW c1.8m BW c.500,000 BRW c12m Isles of Scilly c.2,000 SES c.740,000 Pennon Annual Report and Accounts, Pennon at a glance, Page 2.

Metric	Code	2023/24 Disclosure
Activity Metric (cont.)		
Total water sourced, percentage by source type	IF-WU-000.B	South West Water and Bristol Water APR Additional regulatory information section - Water resources asset and volumes data table ESG Databook, section 1.5 Water
Total water delivered to: (1) residential, (2) commercial, (3) industrial, and (4) all other customers	IF-WU-000.C	South West Water and Bristol Water APR Additional regulatory information – Water network plus, Treated water distribution – assets and operations table
Average volume of wastewater treated per day, by (1) sanitary sewer, (2) stormwater, and (3) combined sewer	IF-WU-000.D	South West Water and Bristol Water APR Additional regulatory information -Wastewater network plus, Wastewater network+ – Sewer and volume data table and Sewage treatment works data table
Length of (1) water mains and (2) sewer pipe	IF-WU-000.E	Pennon Group plc (1) 29,000km of water pipes (2) 23,000km of sewers Pennon Annual Report and Accounts, Pennon at a glance, Page 2

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 are committed to meeting the challenges arising as a result of climate change, the nature emergency, and the transition to Net Zero.

Our regulated water business is the main focus of our TCFD & TNFD disclosures, with the majority 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 fifth year of TCFD reporting and the below shows our progress and compliance with the recommendations including the updated TCFD guidance (2021 Annex).

In alignment with FCA listing rule 9.8.6R(8) we have taken into account available knowledge and guidance concerning the listing rule and climate-related risks to develop our compliant TCFD disclosure. Each year our disclosures have been enhanced as knowledge and guidance improves. Pennon has addressed the 11 recommended disclosures and has considered the latest 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.

TNFD recommendations

The TNFD published its final framework for nature-related financial disclosures in September 2023. This is our third year of voluntarily reporting against the TNFD framework. This year we are taking the opportunity to integrate TNFD into our TCFD disclosures, recognising the substantial overlap and synergies for our business 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.

We acknowledge there is further work to do on the recommended TNFD disclosures, and we are continuing to monitor the inclusion on nature-risks in the UK sustainability disclosure requirements.

Developments in 2023/2024

2023 was another year of record-breaking weather with higher than average rainfall rates and frequent storms bringing extreme rainfall and winds. This has presented operational challenges to overcome and although we have ensured the safe and secure supply of water and wastewater services in the region, it further highlights the need for climate change resilience and preparedness. These events have provided us with significant insight into our resilience to these kinds of events (which we may see more frequently in the future), which are factored into our update of our physical climate risk assessment and our review of adaptive strategies.

In addition to our published Water Resources Management Plan (WRMP24) and Drainage & Wastewater Management Plan (DWMP), South West Water developed its £2.8 billion business plan proposal (2025-2030) for PR24, focusing on water quality and resilience, storm overflows and pollution, net zero and environmental gains, and addressing customer affordability. Therefore, our TCFD disclosure reflects updated current and future actions to mitigate risks and realise opportunities. The updates to our climate risk assessments also consider new climate-related evidence and recent publications from the Intergovernmental Panel on Climate Change (IPCC) and Climate Change Committee (CCC), further to recent publications from Ofwat (our economic regulator) on scenario analysis, adaptive planning, PR24 methodology, and updates in regulation and legislation, the latter of which gives us greater confidence in our transition risk impact reporting in the short term.

Our Company has continued to grow over the past year, with Pennon Power acquiring four new renewable energy generation projects to accelerate our transition to Net Zero, and the acquisition of SES Water. Through Pennon Power we are realising some of the benefits described in our opportunities, whilst in our view SES Water's material climate risks and opportunities will be similar to the SWW water business risks. We are taking the opportunity to further our resilience this year as we update our Climate Adaptation Report as part of the UK government's adaptation reporting cycle to feed into the next UK Climate Change Risk Assessment.

We are focused on delivering for our stakeholders including our customers and shareholders. As a result, we are continuing to embed climate change resilience, sustainability, and nature-positive practices into decision making within our business, as well as managing the 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 the current global constraints on capacity and supply chains to deliver both affordability and fairness for our customers.

As a Group, we maintain consistent and strong reporting with the CDP, presenting our efforts to combat climate change and our GHG emissions since 2013. Our GHG emissions performance continues to improve, reported through our CDP Climate Change submission in which we received a B in 2023 for both climate change and water security. You can read about our GHG emissions performance on page 71.

Governance

Our governance around climate-related and nature-related risks and opportunities

2023/24 progress	2024 and beyond
<ul style="list-style-type: none"> 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-related risk and opportunities. We continue to incorporate carbon values into our investment decision-making, and we continue to incentivise our Executives to deliver climate and environmental goals. 	<ul style="list-style-type: none"> We will continue to further embed climate resilience and consider enhancements to our governance around nature-related risks and opportunities. We will continue to further embed the assessment and identification of climate-related risks and nature-related risks within our investment appraisal processes.

Strategy

The actual and potential impacts of climate-related and nature-related risks and opportunities on our business, strategy, and financial planning

2023/24 progress	2024 and beyond
<ul style="list-style-type: none"> 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. We have considered climate change and nature recovery in South West Water's strategic planning for Water Resources (WRMP24) and our PR24 Business Plan. 	<ul style="list-style-type: none"> We will continue to integrate our climate risks within our existing risk management systems and risk registers across the Group. Risk owners will continue to drive and monitor action to manage risks and pursue opportunities. We will consolidate our assessment of nature-related risks and opportunities to identify our most material risks. We will continue to review our policies and strategic decision-making across the Group in order to enhance considerations of climate and nature risks and opportunities.

Risk management

The processes we use to identify, assess, and manage climate-related and nature-related risks and opportunities

2023/24 progress	2024 and beyond
<ul style="list-style-type: none"> We have reviewed our principal risks and enhanced our recognition of how climate change, Net Zero, and the nature emergency impact and influence our principal risks. 	<ul style="list-style-type: none"> We will continue to review and update our management of climate and nature risks and our decision-making frameworks to ensure risks are clearly identified and assessed through the investment processes and operational decision-making.

Metrics and targets

The metrics and targets we use to assess and manage the relevant climate-related and nature-related risks and opportunities

2023/24 progress	2024 and beyond
<ul style="list-style-type: none"> We have continued to monitor key metrics linked to selected climate 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. We are undertaking analysis to quantify key risks, such as major assets at risk of coastal flooding. 	<ul style="list-style-type: none"> We are continuing to explore options to develop quantitative metrics for our key climate risks and opportunities, and exploring our ability to report on our capital expenditure related to climate action.

Climate-related and nature-related governance

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 is held by the Pennon Group Board and CEO. Various Board Committees and executive sub-committees play a key role in overseeing climate-related and nature-related risks within their domain.

The Group recognises that climate change, the nature emergency, and the transition to Net Zero impacts and influences several of the Group's principal risks (see our Principal Risks report on page 55). Principal risks are reviewed as part of our audit governance processes. During the regulatory period, climate change planning is assessed to ensure the business remains resilient to changes to its capital programme.

Pennon Group and South West Water Boards

The Group and South West Water Boards provide oversight to the management of our climate-related and nature-related risks and opportunities, through the ESG Committee. The Boards have overall responsibility for the Group’s risk management policies and processes, and all principal risks are reviewed by the Boards on a regular basis. The Boards consider 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/divestments. We are continuing to enhance the awareness and capacity of our Boards and senior executives relating to climate and nature risks and opportunities. For more information see our Corporate Governance report pages 112 to 174.

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 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 will be enhanced in the next AMP period when our performance commitments will include biodiversity.

Audit Committee

Attendance: Meets 4 times annually. Attended by the Chair and other Non-Executive Directors.

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 page 136.

ESG Committee

Attendance: Meets 4 times annually. Attended by the Pennon Board, CEO, 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 our ‘6 capitals’ assessments, and reviewing performance against ESG targets and goals. The Sustainable Financing reporting and monitoring is reported to the Committee for onward submission to the Board. Further information on page 144.

Nomination Committee

Attendance: Meets 4 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 page 131.

Remuneration Committee

Attendance: Meets 4 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 page 148.

Health and Safety Committee

Attendance: Meets 2 times annually. Attended by the Chair, CEO, 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 H&S reporting and performance. Further information on page 146.

PR24 Committee

Attendance: Meets during the Board cycle to review and monitor the PR24 Business Plan progress. Attended by the Chair, other Non-Executive Directors, CEO, CFO, and other Group Executives.

Role relating to climate and nature risks and opportunities: Considers climate change, nature recovery, and Net Zero as part of business planning and the Group’s PR24 strategy.

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. The responsibility for climate-related and nature-related risks is owned, managed, and assessed by a number of the Group's management teams across our business including our management responsible for water resources, wastewater, regulation, procurement, engineering, natural resources/biodiversity, and finance. Risk is identified and categorised in different parts of our business prior to being formally passed onto senior management responsible for those business functions. Each business function and department maintains a risk register, and management escalate risks to the Executive Committees 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 performance including targets relating to climate resilience, carbon reduction, water quality, environmental performance, the working environment for our employees, and diversity.

Pennon Executive Board¹

Attendance: CEO, CFO, COO, GCCS, CPO, CCDO, Director of Regulation Strategy and Net Zero of SWW, Chief Engineering Director of SWW, Director of Drought and Resilience of SWW.

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 Pennon Executive Board (PEX), and below are some of the key committees which consider climate-related risks and opportunities within their remit:

- South West Bournemouth Bristol Executive Board (SWBB) - oversees and informs Board Committees on operational performance and risks across the regulated water businesses, including the impacts of climate-related and nature-related risks to operations, and the actions being taken to manage operational risks.
- Net Zero Executive Committee - monitors, reviews, and provides support for the implementation of the Net Zero Strategy, including considering risks and opportunities relevant to delivery of the strategy, including nature-based solutions.

Strategy

We are recommended by TCFD to 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 102. 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 55. We have identified impacts over short (0-10 years), medium (10-30 years) and long term (30-100 years) horizons (the rationale behind these time horizons is presented on page 102).

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 scenario analysis, exploring the potential range of impacts and our strategic responses under plausible contrasting climate scenarios (see page 103).

1. CEO = Group Chief Executive Officer, CFO = Group Chief Financial Officer, GCCS = Group General Counsel & Company Secretary, COO = Chief Operating Officer of SWW, CPO = Group Chief People Officer, CCDO = Chief Customer and Digital Officer of SWW

Key			Risk Trend		
Risk ratings			▲ Increasing ↻ Stable ▼ Decreasing		
● High	● Medium	● Low			

Physical climate risks

Key physical climate risks

Increasing frequency and intensity of droughts - risks to water supply, wastewater networks, 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

- 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.
- Water companies are legally expected to protect, restore and enhance the environment, which includes ensuring sustainable abstraction practices to leave enough water for the environment. This becomes more challenging during droughts.
- Saline intrusion due to lowering groundwater compounded by sea level rise (see 'Rising sea levels' risk).
- Decreased quality of raw water (see 'gradual and significant increasing average and high temperatures - risks to water quality and water treatment').
- Impacts on wastewater networks due to low flows from surface water.
- Low water levels lead to increased incidences of invasive non-native species (INNS) as they are de-stressed and seek new habitats.

Key physical climate risks

Gradual and significant increasing average and high temperatures - risks to 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



- Decreased water quality (odour, discolouration, dissolved organics, cryptosporidium) requiring additional resources and cost to remove pathogens from drinking water or ensure water quality meets regulatory standards at water treatment works (WTWs).
- Increased microbe propagation and survivability affecting treatment processes.
- Higher septicity levels in received wastewater.
- Algal blooms, triggered by catchment 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

Current actions:

- Collaborative water resource management planning – West Country Water Resources and Water Resources South East.
- Drought planning including more extreme events. Stochastic and multi-year drought analysis to test how water supply systems perform in extreme prolonged droughts.
- Prioritisation of support for vulnerable customers during droughts.
- Demand management and water efficiency, including increased metering, Per Capita Consumption (PCC) reductions and leakage reduction strategy.
- Smart Saver tariff trial.
- Cheddar 2 reservoir in Bristol and water reuse plant in Poole.
- Water grid to ensure all strategic reservoirs are connected and improve resilience.
- Leakbot trial to reduce leakage levels.
- Smart pond trial to provide a local storage solution.
- Investigation of regional water transfers.
- Potential Abstraction Incentive Mechanism (AIM) schemes.
- Enhancements to distribution system to remove bottlenecks/ support us to meet peak demand.
- Desalination schemes in development to enhance our drought management in both Isle of Scilly and Cornwall.
- Repurposing quarries to provide new storage.

Planned or future actions:

- West Country Water Resources Regional Plan 2029 and Water Resources Management Plan 2029 water treatment improvements and wastewater reuse.
- Potential for additional desalination schemes.
- Ability to convert Mayflower Water Treatment Works (WTWs) to water reuse plant when, and if required in the future.
- Mainstream smart ponds.

Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

We could incur increased expenditure (Opex and Capex) to increase capacity for water supply infrastructure, and to manage drought conditions and water demand. 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 recover from service disruptions, reduce leakage, and manage water demand. Some of our assets could deteriorate and face impairment due to physical impacts.

Current actions:

- Upstream Thinking catchment management programme tackling raw water quality to increase resource availability in 80% of our drinking water catchments.
- Investment in six treatment works including granular activated carbon at certain WTWs.
- Robust health and safety practices and management.
- Farm water efficiency and resilience project – 1,000 pond nature-based solutions.
- Biodiversity management and INNS programmes.
- Installation of cooling systems for equipment/assets.

Planned or future actions:

- Upgrade to granular activated carbon treatment at further WTWs.

Impacts from mitigating the risk:

We could incur increased expenditure (Capex and Opex) for water and wastewater treatment and odour management, 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 incur increased expenditure (Capex and Opex) to recover our services or use alternative water supplies.

Some of our assets could deteriorate and face impairment due to physical impacts.

Key			Risk Trend		
Risk ratings			▲ Increasing ↻ Stable ▼ Decreasing		
● High	● Medium	● Low			

Physical Climate Risks continued

Key physical climate risks

Increasing frequency of heavy rainfall and floods - risks to assets and services, water quality, and the environment

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 risks

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:**

- Drainage & Wastewater Management Plan (DWMP) which includes working closely with other flood risk management organisations to develop shared solutions.
- Asset flood risk assessments undertaken every five years.
- Contingency planning in flood risk hotspots e.g. River Otter, including prioritisation of support for vulnerable customers.
- Sites have temporary deployable flood protection.
- Investment in current period to improve flood defences at four WTWs to provide resilience up to 1-in-1,000-year events.
- Catchment management through Upstream and Downstream Thinking.
- Continued investment in our WaterFit Plans - reducing storm overflow releases and improving river and coastal water quality, creating and restoring habitat, and looking to inspire local champions to improve water quality through schools and communities.
- Partnership flood schemes e.g. Countess Wear Wastewater Treatment Works (WWTW) (Exeter).
- Catchment Systems Thinking Co-operative (CaSTCo) project with the Centre for Resilience in Environment, Water and Waste (CREWW). Considers how nature based solutions can help reduce surface water inputs to the combined sewer network.
- Natural catchment management plan pilot study.

Planned or future actions:

- Continue to work closely with other flood risk management organisations on our shared responsibility for surface water flooding and drainage.
- Further sewer separation schemes in areas at risk.
- Surface water drainage plans and investment in key areas.
- Expand our Upstream Thinking initiative.
- Real-time monitoring and control e.g. at all Combined Sewer Overflows (CSO). Improved data recording has led to more transparency of this risk.
- Promote improved understanding that the number of CSOs does not directly equate to environmental or human health impact.
- Continue to improve incident management.
- Assess storm overflow solutions using the 'Green First' principle prioritising the consideration of nature-based solutions. Pilot study to develop a natural capital plan.

Current actions:

- Asset flood risk assessments undertaken every five years. Recent risk assessment incorporates the latest UK Climate Projections. Informs the development of Shoreline Management Plans to working collaboratively with other land holders on shared solutions.
- Managing risk to sites through existing Operational Response and Recovery Plans.
- Drainage and Wastewater Management Plan (DWMP)
- Prioritisation of support for vulnerable customers.
- Improved flood resilience of all assets in the coastal floodplain.
- Partnership flood schemes e.g. Countess Wear WWTW (Exeter).
- Protection of sites from saline intrusion/incursion (Otter Basin).
- Continuing work with stakeholders involved in managing coastal erosion.

Planned or future actions:

- Protection of further sites from saline intrusion/incursion.
- Desalination programme to replace 'at risk' sources such as Isles of Scilly boreholes.
- Ongoing work with other risk management authorities to inform the development of the relevant 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 Trend		
Risk ratings			▲ Increasing ↻ Stable ▼ Decreasing		
● High	● Medium	● Low			

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.

Climate transition risks

Type as defined by TCFD

Policy, Regulation and Legal Risks

Relevant time horizon of risk

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: Potential undesired climate outcomes due to trade-offs in regulatory priorities. Challenges with balancing objectives to improve environmental outcomes while reducing carbon emissions at the same time as rapid changes in climate-related policies and regulations are occurring in the Water sector.

A holistic and balanced approach to delivering our goals for Net Zero, providing a resilient water supply and protecting and enhancing the environment, could be at risk if one agenda imposes more stringent regulation, thus presenting a misalignment in the pace with which preferably holistic actions can be delivered relative to actions that benefit a single more stringent agenda. In some cases, new/enhanced policies and regulations pose a risk due to increasing costs to Pennon or increasing Pennon's carbon footprint, in other cases the absence of policies and regulation pose a risk due to potential that costs incurred by Pennon may not be recovered through the regulatory system.

Some examples include:

- More stringent environmental regulation being imposed in response to the climate adaptation and nature positive agenda, including the pace with which requirements are being imposed.
- Reduced abstraction allowances and increased compensation flows into our rivers being imposed (see our 'drought' physical risk).
- Increased environmental ambition by other stakeholders to replace lost coastal habitat and manage coastal erosion (see our 'rising sea levels' physical risk).
- Changes to carbon accounting methodologies and scope boundaries, including switch to location-based GHG accounting methodology instead of market-based accounting (e.g. disincentivising power purchase agreements (PPAs) for renewable energy).
- Use of modular desalination to ensure drought resilience at pace, but leading to increased energy consumption.
- Enhanced requirements which increase Pennon's energy and carbon footprint e.g. phosphorus removal, UV disinfection, reducing combined sewer overflows in cases where the scale and pace required disadvantages nature-based solutions.
- Regulation in contradiction to achieve overall Net Zero goals, and regulatory system providing limited incentives for wider Net Zero action outside of the regulated water business.

Examples of our actions to mitigate risks and realise opportunities

Current actions:

- Cold weather plan, including prioritisation of support for vulnerable customers.
- Investment in centralised control room and alternative water supply teams.
- Appointment of a new incident management team.
- Improved staff incident training.
- Working with other water companies to develop a business continuity and visualisation tool that will support operational decisions and reduce customer impacts, including to the most vulnerable people.
- Backup power at plants to manage risks of energy supply interruption.
- Programme of generator roll-outs.
- Recovery plans for 100 WWTWs.
- Working with other stakeholders (e.g. energy providers) to enhance resilience.
- Mutual aid agreements to manage competing responses for aid during emergency events.
- Strategic water grid to enhance resilience of supply.
- Diversified energy supply with our own generation of renewable energy provides additional energy resilience.

Planned or future actions:

- Extend real-time monitoring and control.
- Extend recovery plans at more WWTWs.
- Invest in mobile granular activated carbon units.
- Further investment in generating renewable energy and back-up power.
- Use of drones during drought and high temperature events to identify leaks.
- Public value assessments in decision-making (balancing trade-offs of different agendas, and contradictions in the regulatory framework).
- Seeking opportunities for additional funding, making the investment case based on core water company activities.
- Future climate adaptation planning and transition planning.

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.

Examples of our actions to mitigate risks and realise opportunities

Balancing trade-offs from actions to address different agendas in policy and regulation:

Current actions:

- Horizon scanning to identify emerging/changing regulation.
- Stakeholder engagement/public relations management.
- Net Zero programme.
- Engaging with regulators to explain the climate change impacts of new regulation.
- Working with others in the sector to clarify carbon accounting approaches.
- Widely engaged with around 200,000 customers and stakeholders over the past two years in developing PR24 business plan. These engagement activities will continue across the region.
- Working with our WaterShare+ Customer Advisory Panel gives us an opportunity to continuously engage our customers and share our work on sustainability and resilience.
- Adaptive planning approach within WRMP24 and DWMP23, including high, moderate, and low environmental ambition.
- Considering options which Pennon can take outside of the regulatory framework (e.g. offsite investment in renewable energy).
- Ofwat innovation fund being explored to provide additional investment to support Pennon's ambitious objectives.
- Establishment of the Centre for Resilience in Environment, Water and Waste (CREWW) to collaborate with academia and tackle challenges facing water sector.

Future actions:

- Pursuing opportunities through our Upstream Thinking programme which includes nature-recovery programmes across our region and other nature-based solutions where these are acceptable under the regulation.
- Investment in innovation/ research and development, and investment in enhancements to resilience to key climate risks.
- Considering applying an internal carbon price to consider full costs and benefits of decisions.
- Public value assessments in decision-making (balancing trade-offs of different agendas, and contradictions in the regulatory framework).
- Seeking opportunities for additional funding, making the investment case based on core water company activities.
- Future climate adaptation planning and transition planning.

Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

We could incur increased expenditure (Capex and Opex) due to changes to regulation, for example costs related to installation and operation of new process equipment to meet enhanced regulations. Some of these costs could be recoverable through the regulatory system. Increased energy and material use to meet increased regulatory requirements has potential to increase our footprint through operational and embodied carbon.

Impacts of the unmitigated risk:

If we fail to balance regulatory requirements, we could face reduced ODI rewards/ increased ODI penalties (affecting our revenue). Public perception of how we balance trade-offs could result in negative impacts on our reputation (see our see our 'Negative public and stakeholder' relations risk).

Some of our assets could incur obsolescence and impairment if they are driving high carbon emissions or poor environmental outcomes.

Key	
Risk ratings	Risk Trend
● High ● Medium ● Low	▲ Increasing ↻ Stable ▼ Decreasing

Climate transition risks continued

Key impacts identified on our operations and customers

Type as defined by TCFD

Policy, Regulation and Legal Risks

Relevant time horizon of risk

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



Regulatory funding risk for achieving Pennon's goals for operational Net Zero by 2030

and adapting to climate change: Risk that the investment required to transition to operational Net Zero by 2030, and investment to proactively adapt to climate change in the time period targeted by Pennon, is not allowed under the regulatory framework.

Examples of our actions to mitigate risks and realise opportunities

Managing regulatory funding risk:

Current actions:

- Business planning and integration of carbon and multi-capitals into decision-making frameworks.
- Engagement with regulators and customers and stakeholders.
- Public campaigns/awareness of investment need for climate action including TCFD programme.
- Exploring options to ensure a return on investment for some climate-related actions.
- Demonstrating/communicating that operational Net Zero 2030 for the water sector is a helpful milestone on the way to Government's goal for Net Zero 2050.
- Pennon Power funded by Pennon Group balance sheet outside of regulatory funding.
- Exploring options which Pennon can take outside of the regulated water businesses (e.g. offsite investment in renewable energy, enhancing revenue through water resource schemes for other companies).
- Horizon scanning for opportunities to achieve Net Zero goals under available regulatory funding mechanisms.

Future actions:

- Explore options for third-party funding or partnerships for climate action.
- Potential for Pennon to review climate change objectives if they are not supported by regulators and Government.
- Bioresources investment plan (pending funding).

Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

We could incur increased expenditure (Capex and Opex) to take actions outside of the regulated water business, and to enhance engagement with regulators and stakeholders. There is potential for us to increase our revenue through some actions. See our 'Products and Services' climate opportunity.

Impacts of the unmitigated risk:

If we cannot proactively invest in carbon reduction and climate resilience we could face reduced ODI rewards/ increased ODI penalties (affecting our revenue).

Increased costs to our customers in the long-term would negatively impact our reputation (see our 'Negative public and stakeholder relations' and 'Customer affordability' reputation risks).

Some of our assets could deteriorate and face impairment due to physical impacts from climate change.

We may be limited in our ability to reduce our carbon emissions due to funding constraints.

Key		Risk Trend		
Risk ratings		▲ Increasing	↔ Stable	▼ Decreasing
● High	● Medium	● Low		

Climate Transition Risks continued

Type as defined by TCFD

Technology Risks

Relevant time horizon of risk

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



Key Impacts Identified on our operations and customers

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 and available to enable Pennon's transition to Net Zero operational carbon by 2030, resulting in delays and in some cases resulting in Pennon paying high costs to access resources. Some examples include:

- Availability and capacity of Pennon's workforce and supply chain to procure and design low-carbon solutions (which is compounded by wider risks, such as geopolitical events and macroeconomic conditions such as high inflation).
- Availability and capacity of technology and infrastructure, particularly in the South West of England, to enable development of Pennon's renewable energy projects and other Net Zero programme activities.
- 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/approaches, or technology which is then superseded, including risks around recovering costs through the regulatory system.
- Innovation required to reduce process emissions is of larger scale than originally understood, amplifying the risk of potential unsuccessful R&D Investments, and the risk of taking investment decisions which in future turn out to be suboptimal / high-regret.
- Readiness of some nature-based solutions for implementation and some uncertainty in performance of nature-based solutions.

Examples of our actions to mitigate risks and realise opportunities**Managing capacity constraints in Pennon:****Current actions:**

- Continual enhancement of capacity within Pennon (e.g. training, recruiting key skills).
- Collaboration with supply chain partners (e.g. consultants, technology providers, contractors).
- Collaboration with stakeholders (e.g. academia, environmental groups in the South West).
- Collaboration with other water companies and across the sector to develop standard approaches and enhance capacity.
- Nature-based solutions capacity enhanced through Pennon's Green First Framework and Biodiversity Strategy.

Future actions:

- Prioritising actions/solutions which are low-regret/ flexible e.g. nature-based solutions
- Piloting options/technology before scaling.

Managing supply chain and infrastructure limitations:**Current actions:**

- Horizon scanning to identify emerging limitations and risks.
- Engagement with key suppliers and partners and enhancing collaboration with partners and stakeholders.
- Engaging with infrastructure providers, regulators, and Government to encourage investment to enable network capacity.
- Enhancing capacity within Pennon to reduce reliance on suppliers.
- Purchasing renewable electricity and development of Pennon Power to provide renewable energy from outside of the South West region.

Future actions:

- Procurement strategies for key technologies/expertise.
- Enhancing supply chain resilience (e.g. diversification of suppliers).
- Exploring options which are less reliant on network capacity (e.g. onsite battery storage).

Managing costs to transition:**Current actions:**

- Seek to fund investment through the regulatory process (business planning and price reviews).
- Investment in innovation to reduce costs of low-carbon technology.

Future actions:

- Increasing efficiency to reduce costs (see our 'resource efficiency' transition opportunity).
- Recovering some costs from retired assets (e.g. selling used equipment).
- Explore partnership opportunities (e.g. PPAs).

Managing research and development investment:**Current action:**

- R&D programme with gated investment (e.g. piloting before scaling up).
- Horizon scanning to identify emerging technology and risks.
- Procurement strategies to reduce costs (e.g. competitive tendering, joint ventures).
- Learning from others in the water sector in UK and internationally.
- Engagement with regulators and community to test acceptability of strategies and schemes and seek to build support for innovation culture and understanding across regulators and government.

Future action:

- Prioritising solutions that are low-regret, particularly nature-based solutions through piloting technology before scaling.

Primary financial and reputational impacts to our business**Impacts from mitigating the risk:**

We could incur increased expenditure (Opex) to build capacity across our company and supply chain, and increased costs to access skills and technology to meet our targeted timeline. Some of these costs could be recoverable through the regulatory system.

Impacts of the unmitigated risk:

We could incur increased expenditure (Capex and Opex) due to delays with implementing solutions to reduce operational carbon emissions, and due to high demand for resources. Unsuccessful investment in new technologies could also result in increased expenditure.

We could incur penalties and/or negative impacts to our reputation if delays in technology and resources mean we do not meet our targets and/or Net Zero programme (see our 'Negative public and stakeholder relations' risk).

We may be limited in our ability to reduce our carbon emissions.

Key			Risk Trend		
Risk ratings			▲ Increasing ↻ Stable ▼ Decreasing		
● High	● Medium	● Low			

Climate Transition Risks continued

Key impacts identified on our operations and customers

Type as defined by TCFD

Market Risks

Relevant time horizon of risk

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



Increased costs of energy and materials due to the transition to Net Zero, impacts of climate change, and wider factors: Increases in costs of energy sources and input materials - influenced by the Net Zero transition and/or impacts of climate change and compounded by geopolitical events and macroeconomic conditions (e.g. such as high inflation). Some examples include:

- Record high prices for electricity, particularly 100% renewable electricity/REGOs, which may remain in high demand/ limited supply.
- Price of liquid fuels and gas increasing due to transition to Net Zero and geopolitical events.
- Price of chemicals and construction materials (e.g. cement, steel) increasing as energy prices increase and in some cases as carbon reduction measures increase across supply chains (adding costs to production and transport of materials in the short/medium term).
- Price of some technologies for generating renewable electricity has increased due to high demand/limited supply.

Type as defined by TCFD

Reputational Risks

Relevant time horizon of risk

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



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 (e.g. after storms linked to climate change).
- Customers and stakeholders concerned about the environmental impact of abstraction and wastewater discharge in response to the climate adaptation agenda.
- Asymmetry of information which customers notice, for example less focus on our action to reduce carbon and more focus on activities which may be seen as high energy, such as desalination (even though desalination would be powered by renewable energy). Greater media coverage of negative impacts than positive actions compounds this risk.
- Shifts in stakeholder/customer expectations related to carbon and climate which are difficult for water companies to manage.
- 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.

Examples of our actions to mitigate risks and realise opportunities

Managing cost of energy:

Current actions:

- Generation of renewable energy by Pennon, including exploring additional options and power purchase agreements (PPAs).
- Championing upscaling of renewables across our regions.
- Acquisition of renewable energy generation projects, supporting energy resilience and helping to stabilise Pennon's energy costs.
- Increasing efficiency to reduce energy demand (e.g. enhance energy efficiency, reduce leakage - see our 'resource efficiency' opportunity).
- Electricity price hedging.

Future actions:

- Fuel switching (e.g. eliminating fossil fuels for alternatives, at lower cost where possible).
- Changing operational practices to reduce energy use/ energy expenditure (e.g. taking advantage of off-peak electricity pricing).
- Exploring options which require less energy (e.g. nature-based solutions).
- Action taken by Government and wider actors to increase energy security and supply of low-carbon energy.
- Investment and development of solar PV sites and potential innovative renewable energy projects (e.g. floating solar).

Managing cost of input materials:

Current actions:

- Procurement strategies to reduce cost (e.g. competitive pricing).
- Whole life carbon tools allow more complete understanding of costs of high-carbon materials.
- Enhanced supply chain resilience by diversifying and expanding suppliers, helping to increase competitiveness and to reduce cost).

Future actions:

- Increasing efficiency to reduce material use and light-weighting/reducing material consumption.
- Investing in innovation to use different chemicals and materials, e.g. use of excavated materials and waste recycling.

Managing public and stakeholder relations:

Current actions:

- Risk management practices, ISO14001 Environmental Management System.
- Investment to reduce key risks, including our WaterFit programme.
- Net Zero programme.
- Environmental programmes (e.g. Water Industry National Environment Programme – WINEP) and Biodiversity Strategy.
- Customer and stakeholder engagement/public relations (e.g. PR24 engagement with our customers to discuss and address concerns and priorities).
- Community outreach and educational programmes.
- Engagement and pilots to test and build customer acceptability for schemes.
- '6 capitals' considered in decision making.
- Continuous engagement with research partnerships like CREWW to strengthen stakeholder involvement through our innovation programmes.
- Involvement of stakeholders in our Nature Recovery Programmes (e.g. farmers and landowners).
- Development of renewable energy project within a disused coal mine.

Future actions:

- Consider applying an internal carbon price to consider full costs and benefits of decisions.
- Consider new ways to enhance engagement with customers and communities and increase engagement and raise profile of positive actions (e.g. tree planting).
- Launching a WaterFit Advisory Panel to engage stakeholders and help with net zero and pollution issues.
- Expanding the WaterShare+ Scheme to one in every 10 households and 'walk together' with our stakeholders/customers.
- Continue with our 'Promise to the Planet' to become Net Zero by 2030 by decarbonising our operations and reducing emissions of nitrous oxide and repurposing methane.
- Considering enhancements to Pennon's sustainability policies and practices.

Primary financial and reputational impacts to our business

Impacts from mitigating the risk:

We could incur increased expenditure (Capex and Opex) due to investment in generating renewable energy or using alternative/low-carbon materials. Some of these costs could be recoverable through the regulatory system, and in some cases there will be a return on investment (see our 'energy source' and 'markets' climate opportunities).

Impacts of the unmitigated risk:

We could incur increased expenditure (Capex and Opex) due to increased cost of energy/REGOs and materials.

We may be limited in our ability to reduce our carbon emissions.

Impacts from mitigating the risk:

We could potentially incur increased expenditure (Opex) to manage stakeholder relations and public perception to mitigate reputational impacts.

Impacts of the unmitigated risk:

Public perception of our environmental actions and performance could result in negative impacts on our reputation (see also our 'Challenges balancing trade-offs' policy transition risk).

Key			Risk Trend		
Risk ratings			▲ Increasing		
● High	● Medium	● Low	↻ Stable	▼ Decreasing	

Climate Transition Risks continued

Type as defined by TCFD

Reputational Risks

Relevant time horizon of risk

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



Key impacts identified on our operations and customers

Customer affordability and fairness concerns for achieving Net Zero and adapting to climate change: Affordability for customers and questions around fairness become very challenging, even with Government contribution to water and wastewater bills (this is compounded by cost-of-living pressures). This risk includes:

- Large investment needs related to climate change, which could result in dissatisfaction from customers and stakeholders.
- Questions relating to fairness for paying for climate adaptation, for example high costs/impacts being imposed on residents in Cornwall and Devon due to greater exposure to coastal change, whereas other water companies may not have such high costs/impacts.
- Multiple agendas and misalignment between different Government departments and regulators requiring increased investment from water companies.

Examples of our actions to mitigate risks and realise opportunities
Managing customer affordability:**Current actions:**

- Secured Government contribution to customers' bills.
- Customer and stakeholder engagement/public relations (including engaging with regulators and Government about sharing costs etc.), including community outreach and educational programmes to help explain need for investment in climate action.
- Seeking return on investment for actions taken to manage climate change.
- Arrangements with/requirements on suppliers to cover some costs (e.g. building and vehicle leases).
- Procurement strategies to reduce costs (e.g. competitive tendering, joint ventures etc.)
- Support programmes and social tariffs for customers struggling to pay bills.
- Phased investment in climate adaptation and Net Zero over time to reduce pressures on bills.
- Exploring actions to reduce costs across the business.
- Becoming more efficient to reduce costs and impacts on customer bills.
- Exploring innovative tariffs to ensure fair bills.
- WaterShare+ engagement scheme to encourage customers to be involved in the company's decisions.
- A limit to our bill increases until 2025.
- On course to meet our Board's pledge of zero customers in water poverty by 2025.
- £200m of affordability support included in PR24 business plan.
- PR24 business plan puts forward one of the lowest bill increases in the water sector.
- Smart Saver tariff initiative will be trialled for two years with a selection of customers in the Barnstaple area. 90% of those taking part are expected to see a reduction in their bills.

Future actions:

- Innovation programme seeking to reduce costs.
 - Recovering some costs from retired assets (e.g. selling off).
 - Seeking third-party sources for investment (e.g. climate action grants/funds, partnership funding).
 - Considering flexibility in climate commitments to reduce cost pressures on customers.
 - Rollout of smart meters across Bristol, Bournemouth, Roadford and Colliford by 2040 and continuous support of customers through other water efficiency initiatives that help with affordability.
 - Encourage and ensure that more customers have a stake in the company through WaterShare+ scheme.
 - Improvements in digital and self-service options for easy interaction with our customers.
-

Primary financial and reputational impacts to our business**Impacts from mitigating the risk:**

We could potentially incur increased expenditure (Opex) to manage public perception of our investments to mitigate reputational impacts (e.g. raising profile of our opportunities).

Impacts of the unmitigated risk:

Public perception of our investments and expenditure could result in negative impacts on our reputation if our decisions and investments do not align with customer priorities (see also our 'Challenges balancing trade-offs' policy transition risk).

We could incur penalties if we failed to support customers in need /vulnerable customers suffering from high bills.

Key		
Risk Trend		
▲ Increasing	↔ Stable	▼ Decreasing

Climate-related opportunities

Potential risks and opportunities

Type as defined by TCFD

Resilience

Relevant time horizon of risk

Short, medium, and long 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



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 Outcome Delivery Incentives (ODIs), avoided penalties on Guaranteed Standards Scheme (GSS) and enhancing company reputation and value. Some examples include:

- Enhancing Pennon's resilience by investing in climate change adaptation (e.g. investing in drought and flood prevention measures to avoid customer disruption/ penalties/ compensation payments and avoid asset damage).
- Enhancing supply chain resilience by investing in buffers/storage for critical resources, diversifying suppliers and replacing suppliers who have high climate risks - thereby reducing potential risks and costs associated with supply chain disruption and delays.

Type as defined by TCFD

Energy Source

Relevant time horizon of risk

Short and medium term

This opportunity is of high relevance to meeting 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 also 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:

- South West Water's commitment to purchase 100% renewable electricity from 2022 onwards.
- Pennon Group plc's commitment to reach up to 50% renewable energy self-generation by 2030.
- Generating renewable energy on Pennon's sites and through partnerships (e.g. PPAs) such as through generating energy from wastewater and sludge, and generating electricity through solar and wind.
- Deploying our £160m capital allocation to acquire and develop solar PV sites.
- Switching fuels to lower-carbon sources, such as switching diesel to renewable electricity and Hydrotreated Vegetable Oil as a transition fuel.

Examples of our actions to mitigate risks and realise opportunities**Enhancing Pennon's resilience:****Current actions:**

- Investment in diversifying water sources, including desalination and repurposing ex-quarries and mines.
- Pursuing new reservoir capacity through regulatory frameworks.
- Company resilience planning.
- Climate risk assessments and climate adaptation planning.
- Engaging stakeholders, such as regulators and customers.
- Investments in response and recovery to operational disruption.
- Generation of renewable energy by Pennon, including exploring additional options and power purchase agreements (PPAs) (see our 'market' transition risk).
- Ongoing upgrade and modernisation of our infrastructure. (e.g. water treatment works, water reservoirs).

Future actions:

- Actions to adapt to climate change (e.g. enhancing drought resilience) and to mitigate climate risks.
- Tackling storm overflows at bathing beaches across our regions.
- Investing in desalination plant in Cornwall by 2025, and wastewater treatment in the Isles of Scilly.
- Incorporate nature-based solutions to reduce drainage and storm overflows.
- Expand sludge treatment processes to protect our rivers.
- Our financial plan is solid in order to fund these capital investments to enhance resilience.

Enhancing supply chain resilience:**Current actions:**

- Enhancing capacity within Pennon to reduce reliance on suppliers (e.g. generating renewable energy - see our 'energy source' opportunity).
- Existing storage and buffers for resources (e.g. chemical storage, parts storage).
- New commercial framework has expanded supply chain diversity across Tier 1, 2 and 3 suppliers.

Future actions:

- Actions to enhance supply chain resilience (e.g. diversifying suppliers/ location of suppliers) - see also our actions for managing supply chain under our 'technology' risks.
- Procurement strategies (e.g. requirements on suppliers to meet ESG criteria/ low climate risks).
- Investments in response and recovery to supply chain disruption.
- Continuous engagements and collaboration with our supply chain and discussion on priorities such as our Nature First principle.

Using renewable energy:**Current actions:**

- Procurement strategy for renewable energy to minimise the impact of increasing costs of energy.
- Supply contract for 100% renewable energy by 2023 for South West Water (currently does not include Bristol Water operations).
- Generation of renewable energy by Pennon, including exploring additional options and power purchase agreements (PPAs).
- Net Zero programme.
- Prioritising investment to deliver highest carbon reductions, and seeking return on investment (ROI) where possible.
- Investment in generating renewable energy.

Future actions:

- Trialling low-carbon fuels.
- Innovation programme (e.g. exploring options to generate and recover energy from sewers).
- Use of energy recovered from bioresources to power our operations.
- Engagement with potential partners for PPAs.
- Establishing the commercial and legal arrangements to co-fund renewable energy investments.

Primary financial and reputational impacts to our business**Impacts from mitigating the risk:**

Potential to reduce and avoid costs (Opex) and enhance our reputation by preventing disruptions to our services. We could also incur reduced penalties/increased rewards for performance on ODIs (e.g. supply interruptions, leakage, and water quality), therefore increasing our revenue.

However, this requires significant investment (Opex and Capex), including strengthening our infrastructure and enhancing our adaptive capacity. Some of these costs could be recoverable through the regulatory system. We will need to manage the carbon footprint associated with schemes related to climate resilience.

We could incur increased expenditure (Capex and Opex) due to investment in generating renewable energy; however this has potential to reduce our carbon footprint.

Some of these costs could be recoverable through the regulatory system.

Investment in renewables could reduce expenditure (Opex) in the long term if electricity prices continue to rise (see our 'market' transition risk and 'market' opportunity).

We could enhance our revenue through selling renewable energy. We will need to manage the carbon footprint associated with generating renewable energy.

Key		
Risk Trend		
▲ Increasing	↔ Stable	▼ Decreasing

Climate-related opportunities continued

Potential risks and opportunities

Type as defined by TCFD

Markets

Relevant time horizon of risk

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.

Type as defined by TCFD

Resource Efficiency

Relevant time horizon of risk

Short and medium term

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 enhance our revenue over the medium and long term.

Current opportunity rating



Last year's opportunity rating



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 waste of water, energy, and materials, opportunities to use low-carbon construction, approaches, and nature-based solutions, and opportunity to work with suppliers to reduce their carbon footprints and enhance their sustainability. Some examples include:

- Pennon's leakage reduction programme, water efficiency programme, smart metering, rainwater harvesting, grey water, incentivising customers to use less hot and cold water.
- Enhancing efficiency of process equipment (reducing energy use and chemical use), energy-saving measures for buildings and transport.
- Substituting construction materials for low-carbon alternatives, local sourcing of materials, enhancing efficiency of material use in construction.
- Using technology to avoid high-carbon interventions, such as using real-time control in sewers to increase operational capacity instead of constructing bigger sewers (see also our 'technology' risk).
- Constructing wetlands for wastewater treatment and sustainable drainage systems (SuDS) to reduce capital and operational carbon.
- Removing carbon from the atmosphere through investing in marine carbon opportunities, restoring peatlands, tree planting, and soil and grassland activities.
- Working with suppliers to reduce their carbon footprints and enhance their sustainability, and harness opportunity to access new suppliers with high ESG credentials.

Examples of our actions to mitigate risks and realise opportunities**Sustainable finance:****Current actions:**

- Sustainable financing framework.
- TCFD and TNFD programme.
- Investigating requirements to access sustainable finance markets.
- Procurement and finance strategies.
- ESG initiatives.

Future actions:

- Establishing commercial and legal arrangements for buying and selling green financial assets/credits.
- Future disclosure/ESG initiatives (e.g. EU/UK Taxonomy, Taskforce on Nature-related Financial Disclosures, International Sustainability Standards Board (ISSB), Transition Plans/Transition Plan Taskforce (TPT)).
- Exploring opportunities to attract third-party funding. Our low gearing ratio will enhance our ability to raise funding for our business plan.

Primary financial and reputational impacts to our business

Through sustainable financing, we have potential to reduce our expenditure by avoiding cost increases related to financing/ cost of capital. We also have potential to enhance our reputation and mitigate reputational risks (see our 'reputation' transition risks).

Enhancing water efficiency:**Current actions:**

- Demand management and water efficiency programme (within Pennon's own operations and across customer networks), including Per Capita Consumption (PCC) reductions, leakage reduction strategy and customer incentive schemes like Cornwall's Stop the Drop to protect reservoir levels.
- Continuing installation of advanced metering infrastructure (AMI), which is smart metering that provides data on water usage directly to customers.
- Customer education/outreach.
- Continuing to support our community fund which supports water saving projects, like the Heathfield Allotment Trust.
- Incorporation of carbon values into capital planning and decision making.
- Farm water efficiency and resilience project – 1,000 pond nature-based solutions.
- Continue to use data from our customers' smart meters and make sure we address water leaks.
- Continuing to offer free fixing of leaks around our customers' houses if they meet set criteria.

Future actions:

- Rainwater harvesting.
- Incentivising customers to use less water.
- Extend real-time monitoring and control.
- Help our customers' affordability levels through water efficiency schemes/devices/home visits, metered tariffs and helping with debt.

Enhancing process, building, and transport efficiency:**Current actions:**

- Actions to enhance process efficiency.
- Energy efficiency programme for Pennon's buildings.
- Requirements in leases for efficient buildings.
- Changes to operational practices to reduce need for travel (e.g. remote monitoring and control).
- Procurement/leasing of efficient vehicles.

Future actions:

- Investments in innovation to enhance efficiency.
- Changes to operational practices to enhance efficiency (e.g. real time monitoring and control).
- Partnerships with suppliers/outourcing specific operations.
- Employee carpooling.
- Light-weighting vehicles.

Potential to reduce our carbon footprint and our Opex in some cases where there are cost savings from resource efficiency.

However this requires significant investment (Opex and Capex), including additional monitoring, metering, and capital projects.

Some of these costs could be recoverable through the regulatory system. We will need to manage the carbon footprint associated with actions to realise resource efficiency opportunities.

Key		
Risk Trend		
▲ Increasing	↔ Stable	▼ Decreasing

Climate-related opportunities continued

Potential risks and opportunities

Type as defined by TCFD

Resource Efficiency (continued)

Type as defined by TCFD

Products and Services

Relevant time horizon of risk

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

Not included last year

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).
- Opportunities to sell expertise and technologies for water efficiency and leakage reduction.
- Opportunities to sell bioresources (e.g. biogas, nutrients, sludge etc.).
- Opportunities to provide/sell expertise in bioresources to other companies.

Examples of our actions to mitigate risks and realise opportunities continued

Primary financial and reputational impacts to our business

Using low-carbon solutions:

Current actions:

- Implementing capital carbon accounting.
- Implementing carbon values in capital planning and decision making.

Future actions:

- Net Zero programme - embodied carbon initiatives.
- Engagement with supply chain to promote/ensure low-carbon solutions are prioritised.
- Procurement strategies (e.g. requirements on suppliers).
- Innovation programme (e.g. exploring alternative materials and approaches).
- Collaborations with supply chain (e.g. optioneering to reduce embodied carbon).
- Learning from other companies in UK and internationally.

Using nature-based solutions:

Current actions:

- Embedding natural capital and valuing carbon in decision making.
- Investing in innovation and piloting.
- Practising catchment management to improve our land.

Future actions:

- Establishing partnerships with stakeholders (e.g. landowners; see our Upstream Thinking catchment management programme).
- Collaborations with supply chain (e.g. optioneering, considering nature-based solutions).
- Learning from other companies in UK and internationally.
- Use of our Green First principle to make sure that nature-based solutions are prioritised.
- Launch our Nature Recovery Fund to help support nature recovery programmes in our region.

Reducing supply chain carbon:

Current actions:

- Engaging with suppliers.

Future actions:

- Procurement strategies (e.g. requirements on suppliers to meet ESG criteria/ low climate risks, reduce emissions).
- Learning from other companies in UK and internationally.
- Diversifying supply chain to lower emissions/risks.
- Sourcing locally, where possible.
- Life cycle assessment requirements for suppliers.

Delivering water resource schemes and bioresources opportunities:

Current actions:

- Preparatory work on three Strategic Water Resource schemes.
- Engagement with other water companies, engagement with regulators and stakeholders.
- Business plan includes opportunity related to pyrolysis for bioresources.
- Establishing commercial and legal arrangements for SROs and sale of bioresources.
- Continued roll-out of new technology in our region.

Future actions:

- Engagement with customers to build support (e.g. social licence).
- Innovation and R&D in collaboration with CREWW

Potential to increase our revenue through delivering SROs and selling bioresources and our expertise to peer companies. However, this requires significant investment (Opex and Capex) to enable these opportunities. Some of these costs could be recoverable through the regulatory system. We will need to manage the carbon footprint associated with our 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 5 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 review in 2029 (PR29). 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 30 years

Water and wastewater treatment assets have a typical life of up to 30 years and will therefore be reviewed over this horizon. Our WRMP and DWMP strategic plans consider requirements across this period. 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 challenges. 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 – 30 to 100 years

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. Over this time period the planet is currently projected to warm by around 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. This year we have updated our transition risk assessment to adopt transition scenarios developed by the Network for Greening the Financial System (NGFS). These transition scenarios have become widely adopted in the UK and supersede the previous bespoke transition scenarios we used in the previous years. The two Network for Greening the Financial System (NGFS) transition scenarios we used are: (1) Orderly transition, aligned to the NGFS Net Zero 2050 and (2) Hot house world aligned to the NGFS Current Policies. Also, important to note that the NGFS Net Zero 2050 aligns fairly 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 company are more significant under the NGFS Current Policies Scenario, so it is this one that 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 of selecting additional scenarios.

Our scenarios can be defined as follows:

Physical climate risk scenarios

<p>RCP2.6¹: Lower Physical Impacts</p> <p>An approximate 2°C warming scenario by the year 2100 – corresponding to a low emissions 'optimistic' scenario.</p>	<p>RCP8.5¹: High Physical Impacts</p> <p>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.</p>
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Climate Transition risk scenarios

<p>1.5 degree scenario: NGFS Net Zero 2050</p> <p>A scenario which sees the UK as a global leader with strong policies and actions to mitigate climate, aligned with the Paris Agreement.</p> <p>Policy ambition: 1.5°C</p> <p>Government policy: Immediate and smooth</p> <p>Technology change: Fast change</p>	<p>3-degree scenario: NGFS Current Policies</p> <p>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.</p> <p>Policy ambition: 3°C+</p> <p>Government policy: None – current policies</p> <p>Technology change: Slow change</p>
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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. We have extended our analysis to cover Bristol Water (acquired June 2021) and we will look to incorporate SES Water when we update our scenario analysis in future. 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 future climate risks by: increasing capacity for water supply infrastructure; managing drought conditions and water demand; improving water and wastewater treatment and odour management; 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.
- Climate impacts will affect our ability to meet performance commitments and objectives.**

The Group could also be impacted financially by Outcome Delivery Incentive (ODI) 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. South West Water operates over £6 billion of water assets and over £7 billion of wastewater assets all of which will be affected by climate change in some way. The unmitigated risk would also 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 Company'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 Company, as well as action by our supply chain partners and wider actors (e.g. Government agencies, local authorities, and major land owners in SW England).

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 its effect. To achieve this, regulatory and Government support within their policy frameworks will be needed.

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. The 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 are driven by best-value adaptive planning, as per Ofwat's final 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. As part of our adaptive planning approach, we have pre-defined trigger points and decision points to implement strategies of the appropriate pathway sufficiently early, so that we can have a pro-active and more resilient response to climate change - including more 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. 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. The value of our assets and our cost of capital would remain relatively unchanged compared to today if we continue to enhance our resilience.

We continue to integrate the outcomes from climate scenario analysis to inform our business strategy and financial planning.

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 for South West Water (including Bristol Water) under two transition scenarios. 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 regard to changes to policy, technology, markets, and public opinion.

This year we have revised our scenario analysis based on changes over the past year, and considering the two new transition scenarios developed by the NGFS described earlier.

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, with less ability to recover costs through the regulatory pricing system.** This is compounded by the low readiness and higher costs for access to low-carbon technologies and related skills (due to the UK's underinvestment 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 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 return 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 Company and our customers from measures such as carbon pricing, as well 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 underinvestment 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 in 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 there are major carbon savings that can be achieved by increasing efficiency, in energy use (for example more efficient pumping), reducing water losses, and through the use of smart technology to enable more efficient water supply and transmission systems. Some of these opportunities will also reduce costs. We are currently investing in programmes to further reduce energy use and carbon across our operations. This will allow us to more rapidly progress to operational Net Zero and reduce the cost of the transition.
- **Enhancing our energy resilience.** We will continue to invest in generating our own renewable energy to reduce our exposure to energy prices and to enhance our options for energy supply, which is favourable under both scenarios.
- **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 and influence 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.

We continue to integrate the outcomes from climate scenario analysis to inform our business strategy and financial planning.

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 Company 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.

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 Company, as well as action by our supply chain partners and wider actors (e.g. Government, local authorities, major landowners/users, other providers of infrastructure and services).

Nature-related risks and opportunities - strategy

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, which 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 baselining 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. 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.£45m 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 in 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 ready for June 2024. These are intended to create a blueprint to be rolled out for all bathing water catchments from 2025 onwards, primarily in relation to bathing water quality issues. These can be used to create a "story map" of water management issues and opportunities in each catchment for engaging local stakeholders and partners in identifying actions for local collaboration.
- In preparation for the next Asset Management Period AMP8, our Tier 1 suppliers are being tested for their ability to deliver NBS for wastewater and drinking water. Our ESG team is investigating the social aspects and carbon emissions of Pennon's supply chain and hopes to expand this to consider nature-related dependencies, risks, and opportunities in the near future.

Going forward:

- From April 2025 onwards, we are establishing an independent Environmental Advisory Panel composed of environmental experts which, amongst other functions, will advise on risks and opportunities and monitor progress on our Biodiversity Performance Commitment. We are currently developing the Terms of Reference for this Panel.
- The new Biodiversity Performance Commitment requires all water companies to set out their plans for delivering measurable biodiversity enhancement units 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.

Risk management

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 55 to 64, 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, as they do 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). This year and last year we 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 and our principal risks is summarised in the table over the page.

We recognise that evolving landscape of climate-related and nature-related risk 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, although 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, 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- 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		
Macroeconomic 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	•	•
Difficulty in recruiting and retaining staff with the skills required to deliver the Group's strategy		•
Business Systems and Capital Investment		
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		
Failure to receive CMA approval for the acquisition of SES Water		

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

Metrics and targets

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 have adopted the TCFD guidance relating to metrics and targets, and our progress is shown in the table below.

We continue to disclose comprehensive data relating to our GHG emissions and energy consumption (SECR report on page 71). We report on all Scope 3 categories which are relevant and material to our business (ESG databook). SASB reporting can be found on page 74.

The Group is committed to improving its sustainability and climate change related disclosures and will continue to enhance over the coming years.

	Description of the metric	Metric for FY22/23 ¹	Metric for FY23/24 ¹	Related Targets	
GHG emissions	Scope 1, 2, and 3 GHG emissions (in tCO ₂ e) (Market-based).	299,747	368,265	Operational Net Zero by 2030 (South West Water & Bristol Water), Total Net Zero by 2045 (South West Water).	
	GHG Reduction from the baseline year 2021 (Scope 2 market-based) (tCO ₂ e).	65.7%	71.9%		
	Carbon intensity of our water services in tonnes of CO ₂ e per megalitre of water supplied to customers.	59.7 SWW 358.5 BRW	38.8 SWW 358.5 BRW	We have committed to near-term Science Based Targets (SBTs). Our targets have been validated and approved by the Science Based Targets Initiative in May 2024, and can be found on page 70.	
	Carbon intensity of our business in tonnes of CO ₂ e per £100k of our revenue based on Scope 1 and 2 GHG emissions (Market-based).	7.3	6.0	Reduce operational emissions by 70% by 2025 (Scope 2 market-based) (tCO ₂ e).	
Climate and/or nature-related Transition risks	Risk of increased energy costs: Proportion of our operational expenditure on electricity (%).	c. 28%	c. 21%	Generate up to 50% of the energy we use through our own renewable energy generation by 2030. (SWW).	
	Selected metrics for some material risks	Transition risks in our supply chain: proportion of our key and strategic suppliers who have evidenced they are working towards a Net Zero target.	21% SWW	51%	100% of our key and strategic suppliers will have established an ESG policy or equivalent by 2025. (SWW). We are considering setting a target to encourage our suppliers to play their part in delivering Net Zero. We are ensuring that our Tier 1 suppliers have the experience required to deliver nature-based solutions.
		Risk of customer affordability in achieving Net Zero and adapting to climate change: our customer affordability measure.	96.9% SWW 100% BRW	98.1% SWW 100% BRW	Zero water poverty by 2030 (SWW & BRW). Maintain zero customers in water poverty by 2050. Maintain 100% customer and community satisfaction with our services. (SWW) 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).
Climate and/or nature-related Physical risks	Proportion (%) of customers currently at risk of severe restrictions in a 1-in-200-year drought.	62.7%	7.6%	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.	
	Selected metrics for some material risks ⁸	Proportion (%) of customers at risk of sewer flooding in 2050 in a 1-in-50-year storm.	7.11%	9.77%	Our long-term target is to reduce this 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.	In progress ³	36	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 year).	28	43	Reduce spills to an average of 20 per year from each storm overflow by 2025. The increased rainfall seen in 2023 and early 2024 has seen the number of spills increase in the period Zero harm to rivers and seas by 2030.	
	Water withdrawal from surface water from rivers, lakes, and natural ponds (%)	92 SWW 86 BRW	92.4* SWW - * BRW	25-year plan to improve the environment by removing harmful abstractions * subject to assurance, verified calculations will be available through the ESG databook	
	Bathing water quality standard compliance (measured by Environmental Agency based on harmful bacteria in our seas)	100% SWW	100% SWW		

	Description of the metric	Metric for FY22/23 ¹	Metric for FY23/24 ¹	Related Targets
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've generated in 2023 (kWh).	31,084.05	34,480.00	Generate more renewable energy every year to 2030. Commitment to 50% renewable energy self-generation by 2025 (SWW).
	Proportion of our energy use which came from energy we generated ourselves (%) ²	6.89%	7.5%	Generate up to 50% of the energy we use through our own renewable energy generation by 2025.
	Enhancing our resource efficiency to reduce GHG emissions and save water: Leakage (3-year average – Megalitres Per Day).	133.0 (SWW & BW) 37.0 (BRW)	107.0 (SWW & BW) 37.6 (BRW)	Reduce leakage by 2030 against the baseline 2024/2025.
	Enhancing our resource efficiency to reduce GHG emissions and save water: Per capita consumption (PCC) in litres per person	152.6 (SWW & BW) 148.7 (BRW)	147.1 (SWW & BW) 144.7 (BRW)	Commitment to an 8% reduction in per capita consumption by 2030 from the 2024/2025 baseline. (SWW and BW).
	Reducing our financing costs through sustainable finance: proportion of new finance under our sustainable finance framework during the year.	100%	82%	>75% of new finance to be through sustainable financing framework.
	Biodiversity enhancement (ha) (cumulative)	111,515	126,733	80% of the catchments we work in have been improved through activities such as peatland restoration and tree planting. We've set a target to deliver at least 10% biodiversity net gain.
	Trees planted (AMP7 Delivery)	220,187	253,134	Exceeded target to plant 250,000 trees by 2025
Capital deployment Selected metrics for material capital investments	Investment (£) earmarked for our renewable energy generation capital plans to 2030.	£160m	£160m	Accelerate our generation of up to 50% of the electricity we use through our own renewable energy generation by 2025.
	Additional investment (£) in enhancing resilience and environmental performance announced within the year on top of our ongoing business plan investment. (Investment in solar PV by Pennon Group).	£120m	£145m	Our £1.5 bn 2020-25 environmental investment programme is our largest to date. This reflects the delivery of additional and accelerated investments including Green Recovery, WaterFit, our Save Every Drop water resilience investment and Ofwat's recently announced Accelerated Infrastructure Delivery.
Remuneration	Proportion of our management incentive schemes linked to ESG outcomes, including climate change	20%	20%	
Internal carbon value	Value of carbon used in business cases and investment planning for PR24 (£/tCO ₂ e) ³	£252/tCO ₂ e	£252/tCO ₂ e	
		Sensitivity testing:	Sensitivity testing:	
		Low: £126/tCO ₂ e High: £378/tCO ₂ e	Low: £126/tCO ₂ e High: £378/tCO ₂ e	

1. Some metrics relate only to South West Water (SWW), Bournemouth Water (BW), or Bristol Water (BRW). In future we will be aiming to report combined metrics for the water businesses.

2. Indicates the trend from the baseline year.

3. We are currently undertaking analysis to investigate and quantify this risk.

4. Does not include energy used in transport.

5. Investment includes repurposing ex-quarries and mines, introducing desalination units to enhance water capacity, and WaterFit and Green Recovery initiatives.

Our Climate Adaptation Report provided to DEFRA in 2021 it shows intolerable levels of physical climate risks if left unmitigated. In addition, at least 17 of the top 20 physical climate risks (>60 risks identified) would exceed this threshold by 2080 without further adaptation. This signals the need for further investment in climate resilience in future planning rounds.

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 69 and 70. The metrics and targets associated with this help to show the investment in the area and the planned future investment to meet this goal.

Further detail on our progress with nature and environmental initiatives is provided on page 78.

All projects being put forward to the planning committee have a focus on both their carbon impacts and the ESG impacts which are used to manage the decision-making process.

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 67. • Our Task Force on Climate related Financial Disclosures – pages 78 to 109. • Net Zero – page 69 and 70 	<ul style="list-style-type: none"> • Biodiversity policy. • Water management policy. • Environmental policy.
People	Our people are at the heart of our Group. We continue to foster a culture built on our purpose and one that reflects our values, trusted, responsible, collaborative, progressive. 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"> • How we deliver section – pages 25 to 31. 	<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 totalling over £100million in turn providing 98% of South West Water and 100% of Bristol Water customers with independently assessed, affordable bills in FY23/24.</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 in the South West. Since its launch, we have given out £100,000 to 56 charities and community groups helping 22,000 people across the South West. In Bristol, our community lottery provides the opportunity for charities and community groups to win £500 each month to fund schemes which benefit the community.</p> <p>We have also this year become tier one funders of the registered charity, the Social Mobility Business Partnership which facilitates the provision of over 3,000 days of work experience and lifetime career coaching to individuals from low income backgrounds across the UK. We are leading on bringing this experience to students across the South West in Exeter, Plymouth, Bristol, Truro and St Austell.</p>	<ul style="list-style-type: none"> • How we listen – page 8. • S172(1) – page 112. 	<ul style="list-style-type: none"> • Community relations and investment policy.
Human rights	We are committed to having open and fair dialogue with all our stakeholders on human rights issues. We have a zero-tolerance approach to modern slavery. 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 Code of Conduct and Anti-Modern Slavery and Human Rights Policy. Our Modern Slavery Statement identifies the activities we conduct annually and our Suppliers Code of Conduct 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.
Anti-corruption	<p>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.</p> <p>Anyone that works with or for the Group must comply with our new consolidated anti-financial crime policy and are 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.</p>	<ul style="list-style-type: none"> • Code of Conduct – page 142. • Anti-bribery and corruption – page 142. 	<ul style="list-style-type: none"> • Whistleblowing Policy. • New consolidated Anti-Financial Crime Policy • Conflicts of Interest Policy • Gifts and Hospitality Policy. • Regulatory and Compliance 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 22, can be found online at <https://www.pennon-group.co.uk/about-us/policies>.

Due diligence processes	Policy outcomes	Principal risks	Non-financial 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.
<ul style="list-style-type: none"> Annual all colleague Great Place to Work survey. Health & 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 – 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"> % Supplier engagement with our Sustainable Procurement Framework.
<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. 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 and 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. % of suppliers who support our Code of Conduct

Approval of the Strategic Report

Our strategic report on pages 1 to 111 has been reviewed and approved by the Board.

Andrew Garard
Group General Counsel and Company Secretary



20th May 2024

Our governance at a glance

Highlights

Board changes

- 1st September 2023 Neil Cooper stepped down as Senior Independent Director and, Chair of the Audit Committee, and was succeeded by Iain Evans, as the new Senior Independent Director.
- Loraine Woodhouse was appointed Chair of the Audit Committee with effect from 1st September 2023.
- 27th November 2023 Steve Buck was appointed as an Executive Director.
- 31st December 2023 Paul Boote stepped down as Group Chief Financial Officer.
- 1st January 2024 Steve Buck was appointed as Group Chief Financial Officer.

Read more on Steve's experience in his biography on page 116.

In numbers

3rd

top ten best performer in FTSE 250 Women Leaders Review, and 4th in the utility sector.

1 in 14

number of households in the South West Water region now shareholders, following the second issuance of WaterShare+ in 2022.

Key focus areas for the Board in 2023/24

- Customer affordability.
- Delivery of capital projects.
- PR24 Business Plan.
- Culture and Values.
- Green recovery investment programmes.
- Storm overflows and eliminating pollution.
- Water quality and resilience.
- Strategic acquisitions of Pennon Power and SES Water. See pages 124 to 125 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. The Company is 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 31st March 2024, the Company complied with all the provisions of the Code except for:

- Provision 19 – The Chair should not remain in post beyond nine years from the date of their first appointment to the Board. More information regarding our Chair succession plan can be found on page 130.

1. Board leadership and Company purpose	Page
A: Board of Directors	116 to 117
B: Purpose, values, strategy and culture	119
C: Resource and control framework	120
D: Stakeholder engagement	126 to 127
E: Workforce policies and practices	123
2. Division of responsibilities	
F: Role of the Chair	121
G: Division of responsibilities	121
H: Role of the Non Executive Directors	121
I: Board policies, processes, information, time and resources	122 to 123
3. Composition, succession and evaluation	
J: Appointments to the Board	130
K: Board skills, experience and knowledge	113
L: Board Evaluation	134 to 135
4. Audit, risk and internal control	
M: Independence and effectiveness of internal and external auditors	139 to 140
N: Fair, balanced and understandable assessment	141
O: Risk and internal control	142 to 143
5. Remuneration	
P: Alignment to purpose, values and long term success	151
Q: Remuneration policy	152
R: Independent judgement and discretion	150

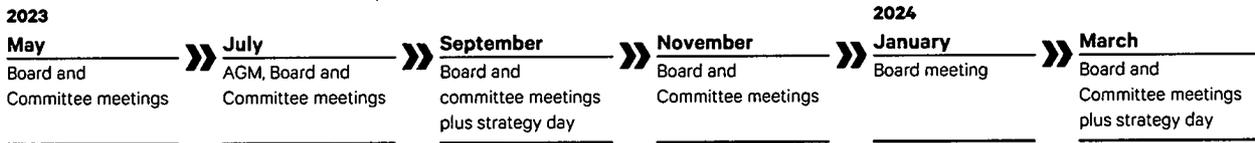
Meeting attendance during the year and Board skills matrix

Position	Non-Executive Directors						Executive Directors			
	Chair	Iain	Claire	Jon	Lorraine	Dorothy	Neil	Susan	Steve	Paul
Member	Gill Rider	Iain Evans	Claire Ighodaro	Jon Butterworth	Lorraine Woodhouse	Dorothy Burwell	Neil Cooper ¹	Susan Davy	Steve Buck ²	Paul Boote ³
Attendance	6/6	6/6	6/6	6/6	6/6	6/6	2/6	6/6	2/6	4/6
Skills										
Independence	⊙	⊙	⊙	⊙	⊙	⊙	⊙			
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. Resigned 1st September 2023.
 2. Appointed 27th November 2023.
 3. Resigned 31st December 2023.

Board meetings

There were six scheduled Board meetings during the year.

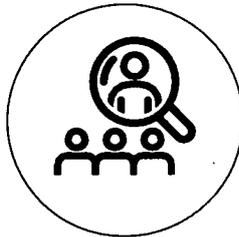


Board gender diversity



Male: **37%**
 Female: **63%**

Board ethnic diversity



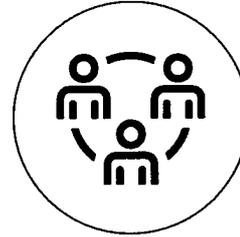
Ethnic minority: **22%**
 White: **78%**

Board tenure



0 - 3 years: **3 directors**
 3 - 5 years: **3 directors**
 5+ years: **2 directors**

Board independence



Independent: **6**
 Non-independent: **2**

As of 31st March 2024

Our Chair's introduction to governance

Gill Ridor
Group Chair

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.

Dear Shareholder

I am very pleased to introduce, on behalf of the Board, the Pennon Group Corporate Governance Report for 2024, 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 2023/24 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 112 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.

Throughout 2023/24 the Board remained focussed on achieving our strategic priorities and in January 2024 the Board were delighted to announce the purchase of Sumisho Osaka Gas Water UK Limited, the holding company of Sutton and East Surrey Water plc (SES Water). SES Water is a well-run, established business with a long heritage in the region, which Pennon recognises as key to delivering for our customers and communities. In addition to the above, in October 2023, the Board approved the Group's PR24 plans to double its investment to £2.8 billion from 2025-30 across four key areas - water quality and resilience; tackling storm overflows and pollutions; delivering for customers and addressing affordability; reaching net zero and enhancing environmental gains. More information on the Board's activities can be found on pages 124 to 125 and information on our PR24 framework can be found on pages 19 to 20.

Changes to the Board

There were a number of changes to the Board during the year. As previously announced, Neil Cooper stepped down from the Board in September 2023 as Senior Independent Director and we were very pleased to appoint Iain Evans as his successor. Iain has served on the Board since 2018. He brings a wealth of experience in the water business and is well equipped for this new role. On behalf of the Board, I would like to thank Neil for his wise counsel, experience and all his work over the years and we wish him all the best for the future.

Following Neil's departure, a review of the composition of each Board Committee was conducted and we were pleased to appoint Loraine Woodhouse as Chair of the Audit Committee in September 2023. Further details can be found on page 136.

In December 2023, Paul Boote stepped down from his role as Group Chief Financial Officer as part of a planned relocation away from the South West. I would like to thank Paul for his contribution and support to Pennon over the past 13 years and we wish him and his family the best for their future.

We were delighted to welcome Steve Buck who was appointed to the Board in November 2023 and succeeded to the role of Group Chief Financial Officer on 1st January 2024. Steve brings to the Board significant water sector expertise, alongside broad regulated utilities sector knowledge and listed experience to the Board. Steve's and Iain's biographies can be found on pages 116 to 117.

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 28 and in the Nomination Report on page 132.

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 8.

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 126 to 127 and in our Section 172(1) statement on page 128.

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 new values which reflect the views of our wider stakeholders and culture. More information on how the new values will be embedded across the Group can be found on page 25.

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 135 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 55 to 64 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 and South West Water.

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 Board convenes on the same day as each Pennon Board meeting and considers 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

As part of the Board's focus for 2024/25, we will, once the Competition and Markets Authority process has completed, look to integrate SES Water into the Group. We will continue our focus on delivering against our environmental commitments, and ensuring we are well placed to meet the vital ambitions of the PR24 framework. And, as we look to our governance arrangements, we will continue with our ongoing and orderly succession planning strategy. There is much to do, and we have the talent and governance in place to achieve our ambitions.

As I reported in last year's Annual Report, I will be standing down as Chair, and from the Board, at the conclusion of the AGM on 24th July 2024. We are conducting a formal, rigorous and independently conducted process, in the line with the Code, I will be announcing the new Chair of the Group shortly.

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.

Gill Rider



20th May 2024

Our Board

The Board

Working responsibly together

1	2	3
4	5	

1. Gill Rider CB, Ph.D, CCIPD

Group Chair

Date of Appointment to the Board

Gill was appointed to the Board as Non-Executive Director on 1st September 2012, and became Group Chair on 31st July 2020.

Current external appointments

President of the Marine Biological Association.

Skills and experience

Gill has a wealth of experience in leadership and governance across a broad range of sectors, including professional services, education, not for profit and government. Formerly, Gill was Head of the Civil Service Capability Group at the Cabinet Office, reporting to the Cabinet Secretary. Prior to that, Gill held a number of senior positions with Accenture LLP, culminating in the post of chief leadership officer for the global firm. Gill is president of the Chartered Institute of Personnel and Development (CIPD) and chair of the Council of the University of Southampton. Up until May 2024 she was non-executive director and chair of the remuneration committee of Intertek Group plc.

2. Susan Davy BSc Hons, ACA

Group Chief Executive Officer

Date of Appointment to the Board

Susan was appointed to the Board as Group Chief Financial Officer in February 2015, and was appointed as Group Chief Executive Officer on 31st July 2020.

Current external appointments

Non-Executive Director and Audit Chair of Restore Plc, a Director of the Institute of Water, a member of the Water UK Board, member of the Energy and Utilities Skills Partnership Council, and was previously a member of the A4S (Accounting for Sustainability) CFO leadership network.

Skills and experience

Susan's knowledge of the industry, coupled with her financial and regulatory expertise, has underpinned the development of Pennon's growth strategy to become a leader within the water industry. Under Susan's leadership, the Group has continued to expand, and become a stronger and more resilient business. In her 25+ years' experience in the utility sector, Susan has also held several other senior roles in the water sector, including at Yorkshire Water, giving her the knowledge to provide stability and thoughtful leadership to the Group.

3. Steve Buck

Group Chief Financial Officer

Date of Appointment to the Board

Steve was appointed to the Board on 27th November 2023 and was appointed Group Chief Financial Officer on 1st January 2024.

Current external appointments

None

Skills and experience

Steve is a Chartered Management Accountant and has spent almost two decades working across the globe in different roles within the utility sector – including his most recent role as Chief Financial Officer for Anglian Water Group, where he worked for four years. Steve has led finance and transformation functions, focusing on delivering for both shareholders and millions of customers in complex and challenging environments.

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 1st September 2018, and became Senior Independent Director on 1st 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. Claire Ighodaro CBE

Independent Non-Executive Director

Date of Appointment to the Board

Claire was appointed to the Board as Independent Non-Executive Director on 1st September 2019.

Current external appointments

Chair of the audit board of KPMG LLP.

Skills and experience

Claire has held a number of senior roles and directorships with UK and international organisations and has extensive board experience, serving on their audit, remuneration and governance committees. She is a past president of the Chartered Institute of Management Accountants (CIMA) and was the first female to lead this organisation. Claire spent most of her executive career with BT plc. She has also held non-executive directorships across a diverse portfolio, including Governance Committee chair of Bank of America's Merrill Lynch International, Audit Committee chair of Lloyd's of London, Flood Re, The Open University and various UK public bodies, including UK Trade & Investment and the British Council. Claire was also non-executive chair of the Board and Governance Committee at Axa XL-UK Entities until December 2022.

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6. Jon Butterworth **A E H N R**

Independent Non-Executive Director

Date of Appointment to the Board

Jon was appointed to the Board as Independent Non-Executive Director on 8th 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.

7. Loraine Woodhouse **A N R**

Independent Non-Executive Director

Date of Appointment to the Board

Loraine was appointed to the Board as Independent Non-Executive Director on 1st December 2022.

Current external appointments

Non-executive director of The Restaurant Group plc and a member of their Audit, Remuneration and Nomination Committees; non-executive director and chair of the Audit Committee at British Land plc.

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.

8. Dorothy Burwell **E H N R**

Independent Non-Executive Director

Date of Appointment to the Board

Dorothy was appointed to the Board as Independent Non-Executive Director on 1st 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.

9. Andrew Garard

Group General Counsel and Company Secretary

Date of Appointment to the Board

Andrew was appointed to the Board as Group General Counsel and Company Secretary on 1st December 2022.

Current external appointments

Non-executive director at Zinc Media Group plc, where he is chair of the Remuneration Committee.

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 2023/24

Paul Boote – stepped down from the Board on 31st December 2023

Neil Cooper – stepped down from the Board on 1st September 2023

Committee key for the Board:

A Audit Committee	N Nomination Committee
E ESG Committee	R Remuneration Committee
H Health & Safety Committee	C Committee chair

Pennon Executive Board

1 2 3

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1. Susan Davy

Group Chief Executive Officer
See biography on page 116

2. Steve Buck

Group Chief Financial Officer
See biography on page 116

3. Andrew Garard

Group General Counsel and Company Secretary
See biography on page 117

4. Adele Barker

Group Chief People Officer

Adele joined the Group in 2017 and was appointed as Group Chief People Officer in 2020. Adele's role is to lead and execute the Group's people strategy, Health and Safety strategy and lead on Corporate Affairs.

Her background includes senior executive roles and HR leadership across Utilities, banking and retail, including British Gas, Orange and Marks & Spencer.

5. John Halsall

Chief Operating Officer of South West Water

John joined the Group in February 2023. John's role within SWW is to lead and deliver best in class operational performance across water and wastewater services.

His background includes senior executive roles and operational delivery in Rail and Utilities, including Network Rail and Thames Water.

6. Laura Flowerdew

Chief Customer and Digital Officer of South West Water

Laura joined the Group in September 2022, post the acquisition of Bristol Water. Laura's role within SWW is to lead on the customer experience delivery and IT services for the Group.

Her background includes senior finance executive roles across Utilities, including Bristol Water and Bristol Energy.

7. Richard Price

Chief Engineering Director of South West Water

Richard joined the Group in September 2022, post the acquisition of Bristol Water. Richard's role within SWW is to lead safe, efficient and innovative engineering and construction.

His background includes senior executive roles across the water industry, including Bristol Water and Thames Water.

8. David Harris

Drought and Resilience Director of South West Water

David joined the Group in November 2022. David's role within SWW is to lead on drought planning activities as well as longer-term resilience.

His background includes senior executive roles in regulated water and infrastructure businesses in Australia, including Water NSW.

Monitoring purpose and culture

Purpose, values and culture

As a purpose-led business, committed to the effective stewardship of the environment, we are shaped by our values and culture. We know that it's not only what we do, but how we do it that is really important for our customers, colleagues, communities and the environment - that's why we're focused on living our values, every day.

During the year, we launched a new set of values which properly reflect who the Group is today and represent our people at their best. The new 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.

To ensure a successful launch and embedding of the new values, as well as to accelerate our cultural transformation, the strategy includes the development of a behavioural framework and training in workshop format for leaders and as e-learning for all colleagues. More information on how the values will be immersed in the organisation can be found on page 25.

For 2024, the Reward Framework was refreshed, reflecting changes to the Group composition, our commitment to supporting our colleagues' wellbeing and wider societal change.

Our purpose:

Bringing water to life – supporting the lives of people and the places they love for generations to come.

Our values:

How the Board monitors culture

The Board plays a vital role in monitoring and assessing the culture of the Group and its alignment with the Company's 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 periodic employee engagement survey and monitors how the areas of employees' focus are being addressed.</p> <p>RISE panel - Through the feedback and reports from the biannual meeting with the CEO and the people panel, RISE, the Board monitors wellbeing and topics that are of importance to employees.</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 Company'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 sites are assessed at the Health and Safety Committee and a 46% reduction in actual lost time injuries (employees and agency staff) was recorded in 2023/2024 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 and Company purpose

Governance structure and framework

Pennon Group plc – Board Of Directors

The role of the Board is to promote the long-term success of the Company, generating value for its shareholders, customers, employees and the communities which it serves, by providing effective leadership and direction to the business as a whole.

The Board is responsible for setting the Group's purpose, values and strategy and overseeing the Group's operations and performance. The Board makes decisions in relation to the Group's business in accordance with its schedule of matters reserved to the Board, which can be found here: www.pennon-group.co.uk/about-us/governance-and-remuneration

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>.

<p>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.</p> <p>Reviews and challenges the ongoing effectiveness of the internal control environment and the scope and adequacy of risk management processes across the Group.</p> <p>Audit Committee Report pages 136 to 143</p>	<p>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.</p> <p>Nomination Committee Report pages 131 to 135</p>	<p>Remuneration Committee Ensures remuneration is aligned with the Group's strategy and reflects the values of the Group.</p> <p>Advises the Board on the framework of executive remuneration for the Group and for the wider workforce.</p> <p>Remuneration Committee Report pages 148 to 170</p>	<p>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.</p> <p>ESG Committee Report pages 144 to 145</p>	<p>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.</p> <p>Health and Safety Committee Report pages 146 to 147</p>	<p>PR24 Committee Plans, prepares for, oversees, and drives the PR24 Business Plan, sets and approves the strategy for PR24, and appoints and oversees relevant executive committees and activities to ensure the delivery of the plan in line with the overall Group strategy.</p> <p>Further information on the PR24 Business Plan can be found on pages 19 to 20 and at business-plan-2025-30.pdf (southwestwater.co.uk).</p>
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Group 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 Group 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 creation, maintenance and execution of the Group's approach to anti-bribery, modern slavery, whistleblowing and grievances.

Division of responsibilities

There is a clear separation of responsibilities between the Chair and the 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:

Group Chair: Gill Rider

- 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 Chief Executive Officer by providing advice, support, and guidance.

Group Chief Financial Officer: Steve Buck

- Managing the Group's financial affairs and supporting the Group 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, customers and Pension Trustees.

Non-Executive Directors: Claire Ighodaro, Dorothy Burwell, Jon Butterworth, Loraine Woodhouse

- 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.

Group 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 the operation of the Group in accordance with the decisions of the Board.
- 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.

Group General Counsel and Company Secretary: Andrew Garard:

- Supports 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.
- Provides advice and services to all Directors, as needed.

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.

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 Company'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 Company.

Thanks to the diverse skillset, independence of thinking and experience of the directors, decisions reached by the Board are fair, focussed 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 2024 Board performance review on page 135. As detailed on page 121, there is a clear division of responsibilities between the roles of the Chair and Group 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 113. 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 Group Chief Executive Officer and Group 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 124 to 125 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 Group 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 weekly catch-ups with the Group Chief Executive Officer and regular catchups with the Group General Counsel, and Company Secretary and Group 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 131 to 170.

During the year, the PR24 Committee, chaired by Iain Evans, held six scheduled meetings. The Committee set and recommended the strategy for PR24 to the Board and oversaw the relevant executive committees and activities to ensure the delivery of the PR24 Business Plan in line with the overall Company strategy. The Committee last met in October 2023, following the submission of the PR24 Business Plan. Following regular updates to Board, further meetings are due to commence when Ofwat issues the PR24 Draft Determinations in June 2024. Further meetings will be set up in 2024 when Ofwat issues the PR24 Draft Determinations. More information can be found on page 19.

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. As well as key strategic items on the Board agenda at every meeting, the Board held two full strategy days with the executive team during the year, in September 2023 and March 2024, to consider short, medium, and long term financial and operational strategic goals for the Group and the operational readiness needed to achieve key strategic outcomes.

At the meetings the Board received presentations from senior management on the strategies for the business, particularly on the financial outlook and opportunities for growth. The Board received a presentation on our renewables development, and held a deep dive with senior managers on insights into our customer priorities and operational progress on our wastewater network through the lens of WaterFit Live.

Pennon Executive Board

The Pennon Executive Board meet on a monthly basis and are responsible for executing the Group's strategy and the day-to-day management of the Group's operations. The Pennon Executive Board is led by the Group Chief Executive Officer. The biographies of the Executive Board can be found on page 118.

There is a framework of delegated authority approved by the Board, within which individual responsibilities of senior management of the Group companies are identified and can be monitored.

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 conduct of a periodic 'Great Place to Work' engagement survey (including related management feedback sessions) and continuous employee feedback through our own in-house forums. These comprise our RISE people panel, a forum for employee engagement, and the 'Big Chat', hosted on a monthly 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 25 to 31.

Stakeholder engagement

In delivering our strategy and ensuring the sustainable, long-term success of the Company, 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 company's purpose and culture, is set out on pages 128 to 129; and an explanation as to how we engaged with our different stakeholders during the year can be found on pages 8 to 12.

Workforce policies and Practices

Conflicts of interest

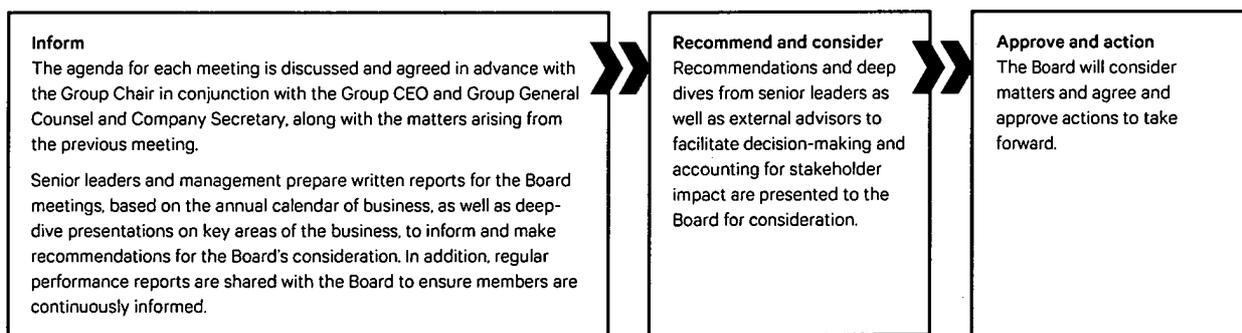
In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. The Board considers this has 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 Company. This duty is in addition to the duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company. 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 Company'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 2023/24, 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.



Key to stakeholder groups			
Customers	People	Policy makers	Environment
Investors	Suppliers	Regulators	Communities

Area	Activity	Outcome	Stakeholders considered	See page
Strategic				
	Acquisition of SES Water Approved the acquisition of Sutton and East Surrey Water.	Subject to approval by the CMA, the acquisition will enhance the financial resilience of SES Water and enhance customer experience/ownership through the WaterShare+ scheme.		6
	PR24 Business Plan Approved our PR24 business plan.	Investments will benefit our customers, the environment and community.		19
	Delivery of capital projects Reviewed and approved the delivery of capital projects in line with the framework model for capital delivery.	Successfully deliver capital projects for the benefit of all stakeholders and foster long term relationships with our suppliers.		11
Operational				
	ODI improvements Monitored our ODI improvements to meet regulatory requirements, ongoing regulatory/ innovation initiatives were monitored via ESG and H&S reports and adapted plans where needed.	Successful regulatory outcomes, safe customer and employee experience, enhancing day to day operations.		32 to 38
	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.		35 to 36
	Water quality and resilience Approved projects to upgrade treatment works and expanding reservoir capacity across the regions.	Successfully maintain bathing water quality all year round. Reduction in pollution levels to industry-leading low levels.		32 to 34

Area	Activity	Outcome	Stakeholders considered	See page
Financial				
	2022/23 Annual Report and Accounts Reviewed and authorised the 2022/23 Annual Report and Accounts.	Delivery against objectives to return capital where appropriate.		6
	Final dividend payment/AGM Approved the final dividend of 30.33p per share and held the Annual General Meeting.	The payment of a final dividend of 30.33p per share and the holding of a successful Annual General Meeting.		7
Environmental				
	Net Zero strategy plan, green recovery investment programmes 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. Two desalination plants being built in Cornwall to secure long term water security in the region. 	Accelerate delivery of our Net Zero plans to achieve a more sustainable future for all.		69 to 70
	Pennon Power acquisition Approved the purchase of four new renewable energy generation projects and implementation of projects to ensure fit for purpose and in house energy generation by 2025.	Foster our commitment to the long-term sustainable growth of the UK's environmental infrastructure.		16
	Dunfermline solar scheme purchase Approved the purchase of 40Gwh Solar PV site for electricity generation.	To increase our energy security and resilience.		36
Social				
	Supporting customers on low income Monitored customer service levels and plans to deliver improved diversity mix and adapting where needed.	Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny.		37
	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.		37
	Culture and values Reviewed and approved new values that best align to our vision.	Boost and accelerate cultural transformation within the Group and develop an excellence behavioural framework for our people.		25
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.		59
	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.		64
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.		122

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. This statement is on pages 128 to 129; you should read it alongside the 'How we Listen' section on pages 8 to 12 to understand why we engage with our stakeholders, how we engage, the key challenges we face and how we are responding.

We actively engage with all our stakeholders, including our customers, our communities, our people, our suppliers and our investors. We are acutely aware that many of our stakeholders are struggling with the uncertainty posed by the cost-of-living crisis, the political landscape and the wider economic environment.

We are committed to maintaining appropriate and regular dialogue to ensure our strategy and our performance objectives always reflect our stakeholders' expectations and needs. Our continuous engagement allows stakeholders to give feedback on matters they consider of importance to them and raise any issues which they would like to be addressed.

Engaging with our customers and communities

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 Company, 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. As a result of this second issuance, we have extended customer ownership and 1 in 14 customers of South West Water are now also a shareholder via this scheme.

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.

During the year, as part of our PR24 Business Plan discussion, the Chair and Deputy Chair of the WaterShare+ Advisory panel, Lord Matthew Taylor and Peaches Golding OBE, respectively, attended three PR24 Committee meetings to provide feedback following their discussions with customers. In turn the chair of the PR24 Committee attended one of the WaterShare+ public meetings that was focused on PR24. The dialogue at these meetings ensured that the interests of our customers remain a top priority, and that the delivery of the PR24 Business plan had the utmost focus on the benefit to our customers and our communities.

The Group Chief Executive Officer's monthly report, which is presented to the Board and discussed at every meeting, includes updates on customer engagement sessions conducted as part of the PR24 Business plan process, through the "Your Water, Your Say" sessions which were held in May and November 2023.

Customer engagement on the WaterFit programme through the "Your Beach, Your Say, Our Investment" interaction sessions with local communities and stakeholder groups, and responses received from our interactive map "WaterFit Live", ensure that valuable feedback is provided to the Board, which assists in ensuring that significant investments are made in order to protect our rivers, seas and wider environment.

Engaging with our people

The Board receives regular updates on our people from the Group Chief Executive Officer and Group Chief People Officer at its meetings. The Great Place to Work survey and feedback from RISE panel provided to the Board 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 page 10.

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 78% of our institutional investors (based on issued share capital) during 2023/24, holding over 130 meetings and calls with current and prospective investors, through roadshows, events and conferences in London, Europe, the Middle East and Australia. We also gave an investor presentation on our PR24 Business Plan in October 2023 and on our acquisition of Sutton and East Surrey Water in January 2024.

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 Group Chief Financial Officer and Group Head of Investor Relations report regularly to the Board on the views of shareholders, to ensure the Board is fully briefed on shareholder views and expectations.

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 Wednesday, 24th July 2024 at 10.00am. The AGM will be convened as a physical meeting, with an option for shareholders to follow the business of the meeting by virtual means. Shareholders who wish to join remotely will be able to log into a live webcast and pose questions to the Board by submitting their questions, in writing, in advance of the AGM; these can be submitted to companysecretarial@pennon-group.co.uk. The location of the AGM will be at Peninsula House, Rydon Lane, Exeter, EX2 7HR.

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 Group Chair, Group Chief Executive Officer and Group 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.

Feedback was reported to the Board on an MP session held at Westminster in October 2023 where members of the Executive team engaged with Members of Parliament on the progress being made across our business priority areas and presented our PR24 business plan to 2030. Likewise, the Group 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 Group Chief Executive Officer on our engagement with environmental organisations particularly Defra, DWI and Water UK. The CEO and Executive Team hosted site visits from the Defra Water Minister, the Shadow Water Minister and the Chair of the Environment Agency, facilitating discussion on the strategic issues of particular importance in the South West.

Through our 'Quality First' transformation programme in the South West region and continued engagement we have seen positive improvements in the relationship with the DWI. The Chief Inspector of Drinking Water Inspectorate attended the South West Water Board Meeting held in November 2023 where valuable insights on the strategic approach for delivering drinking water quality were discussed.

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. The CEO also attends, on occasion, the Let's Talk Water environmental stakeholder forum which is a key channel for sharing progress on our environmental programme and gathering feedback on our PR24 business plan.

To foster our commitment to positive environmental outcomes to our stakeholders, the Board, as part of the PR24 business plan, approved the establishment of an Environmental Advisory Panel, who will engage with the Board and provide independent feedback on our environmental performance and activities.

Engaging with our suppliers

The Board receives updates at Board meetings on our engagement with suppliers which 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 Group 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

2023	May
	WaterShare+ Advisory Panel meeting
	June
	Announcement of Full Year Results 2022/23
	PCIM Roadshow
	RBC Utilities & Infrastructure Investor Conference
	September
	Citi Utilities Conference
	Morgan Stanley Clean Energy & Utilities Conference
	August
	Investor Forum Group Meeting
	October
	Trading Statement
	Submission of PR24 Business Plan
	PR24 Spotlight Presentation & Conference Call
	November
	Announcement of Half Year Results 2023/24
	December
	London and Europe Investor Roadshow
	PCIM Roadshow
2024	January
	Acquisition of SES Water – City Conference Call
	Citi Utilities Conference
	Middle East & Australia Investor Roadshow
	March
	Barclays UK Water Conference
	UBS Utilities Conference
	Trading Statement
	May
	Announcement of Full Year Results 2023/24
	London Investor Roadshow

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 subsidiary, South West Water Limited. 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 Company 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 111
	Our business model	22
	Principal risks	55
	Sustainability reporting	71
	Our integrated approach to ESG	67
	Viability statement	65
	Key activities of the Board	124
The interests of our employees	Strategic report	1 to 111
	Investing in our people	25
	How we listen	8
	Diversity, equity and Inclusion	28
	Whistleblowing policy and speak up	143
	Purpose and culture Our values	25
The importance of having excellent business relationships with suppliers, customers and anyone else who we impact	Our operational review	32
	How we listen	8
	How the Board engages with stakeholders	126
The impacts our operations have on our communities and our environment	Our approach to ESG and Net Zero	68
	TCFD and TFND disclosures	78
	ESG Committee report	144
Ensuring we maintain our reputation for the highest standards of business conduct	Non-Financial Information Statement	110
	Purpose and culture Values	119
	Modern Slavery	1
	Anti-financial crime framework	142
	Whistleblowing policy and speak up	143
The need to act fairly between our shareholders	Stakeholder Engagement	126
	Voting at the AGM	126

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 Company.

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 126 to 127.

Board strategic discussion

s.172 factors are considered in the Board's discussions on strategy, including how they underpin the Company's long-term success.

The Company'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	Outcome	Board discussion and s.172 considerations	Link to strategy
SES Water acquisition and £180 million equity capital raise	In January 2024, the Board approved the acquisition of SES Water and a £180 million equity raise to ensure that the Group remained within the regulated water business gearing range, following completion of the acquisition.	In making their decision, the directors considered the impact of the acquisition on all of our stakeholders, and in particular: Our Investors The Board noted that the long-term financial benefits from value creation and the significant increase in total RCV of the Group would benefit the Company's investors. Our People The Board considered how the acquisition would be perceived by the Group's workforce and the positive impact job stability and career opportunities would have on SES employees, following the acquisition. Welcoming SES employees to the Group would also enable access to a new, wider and diverse talent pool in Southern England. Our Customers In addition to a more robust and reliable service to SES customers, greater advocacy, involvement, and ownership in their local water company via the WaterShare+ scheme would benefit SES customers.	   
Pennon Power projects acquisition	In FY2023/24, the Board approved the acquisition of four new renewable energy generation projects through its direct subsidiary, Pennon Power Limited.	To foster the long term growth of our environmental infrastructure and accelerate our Net Zero plans, the Board considered the risks and opportunities the renewable projects would provide to the Group and its stakeholders. Our Environment and Communities These 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. Our Customers Reduced operating costs thanks to renewable energy generation, would have a positive impact on customer bills.	  
PR24 Business Plan	In October 2023, the Board approved our PR24 Business Plan which sets out what we intend to deliver for our customers and the environment during the period 2025-2030.	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 PR24 Business Plan affects every one of our stakeholders. Our People The Board considered the impact of the PR24 Business Plan 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. Our Customers 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. Our Environment 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. Our Regulators As part of their discussions, the Board considered our regulators. The Board considers that the plan meets Ofwat's quality and ambition assessments and is aligned with Ofwat's objectives for PR24.	   
Interim dividend declaration	In November 2023, the Board approved the payment of an interim dividend of 14.04p per ordinary share.	As part of their discussion, the Board considered our stakeholders and the importance of dividends for the long-term success of the Company. Our Investors The Board considered investor expectations and the considerations of investors who view dividend payments as an important element of their investment at Pennon. Our People and Customers The Board considered the benefit to those employees and customers who participate in the Company's share schemes and WaterShare+ scheme respectively.	

 Water Quality and Resilience	 Storm Overflows and Pollutions	 Net Zero and Environmental Gains	 Addressing Affordability and Delivering for our Customers
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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 Company'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 Group General Counsel and Company Secretary and/or the Company's external advisors. These included updates on mandatory reporting and recent legal or governance changes. Specifically, the Board received updates on the Group's preparations for meeting the enhanced requirements set out within the 2024 UK Corporate Governance Code, particularly, in respect of Audit, Risk and Internal Control.

Board Inductions

On their date of appointment to the Board, all new directors receive a comprehensive and tailored induction programme coordinated by the Group General Counsel and Company Secretary.

Pennon Board composition, independence, and experience

As at the date of this report, our Board comprises the Group Chair, five Non-Executive Directors, two Group Executive Directors and the Group General Counsel and Company Secretary. As at 31st March 2024, female representation on the Board was at 63%, 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. Given her length of service, Gill Rider will be retiring as Group Chair of Pennon at the end of the AGM on 24th July 2024. For continuity of the existing strategic leadership of the Board, a robust and effective long term succession plan as noted in 2022 and 2023 Annual Reports have been undertaken.

All Directors 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 116 to 117 demonstrate collectively a broad range of business, financial and other relevant experience.

Lorraine Woodhouse is Chair of the Audit Committee and, in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1, has recent and relevant financial experience and competence in accounting and auditing (as set out in her biography on page 117). 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 throughout 2023/24 and was appointed as Chair of Water UK, the membership body representing the UK water industry, in September 2023. 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 Group Chair and Pennon's Non-Executive Directors is on pages 116 to 117.

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 Group General Counsel and Company Secretary in consultation with the Chair. Further information on the outcomes from the 2023 Board performance review and the recommendations from the 2024 review can be found on pages 134 to 135.

Steve Buck Induction programme

Following Steve's appointment to the Board in November 2023, he received a tailored induction programme, which included a formal introduction with key stakeholders in the business, along with briefing sessions from senior management on topics ranging from the Group's approach to its operational activities and regulatory, governance, finance, health and safety and key risks and opportunities faced by Pennon. Steve's induction will include a number of site visits across the region including a drinking water treatment site, a sewage treatment site and a reservoir catchment project. He has had the opportunity to meet local teams and ask questions about the business. Steve was also given access to the Board portal which includes key Board and Committee documents and Group information.

Nomination Committee report

Gill Rider
Chair of the Nomination Committee

There has never been a more important time for a responsible business to ensure outstanding leadership and stewardship and to promote diversity.

Committee members	Date of appointment to Nomination Committee		Attendance
	Committee	Attendance	
Gill Rider	September 2012	⊙ ⊙ ⊙ ⊙	
Neil Cooper ¹	September 2014	⊙	
Iain Evans	September 2018	⊙ ⊙ ⊙ ⊙	
Jon Butterworth	July 2020	⊙ ⊙ ⊙ ⊙	
Claire Ighodaro	July 2020	⊙ ⊙ ⊙ ⊙	
Loraine Woodhouse	December 2022	⊙ ⊙ ⊙ ⊙	
Dorothy Burwell	December 2022	⊙ ⊙ ⊙ ⊙	

1. Resigned 1st September 2023

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.

The Committee's focus for 2023/24

- 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.
- Reviewed the terms of reference for the Committee to ensure they remain appropriate.

Dear Shareholder

I am pleased to present the Nomination Committee's (the Committee) report for the year ended 31st March 2024.

This year, the Committee has overseen a number of planned changes to the Board. As previously announced, in September 2023, Neil Cooper stepped down from the Board having reached his maximum tenure. Iain Evans was appointed Senior Independent Director as his successor. In addition, we welcomed Steve Buck to the Board as our new Group Chief Financial Officer, following Paul Boote's decision to leave the Company as part of a planned relocation away from the South West. The appointment of Steve is in line with our succession plan to ensure relevant skills and diversity of perspective, given Steve's previous knowledge of the water sector and significant utilities experience.

As noted in last year's Committee Report, a key focus for the Committee in 2023/24 was to appoint a successor for my role as Group Chair. The Inzito Partnership were appointed as independent consultants, following a robust procurement process, and have worked alongside the Committee in the rigorous selection process, including meetings with appropriate stakeholders as well as the interview process with Board members.

The Committee held four 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 Group Chief Executive Officer, the Group General Counsel and Company Secretary and the Group Chief People Officer. Committee members are also excluded from participating when their own positions are under discussion.

Gill Rider
Chair of the Nomination Committee



20th May 2024

Nomination Committee report *continued*

Board diversity

At Pennon, we believe that a diverse and inclusive culture is a strategic imperative, treating it in the same way we do each strategic priority - setting the tone from the top, holding leaders accountable and delivering against a clear action plan. 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 31st March 2024, female representation on the Board stood at 63%. In the 2024 edition of the FTSE Women Leaders Report, Pennon emerges as a leader, proudly showcasing its commitment to diversity. 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 Chair. Given this, we have continued our membership of the 30% Club, and Gill Rider and Susan Davy are both ambassadors of 25 x 25, the initiative to improve female representation in senior executive roles.

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 11.87% (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 6.9%. Our Group ethnic diversity has increased slightly in the year to just over 3%.

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 2024.

The Board's diversity and inclusion policy confirms that the Board is committed to:

1. 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. A minimum of 33% female representation on the Board.
 - b. One Board member as a minimum who is racially or ethnically diverse.
 - c. A minimum of 33% female representation on the Group's senior management team.
 - d. 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 Company-wide diversity is detailed on page 28 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 31st March 2024 and have been calculated based on diversity data provided upon employment.

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)	6	75	4	8	100
Mixed / Multiple Ethnic Groups	0	-	0	0	-
Asian / Asian British	0	-	0	0	-
Black / African / Caribbean / Black British	2	25	0	0	-
Other ethnic group including Arab	0	0	0	0	-
Not specified / prefer not to disclose	0	0	0	0	-

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	37	2	5	63
Women	5	63	2	3	37
Other categories	0	-	0	0	-
Not specified / prefer not to disclose	0	-	0	0	-

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 set 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.

Appointment of our new Group Chair

As announced in the 2023 Annual Report, Gill Rider will be stepping down from her role as Group Chair of the Board at the conclusion of the 2024 AGM on 24th July 2024.

An update on the appointment of the new Group Chair will be disclosed on the Regulatory Information Service and the Chair appointment process will be included in the Annual Report and Accounts 2025.

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.

Nomination Committee report *continued*

2023 Board performance review

Last year's external performance review was facilitated, by Equity Culture, with the following conclusions:

- Directors continued to demonstrate a high degree of effectiveness and collaboration.
- The Board had a forward-thinking mindset.
- The Board had a good understanding of opportunities for growth and risks facing the business.

The 2023 performance review identified several recommendations and action points for the Board to consider, which were set out in the Annual Report and Accounts 2023. In November 2023, the Board received an update on the outcomes of each action, which are set out below:

	Area of assessment	Action	Outcome
Pennon Board	Board meeting papers and presentations	<ul style="list-style-type: none"> • Review the structure of the Board papers. 	A new Board and Committee paper template was introduced during the year. All papers are reviewed by the Company Secretarial team.
	Board oversight	<ul style="list-style-type: none"> • Continue to ensure appropriate processes for monitoring, reporting and addressing pollution incidents. 	The Board receive operational updates at every meeting and the Audit Committee review on an annual basis the effectiveness of the internal control framework to ensure the appropriate processes for monitoring and reporting are in place.
	Group strategy and governance	<ul style="list-style-type: none"> • Key themes are developing strategic lines of communication to drive climate strategy and growth. 	The Board held two strategy days during the year, in September 2023 and March 2024. See page 122 for more information.
	Communications strategy	<ul style="list-style-type: none"> • Ensure the Group has appropriate capacity to meet its challenges. 	Key themes are developing strategic lines of communication to drive climate delivery and growth
	Succession and talent planning	<ul style="list-style-type: none"> • The bench strength of the Executive needs to be kept under review. 	Ensure the Group has the appropriate capacity to meet its challenges
	Strategy	<ul style="list-style-type: none"> • The focus should remain on ensuring that the Group has the human resources to deliver its ambitions. 	The bench strength of the Executive needs to be kept under review
	Risk	<ul style="list-style-type: none"> • Top-level risks should be reviewed regularly. 	The focus should remain on ensuring that the Group has the human resources to deliver its ambitions
Audit Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> • Continue with existing operations. 	The Audit Committee continued to focus on its existing operations and key priority areas during the year. See page 136 for more information on the Committee's activities.
ESG Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> • Ensure sufficient flexibility to further improve Net Zero activities and outcomes. • Continue the vital focus on environmental issues and CSOs. • Continue to review and assess processes in this area. 	During the year the Committee approved the creation of an environmental advisory panel to provide independent advice and help challenge our environmental activities, and to demonstrate our commitment to focusing on environmental outcomes. See page 144 for more information on the Committee's activities.
Remuneration Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> • Continue to evolve the remuneration framework and build on existing processes. 	The Reward strategy and framework was updated during the year to reflect the Group's composition, latest strategy and business plans, changing employee expectations and our new Group values. See page 148 for more information.
Nomination Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> • Continue with the existing processes, focussed on succession. 	The Committee received updates on succession planning during the year. See page 131 for more information on the Committee's activities.
H&S Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> • As a developing Committee continue deep dives into H&S performance and incidents. 	During the year, the Committee reviewed deep dives of High Potential Incidents, with a particular focus on lessons learned, getting to the root cause and encouraging a learning mindset. See page 146 for more information.

2024 Board performance review

This year the evaluation was carried out in March 2024 via an online questionnaire created internally by the Group General Counsel and Company Secretary in consultation with the Chair.

The questionnaire focused on the ongoing effectiveness of the Board during the year in setting the Group's strategy, satisfying itself that Pennon's culture and values were operating well, 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:

- The Board continued to operate effectively and there was a culture of openness and debate through the effective contribution of all directors.
- The Board continued to provide appropriate leadership of the Group and there are effective strategies, processes and plans in place.
- 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 2024 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 2024.

An update on the outcomes of the Board's discussions of the 2024 Board and Committee performance reviews will be provided in the Annual Report and Accounts 2025.

Audit Committee report

Loralne Woodhouse
Chair of the Audit Committee

The Audit Committee is focused on ensuring sound financial and risk management to support the Group's strategy.

Committee members	Date of appointment to	
	Audit Committee	Attendance
Loralne Woodhouse	December 2022	☺☺☺☺☺
Claire Ighodaro	September 2019	☺☺☺☺☺
Iain Evans	September 2023	☺☺☺
Neil Cooper ¹	September 2014	☺☺

1. Neil Cooper stepped down as Chair and as a member of the Committee on 1st September 2023

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.

The Committee's focus for 2023/24

- Ensure the 2024 Annual Report and Accounts are fair, balanced and understandable.
- In-depth review of the key financial reporting judgements.
- Risk "deep-dives" in key focus areas.
- External audit tender.
- Ensuring readiness for UK Corporate Governance Code changes.

Dear Shareholder

On behalf of the Board, I am pleased to present the Audit Committee's report for the year ended 31st March 2024. This is my first report as Audit Committee Chair having succeeded Neil Cooper on 1st September 2023. 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 Annual Report and Accounts (the 2024 Annual Report').

As in previous years, 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 2024 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.
- 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.

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. One of our key roles is to advise the Board that we are satisfied that the 2024 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 the management as set out on page 139. 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 was pleased to advise the Board that this Report met these criteria. Details of our review process can be found on page 139.

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 2023/24 the Audit Committee has performed risk deep dives on the following areas:

- Engineering supply chain resilience.
- Water quality.
- Cyber security.

More detail on our risk management processes, principal risks and their associated mitigation can be found on pages 55 to 64.

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 2024/25 will expand to broader operational, compliance and reporting elements.

The Committee has considered the requirements for the Financial Reporting Council's *"Audit Committees and the External Audit: Minimum Standard"*, published in May 2023, and ensured that it complied with this standard in conducting the tender for audit services and its ongoing oversight of the external audit process, as set out in this report.

Alongside this focus on our risk processes, we formally reviewed the output of the Group's financial resilience and health assessments: for a 12-month 'look forward' period through our assessment of the Group's going concern status, and over a period of five 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 pricing review for our water businesses. These are modelled through internal scenarios around the deployment of Group cash reserves and which now incorporate the acquisition of SES Water. While the Group maintains a five-year viability assessment period, appropriate for an acquisitive group, South West Water has continued to use a longer assessment period to 2030, since it has a greater visibility of future cash flows, being a regulated business. Our viability statement is reported on page 65.

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.

The acquisition of SES Water is subject to review by the CMA. During the immediate period from acquisition on 10th January 2024 until CMA clearance is obtained, the SES Water business is operated independently of the rest of the Group. SES Water's continuing governance processes were therefore relied on by the Pennon Group Audit Committee in fulfilling its overall Group responsibilities. The following matters have been considered by the Committee in respect of the SES Water acquisition:

- Considering and reviewing the provisional purchase price allocation accounting and disclosure for the acquisition of SES Water in the full year financial results for the year ended 31st March 2024.
- Considering and approving the alignment of accounting policies of SES Water with Pennon Group plc.
- Reviewing and assessing the impact of the SES Water acquisition on the Group's principal risks.
- Considering and approving any changes to the Group's internal control processes, including the effectiveness of the internal control environment, and monitoring the external audit process in connection with the SES Water acquisition.

Finally, I would like to thank Neil for his significant contribution to the Committee over the years and for his help and encouragement as I joined the Group. Equally, I would also like to extend my thanks to the members of the Committee for their support as I settled into my new role as Chair.

Loralne Woodhouse
Chair of the Audit Committee



20th May 2024

Audit Committee report *continued*

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 7.1.1R 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 Group Chief Executive Officer, the Group Chief Financial Officer, the Group General Counsel and Company Secretary, Director of Risk and Assurance, Group Financial Controller and the External Auditor.

The Committee regularly holds private discussions with the External Auditor without management present. Further, the Committee Chair regularly communicates with the Group Chief Financial Officer, the External Auditor and with Committee members outside the meetings to better understand any issues or areas of concern.

Matters of significance in 2023/24

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 and half-year results.
- Reviewed the internal assessment of going concern and longer-term viability on behalf of the Board.
- Reviewed in detail the 2024 Annual Report and advised the Board that the presentation of the 2024 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 2023/24 statutory audit, including the key audit risks and level of materiality applied by the External Auditor.
- Assessed the effectiveness of the External Auditor during the year.
- Agreed the statutory audit fee for the year ending 31st March 2024.
- Reviewed and approved the non-audit services and related fees provided by the External Auditor for 2023/24.
- Conducted a competitive tender process for the role of statutory auditor.

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.

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 accounting policies.
- Reviewed and considered internal financial policies.
- Confirmed compliance with the UK Code.
- Held regular meetings with the external auditor and the Group Director of Risk and Assurance without members of management being present.

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 31st March 2024 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 have 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 175 to 184. 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	<p>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.</p> <p>While the Committee relied on the operational businesses' processes for assessment of water into supply, in the previous financial year it challenged the robustness and timeliness of the methodology used, resulting in management streamlining the calculation approach. The improvements that were implemented in FY23/24 continue to provide a more efficient approach to the calculations required and 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. 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.</p>
Bad and doubtful debts	<p>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.</p>
Going concern basis for the preparation of the financial statements and viability statement	<p>A report from the Group 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 Board on a periodic basis. Rolling five-year strategy projections, and the resultant headroom relative to borrowings, are also regularly reviewed by the Board, 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 Group Chief Financial Officer prepares, for consideration by the Committee, a report focusing on the Group's liquidity over the 12-month period from the date of signing of either the Annual Report or half-year results. The Committee also reviewed a report from the Group Chief Financial Officer 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 considers the appropriate period to assess the Group's viability remains unchanged at five years, which recognises both the longer-term visibility in the regulatory environment of the South West Water and SES Water businesses and the corporate activity, including acquisitions and other non-regulatory investments, such as the recent Bristol Water and SES Water acquisitions and our investments in solar energy generation, undertaken by Pennon.</p> <p>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. In performing its own viability assessment, South West Water uses a longer assessment period to 2030, noting a greater visibility of future cash flows, being a regulated water business. 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 page 65.</p>

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.

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. Further details of the Committee evaluation are provided on page 135. No issues were raised during that review. The Committee concluded that the Auditor was effective during the year and that the relationship and communications were open and constructive.

The Committee Chair has also met privately with the External Auditor to discuss key matters.

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 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 policy uses the average of the last three years' audit fees disclosed in the accounts reflecting that certain non-audit fees for services required to be performed by the auditors are excluded from the assessment.

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 18% of the three-year average audit fee, which is within the Group's 70% non-audit fee limit.

The Group 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 204.

Statutory audit tender process and 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.

We last undertook a formal comprehensive audit tender process for statutory audit services in 2014. The current External Auditor, Ernst & Young LLP (EY), were appointed following a comprehensive audit tender process and approval by shareholders at the Company's 2014 AGM. EY commenced their appointment as auditor and presented their first report to shareholders for the year ended 31st March 2015. The lead audit partner must change every five years. Christabel Cowling, who has considerable audit experience of other FTSE 100 utility companies, has held the role since 2019. This year-end audit is EY's tenth consecutive year in office as statutory auditor.

As announced in our annual report and accounts for FY 2023, the Committee has run a full tender for the Group's external audit services during the year ending March 2024, before the next rotation becomes due. This allows for any potential new audit firm to take up the role for the year ending March 2025 and, if required, affords appropriate time for a smooth transition of responsibilities.

Summary of the statutory audit tender process

The Committee's primary objective throughout the tender process, and in making its recommendation to the Board, was to review the audit approach and ensure best practice in the delivery of the Group's audit. Maximising value to the group and its stakeholders in terms of: audit quality; reliability of assurance; the identification of potential improvements to business and accounting processes and the reporting thereof.

A timeline of the process is set out below:

2023

May

Committee confirmation of audit tender timetable.



August

Investor consultation on prospective participants.



September/October

Expression of Interest confirmations and individual meetings between representatives of interested firms and Chair of the Audit Committee and the Group CFO.



November

Issue of Request for Proposal (RFP) and provision of information via dataroom.



December

Meetings with bidding firms to meet Pennon Group personnel including finance, internal audit, information technology and regulatory teams.



2024

January

RFP submissions and presentations to selection panel.



February

Meeting of Audit Committee to consider and discuss findings of the selection panel and to make recommendation to the Board on the proposed candidate.

Board consideration and approval of Audit Committee recommendation to appoint its proposed candidate, PricewaterhouseCoopers LLP, as auditor in respect of the year ending 31st March 2025.

In conducting the tender and making an appointment ahead of 1st April 2024 for the audit for the year ending 31st March 2025, sufficient time was made available for a firm to cease to provide non-audit services, as set out in the FRC's Revised Ethical Standard (2019) prior to commencing their tenure and to allow a new auditor to shadow the incumbent during the audit for the year ending 31st March 2024, if applicable. In addition, the tender process had confirmed that all participants did not provide any services for which a 'cooling in' period may apply.

A working group of the Chair of the Audit Committee, the Group CFO and the Group Financial Controller was established to direct the overall tender process whilst the Audit Committee approved all key decisions as required. The Audit Committee as a whole was kept fully apprised of the progress of the tender by the Chair of the Committee. The Group Financial Controller was responsible for leading on the logistics of the tender process. Ahead of the request for proposal (RFP) being issued, four 'challenger' firms confirmed that they did not wish to participate in the tender and a third 'Big 4' firm was conflicted from participating. Industry sector expertise was an important factor in the selection of the firms invited to tender, given the regulatory complexities of the business. All three of the firms that participated demonstrated considerable experience of the utility sector and/or water sector and the industry experience of the key members of the audit teams demonstrated the same.

A selection panel was established consisting of: the Chair of the Audit Committee; all members of the Committee; the Group Chair; the Group CEO, the Group CFO and the Group Financial Controller, thereby ensuring a wide range of views were taken into account and a considerable amount of financial expertise supported the Committee in the decision-making process.

Each firm's proposal consisted of a written tender document and face-to-face presentations. Their responses were evaluated by the selection panel against the following criteria, as set out in the RFP:

- Audit approach and overall audit quality assurance.
- Quality, experience of the lead partner, team and firm and their ability and track record of challenging management and delivering audit quality.
- Approach to achieving a smooth audit transition, if relevant.
- Service delivery, including value add from the audit.
- Culture and reputation of the audit firm.
- Performance during the proposal process.

Proposals were assessed on these criteria with pricing being a secondary point of evaluation after the initial assessment.

Outcome of statutory audit tender process

Following the selection panel process, the Audit Committee met to review and discuss the bidders' proposals, how these proposals met the assessment criteria, and a paper summarising the assessment was prepared, following which the committee made its recommendation that PricewaterhouseCoopers LLP (PwC) was its preferred candidate. The recommendation was approved by the Board on 21st February 2024. The Board accepted the Committee's recommendation that PwC would be appointed as statutory auditor for the year ending 31st March 2025, subject to shareholder approval at the Annual General Meeting in July 2024. There are no contractual obligations that restrict the Committee's choice of auditor; the recommendation is free from third-party influence and no auditor liability agreement has been entered into.

PwC were identified as the preferred candidate due to: the strength, experience and breadth of its team in relation to the industry, regulation and technology capabilities; PwC's thorough consideration of the audit scope and approach and how innovation will be deployed to enhance audit approach and quality; PwC's clear commitment to the transition process with advanced levels of planning in how the process would be managed to ensure audit quality; the proposed audit engagement partner and the entire team demonstrated a genuine enthusiasm for driving further audit quality; and demonstrated their capabilities to deploy technology to address key audit risk areas. As noted above, in reaching the assessment, the Committee considered the ranking of the firms before and after the consideration of pricing. In both scenarios PwC proved to be the preferred candidate. Colin Bates will be appointed as PwC's audit engagement partner for the year ending 31st March 2025, having shadowed EY during the 2023/24 audit process.

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 2023 and September 2023, 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 that the Company's Annual Report to be fair, balanced and understandable (FBU) on page 174, 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 2024 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 175 to 184.

In preparing and finalising the 2024 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 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 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 2024.

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 55 to 64 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 111.

Key performance indicators are in place to enable the Board to measure the Company's ESG performance on pages 42 to 44 and a number of these are linked to remuneration incentives on page 151.

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. This took place on March 2024.

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 55 to 64.

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 framework

The anti-bribery and corruption, anti-tax avoidance, and anti-money laundering policies were reviewed and consolidated (together with new guidance to reflect the provisions of the Economic Crime and Corporate Transparency Act 2023) into a new Board approved anti-financial crime policy in March 2024. The new policy includes guidance on Pennon's zero tolerance approach to acts of bribery, fraud, money laundering and tax evasion. The Policy outlines the requirements of Group companies to comply with relevant legislative, ethical standards and best practice on preventing financial crime, and provides information and guidance to those working for and on Group's behalf on how to spot 'red flags' that could indicate a risk of financial crime. The policy is in the process of being rolled out comprehensively into all parts of the Group, through the Company's learning management platform to track review and record understanding; this process is complemented by online training for new joiners on the individual areas of financial crime and annual refresher training for all employees on the Code of Conduct (which incorporates anti-financial crime guidance) arranged by the Legal Compliance team. The Group ensures compliance with the policy 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 (e.g. Procurement and Commercial & Estates), and carrying out detailed investigations into allegations of potential wrongdoing (whistle blows) 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 Company. 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 to incorporate the requirements of the Economic Crime and Corporate Transparency Act 2023. The framework includes an annual:

- Combined business-wide bribery and fraud risk assessment process led by the Legal Compliance team.
- Tax evasion risk assessment led by the Group Tax team.
- Review of the money laundering suspicious activity report process led by the Head of Legal Compliance in conjunction with the Group Treasury team.

The framework is complemented by the annual review of corporate policies (led by the Legal Compliance team) relating to financial crime prevention. These are presented to the Board for approval at their September meeting. These include:

- Code of Conduct (including introductory message stressing the importance of compliance from Group CEO)
- Gifts and Hospitality
- Anti-Financial Crime Policy; and
- Whistleblowing Policy and investigation process.

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 will be required to complete refresher compliance training (focussed 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 are 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 Group's whistleblowing policy, investigator training programme and investigation process were reviewed and reapproved in March 2024. The whistleblowing policy now reflects the Ofwat best practice recommendations published in November 2023 and 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 by the Head of Legal Compliance 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, provide unique insights and is central to our system of checks and balances.

ESG Committee report

Iain Evans
Chair of the ESG Committee

The ESG Committee (the Committee) supports the Company’s ongoing commitment to environmental stewardship.

Committee members	Date of appointment to the ESG Committee		Attendance
Iain Evans	September 2018	⊙⊙⊙⊙	
Gill Rider	September 2012	⊙⊙⊙⊙	
Susan Davy	March 2018	⊙⊙⊙⊙	
Jon Butterworth	July 2020	⊙⊙⊙⊙	
Dorothy Burwell	December 2022	⊙⊙⊙⊙	
Paul Boote ¹	July 2020	⊙⊙⊙	

1. Paul ceased to be a member of the Committee following his resignation on 31st December 2023.

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 2023/24

- Reviewed the external 2023 ESG Assessment scores and approved the work being undertaken to improve these.
- Successfully achieved the majority of 2023/24 ESG targets.
- Successful progress made against the majority of environmental KPIs, including WINEP delivery, biodiversity and achieving 100% EDMs installations.
- Approved the creation of the environmental advisory panel for PR24.
- Successfully achieved the framework for migration to new capital delivery for PR24.
- Carried out deep dive reviews on supply chain processes for the Company.
- Continued delivery of TCFD and TNFD recommendations including detailed appraisal of transition risks and opportunities and scenario analysis.
- Preparation post the disbanding of TCFD for the new IFRS S2 climate-related disclosures.

Dear Shareholder

I am pleased to report on the ESG Committee’s activities and achievements during 2023/24. Paul Boote resigned as Group Chief Financial Officer and as member of the Committee in December 2023, we are immensely grateful for Paul’s contributions to our ESG obligations throughout the years. I continue to be supported by an experienced Committee who focus on governing our ESG activity and disclosure and ensuring we continue to be a responsible business and creating a positive long-term impact on the environment and all our stakeholders and I’d like to thank them for their work and input this year.

Our approach to ESG ensures that everything we do supports our commitment 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 its terms of reference, which were also refreshed and approved during the year. 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. A strategic leadership approach to areas of improvement, particularly in our energy usage in renewable energy generation, pollution and spills incidents was demonstrated, with remediation activities underway to ensure performances are stronger for 2024/25. Our strong progress on existing regulatory commitments and plans on our Group ESG targets, through to 2025, have been further identified in “Our Integrated Approach to ESG” on page 67, and the key focus areas for the Committee in 2024/2025 are noted in the “Focus areas for 2024/25” below.

The Committee engaged in a deep dive on how we measure ESG performance through our supply chain processes and ensured that sustainable principles and practices are inherent in the Group's activities. Following this session, the Committee endorsed that, as part of its ESG improvement programme, supplier ESG measures be assessed against stakeholder, regulatory and investor requirements to ensure alignment with our sustainability ambitions.

The Committee approved the creation of an environmental advisory panel in September 2023, as part of the PR24 submission. The independent panel will provide expert and independent advice, help challenge our environmental activities, and demonstrate our commitment to focusing on environmental outcomes, which are of great importance to our stakeholders.

In line with our TCFD requirements, we have disclosed climate-related financial information on pages 78. These disclosures evidence our strategy to reduce emissions within our operations and through our supply chain to achieve Net Zero by 2030. The Committee had oversight of our climate related governance, ensuring that climate change management was integrated into our principal risks.

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 assess performance against a range of challenging targets for the Group, set as part of the business planning process. The Committee reviewed and monitored 2025 targets ensuring that the metrics, ODIs, Operational Service assessments and ESG targets continue to align with the strategic themes identified in the Committee's materiality assessment. The Committee agreed that the targets for 2024/25 should be published in this Annual Report on page 68.

In addition, the ESG Committee provides assessment and oversight of South West Water's performance against sustainability 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 at 31st March 2024, Pennon achieved 15 of our 16 targets for 2023 and are currently on track to meet our 2025 targets. Whilst we have continued to invest in solar generation, energy usage has continued to be higher than the baseline (driven by increased pumping and treatment to respond to the extreme wet weather this year). This has resulted in generation as a proportion of total usage being lower than targeted for the year.

Enhanced reporting and assurance

With a growing focus on ESG reporting, we are increasing our 2024 reporting suite and providing enhanced disclosure through our SASB disclosure which can be found on page 74, and our ESG databook 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	4
Chief Executive Officer's review	5
Business model	22
Strategy overview	4
Key performance indicators	42
Environmental performance	23
Social performance	25
Governance performance	112
Stakeholder overview	126
Our people strategy	25
Our operations	32

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 has been assured by DNV, an independent management consultancy specialising in technical assurance in the utility sector. DNV's method of assurance includes testing the assumptions, definitions, methods, and procedures that are followed in the development of data and the auditing thereof to ensure accuracy and consistency. 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 been subject to an independent audit of regulatory data conducted by Jacobs. DNV has reviewed the consolidation of these into total Pennon data where stated, but not their preparation.

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 its Annual Performance Report (APR); 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. Similarly, Turner & Townsend conduct an independent audit of Bristol Water's technical (non-financial) data, also published in the APR.

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, Sustainability, CDP Climate Change, S&P Global CSA, and a number of other leading external ESG assessments. FTSE4Good and similar leading indices are designed to facilitate investment in companies that meet globally recognised corporate responsibility standards.

Our latest external assessment scores as at 31st March 2024 are included on page 67 with improvements and maintenance of our strong position seen in all of the assessments. An action plan to enable the Group to become a signatory of the UN Global Compact, the largest corporate sustainability initiative is underway, and next steps in becoming SBTi verified have been completed.

Focus areas for 2024/25

- Embed the results of our extensive materiality assessment due to be completed in 2024 to set our future environmental targets.
- Review our ESG assessments in line with incoming legislation - UK Sustainability Disclosure Standards (UK SDS).
- Engage in diverse deep dive sessions across the ESG areas.
- Further integration of ESG across the entire Group, including supply chain measures.
- Expansion of community impact evaluation and reporting.
- Review performance on how the company is fulfilling its purpose and its external ESG benchmarking.
- Undertake Committee governance matters such as its rolling calendar of agenda items, annual Committee evaluation and examination of Committee's terms of reference.
- Preparation for the disbanding of TCFD and the new IFRS S2 climate related disclosures.

Iain Evans
ESG Committee Chair



20th May 2024

Health and Safety Committee report

Role of the Health & 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.

The Committee's focus for 2023/24

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 plans to increase robustness in Process Safety.
- 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.

Jon Butterworth
Chair of the Health and Safety Committee

The Health and Safety Committee (the Committee) promotes a culture of safety within the Company.

Committee members	Date of appointment to Health & Safety Committee	
	Committee	Attendance
Jon Butterworth	November 2020	☺☺
Iain Evans	November 2020	☺☺
Dorothy Burwell	December 2022	☺☺
Susan Davy	November 2020	☺☺
Paul Boote ¹	November 2020	☺

1. Paul Boote stepped down from the Board on 31st December 2023.

Dear Shareholder

I am pleased to provide an update on the Health & Safety (H&S) Committee's activities during the year.

I believe the key to ensuring we keep employees safe and well in the workplace, is through empowering everyone to take responsibility for the health, safety and wellbeing of each other and for themselves. Simply put, it's about culture, leadership and accountability. This underpins the HomeSafe strategy and has been a welcome focus over the last 12 months. A personal highlight for me this year, as Chair of the Committee, was celebrating Pennon Water Services' fourth lost time injury free year (employee and agency). This is a great achievement that highlights the hard work of both the health and safety teams and the Pennon Water Services' employees who embed the HomeSafe values into their work every day.

Our dedicated Board Committee, focused purely on H&S, 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 be a leader of H&S by 2025 in our sector, 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.

Reviewing the Group's health and safety performance, effectiveness of health and safety policies and procedures, including the continued roll-out of the HomeSafe strategy, has been core, with significant improvements already noted. I was delighted that the Committee was able to support the HomeSafe Live event this year. 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 and deliver pragmatic solutions.

Building on the first Pennon Group H&S conference I attended last year, the Group held two more conferences through the year building on the themes of Taking Ownership. These events were led by the Senior Leaders across the Group demonstrating personal commitment and leadership in health and safety. Over 2,300 colleagues attended, taking time to focus solely on their role in supporting our HomeSafe ambitions. Along with other elements within the HomeSafe plan, these events have supported a tangible increase in overall ownership of HomeSafe and have undoubtedly contributed to the step change reduction in incidents this year.

H&S Committee composition

All Board members are attendees and served throughout the year, with support from the Group Chief People Officer and Pennon's H&S Director.

Reporting

In addition to the regular Board report by the Group 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.

Leaders have taken accountability and driven significant improvements in the lead areas. This has supported the step change reduction in outcome metrics, with the Lost Time Injury Frequency Rate (LTIFR), employees and agency, excluding contractors, reducing through the year by 50%.

The HomeSafe strategy continues to drive improvements and is regularly reviewed to ensure it drives us towards our 2025 aims, and beyond.

The Committee will continue to review and challenge plans and performance to support our HomeSafe ambitions, with a detailed roadmap to 2025 built on six key pillars.

Jon Butterworth

Chair of the Health and Safety Committee



20th May 2024

HomeSafe strategy

The Group's flagship H&S programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities and impacts. HomeSafe is built on the six strategic pillars:

- 1. Managing Risk**
- 2. Sharing and Learning**
- 3. Working Together**
- 4. Protecting Health**
- 5. Enabling Leaders**
- 6. Being Resilient**

Read more on pages 28.



Remuneration Committee report

Clalre Ighodaro

Chair of the Remuneration Committee

The role of the Remuneration Committee is to set and implement executive pay in a fair and socially responsible manner.

Committee members	Date of appointment to	Attendance
	Committee	
Clalre Ighodaro	July 2020	☺☺☺☺☺☺
Iain Evans	September 2018	☺☺☺☺☺☺
Lorraine Woodhouse	December 2022	☺☺☺☺☺☺
Dorothy Burwell	December 2022	☺☺☺☺☺☺

Dear Shareholder

I am pleased to present the Directors' remuneration report for the year ended 31st March 2024.

The Committee's approach to Executive remuneration has always been underpinned by doing what is right for our customers, investors, wider stakeholders, the communities in which we operate and the environment. Our values and integrity are reflected in the decisions we make, and in focusing incentives on what matters most as a socially responsible business and providing transparency on outcomes. Whether you are a shareholder, a customer or the regulator, we all 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. We continue to believe that the sector needs to be able to attract the high-quality talent required to lead large, complex organisations, by incentivising and rewarding management teams fairly for the outcomes achieved.

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, 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 targets for any performance-related pay schemes.
- Determine the appropriate outturn of any incentive arrangements.

The Committee's focus for 2023/24

- Consider the remuneration and terms of engagement of the Executive Directors, senior executives and Chair of the Group and the remuneration of the wider workforce.
- Determine the appropriate long-term incentive arrangements for the Group over the next 3-5 years engaging with stakeholders as appropriate.
- Determine targets that remain stretching, relevant to the Group's strategy and values and reflect best practice and wider stakeholders' views.

We are mindful of the views of the public and the regulator. Over the course of the year, I have engaged with Ofwat and sought feedback on our approach as well as contributing to wider sector considerations as to how executive remuneration can evolve to ensure that all stakeholders can see transparency and clarity in decisions on performance related pay, and I know from my conversations with shareholders that this is a shared ambition too.

Turning to the performance in year, we have delivered record levels of investment spend as we focus on underpinning our operations to deliver improved performance and in driving cumulative RCV growth of 65% since the start of K7, along with record support for customers of £100 million.

Our acquisition of SES Water in January 2024 was an important milestone in our continuing strategy of growth within the water sector. We are fast-tracking through the Competition and Markets Authority's review of the acquisition, and we look forward to welcoming a further 470 colleagues to the Group, securing jobs, as well as providing financial resilience and improved investment for the c.750,000 people we serve in Sutton and East Surrey. Our strong shareholder support continues to be demonstrated by the over-subscription of our equity raise conducted in connection with the acquisition. The development and excellent customer service of the B2B retailers, Pennon Water Services and Water2Business, has doubled profitability and market share.

Our ambitious business plan for the regulatory period 2025-30 was submitted to Ofwat on 2nd October 2023, detailing our largest ever investment of £2.8 billion in the region. The plan creates 2,000 jobs providing valuable careers, supporting customers and communities across the South West and the wider supply chain. Our customers, many of whom are also shareholders through our unique WaterShare+ scheme, engaged in the development of our plans, giving feedback and confirming what matters most to them now and for the future.

Our performance over the last financial year has continued to deliver outperformance on base returns, enabling reinvestment that will improve service quality over the longer term. Although our profit before tax and earnings per share results reflect the impact of exceptional levels of UK inflation on our debt instruments, the underlying financial results remain robust as demonstrated by EBITDA of £338.3 million. We also remain on track to deliver our ambitious Net Zero programme by 2030 with our £59 million investment in Pennon Power, on track to deliver 135 GWh annual storage. Our investments in water storage with the opening of two mini reservoirs have contributed to the achievement of 100% strategic reservoir capacity in the year and ahead of target.

However, we recognise that there remains scope for improvement in our wastewater services across Devon and Cornwall as we work towards our stretching targets, and as weather impacts and increased flows have affected the headline performance of pollutions and the use of storm overflows with a re-profiled delivery plan to achieve 4-star rating for 2025.

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. Our strong 2023 pay settlement ensured we remained in this position across the Group despite both Living Wage Foundation rates and National Minimum Wage rates increasing substantially.

The 2024 pay award reflects our most progressive pay award to date, continuing to focus on front line roles with an increase valued at 4.6% inclusive of 1 day additional holiday for the majority of colleagues. Those on salaries above £50,000 will receive an increase valued at 4.4% inclusive of holiday. We are proud that our employees will earn a minimum of £12.50 per hour, 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.

During 2023/24 we updated our Group Reward Principles to reflect the broader strategy, evolving composition of the Group and recent acquisition activity which has expanded our workforce across multiple locations. Key areas of focus included the addition of new Group Values, strengthening wellbeing and incorporation of greater employee flexibility either in work patterns or in choices of lifestyle benefits.

We also took time to reflect on our annual bonus for colleagues, ensuring clear line of sight between their objectives and the Group strategy, our customers and their communities. Our annual bonus plans allow our colleagues to share in the Group's success. We also offer highly competitive retirement benefits to our employees, which include additional life assurance protection.

Our HMRC-approved share schemes continue to be popular with c.50% 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 155.

Remuneration Policy review

Our Remuneration Policy was approved by shareholders at the AGM in July 2023, receiving strong shareholder support of 93.6%.

As flagged in last year's Directors' remuneration report, following the AGM we undertook a thorough review of our pay structures in the context of the recent business plan submission required by Ofwat and our strategic priorities, with a focus on ensuring the approach to pay continues to drive delivery of the long-term strategy.

As part of this process, we consulted with our largest shareholders and other stakeholders on potentially moving to restricted stock as the primary long-term incentive vehicle for senior executives. Whilst there were a range of views from investors during consultation, we were pleased to note that the majority of our major shareholders were supportive of making this change. However, it was also very apparent that pay in the water sector continues to attract significant external scrutiny and guidance from the regulator continues to evolve. In this context we ultimately concluded that this was not the right time to make wholesale changes to our pay model. We will continue to consider the approach to executive remuneration over the coming years, taking into account our business strategy and the evolving views of our various stakeholders, including Ofwat.

I would like to thank investors who provided feedback during the consultation process. We will continue to appropriately engage with our major investors regarding any potential changes in future years.

Although we are not making significant changes to pay at this juncture, the Committee remain acutely aware of the challenges with recruiting and retaining senior talent in the sector.

Incentive Outcomes

Following guidance provided by Ofwat, we have taken steps to ensure that performance-related pay outcomes for the executive directors are funded at the Group level and will therefore not be funded by customers.

As well as considering formulaic results against targets, the Committee also review outcomes in-the-round, utilising our holistic performance assessment framework to ensure that outcomes are considered from a number of perspectives.

For 2023/24, we increased the portion of the annual bonus linked to outcomes for our customers, communities, and the environment to 60% consistent with regulator guidance with the balance based on a target linked to financial resilience. Further changes to the detailed assessment were made to capture feedback provided by Ofwat.

The Committee carefully considered the formulaic outcome of the annual bonus of 46.5% of maximum and debated this at length. After applying the Committee's discretion framework in respect of South West Water's environmental and pollution performance, it was decided to reduce the formulaic outcome to 38.5%. Furthermore, 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 outcome.

Further details of incentive outcomes are set out in the main body of the report.

Board changes

As previously announced, Paul Boote stepped down as CFO and from the Board on 31st December 2023, as part of a planned relocation away from the South West. Paul's departure terms are consistent with the shareholder approved Remuneration Policy. Further detail is set out on page 163.

The Board were delighted to appoint Steve Buck as Group Chief Financial Officer. Steve joined the Group and was appointed to the Board in November 2023, assuming the role of CFO effective 1st January 2024. Steve is a proven CFO with considerable experience in the regulated utilities and energy sector, and a demonstrable track record for driving performance.

Steve was appointed on a salary of £470,000, modestly positioned 3.6% higher than his previous salary within the water sector. Whilst we recognise that this represents a material increase relative to the previous incumbent, his uplift in salary is substantially lower than typical premia paid to executives when changing roles. Steve's salary in his previous role was positioned between the median and upper quartile of FTSE 250 reference points. Taking into account sector practice, the market pay levels observed during the recruitment process, and most importantly Steve's experience, the Committee was comfortable that the salary had been appropriately positioned. Other ongoing elements of Steve's package are in line with the Remuneration Policy.

Steve was also granted buyout awards in connection with awards forfeited upon leaving his former employer on a broadly like-for-like basis. Whilst all of these awards were due to be delivered in cash, it was considered appropriate to deliver a portion of these in Pennon shares to provide alignment with shareholders in line with best practice. Full details of Steve's joining arrangements are set out on page 162.

Implementation for 2024/25

For 2024/25 both the Chief Executive Officer and Chief Financial Officer have been awarded salary increases of 4%. This is below the average increase awarded to the wider workforce, where increases ranged from 4% to 4.2%, with increases at the upper end of this range focused on our lowest earners. With an additional day of holiday, overall value ranges from 4.4% to 4.6%.

In light of evolving Ofwat guidance the Committee is currently undertaking a review of targets for variable incentives. Consistent with the approach taken in prior years, the annual bonus will seek to include metrics that suitably capture long-term financial resilience as well as metrics which are directly linked to matters of importance for our customers, communities and the environment. Annual objectives are deemed to be commercially sensitive, and consistent with prior years full details of the metrics and targets will be disclosed in next year's Directors' Remuneration Report.

As part of the 2023 review of the Remuneration Policy, the performance criteria for the LTIP were refined in order to incorporate an element directly linked to Water Quality and the Environment. While the current intention is to maintain a broadly similar structure for the 2024 awards, the detail is yet to be finalised as the Committee is keen to ensure that the targets suitably reflect the objectives for the next regulatory cycle, the acquisition of SES Water and evolving Ofwat guidance. Once finalised, we intend to publish the targets on the Company's website

In line with the approach for 2023/24, performance-related pay outcomes for the executive directors will be funded at Group level and will not be funded by customers.

The Remuneration Committee remains committed to implementing a measured and responsible approach to executive pay, whilst also recognising the challenging roles of our Executive Directors. As a Committee we are acutely aware of our responsibility to do the right thing and this has been reflected in decisions made and voting support at previous AGMs. We look forward to our continued dialogue with shareholders and your continued support at the 2024 AGM.

Claire Ighodaro CBE
Chair of the Remuneration Committee



20th May 2024

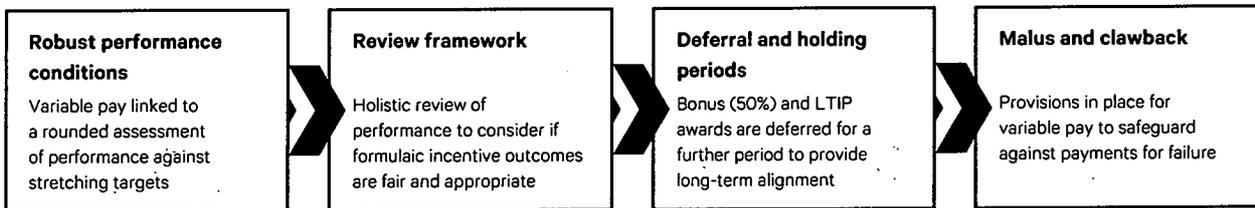
Directors' remuneration report

At a glance

What is the structure of executive pay?

Year 1	Year 2	Year 3	Year 4	Year 5
Base salary				
Benefits				
Retirement benefits				
Bonus: 50% in cash		50% deferred into shares for three years		
LTIP: subject to three-year performance period			Subject to a two-year holding period	
Shareholding guideline: Executive Directors are expected to build up a shareholding equivalent to 200% of salary				

What safeguards are in place?



How does executive pay link to our strategy?

Performance measures	Customer measures	Responsible Business	Environment & Pollutions	Water Quality & Resilience	Financial Resilience
Strategic pillars	(1,2,3,4)	(1,2,4)	(1,2,3,4)	(1,3)	(1,2,3,4)
2023/24 bonus	☑	☑	☑	☑	
2023 LTIP	☑		☑		☑

Our strategic pillars: (1) Water Supply & Resilience (2) Storm Overflows & Pollution (3) Environmental Gain & Net Zero (4) Addressing Affordability & Delivering for Customers

How did we perform?

Performance highlights

Group capital investment up 80% on 2022/23

Water group gearing c.63.5% Group Liquidity in excess of £1bn

100% bathing water quality for the third consecutive year

9.9% growth in underlying EBITDA

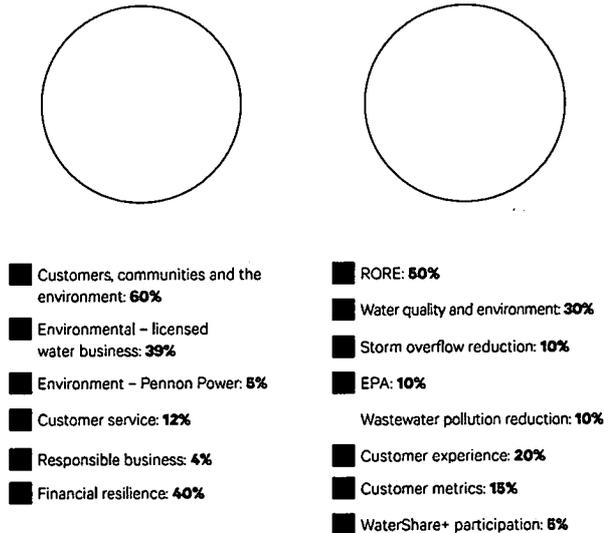
Investing c.£145m in renewable energy generation

Record support for customers of c.£100m

K7 to date

2023/24 bonus measures

2023 LTIP measures



What were the remuneration outturns for 2023/24?



Summary of Remuneration Policy and Implementation in 2024/25

The current Directors' remuneration policy was approved by shareholders at the Company's AGM held on 20th July 2023 and can be found on pages 152 to 157 of the 2023 Annual Report and Accounts. A summary of the policy is set out below alongside detail on how we intend to implement the policy in 2024/25.

Fixed pay

Salaries generally reviewed annually, with increases effective 1st April.

Benefits provided are consistent with the market and level of seniority to aid retention of key skills to assist in meeting strategic objectives.

Pensions are aligned with maximum rate available to wider workforce.

Salary

Salary increases of 4% effective for FY24/25 for Executive Directors. Increases are in line with the average increase valued between 4.4% and 4.6% inclusive of additional holiday for the wider workforce.

Salaries from 1st April 2024:

Group Chief Executive – £511,290

Group Chief Financial Officer – £488,800

Benefits, including pension-related benefits

Benefits currently include the provision of a company vehicle, fuel, health insurance and life assurance.

Executive Directors pension-related benefits are in line with the maximum rate available to the wider workforce (10% of salary).

Annual bonus

Maximum bonus potential is 125% of base salary.

Normally 50% of any bonus is deferred into shares released after three years.

Malus and clawback provisions apply.

FY24/25 – Continued strong link to customer, communities and the environment

In light of evolving Ofwat guidance the Committee is currently undertaking a review of targets for variable incentives. Consistent with the approach taken in prior years, the annual bonus will seek to include metrics that suitably capture long-term financial resilience as well as metrics which are directly linked to matters of importance for our customers, communities and the environment. Annual objectives are deemed to be commercially sensitive, and therefore full details of the metrics and targets will be disclosed in next year's Directors' Remuneration Report.

Long-term incentive plan (LTIP)

Maximum annual award is 150% of base salary.

3 year performance period, two-year holding period.

Malus and clawback provisions apply.

2024 LTIP – Continued strong link to customer, communities and the environment

As part of the 2023 review of the Remuneration Policy, the performance criteria for the LTIP were refined in order to incorporate an element directly linked to Water Quality and the Environment. While the current intention is to maintain a broadly similar structure for the 2024 awards, the detail is yet to be finalised as the Committee is keen to ensure that the targets suitably reflect the objectives for the next regulatory cycle, the acquisition of SES Water and evolving Ofwat guidance. Once finalised, we intend to publish the targets on the Company's website.

Shareholding requirements

During the course of their tenure, Executive Directors are expected to build up a shareholding equivalent to 200% of salary.

Departing Executive Directors will normally be expected to hold 200% of salary (or actual relevant holding, if lower) on departure, with the guideline reducing to 100% of salary after 12 months.

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 RISE - our employee engagement forum through the Executive Directors 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 has been reviewed and updated during 2023/24. The updated framework reflects our changed Group composition, our latest business strategy and plans and changing employee expectations. The new Group values (see page 154) 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:

- 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:

- 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 hare 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 2023, we have focused our pay spend on those colleagues who have needed most support during the cost-of-living crisis. The 2024 pay award continues to focus on front line roles with an increase valued at 4.6% inclusive of 1 day additional holiday for the majority of colleagues. Those on salaries above £50,000 receive an increase valued at 4.4% inclusive of holiday. We are proud that our employees will earn a minimum of £1250 per hour, 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.

During the year, we have completed a pilot of new working patterns in our drinking water function. This has been designed with our colleagues and union representatives to enable teams to benefit from a greater level of guaranteed pay whilst providing the business with more pro-active resource availability and less dependence on call out arrangements which can be disruptive to family life. We will continue to evaluate work patterns for the mutual benefit of customers, colleagues and operational needs during 2024.

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, bonus arrangements were reviewed in 2023/24 with a new scheme taking effect from 1st January 2024. The new scheme has been constructed to reflect 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 two 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 2023/24. 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 cost-of-living crisis, 95% of colleagues continue to participate in the defined contribution schemes.

Our ShareSave scheme was again launched in 2023, 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 2023 ShareSave scheme received strong support from our colleagues and we look forward to extending this and the Share Incentive Plan (SIP) to colleagues in South East and Surrey Water at the earliest opportunity. We have seen strong growth in participation in the SIP this year of c. 30%. In line with our scheme rules, shareholder approval will be sought at the 2024 AGM for the continued operation of our HMRC-approved schemes.

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 dashboard

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 Remuneration Dashboard provides 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 dashboard 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
- 2. Attracting & retaining talent
- 3. Training & competence
- 4. Compliance & process
- 5. Organisational Design
- 6. Leadership & Succession

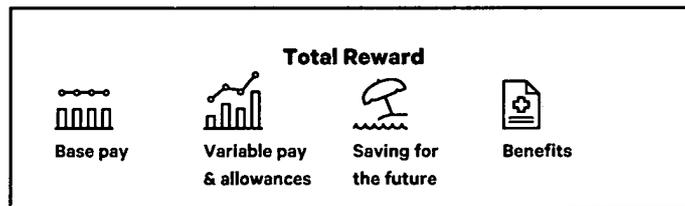


Total Reward

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 new values

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.

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 ensure all roles are mapped to a pay band and publish the broad pay bands by work level on the Company's intranet annually from 2024. • We should engage with RISE, 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 arrangements and all employees and temporary workers are eligible to participate. Throughout bonus schemes, there is strong correlation in the targets, to 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 95% 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 look forward to extending eligibility to our South East and Surrey colleagues at the earliest opportunity. 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 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 within 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 0.17%. 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 remained constant at 8.51%. As we look to develop female representation at all levels, we continue to focus on creating an environment for women to thrive and develop their careers and we have seen female representation in the upper-quartile grow from 16.9% in 2018 to the current level of 25.6%.

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 3rd for Women on Boards in the FTSE 250 and 21st overall.

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. More can be read on the launch on page 25.

Colleague engagement

RISE, our people forum has now been in place for 2 years, providing a two-way dialogue for all colleagues across the Group. This is regularly attended by senior leadership including the Group Chief Executive Officer, South West Water Director of People and Culture, the Group Chief People Officer and other members of the senior leadership. RISE is an established group provoking healthy debate and discussion on areas that matter to employees including reward. Representation is strong, with a RISE member for every 30 employees. 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 RISE 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 RISE panel for those outside of these arrangements.

HomeSafe

Making sure our colleagues and contractors get HomeSafe 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

Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	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.
	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 RISE panel or other employee forums.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	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.
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.	Remuneration arrangements are carefully considered by the Committee, to ensure they reflect our values and those of a responsible business. 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.
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.	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.
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.	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.
Alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy.	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.

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 RISE and the Partnership forum, the Big Chat and Open Door communications, on which more can be read on pages 25 to 27.

Statement of consideration of shareholder views

In developing this 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 this Policy.

As detailed on page 152 to the extent that a further review of the Policy is initiated later in the year the Committee would engage with our major stakeholders as appropriate.

Single total figure of remuneration table (audited)

	Current Executive Directors		Former Executive Director		
	Susan Davy (£000)		Steve Buck ¹ (£000)		Paul Boote ² (£000)
	2023/24	2022/23	2023/24	2023/24	2022/23
Base salary	492	475	164	240	309
Benefits ³	21	21	6	7	16
Pension ⁴	49	48	16	24	31
Total fixed pay	562	543	186	271	356
Annual Bonus (cash) (forgone)	Nil	Nil	Nil	Nil	51
Annual Bonus (deferred shares) (forgone)	Nil	Nil	Nil	Nil	51
LTIP - deferred reinvestment of shares ^{5,6}	298	Nil	Nil	172	138
Total fixed, variable and deferred remuneration	860	543	186	443	596
Total variable pay (actual)	298	Nil	Nil	172	240
Total variable pay (cash)	Nil	Nil	Nil	Nil	51
Total variable pay (forgone)^{7,8}	237	367	75	115	-

1. Remuneration for Steve Buck relates to the period from his appointment on 27th November 2023 until 31st March 2024.
2. Remuneration for Paul Boote relates to the period 1st April 2023 until he stepped down from his role and left the Group on 31st December 2023.
3. Benefits comprise a car allowance, fuel allowance, medical insurance, and income protection.
4. See page 162 for further information on retirement benefits.
5. For 2023/24, the 2021 LTIP has been valued based on the average share price during the three-month period to 31st March 2024 of 697p, together with an estimate of the accrued dividends payable on the vesting shares. Of the vested amount, none of the award is attributable to share price appreciation over the performance period. The Committee did not exercise any discretion in relation to share price changes. Vested awards are subject to a two-year holding period.
6. For 2022/23, the 2020 LTIP value for Paul Boote has been restated to reflect the share price at the date of vesting of 661p. The value includes accrued dividends over the vesting period. The Committee did not exercise any discretion in relation to share price changes. These LTIP awards are subject to a two-year holding period.
7. For 2022/23, the CEO recommended that her bonus and 2020 LTIP award were forgone in full. An equivalent value was diverted into a future issuance under the Company's WaterShare+ scheme. The value of the forgone LTIP award reflects the share price at the date of vesting of 661p.
8. 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 outcome.

Notes to the single figure table

Fixed pay

Details of fixed pay for Steve Buck can be found on page 162.

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 162.

Variable pay

Following guidance provided by Ofwat, we have taken steps to ensure that performance-related pay outcomes for the Executive Directors are funded at the Group level and will not therefore be funded by customers.

Annual bonus outturn for 2023/24

Consistent with prior years, the bonus is based on a rounded assessment of performance. In line with regulatory guidance, 60% of the bonus is linked to delivery of stretching objectives for 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.

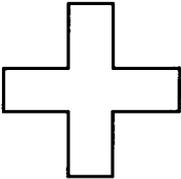
The Group Executive Directors are currently remunerated for delivery of the Group strategy, including Pennon Water Services, Water2Business, Pennon Power and the respective licensed water businesses, which will now include SES Water, in one plan. Variable incentives are not recharged to the individual water companies, but are instead funded at a Group level.

During the year and over recent months, Ofwat has provided substantial feedback regarding the operation of bonus schemes across the sector. In particular Ofwat stressed the need for inclusion of metrics directly related to environmental performance and water quality in the annual bonus. Whilst these measures were included in the 2024 LTIP award, they were not in the original bonus targets set for 2023/24. In direct response to Ofwat feedback, the scorecard linked to customers, communities and the environment for 2023/24 was adapted by the Committee to include additional metrics which were considered to be of particular importance to Ofwat and our customers. Although the inclusion of these additional metrics required a review of the weighting for individual measures, the overall weighting on metrics relating to customers, communities and the environment remains unchanged at 60%.

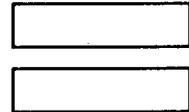
The revised scorecard explicitly captures performance under a wide range of factors, reflecting the multiple areas which are important to our stakeholders. It is vital that the business continues to perform across these areas of focus. Further detail of the underlying targets is set out on page 160. The overall formulaic outcome was 46.5% of maximum.

Consistent with prior years 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. This review considers performance from a number of different perspectives. For 2023/24 performance the Committee also considered the outcome against best practice principles recently developed in collaboration with sector peers. The framework used in this assessment is summarised below.

Formulaic outcome



Holistic performance assessment	
<p>Culture and conduct Focus on significant health and safety, culture and operational events</p>	<p>Alignment with customers, communities and the environment Including customer experience, water quality and resilience, pollution incidents/ EPA and emissions reduction</p>
<p>Consideration of external environment Including the shareholder, employee and wider stakeholder experience</p>	<p>Input from other Board Committees Including ESG and Health and Safety Committees, HR, Compliance, Internal Audit and WaterShare plus panel</p>
Broader financial, operating and strategic performance	
Including impact of exceptional and one-off events	
Sector best practice principles	
Assessment versus best practice principles developed by sector	



Determination of final outcome

The Committee carefully considered the formulaic outcome of the annual bonus of 46.5% of maximum and debated this at length. After applying the Committee's discretion framework in respect of South West Water's environmental and pollution performance, it was decided to reduce the formulaic outturn to 38.5%. Furthermore, 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 managements recommendation for a zero bonus outturn. As noted in the 2023 Annual Report and Accounts, the Chief Executive Officer waived her entitlement to the bonus for FY 2022/23 and funds of an equivalent value were diverted into the next WaterShare+ issuance.

Remuneration Committee report *continued*

Measure	Weighting	Targets	Achievement	Outcome
Financial resilience				
Underlying PBT	40%	<ul style="list-style-type: none"> Threshold – £38.02m Maximum – £40.74m 	<ul style="list-style-type: none"> Outcome (£16.8m / £19.3m excluding SES) impacted by inflation impact on debt instruments 	0%
Environmental				
Licensed water business environmental performance				
South West Water – Environment and Pollution	18.5%	<ul style="list-style-type: none"> EPA – towards 4* Cat 1-2 Pollutions – Amber and above Cat 1-3 Pollutions – 64 Numerical compliance – maintain high performance GHG emissions - 68% reduction 	<ul style="list-style-type: none"> EPA rating (2*) and Cat 1-3 below hurdle – nil payout Numerical compliance and Cat 1-2 Pollutions (Amber) within range Renewables generation within range 	8%
South West Water – Water quality and resilience	16.5%	<ul style="list-style-type: none"> PCC (3 year) – 138.7 Leakage (3 year) – 109.3 Sewer Collapses – 14.76 Mains Repairs – 136.6 Water resource and resilience – water resource storage to achieve 90% Bathing water quality – 98%-100% Enabling biodiversity - progress of K7 target 13,000 	<ul style="list-style-type: none"> PCC within range Leakage, sewer collapses and mains repairs above target Water resource plan ahead of schedule Bathing water quality of 100% Enabling biodiversity and GHG emissions above target 	16.5%
Bristol Water – Water quality and resilience	3%	<ul style="list-style-type: none"> Leakage (3 year) – 109.3 Main repairs – 132.7 PCC – 141.3 	<ul style="list-style-type: none"> Leakage below hurdle – nil payout Main repairs above target PCC within range 	2%
SES – Water quality and resilience	1%	<ul style="list-style-type: none"> Leakage – 21.6 PCC – 142.6 	<ul style="list-style-type: none"> Leakage above target PCC within range 	1%
Pennon Power	5%	<ul style="list-style-type: none"> Delivery against milestone events 	<ul style="list-style-type: none"> 4 sites acquired Dunfermline construction contract signed Preferred partner appointed for other 3 	5%
Customer service				
Licensed water business service performance				
South West Water – Customer service	4%	<ul style="list-style-type: none"> Unplanned outage – 234 Supply – 5m 0s CRI – 2 PSR: <ul style="list-style-type: none"> Reach 5% Attempted Contacts 90% Actual Contacts 35% Internal Flooding – 1.44 External flooding – 1,260 	<ul style="list-style-type: none"> Unplanned outage, PSR and internal flooding above target Supply, CRI and external flooding below target – nil payout 	2.5%
Bristol Water – Customer service	2%	<ul style="list-style-type: none"> Unplanned outage – 234 Supply – 5m 0s CRI – 2 PSR: <ul style="list-style-type: none"> Reach 5% Attempted Contacts 90% Actual Contacts 35% 	<ul style="list-style-type: none"> Unplanned outage within range Supply and CRI below hurdle – nil payout PSR above target 	1.5%
SES – Customer service	1%	<ul style="list-style-type: none"> Supply – 5m 0s CRI – 2 PSR 	<ul style="list-style-type: none"> Supply, CRI and PSR above target 	1%
B2B Retail				
PWS Customer Retention	5%	<ul style="list-style-type: none"> Delivery against customer measures and Net Growth 	<ul style="list-style-type: none"> Retention of tendered contracts 100% +1% Market Share (excl. de-reg) Revenue retention c.97%, EBITDA +72% on 2023 	5%
Responsible Business				
Social and governance	4%	<ul style="list-style-type: none"> Sustainalytics – 80% Fair Tax – maintain Sustainable Financing – 75% Health & Safety – 20 LTIs 	<ul style="list-style-type: none"> Sustainalytics – 82.5% Fair Tax – maintain Sustainable Debt – 82% Health & Safety – 15 LTIs 	4%

The awards in the single figure table relate to the LTP awards granted on 1st July 2021 which are due to vest on 1st July 2024. These share awards were subject to performance targets relating to RORE, sustainable dividends and a basket of customer measures assessing average relative performance to water companies over the three year period and PWS Trustpilot score. The 2021 awards were the first to include metrics related to customer performance in line with the sector best practice. Awards granted in 2023 were further adapted to also include water quality metrics in order to further align with Ofwat guidance.

The table below provides an overview of performance against the targets set

Measures	Threshold (25% of maximum)	Maximum (100% of maximum)	Achievement (% of maximum)	Vesting Outcome (% of maximum)
RORE (33% of award)	6%	8%	7.6%	85%
Sustainable dividend measure (33% of award)	26x	3.6x	3.0x	58%
Basket of Customer Measures* (33% of award)				
C-Mex SWW (4.5%)	11th	1st	13	0%
C-Mex BRL(1.5%)	9th	1st	4	88.8%
R-Mex SWW (7.5%)	9th	1st	9	25%
R-Mex BRL (2.5%)	9th	1st	3	92.5%
D-Mex SWW (7.5%)	9th	1st	7	55%
D-Mex BRL (2.5%)	9th	1st	9	25%
MPS SWW (7.5%)	9th	1st	5	85%
MPS BRL(2.5%)	9th	1st	4	88.8%
Trustpilot Score (10%)	4.5	5	4.8	60.2%

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 2021 award, the following factors were noted:

- The progress made against customer related metrics is fairly reflected in the scorecard.
- The Group remains in a robust financial position, and is well-positioned for the next regulatory period with an efficiently funded balance sheet. Ongoing efficiency programmes are keeping cost increases below inflation, despite impacts of the unprecedented wet weather. Our profitable B2B retailers have seen a c.52% increase in EBITDA. Water group gearing is at 63.5% reflecting increased capital expenditure spend and timing of RCV build. Liquidity of £1.2 billion has been raised since March 2023. There was also record support for our customers of £100 million (K7 to date).
- We are making progress delivering on our four priorities. We have broken the drought cycle for Devon and Cornwall with 100% strategic reservoir capacity achieved in April – ahead of target and we have maintained 100% bathing water quality for the third year in a row. We also remain on track to deliver our ambitious Net Zero programme by 2030.
- While performance in certain areas was impacted by climate factors – 2023 was the fifth wettest on record with rainfall in the second half of the year 50% above the long-term average – it was recognised that there remains scope for improvement. The Group has re-profiled delivery of EPA 4-star until 2025, maintaining the gains delivered in 2022. The Group had no Category 1 incidents in the year and both Category 2 incidents were investigated and determined to be one-off in nature and not due to systemic issues. That said, this remains a top priority for the Board. Outstanding investigations and response in relation to leakages and wastewater treatment were also considered when reviewing outcomes. As noted above, the bonus outcome has been reduced to nil.
- The acquisition of SCS Water represents a significant milestone and is consistent with our strategy. There was significant investor support for both the acquisition and the £180m equity capital raise.
- The Committee considered matters of broader culture and conduct and noted a number of factors including the roll out of Group-wide values and the continued positive safety culture as demonstrated by the 46% reduction in lost time injuries.

Overall the Committee was satisfied that the vesting outcome of 60.2% of maximum represented a fair reflection of overall Group performance over the last three years.

Vested awards for the CEO and former CFO will not be released in 2024. Instead awards will remain subject a two-year holding period and therefore 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. As noted in the 2023 Annual Report, the CEO waived her right to the vesting of the 2020 LTP award in 2023.

Remuneration Committee report *continued*

Retirement benefits and entitlements (audited information)

Details of the Directors' pension entitlements and pension-related benefits during the year are as follows. Effective from 1st 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	39	49	65 (17th May 2034)
Steve Buck	3	13	16	65 (16th February 2034)
Paul Boote	-	24	24	n/a

Susan Davy received an overall pension benefit from the Company equivalent to 10% of her salary for the period 1st April 2023 to 31st March 2024. For 2023/24 this comprised an employer's contribution of £10,000 and a cash sum of £39,000. She is a member of Pennon Group's defined contribution pension arrangements and is entitled to access the retirement fund in the Master Trust from age 55.

Steve Buck received an overall pension benefit from the Company equivalent to 10% of his salary for the period 27th November 2023 to 31st March 2024. For 2023/24 this comprised an employer's contribution of £3,333 and a cash sum of £13,045. He is a member of Pennon Group's defined contribution pension arrangements and is entitled to access the retirement fund in the Master Trust from age 55.

Paul Boote received a pension contribution of 10% of his salary for the year which included a period of contractual notice. This was paid as a cash allowance of £23,986 and he is entitled to access the retirement fund in the Master Trust from age 55.

The employer's contribution to the pension for Executive Directors is deducted from their overall retirement benefit.

No additional benefits will become receivable by a Director if the Director retires early.

Arrangements for the Incoming Group Chief Financial Officer

Steve Buck was appointed to the Board on 27th November 2023 and he was appointed to the role of Group Chief Financial Officer effective 1 January 2024. Steve has been appointed on a salary of £470,000, modestly positioned 3.6% higher than his previous salary within the water sector. Whilst we recognise that this represents a material increase relative to the previous incumbent, his uplift in salary is substantially lower than typical premia paid to executives when changing roles. Steve's salary in his previous role was positioned between the median and upper quartile of FTSE 250 reference points. The Committee considered sector practice and market pay levels observed during the recruitment process, as well as Steve's significant experience and knowledge of the sector, and is of the view that his salary is appropriately positioned.

Steve's incentive opportunity levels are aligned to the policy and consistent with the level awarded to the previous incumbent. While eligible for a pro-rated 2023/24 bonus in respect of the portion of the year employed, as noted above no bonus was paid. Steve has also been granted a 2023 LTIP award at the normal award level of 150% of salary.

Steve is also being compensated in respect of variable remuneration forfeited as a result of leaving his previous employer. These buy-out awards are on a broadly like-for-like basis. This includes eligibility for a cash payment in respect of the short-term (i.e. annual bonus) element of his variable pay, ordinarily payable in 2024/25. The value of this award will be based on the actual performance as disclosed in the Anglian Water annual report. The value of this award will be disclosed in next year's annual report once determined.

Steve will also be compensated in respect of his deferred bonus awards. Awards will vest and be released in line with the original timescales. The value of the awards on grant are set out below. The original awards are also entitled to a CPIH based adjustment over the relevant vesting periods. The actual value of awards will be included in the single figure table in the financial year of vesting.

- 2021 award – £183k – delivered in July 2024
- 2022 award – £228k – delivered in July 2024 and 50% in July 2025
- 2023 award – £259k – delivered in July 2025 and 50% in July 2026

Awards are also subject to malus and clawback provisions.

Consistent with the Remuneration Policy Steve will receive retirement benefits of 10% of salary consistent with benefit levels available to wider workforce. He will also be provided with role-appropriate benefits including car and fuel allowance, medical insurance, and income protection. Steve was also eligible for a one-off allowance in line with our Policy to facilitate relocation, up to a maximum of £75k per annum for two years.

Arrangements for the Outgoing Group Chief Financial Officer

Paul Boote stepped down from the Board and left the Group on 31st December 2023. Paul will receive a payment in lieu of notice (in respect of salary, pension and benefits) for the balance of his contractual notice period of 12 months (£207k). Health and car benefit will continue until the end of his 12-month notice period. Paul also received a payment of £11,636 in respect of accrued but untaken holiday.

Paul was eligible for an annual bonus in respect of 2023/24, pro-rated based on the portion of the financial year employed. As detailed earlier in the report, zero bonus will be paid.

Outstanding LTIP awards will be subject to time pro-rating based on the proportion of the performance period employed, with performance outcomes assessed at the end of the relevant performance period. Awards remain subject to the two-year post-vesting holding. Any unvested deferred bonus awards and LTIP awards within a holding period will be released in line with normal timescales. All awards remain subject to malus and clawback.

Paul will also be subject to the post-employment shareholding requirement.

All payments are in line with the Remuneration Policy.

Non-Executive Directors' remuneration

Single figure of remuneration (audited)

	2023/24			2022/23		
	Fees (£000)	Taxable benefits (£000)	Total fees (£000)	Fees (£000)	Taxable benefits (£000)	Total fees (£000)
Gill Rider	240	0	240	232	0	232
Iain Evans ¹	85	0	85	76	0	76
Claire Ighodaro	78	0	78	76	0	76
Jon Butterworth	70	0	70	68	0	68
Lorraine Woodhouse ²	74	0	74	23	0	23
Dorothy Burwell	65	0	65	21	0	21
Neil Cooper ³	38	0	38	88	0	88

1. Iain Evans was appointed as Senior Independent Director 1st September 2023.

2. Lorraine Woodhouse was appointed as Chair of Audit Committee effective 1st September 2023.

3. Neil Cooper stepped down as Senior Independent Director and Chair of Audit Committee 31st August 2023.

Non-Executive Directors' fees and benefits

During the year, the fees for Non-Executive Directors and Chair were reviewed and increased with effect from 1st April 2024. Fees were increased by 4%, which is below the average increase awarded to the wider workforce which is valued between 4.4% and 4.6%, inclusive of holiday, 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 2024	From 1 April 2023
Chair fee ¹	£249,455	£239,860
Basic Non-Executive Director fee	£67,132	£64,550
Additional fees		
Senior Independent Director	£11,090	£10,660
Chair of Audit Committee	£16,630	£15,990
Chair of Remuneration Committee	£14,425	£13,870
Chair of ESG Committee	£14,425	£13,870
Chair of Health and Safety Committee	£5,545	£5,330

1. When appropriate for the efficient carrying out of her duties, the Chair is provided with a driver and a vehicle. She is entitled to expenses on the same basis as for other Non-Executive Directors.

Remuneration Committee report *continued*

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
Steve Buck	27 November 2023	12 months
Paul Boote	8 July 2020	12 months ¹

1. Paul Boote stepped down from the Board 31 December 2023.

Non-Executive Directors	Date of initial letter of appointment	Expiry date of appointment
Gill Rider ¹	22 June 2012	31 August 2024
Iain Evans	16 June 2018	31 August 2024
Claire Ighodaro	1 September 2019	31 August 2025
Jon Butterworth	1 August 2020	31 July 2026
Lorraine Woodhouse	1 December 2022	30 November 2025
Dorothy Burwell	1 December 2022	30 November 2025
Neil Cooper ²	1 April 2016	31 August 2023

1. Gill Rider was appointed as Chair of the Board as of 31st July 2020 and as such is providing ongoing strategic support and continuity of the Board until 2024

2. Neil Cooper stepped down from the Board 31st August 2023.

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 2023/24. Steve Buck 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 31st March 2024, of £100 invested in Pennon Group on 1st April 2014 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 2014

Historical Chief Executive Officer remuneration

As the Company did not have a Chief Executive Officer until 1st 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.

	2014/15	2015/16 ¹	2016/17	2017/18	2018/19	2019/20	2020/21 ²	2020/21 ²	2021/22	2022/23 ³	2023/24 ⁴
	Average Executive Director	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Susan Davy	Susan Davy	Susan Davy
Single figure of remuneration (£000)	762	1,119	1,318	1,153	1,351	2,135	1,337	1,930	1,527	543	860
Annual bonus pay-out (% of maximum)	68.2	84.0	84.0	87.0	91.0	78.0	79.2	78.1	30.7	0.0	0
LTIP vesting (% of maximum)	0.0	37.9	20.4	0.0	32.0	86.6	89.9	89.9	88.2	0.0	60.2

- Group Chief Executive Officer for the year, including remuneration received between 1st April 2015 and 31st December 2015 when in position as Chief Executive of South West Water.
- Chris Loughlin stepped down as Chief Executive Officer on 31st 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.
- 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.
- 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 outcome.

Percentage Change in Directors' Remuneration

	Percentage Change 2020/21			Percentage Change 2021/22			Percentage Change 2022/23			Percentage Change 2023/24		
	Salary/ Fees	Benefits	Bonus	Salary/ Fees	Benefits ⁶	Bonus	Salary/ Fees	Benefits ⁶	Bonus	Salary/ fees	Benefits	Bonus
Executive Directors												
Susan Davy	11%	0	35%	4%	-23%	-58%	0%	-27%	-100%	3.5%	0%	0%
Steve Buck ¹	-	-	-	-	-	-	-	-	-	-	-	-
Paul Boote ²	-	-	-	37%	27%	-45%	3.0%	-6%	-11%	3.5%	-37%	-100%
Non-Executive Directors												
Gill Rider ³	126%	0%	-	28%	-	-	3.0%	-	-	3.5%	-	-
Iain Evans ⁴	4%	0%	-	1%	-	-	3.0%	-	-	12%	-	-
Neil Cooper ⁵	16%	0%	-	7.5%	-	-	3.0%	-	-	3.5%	-	-
Claire Ighodaro ³	97%	0%	-	9%	-	-	3.0%	-	-	3.5%	-	-
Jon Butterworth	-	0%	-	35%	-	-	3.0%	-	-	3.5%	-	-
Loraine Woodhouse ⁶	-	-	-	-	-	-	n/a	-	-	25%	-	-
Dorothy Burwell	-	-	-	-	-	-	n/a	-	-	3.5%	-	-
All employees												
Pennon Group plc	-12%	3.1%	11%	3%	-28%	-11%	4%	-30%	-73%	12.8%	-39%	-3.4%
UK employees	1%	5.7%	18%	2%	-19%	-14%	4%	-20%	-45%	6%	-21%	-2.2%

- Steve Buck was appointed to the Board 27th November 2023 and appointed as Chief Financial Officer 1st January 2024.
- Paul Boote stepped down from the Board and his role as Chief Financial Officer 31st December 2023. Comparison is based on full-year equivalent. Benefit reduction is attributed to reduced vehicle emissions, reducing P11d value.
- 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 1st September 2023 leading to an increase in fees.
- Neil Cooper stepped down from the Board 31st August 2023. Comparison is based on full-year equivalent.
- Loraine Woodhouse was appointed as Chair of Audit Committee 1st September 2023 leading to an increase in fees. Comparison is based on full-year equivalent for 2022/23.
- The percentage change in benefits is attributed to a reduction in the cost of vehicle leasing costs and reduced cost in healthcare premium.

Relative importance of spend on pay

	2022/23 (£ million)	2023/24 (£ million)	Percentage Change
Overall expenditure on pay ¹	98.9	114.8	16.1%
Distributions to ordinary shareholders	101.5	111.6	10%
Purchase of property, plant, and equipment (cash flow)	323.3	598	84.9%

1. 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 (cash flow) has also been included as this was the most significant outgoing for the Company in the past financial year. Where relevant the numbers have been provided for the continuing Group to enable year on year comparability.

Remuneration Committee report *continued*

Chief Executive Officer pay ratio

Our CEO pay ratio stands at 22:1 for the median employee for 2023/24. Had the CEO received the annual bonus shown in the single figure table, as amount forgone, the ratio would have been 28:1. The ratio is higher than in 2022/23 when the CEO opted to forgo her variable pay for that year. It is lower than the ratio in preceding years. The changes are partially due to our strategy of developing pay for front line roles, 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
2023/24 <i>actual outcomes</i>	A	29:1	22:1	17:1
2023/24 <i>outcome with bonus amount forgone</i>	A	37:1	28:1	22:1
2022/23 ¹ <i>actual outcomes</i>	A	20:1	16:1	12:1
2022/23 ² <i>formulaic outcomes</i>	A	34:1	26:1	20:1
2021/22	A	59:1	44:1	36:1
2020/21 ³	A	95:1	69:1	55:1
2019/20	A	87:1	68:1	50:1

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.

2. This shows the values for 2022/23 had the CEO accepted her variable incentive pay awards in 2023.

3. 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 1st April 2023 to 31st March 2024.

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 total single figure for the CEO for 2022/23 was not subject to restating as variable pay was foregone. The restated value for the ratio illustrating the formulaic outcome for 2022/23 has led to a reduction in the CEO ratio for the median employee from 28:1 to 26:1.

The validated P11D data for 2022/23 did not lead to any adjustments to the ratio. Monthly pay-rolling of P11d information was introduced for the 2023 financial year and now reflects actual values in year.

For 2023/24 the total remuneration for the employees identified at P25, P50 and P75 is £29,617, £39,071 and £50,343 respectively. The base salary of 2023/24 for the employees identified at P25, P50 and P75 is £27,500, £28,117 and £44,853 respectively. Further detail on our approach to pay in the wider organisation is set out on page 153. 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 (audited information)

Share awards granted during 2023/24

The table below sets out details of share awards made in the year to Executive Directors.

Executive Director	Type of interest	Basis of award	Face value £000	Percentage vesting at threshold performance	Performance/ restricted period and date
Susan Davy	LTIP	150% of salary	737	25% of maximum	21 July 2026
Steve Buck ¹			705		08 Feb 2027
Paul Boote ²			480		21 July 2026
Susan Davy ³	Deferred Bonus Shares	50% of bonus awarded	0	n/a	17 July 2026
Steve Buck			0		
Paul Boote			51		

1. The award to Steve Buck was made on 8th February 2024 following appointment on 27th November 2023. The award was made in full as the award from previous employment in 2023 was forfeited. The award will be subject to the same performance criteria and performance period as for other recipients. Vesting and release will occur at the 3rd and 5th year anniversary following the grant on 8th February 2024.

2. The 2023 LTIP award for Paul Boote will be reduced at vesting to reflect completed service in the performance period of 1st April 2023 to 31st December 2023.

3. Susan Davy waived her award under the annual bonus plan in 2023 with the equivalent value being diverted to a future issuance under the WaterShare+ scheme, resulting in a nil deferred bonus award.

LTIP awards were calculated using the share price of £7.142 for all participants (including Steve Buck), being the average closing price over the five dealing days preceding the normal date of grant for the 2023 LTIP, which was 21st July 2023. LTIP awards are also subject to an additional two-year holding period. Deferred bonus awards were calculated using the average share price at which shares were purchased on the market on 18th July 2023 to satisfy the award, which was £7.003.

Directors' shareholding and interest in shares

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 Group Finance Director. 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 152.

On 12th January 2024 the Group conducted an Equity Capital raise which included a non-pre-emptive placing of new ordinary shares of 61.05 pence each in the capital of the Company to both existing institutional shareholders and new institutional investors. Susan Davy and Steven Buck respectively acquired 8,356 and 2,054 ordinary shares in this transaction at a price of £7.30 per share.

The beneficial interests of the Executive Directors in the ordinary shares (61.05p each) of the Company as at 31st March 2024 and 31st March 2023 together with their shareholding guideline obligation and interest are shown in the table below.

	Share interests (including connected parties) at 31 March 2024	Share interests (including connected parties) at 31 March 2023	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	189,940	132,887	80,994	21,894	2,047	234,377	200%	Yes
Steven Buck ²	2,054	0	0	0	0	98,711	200%	No
Paul Boote ³	43,674	29,554	36,955	20,108	2,047	151,285	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. Steve Buck was appointed on 27th November 2023. It is therefore expected that his shareholding will be built up over the course of his tenure.

3. Performance shares for Paul Boote will be pro-rated at time of vesting to reflect service during the performance period.

Since 1st April 2024, 122 additional ordinary shares in the Company have been acquired by Susan Davy as a result of her 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 1st April 2024 and 1st May 2024.

Non-Executive Directors' shareholding

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 2024	Shares held at 31 March 2023
Gill Rider	4,554	2,407
Neil Cooper	-	-
Iain Evans	-	-
Claire Ighodaro	-	-
Jon Butterworth	2,054	-
Loraine Woodhouse	2,054	-
Dorothy Burwell	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 1st April 2024 and 1st May 2024.

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 31st March 2024 is as set out below:

	Awarded	Headroom	Total
Discretionary schemes	1.4%	3.6%	5%
All schemes	4.1%	5.9%	10%

Details of share awards

(a) Long-term incentive plan

In addition to the above beneficial interests, the following Directors have or had a contingent interest in the number of ordinary shares (of nominal value of 61.05p each) of the Company shown below, representing the maximum number of shares to which they would become entitled under the plan should the relevant criteria be met in full. In 2021 ordinary shares were consolidated at a ratio of 3:2 following the payment of a special dividend to shareholders. For simplicity, outstanding LTIP awards did not accrue an entitlement to the special dividend and were therefore unaffected by the consolidation.

Director and date of award	Vested awards held at 1 April 2023 ¹	Conditional awards held at 1 April 2023	Conditional awards made in year	Market price upon award year	Vesting in year ²	Value of shares upon vesting (before tax) 2023	Vested awards held at 31 March 2024 ³	Vested awards released in year ⁴	Conditional awards held at 31 March 2024	Date of end qualifying conditions to be fulfilled	Expected date of release
Susan Davy											
02/07/18	78,875	-	-	790.12p	-	928	-	84,554	-	01/07/21	01/07/23
04/07/19	80,994	-	-	752.72p	-	786	80,994	-	-	03/07/22	03/07/24
03/08/20 ⁵	-	63,812	-	1071.90p	0	0	0	-	-	02/08/23	02/08/25
01/07/21	-	62,456	-	1140.80p	-	-	-	62,456	-	30/06/24	30/06/26
13/06/22	-	68,668	-	1037.60p	-	-	-	68,668	-	12/06/25	12/06/27
21/07/23	-	-	103,253	714.00p	-	-	-	103,253	-	20/07/26	20/07/28
Steven Buck⁷											
08/02/24	-	-	98,711	714.00p	-	-	-	-	98,711	08/02/27	08/02/29
Paul Boote⁸											
02/07/18	20,836	-	-	790.12p	-	245	-	22,336	-	01/07/21	01/07/23
04/07/19	16,049	-	-	752.72p	-	156	16,049	-	-	03/07/22	03/07/24
03/08/20	-	41,982	-	1071.90p	20,906	138	20,906	-	-	02/08/23	02/08/25
01/07/21	-	39,446	-	1140.80p	-	-	-	39,446	-	30/06/24	30/06/26
13/06/22	-	44,670	-	1037.60p	-	-	-	44,670	-	12/06/25	12/06/27
21/07/23	-	-	67,169	714.00p	-	-	-	67,169	-	20/07/26	20/07/28

1. 89.9% of the award shares granted on 2nd July 2018 vested on 1st July 2021 at a market price of £117698 per share.

2. 88.2% of the awards shares granted on 4th July 2019 vested on 3rd July 2022 at a market price of £9.705 per share.

3. 44.9% of the awards granted on 3rd August 2020 vested on 2nd August 2023 at a market price of £6.61 per share.

In respect of (1), (2) and (3) above, the total number of shares that vested included additional shares equivalent in value to such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on the vested shares during the three-year performance period. The balance of the award lapsed.

4. Vested award; no longer subject to performance conditions.

5. Awards released in year at a market price of £9.8717 per share, inclusive of additional shares equivalent in value to such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on the vested shares during the two-year holding period.

6. The CEO recommended that her 2020 LTIP award was forgone.

7. Award made to Steven Buck following appointment in the FY 23/24 with the 2023 performance conditions and award price.

8. Paul Boote's LTIP awards include those he received in his previous position as Director of Treasury, Tax and Group Finance, in which he will retain an interest following his appointment to the Board as Group Finance Director on 8 July 2020.

(b) Annual incentive bonus plan – deferred bonus shares (long-term incentive element)

The following Directors had or have a contingent interest in the number of ordinary shares of the Company shown below, representing the total number of shares to which they have or would become entitled under the deferred bonus element of the Annual Incentive Bonus Plan (the bonus plan) at the end of the relevant restricted period:

Director and date of award	Restricted awards held at 1 April 2023	Restricted awards made in year	Market price of each share upon award in year	Restricted awards post-share consolidation (restated) ¹	Released in year ²	Value of shares upon release (before tax) £000	Restricted awards held at 31 March 2024	Date of end of restricted period
Susan Davy								
04/07/20	15,011	–	1079.47p	10,007	10,007	70	–	13/07/23
30/06/21	18,993	–	1150.45p	12,661	–	–	12,661	29/06/24
19/07/22	9,233	–	987.94p	n/a	–	–	9,233	18/07/25
18/07/23	–	0	–	–	–	–	–	–
Paul Boote³								
04/07/20	5,026	–	1079.47p	3,350	3,350	23	–	13/07/23
30/06/21	10,469	–	1150.45p	6,979	–	–	6,979	29/06/24
19/07/22	5,831	–	987.94p	n/a	–	–	5,831	18/07/25
18/07/23	–	7,298	700.32p	n/a	–	–	7,298	17/07/26

1. All shares held under the AIBP at the 5th July 2021, were adjusted on that date to reflect the share consolidation activity at a ratio of 3:2 into shares of 61.05p each.

2. These shares were released on 13th July 2023 at 701p per share.

3. Paul Boote's deferred bonus share awards will be retained and released in line with the usual schedule.

During the year, the Directors received dividends on the above shares in accordance with the conditions of the bonus plan as follows: Susan Davy £9,592; Paul Boote £8,809.

(c) Sharesave Scheme

Details of options to subscribe for ordinary shares (61.05p each) of the Company under the all-employee Sharesave Scheme were:

Market value

Date of award	Options held at 1 st April 2023	Granted in year	Exercised in year	Exercise price per share	Market price of each share on exercising	Market value of each share at 31 st March 2024	Options held at 31 st March 2024	Exercise period/ maturity date
Susan Davy								
06/07/21	2,047	–	–	879.00p	–	647.50p	2,047	01/09/24–28/02/25
Paul Boote								
06/07/21	2,047	–	–	879.00p	–	647.50p	2,047	01/01/24–30/06/24

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 2023/24.

The Remuneration Committee and its advisors

Claire Ighodaro, Lorraine Woodhouse and Dorothy Burwell were members of the Remuneration Committee throughout the year. Iain Evans joined the Committee on his appointment to Senior Independent Director on 1st September 2023, succeeding Neil Cooper. Gill Rider, 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 (Group 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 2023/24 were £165,300 (arrived at from an hourly rate basis of charging). During the year, Deloitte LLP also provided broader reward 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.

Remuneration Committee report *continued*

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 and remuneration policy at the 2023 AGM and the remuneration policy, including votes for, against and withheld.

Annual report on remuneration (2023 AGM)	
For % (including votes at the Chair's discretion)	98.51
Against %	1.49
Withheld number	12,550,917
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. 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 175 to 184 and the audited sections of the annual report on remuneration are identified in this report.

On behalf of the Board

Claire Ighodaro CBE

Chair of the Remuneration Committee

20th May 2024

Directors' report

Andrew Garard
Group General Counsel and Company Secretary

Introduction

The Directors present their Annual Report and Accounts for the year ending 31st March 2024. 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 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	4 to 7
Likely future developments of the Company	4 to 7
Risk management systems	55 to 64
Certain employee and employee engagement matters as well as the disclosures below	24 to 31
How the Board have engaged with employees and had regard for employee interests	126
Business relationships/engagement with suppliers, customers and others	8 to 12, 126 to 127
Carbon and greenhouse gas emissions, energy consumption and energy efficiency action	71 to 77
Financial risk management	3 of the notes to the financial statements
Financial instruments	47 to 54, and notes 2(n) and 18 of the notes to the financial statements

This Directors' Report (including pages 112 to 174, 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. There will be proposed amendments to the current Articles, put forward at the 2024 AGM. Details of these amendments can be found in the Notice of Meeting, which is available on our website. The current Articles were adopted as the Articles of Association of the Company at the conclusion of the 2023 AGM and are available on our website.

Auditors: The External Auditor for the 2023/24 financial year was Ernst & Young LLP. The Independent Auditors' Report starting on page 175 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. Following a formal comprehensive audit tender it is recommended to the Board that a resolution for the appointment of PricewaterhouseCoopers LLP as the Company's auditor, in respect of the year ending 31st March 2025, be proposed to shareholders at the AGM on 24th July 2024.

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 30.33 pence per ordinary share to be paid on 5th September 2024 to shareholders on the register on 26th July 2024, making a total dividend for the year of 44.37 pence per share. The aggregate cost of the final dividend will be £126.9 million, resulting in a transfer from reserves of £135.4 million. The Strategic Report on pages 1 to 111 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 (2022/23: nil)

Other Contributions: During the year, the Group provided a total of £35,000 in charitable donations (2022/23: £25,000).

Directors

Details of the Directors who served in the year and to the date of this Report can be found on pages 116 to 117. Biographies for Directors currently in office can be found on pages 116 to 117 and on our website. During the year, Neil Cooper resigned as a Director of the Company on 1st September 2023. Paul Boote resigned as a Director of the Company on 31st December 2023 and Steve Buck was appointed as a Director of the Company on 27th November 2023.

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 2023 AGM, the Directors were given the authority to purchase up to a maximum number of 26,131,096 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 1st April 2023 until 20th May 2024, 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 1st April 2024, 5,628 shares were held in treasury, representing 0.002% 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 and 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.

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 associated mitigations are set out on pages 55 to 64. 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 31st March 2024 the Group has access to undrawn committed funds and cash and cash deposits totalling £601.4 million, including cash and other short-term deposits of £171.4 million and £430.0 million of undrawn facilities. Cash and other short-term deposits include £26.0 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. Considering this the Group has a headroom of £435 million, including the impact of £98 million of loans and facilities due for maturity or renewal within the going concern period through to 31st May 2025.

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 55 to 64, individual sensitivities against these risks have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Group's annual budget for FY 2024/25, including the impact of the acquisition of Sutton and East Surrey Holdings Limited, and longer-term strategic business plan for the remainder of the going concern period to 31st May 2025. The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic impacts such as inflation and interest rate increases, regulatory impacts such as the ongoing Ofwat price and tariff review, i.e. PR24, covering the period from April 2025 to March 2030, and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Group collectively. The combined weighted impact of the risks occurring is c.£80 million, this value is considered equivalent to an extreme one-off event that could occur within a year, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Group over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. In the combined scenario to ensure that the Group was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. In the combined stress test scenario, the group has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Group. However if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

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

We have considered the Group's funding position and financial projections, which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Subsequent to the year end date, the Group has secured a £150 million private placement and a £350 million liquidity facility, which reflects on the Group's ability to secure finance. 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 31st May 2025, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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 132. Also, information regarding the employee diversity is provided on page 28. The Board's activities in relation to assessing and monitoring culture can be found in the Corporate Governance Statement on page 112.

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 25 to 31 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 2014 AGM, this scheme and plan were amended to provide for the increased savings limits approved by the Government. At 31st March 2024, approximately 36% (2023: 43%) of the Group's employees were participating in these plans.

Modern Slavery Act: Our people are fundamental to our business, and we remain committed and passionate about supporting our staff, customers and communities to thrive in 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 page 72.

Energy usage: Details of our Energy usage can be found in the Strategic Report on page 71.

Research and development: Research and development within the Group involving water and wastewater treatment processes amounted to £0.6 million during the year (2022/23: £0.8 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 12th January 2024 the Company issued 24,657,535 ordinary shares of 61.05 pence each in the Company following a £180 million equity raise. More information can be found on page 47.

In addition, the Company issued and allotted 72,299 ordinary shares in the Company under the terms of the Pennon Sharesave Plan 2014.

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 245. The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities or on voting rights.

Directors' Report *continued*

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. £58,209,077 (such amount to be reduced by any shares allotted or rights granted under (ii) below in excess of £58,209,077); and
- ii. £116,418,155 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 2023 AGM. In addition, shareholders approved at the 2023 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 2024 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 20th October 2020.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and parent company financial statements in accordance with UK adopted international accounting standards (IFRSs) in conformity with the Companies Act 2006. Under company law the 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 the Company and of the profit or loss of the Group for the year.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Estimates and Errors and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Group's financial position and financial performance;
- in respect of the Group financial statements, state whether UK adopted international accounting standards in conformity with the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether UK adopted international accounting standards in conformity with the Companies Act 2006 have been followed; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and/or Group will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company; and enable them to ensure that the Company and Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with the law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Each of the Directors, whose names and functions are listed on pages 116 to 117, confirms that, to the best of her or his knowledge:

The consolidated financial statements, prepared in accordance with UK adopted international accounting standards in conformity with the Companies Act 2006 give a true and fair view of the assets, liabilities, financial position and profit of the parent company and undertakings included in the consolidation taken as a whole.

The Annual Report, including the Strategic Report (pages 1 to 111), includes a fair review of the development and performance of the business during the year and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

They consider 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.

Statement as to disclosure of information to the auditor

- i. So far as each of the Directors in office at the date of the signing of the report is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- ii. Each of the Directors has taken all the steps each Director ought to have taken individually as a Director in order to make herself or himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' Report consisting of pages 112 to 174 was approved by the Board on 20th May 2024.

By order of the Board

Andrew Garard
Group General Counsel and Company Secretary



20th May 2024

Independent Auditor's report to the members of Pennon Group plc

Opinion

In our opinion:

- Pennon Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2024 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Pennon Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2024 which comprise:

Group	Parent company
Consolidated balance sheet as at 31 March 2024	Balance sheet as at 31 March 2024
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 44 to the financial statements, including material accounting policy information
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 44 to the financial statements, including material accounting policy information	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's 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 are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

Conclusions relating to going concern

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. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We obtained an understanding of the process undertaken by management to perform the going concern assessment.
- We have obtained management's going concern assessment, including the cash flow forecast, liquidity requirements and forecast covenant calculations for the going concern period which covers the period from approval of the 2024 financial statements through to 31 May 2025, and have tested this for arithmetical accuracy. Management has modelled a downside scenario in their cash flow forecast and covenant calculations in order to incorporate unexpected changes in the forecast liquidity and covenant compliance of the group.
- We have challenged the forecasts used for the going concern assessment period, agreed the data to the Board approved plan and, where applicable, corroborated the data with audit information from other areas, including capital commitments, impairment and deferred tax asset recoverability testing. We have evaluated the appropriateness of the key assumptions in management's forecasts including revenue growth, by comparing these to year-to-date performance and through consideration of historical forecasting accuracy and the impact of regulatory price increases.
- The largest component of the group's operations is the regulated water business, undertaken by South West Water Limited, which is subject to five-year price control periods which set the basis of allowed tariff changes. The current period runs to March 2025 and the tariffs allowable for the next five year period to 31 March 2030 are currently under review by Ofwat. We have compared the key assumptions in the group's regulated water business forecasts to the business plans and pricing determinations submitted to Ofwat, for consistency. In addition to this we confirmed that, within the downside scenario, management has considered the risk of changes to the proposed tariffs and the impact this could have on forecast liquidity and covenant compliance of the group.
- We have evaluated management's stress test modelling including management's downside scenario and specific risk register probability-weighted scenarios, to understand the impact on the group's liquidity and covenant ratios. Management has also modelled a reverse engineered scenario (reverse stress test) assuming all the principal risks materialise within the going concern period with no probability weightings attached. We assessed the reasonableness of management's stress test scenarios by performing our own sensitivity analysis for severe but plausible scenarios.
- We have compared the risks identified and modelled in the cash flow forecasts of management's downside scenario to the group risk register and evaluated the quantification by management. We have considered whether there are other alternative risks that should be taken into consideration based on our knowledge of the business. Our procedures included evaluating management's assessment of the impact of climate change within the going concern period, including the principal risk of availability of sufficient water resources to meet current and future demand, as well as sufficiency of funds available to the Group to support the required capital expenditure.
- We have compared facilities assumed in the forecasts to supporting loan documentation and to covenant terms. For facilities, where changes to terms are not finalised or facilities are unagreed at the date of approval of the financial statements, we have evaluated the impact on covenants and liquidity headroom based on existing terms.
- We have evaluated, including assistance from our specialist, events impacting the group immediately after the end of the going concern assessment period, including the effects of maturity of loans and facilities on the group's ability to continue as a going concern.
- We performed testing to consider the likelihood of a scenario causing a liquidity issue or breach of covenants, including the impact of controllable mitigating actions, where relevant.

- We have reviewed the group's going concern disclosures included in the annual report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

We observed at 31 March 2024, the group had access to undrawn committed facilities of £430.0 million and cash and short-term and other deposits totalling £171.4 million (£134.1 million excluding restricted funds). The group generated positive net cash flows from operating activities of £148.9 million. Subsequent to the year end date, the group has secured a £150 million private placement and a £350 million liquidity facility. Management's forecasts indicate there is headroom in the base case and in the downside scenario. Management considers the reverse engineered scenario, that all the group's principal risks are incurred within the going concern period with no probability weightings attached, to be remote.

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 and parent company's ability to continue as a going concern for a period to 31 May 2025.

In relation to the group and parent company's 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. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	We performed an audit of the complete financial information of three components and specified audit procedures on a further three components. The components where we performed full audit procedures accounted for 100% of Earnings before interest, taxes and non-underlying items, 96% of Revenue and 90% of Total assets.
Key audit matters	Revenue recognition across the group's operations in relation to accrued income relating to measured supplies Valuation of the expected credit loss provision for customer balances across the group Capitalisation of costs relating to the capital programme
Materiality	Overall Group materiality of £8.3m which represents 5% of the Group's earnings before interest, taxes and non-underlying items.

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment, the potential impact of climate change and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the seven reporting components of the Group, we selected six components covering the entities, Pennon Group plc, South West Water Limited, Pennon Water Services Limited, Bristol Water plc, Pennon Power Limited and Sutton and East Surrey Group Holdings Limited, which represent the principal business units within the Group.

Of the six components selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics. For the current year, the full scope components contributed 100% (2023: 100%) of the Group's earnings before interest and taxes and non-underlying items, 96% (2023: 100%) of the Group's Revenue and 90% (2023: 94%) of the Group's Total assets.

For the remaining three components ("specified procedures scope components"), we performed specified audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The remaining component accounts for not more than 1% of the group's earnings before interest, taxes and non-underlying items. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

Following the acquisition of Sutton and East Surrey Group Holdings Limited, we included this as a specified audit procedures scope component based on its size and risk characteristics and a non-EY firm performed the specified procedures under the instructions of the primary audit engagement team.

Pennon Power Limited a dormant company in prior year acquired four companies with future renewable energy generation capacity in the current year. Following the acquisition activity within Pennon Power Limited we included this entity as specified audit procedures scope component based on its size and risk characteristics and these procedures were performed by EY primary audit team.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors, including non-EY firms, operating under our instruction. The audit teams for Pennon Group plc, South West Water and Pennon Water Services are led by the Senior Statutory Auditor with a non-EY firm auditing the specified procedures scope component, Sutton and East Surrey Group Holdings Ltd. Where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements. We maintained regular open dialogue with all component audit teams in addition to holding formal meetings to ensure that we were fully aware of their progress and results of their procedures. The Senior Statutory Auditor discussed the planned audit approach with the component teams and any issues arising from their work, attended meetings with management and reviewed key audit working papers on risk areas. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

Climate change

Stakeholders are increasingly interested in how climate change will impact Pennon Group plc. The group has determined that the most significant future impacts from climate change on their operations will be from physical and transitional climate-related risk. These are explained on pages 78-109 in the required Task Force On Climate Related Financial Disclosures and on pages 55 to 64 in the principal risks and uncertainties. They have also explained their climate commitments on pages 69 to 70. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the group's business and any consequential material impact on its financial statements.

The group has explained in their basis of preparation to the financial statements how they have reflected the impact of climate change in their financial statements including how this aligns with their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050 which forms part of their disclosures within the Task Force on Climate related Financial Disclosures which forms part of "Other information". Significant judgements and estimates relating to climate change are included in note 2(a) Basis of preparation and note 4 Critical accounting judgements and estimates. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations under the requirements of UK adopted international accounting standards. In Note 4 to the financial statements supplementary narrative explanation of the impact of climate change on long life assets and availability of sufficient funds for the required capital expenditure, has been provided, concluding that the Group continues to have sufficient funding in place and there is no specific impact on useful lives of long life assets as at 31 March 2024.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 78-109 and the significant judgements and estimates disclosed in note 4 and whether these have been appropriately reflected in asset values where these are impacted by future cash flows and associated sensitivity disclosures (see notes 2(a) Basis of preparation), following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our 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) that we identified. These matters included 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 were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Revenue recognition across the group's operations in relation to accrued income relating to measured supplies (2024: £157.4 million, 2023: £132.8 million)</p> <p>Refer to the Audit Committee Report (page 139); Accounting policies (page 193); and Note 22 of the Consolidated Financial Statements (page 215)</p> <p>The Group's revenue streams relate to the provision of water and sewerage services by South West Water, Pennon Water Services and Sutton and East Surrey Group Holdings.</p> <p>ISAs (UK & Ireland) presume there is a risk of fraud relating to revenue recognition. For the Group, given targets associated with financial performance and pressures to meet market expectations, there is an incentive to overstate revenue.</p> <p>This risk over revenue recognition specifically arises in the following judgemental areas, where there is opportunity to overstate revenue.</p> <p>Income from measured water services requires an estimation of the amount of unbilled charges at the period end. This is calculated using a combination of system generated information, based on previous customer volume usage and the last meter reading date, together with management judgements for a number of different factors not included in the system generated accrual, such as seasonality and operational data trends regarding consumption.</p> <p>The risk remained consistent in the current year.</p>	<p>Procedures to respond to this risk were performed by the component teams.</p> <p>We obtained an understanding of the process, by performing walkthroughs of the supply of measured services, meter reading and related billing in order to assess the completeness of adjustments to reflect the accrual or deferral of revenue at the year-end;</p> <p>For the South West Water operations, we tested key controls linked to system generated information and around the estimation process for measured revenue;</p> <p>For the South West Water operations, we obtained internal and external data on factors that influence demand from customers, weather patterns and leaks in infrastructure networks and formed an expectation of the impact of these matters on revenue to compare to assumptions used in management's estimate;</p> <p>For the South West Water and Pennon Water Services operations, we obtained a system report of invoices raised post year end based on actual meter readings taken since the year end.</p> <p>We selected a sample of items from the report to compare to supporting evidence. We compared this report to the year end assumptions used to accrue income for these customer accounts, to assess the reliability of the assumptions used to determine accrued income. For Sutton and East Surrey, we performed an analysis by comparing the accrued revenue to the bills raised post year-end for all customers and tested a sample of customers.</p> <p>We performed analytical procedures by comparing revenue balances for the year against expectations and obtained support for significant variances;</p> <p>We used data analytics to understand the journal entries posted as part of the revenue, trade receivables and accrued income to cash collection process to identify transactions that were outside of our expectation and agreed these to underlying supporting documentation and business rationale;</p> <p>In performing our journal testing, we paid increased attention to entries impacting revenue, focusing on non-system postings and those raised in the last two weeks of the year.</p>	<p>We concluded that the estimation process undertaken by management to calculate the measured income accrual reflected latest operational factors in the key assumptions and that the income accrual was appropriately determined.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of the expected credit loss provision for customer balances across the Group (2024: £125.3 million, 2023: £106.5 million)</p> <p>Refer to the Audit Committee Report (page 139); Accounting policies (page 195); and Note 22 of the Consolidated Financial Statements (page 215)</p> <p>The expected credit loss provision is calculated using a combination of system generated information on historic debt recovery rates and management's judgement of the future likely recovery rates.</p> <p>There is a risk that the assumptions, used by management in calculating the expected credit loss provision, may be susceptible to management bias and the valuation of the provision against customer balances may be misstated.</p> <p>Management's key assumptions include:</p> <ul style="list-style-type: none"> • that the historic level of collections is indicative of the ability to collect at the same levels in the future; and • that the risk of non-recovery from customers varies, depending on factors such as whether the household customer no longer occupies a property in the area, has previously paid/not paid, is/is not on a payment plan etc., and for non-household customers depends on the general economic performance of the business sector they operate within. <p>In particular, the ongoing cost of living crisis has had a significant impact on the economy and the customers of the Group, which increases the risk relating to recovery of customer balances.</p> <p>The risk has remained consistent in the current year.</p>	<p>Procedures to respond to this risk were performed by the component teams.</p> <p>We performed a walkthrough of the process for calculating the expected credit loss provision and assessed the design effectiveness of the key controls;</p> <p>For the South West Water operations, for the debt relating to household customers, we tested operating effectiveness of key controls over billing systems and integrity of data and the reports utilised to generate the ageing and categorisation of debt within the component's billing systems. For debt relating to non-household customers, we tested the accuracy of data and reports by obtaining underlying evidence to support the parameters relied upon by management in calculating the expected credit loss provision;</p> <p>We tested latest information on collection rates and evaluated how this data was used in the preparation of the expected credit loss provision;</p> <p>For the South West Water and Sutton and East Surrey operations, we utilised collection trends to determine our own range of the likely ultimate collection of debts existing at the balance sheet date, including performing several scenario analyses and compared these to the provision recorded by management, including assessing assumptions for evidence of management bias;</p> <p>We assessed the assumptions used by management in determining amounts provided against different categories and age of debt, by comparing these assumptions to historic collection rates and by considering the impact of changes in the methods adopted operationally by management to collect debt, and in the external environment;</p> <p>For the South West Water and Pennon Water Services operations, we considered whether historic collection performance evidenced behaviour patterns assumed by management depending on categorisation of household and business sector for non-household customers;</p> <p>For the South West Water operations, for debt relating to household customers, we utilised collection information over previous periods, with sensitivities to consider the impact of a deterioration which might arise from a downturn in the economy, to determine an acceptable range of the likely ultimate collection of debts existing at the balance sheet date and compared this to the provision recorded by management;</p> <p>For the South West Water and Pennon Water Services operations, for debt relating to non-household customers, we tested management's segmentation by business sector and risk factors considered for each sector, regarding non-recovery of debt. We compared this analysis with information on actual collections, by sector, in the current year and since the balance sheet date; and</p> <p>We tested the appropriateness of journal entries and adjustments impacting the expected credit loss provision, particularly those raised close to the balance sheet date.</p>	<p>We concluded that the expected credit loss provision of £125.3 million is within an acceptable range and reflects the recent history of collection of outstanding debts and considerations of the impact on future collections from the current macroeconomic environment.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Capitalisation of costs relating to the capital programme (2024: £604.5 million, 2023: £353.7 million)</p> <p>Accounting policies (page 194); and Note 17 of the Consolidated Financial Statements (page 210)</p> <p>The group has a substantial capital programme which has been agreed with Ofwat and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets.</p> <p>There is judgement involved in allocation of costs between operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. Therefore, there is a potential for misstatement between the income statement and the statement of financial position.</p> <p>In addition, internal expenditure including staff costs to support capital projects is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the company and can be measured reliably. There is a risk that costs capitalised do not meet these criteria.</p> <p>Due to the level of judgement involved, we have determined that there is a potential for fraud through possible manipulation of this balance.</p> <p>The risk is new in the current year due to the increased level of capital spend in the year.</p>	<p>Procedures to respond to this risk were performed by the South West Water component team.</p> <p>We performed a walkthrough of the process for capitalising fixed assets and assessed the design effectiveness of the key controls;</p> <p>We evaluated capital and operating or finance costs, and assessed whether these are appropriately classified and recalculated the amounts included as capital additions to ensure they agree with the underlying supporting documentation;</p> <p>For a sample of capitalised additions, we evaluated the appropriateness of the classification as capital by considering the nature of the expenditure with reference to invoice, certificate or timesheets relating to a specific project or asset. We also considered the judgements management applied in capitalising certain staff costs and overheads;</p> <p>We tested a sample of items allocated to expenditure in the income statement and verified whether they are correctly classified by considering the nature of projects i.e., repairs and maintenance or asset enhancement, to which the expenditure relates;</p> <p>We analysed assets commissioned during the year, on a sample basis, and obtained confirmation from project managers of their use in the business;</p> <p>We made inquiries of project managers to gain an understanding of the on-going capital projects of the Group and how costs are reviewed and determined as capital expenditures that meet the Group's capitalisation policy;</p> <p>We selected a sample of manual journal entries to record additions within fixed assets, which resulted from a credit posting to an operating expenditure account and checked whether the capitalisation of such expense was appropriately authorised and in accordance with the capitalisation policy.</p>	<p>We concluded that management has applied the capitalisation policy appropriately in determining the expenditure to be capitalised.</p>

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £8.3 million (2023: £7.2 million), which is 5% (2023: 5%) of the group's earnings before interest, taxes and non-underlying items. We believe that the group's earnings before interest, taxes and non-underlying items provides us with an appropriate measure of the underlying performance of the group, as this excludes the impact of higher interest costs on the group's index-linked debt, driven by the significantly higher levels of inflation and is a measure of focus for users of the financial statements. Therefore, given this focus, we consider this is the most appropriate basis to use for calculating materiality.

We determined materiality for the Parent Company to be £8.9 million (2023: £11.0 million), which is 1% (2023: 1%) of equity. We consider that equity is the most appropriate measure given the parent company is an investment holding company with no revenue. Where procedures were performed as part of the group audit, we performed our procedures to the group materiality level which was lower than the Parent Company materiality.

During the course of our audit, we reassessed initial materiality using the consolidated results for the year. Based on the materiality measure of underlying earnings before interest and tax, we have updated our Planning Materiality to £8.3 million.

Starting basis

- **Reported earnings before interest and taxes £140.4 million**
(2023: reported profit before taxation £109.4 million)



Adjustments

- **Non-underlying items (refer to Note 6) increase basis by £25.9 million**
(2023: £43.7 million increase)



Materiality

- **Totals £166.3 million earnings before interest, taxes and non-underlying items**
(2023: £153.1 million earnings before interest, taxes and non-underlying items)
- **Materiality of £8.3 million** (2023: £7.2 million) (5% of earnings before interest, taxes and non-underlying items)
(2023: 5% of earnings before interest, taxes and non-underlying items)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2023: 75%) of our planning materiality, namely £6.2 million (2023: £5.4 million). We have set performance materiality at this percentage based on our assessment of the group's internal control environment and the extent and nature of audit findings identified in the prior period. This basis is consistent with prior year.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.3 million to £5.6 million (2023: £1.6 million to £4.8 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.4 million (2023: £0.4 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 174 and 239 to 247, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

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 or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 172;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 65;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 172;
- Directors' statement on fair, balanced and understandable set out on page 174;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 55;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 55; and;
- The section describing the work of the audit committee set out on page 136.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 174, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 and parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are;
 - Companies Act 2006
 - Financial Reporting Council (FRC) and the UK Corporate Governance Code
 - Tax legislation (governed by HM Revenue & Customs)
 - Health and Safety legislation
 - Environment Agency environmental permits
 - Ofwat regulations
 - UK listing rules

- We understood how Pennon Group plc is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the group's legal counsel, regulatory team and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the above committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management, including the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and Audit Committee Chair. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement. Further discussion of our approach to address the identified risks of management override are set out in the key audit matters section of our report.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management, those charged with governance and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. We involved our internal specialists where appropriate. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.
- We communicated regularly with the component teams and attended key meetings with the component teams, management and legal counsel in order to identify and communicate any instances of non-compliance with laws and regulations.
- The group operates in the water sector which is highly regulated. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee, we were appointed by the company on to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 10 years, covering the years ending 31 March 2015 to 31 March 2024.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Christabel Cowling (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

21 May 2024

Consolidated income statement

For the year ended 31st March 2024

	Notes	Before non- underlying items 2024 £m	Non-underlying items (note 6) 2024 £m	Total 2024 £m	Before non- underlying items 2023 £m	Non-underlying items (note 6) 2023 £m	Total 2023 £m
Revenue	5	907.8	-	907.8	825.0	(27.8)	797.2
Operating costs	7						
Employment costs		(114.8)	(0.7)	(115.5)	(102.2)	-	(102.2)
Raw materials and consumables used		(51.8)	-	(51.8)	(33.6)	-	(33.6)
Other operating expenses		(395.8)	(25.2)	(421.0)	(373.6)	(15.9)	(389.5)
Trade receivables impairment		(7.1)	-	(7.1)	(7.8)	-	(7.8)
Earnings before interest, tax, depreciation and amortisation	5	338.3	(25.9)	312.4	307.8	(43.7)	264.1
Depreciation and amortisation	7	(172.0)	-	(172.0)	(154.7)	-	(154.7)
Operating profit/(loss)	5	166.3	(25.9)	140.4	153.1	(43.7)	109.4
Finance income	8	12.6	-	12.6	9.2	18.4	27.6
Finance costs	8	(162.8)	-	(162.8)	(145.8)	-	(145.8)
Net finance costs	8	(150.2)	-	(150.2)	(136.6)	18.4	(118.2)
Share of post-tax profit from associated companies	20	0.7	-	0.7	0.3	-	0.3
Profit/(loss) before tax	5	16.8	(25.9)	(9.1)	16.8	(25.3)	(8.5)
Taxation (charge)/credit	9	(4.3)	4.9	0.6	3.6	5.3	8.9
Profit/(loss) for the year		12.5	(21.0)	(8.5)	20.4	(20.0)	0.4
Attributable to:							
Ordinary shareholders of the parent				(9.5)			0.1
Non-controlling interests				1.0			0.3
Earnings per ordinary share (pence per share)	11						
Basic				(3.6)			-
Diluted				(3.6)			-

The above results were derived from continuing operations.

The notes on pages 191 to 238 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31st March 2024

	Notes	Before non- underlying items 2024 £m	Non-underlying items (note 6) 2024 £m	Total 2024 £m	Before non- underlying items 2023 £m	Non-underlying items (note 6) 2023 £m	Total 2023 £m
Profit/(loss) for the year		12.5	(21.0)	(8.5)	20.4	(20.0)	0.4
Other comprehensive (loss)/income							
Items that will not be reclassified to profit or loss							
Remeasurement of defined benefit obligations	30	(7.7)	-	(7.7)	(39.0)	-	(39.0)
Income tax on items that will not be reclassified	9	2.2	-	2.2	9.8	-	9.8
Total items that will not be reclassified to profit or loss		(5.5)	-	(5.5)	(29.2)	-	(29.2)
Items that may be reclassified subsequently to profit or loss							
Cash flow hedges		(16.4)	-	(16.4)	29.1	-	29.1
Income tax on items that may be reclassified	9	4.1	-	4.1	(7.3)	-	(7.3)
Total items that may be reclassified subsequently to profit or loss		(12.3)	-	(12.3)	21.8	-	21.8
Other comprehensive (loss)/income for the year net of tax	36	(17.8)	-	(17.8)	(7.4)	-	(7.4)
Total comprehensive (loss)/income for the year		(5.3)	(21.0)	(26.3)	13.0	(20.0)	(7.0)
Total comprehensive (loss)/income attributable to:							
Ordinary shareholders of the parent				(27.3)			(7.3)
Non-controlling interests				1.0			0.3

The notes on pages 191 to 238 form part of these financial statements.

Balance sheets

At 31st March 2024

	Notes	Group		Company	
		2024 £m	2023 £m	2024 £m	2023 £m
Assets					
Non-current assets					
Goodwill	15	179.5	163.9	-	-
Other intangible assets	16	67.7	14.9	-	-
Property, plant and equipment	17	5,361.6	4,476.9	0.1	0.1
Other non-current assets	19	8.7	23.2	54.1	26.1
Financial assets at fair value through profit	24	0.9	1.3	0.9	1.3
Deferred tax assets	31	-	-	20.7	18.6
Derivative financial instruments	23	17.4	33.2	0.2	0.5
Investments in subsidiary undertakings	20	-	-	1,153.2	1,316.6
Investments in associated companies	20	1.0	0.3	-	-
Retirement benefit obligations	30	26.6	29.3	3.5	4.7
		5,663.4	4,743.0	1,232.7	1,367.9
Current assets					
Inventories	21	13.2	10.0	-	-
Trade and other receivables	22	353.7	238.0	151.8	80.4
Current tax receivable	27	6.0	8.4	-	-
Derivative financial instruments	23	23.4	20.7	1.0	0.6
Cash and cash deposits	25	171.4	165.4	79.2	104.1
		567.7	442.5	232.0	185.1
Liabilities					
Current liabilities					
Borrowings	28	(238.2)	(124.7)	(8.0)	(279.1)
Financial liabilities at fair value through profit	24	(2.6)	(2.6)	(0.1)	(0.1)
Derivative financial instruments	23	(5.4)	(2.4)	(0.1)	-
Trade and other payables	26	(341.2)	(225.4)	(11.5)	(6.3)
Current tax liabilities	27	-	-	(3.2)	(3.4)
Provisions	32	-	(0.4)	-	-
		(587.4)	(355.5)	(22.9)	(288.9)
Net current (liabilities)/assets		(19.7)	87.0	209.1	(103.8)
Non-current liabilities					
Borrowings	28	(3,742.4)	(3,006.1)	(245.6)	(155.7)
Other non-current liabilities	29	(154.9)	(155.3)	-	(8.5)
Financial liabilities at fair value through profit	24	(31.8)	(34.0)	-	-
Derivative financial instruments	23	(3.3)	(2.4)	-	-
Deferred tax liabilities	31	(548.3)	(507.0)	-	-
Provisions	32	(0.4)	-	-	-
		(4,481.1)	(3,704.8)	(245.6)	(164.2)
Net assets		1,162.6	1,125.2	(1,196.2)	1,099.9
Shareholders' equity					
Share capital	33	174.6	159.5	174.6	159.5
Share premium account	34	398.2	237.6	398.2	237.6
Capital redemption reserve	35	157.1	157.1	157.1	157.1
Retained earnings and other reserves	36	431.3	570.6	466.3	545.7
Total shareholders' equity		1,161.2	1,124.8	1,196.2	1,099.9
Non-controlling interests		1.4	0.4	-	-
Total equity		1,162.6	1,125.2	1,196.2	1,099.9

The profit for the year attributable to ordinary shareholders' equity dealt with in the accounts of the Parent Company is £34.4 million (2023 £8.4 million). The notes on pages 191 to 238 form part of these financial statements.

The financial statements on pages 185 to 238 were approved by the Board of Directors and authorised for issue on 20th May 2024 and were signed on its behalf by:

Susan Davy

Chief Executive Officer

Pennon Group plc

Registered Office: Peninsula House, Rydon Lane, Exeter, Devon, England EX2 7HR. Registered in England Number 2366640.

Statements of changes in equity

At 31st March 2024

	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
Group						
At 31 March 2022	161.7	235.5	154.7	722.6	0.1	1,274.6
Profit for the year	-	-	-	0.1	0.3	0.4
Other comprehensive loss for the year	-	-	-	(7.4)	-	(7.4)
Total comprehensive (loss)/income for the year	-	-	-	(7.3)	0.3	(7.0)
<i>Transactions with equity shareholders:</i>						
Dividends paid	-	-	-	(101.6)	-	(101.6)
Shares purchased for cancellation (including related expenses)	-	-	-	(40.0)	-	(40.0)
Shares cancelled (note 33)	(2.4)	-	2.4	-	-	-
Adjustment in respect of share-based payments (net of tax)	-	-	-	1.9	-	1.9
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(5.0)	-	(5.0)
Proceeds from shares issued under the Sharesave Scheme	0.2	21	-	-	-	23
Total transactions with equity shareholders	(2.2)	21	2.4	(144.7)	-	(142.4)
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

The notes on pages 191 to 238 form part of these financial statements.

Statements of changes in equity (continued)

For the year ended 31st March 2024

	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 2022	161.7	235.5	154.7	689.1	1,241.0
Profit for the year	-	-	-	8.4	8.4
Other comprehensive loss for the year	-	-	-	(6.1)	(6.1)
Total comprehensive income for the year	-	-	-	2.3	2.3
<i>Transactions with equity shareholders:</i>					
Dividends paid	-	-	-	(101.6)	(101.6)
Shares purchased for cancellation (including related expenses)	-	-	-	(40.0)	(40.0)
Shares cancelled (note 33)	(24)	-	24	-	-
Adjustment in respect of share-based payments (net of tax)	-	-	-	1.3	1.3
Charge in respect of share options vesting	-	-	-	(5.4)	(5.4)
Proceeds from shares issued under the Sharesave Scheme	0.2	21	-	-	2.3
Total transactions with equity shareholders	(22)	21	24	(145.7)	(143.4)
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

The notes on pages 191 to 238 form part of these financial statements.

Cash flow statements

For the year ended 31st March 2024

	Notes	Group		Company	
		2024 £m	2023 £m	2024 £m	2023 Restated* £m
Cash flows from operating activities					
Cash generated/(outflow) from operations	37	261.7	313.7	(9.2)	34.2
Interest paid	37	(116.2)	(159.7)	(11.9)	(7.7)
Tax received/(paid)		3.4	(1.4)	0.2	0.6
Net cash generated/(outflow) from operating activities		148.9	152.6	(20.9)	27.1
Cash flows from investing activities					
Interest received		7.1	4.9	8.2	6.1
Dividends received		-	-	0.5	15.7
Movement of restricted deposits		-	146.1	-	-
Purchase of property, plant and equipment		(555.1)	(326.6)	(0.1)	-
Acquisition of subsidiaries, net of cash acquired	20, 43	(62.7)	-	-	-
Deposit of restricted cash		(4.3)	-	-	-
Purchase of intangible assets		(43.8)	(4.6)	-	-
Proceeds from sale of property, plant and equipment		0.8	0.7	-	-
Loans to subsidiary undertakings		-	-	(178.0)	(73.1)
Repayment of loans by subsidiaries		-	-	123.1	-
Investment in subsidiary undertakings	20	-	-	(120.3)	-
Net cash (used in)/received from investing activities		(658.0)	(179.5)	(166.6)	(51.3)
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		175.7	23	175.7	23
Purchase of ordinary shares by the Pennon Employee Share Trust		(1.4)	(5.0)	(1.4)	(5.4)
Proceeds from new borrowing		574.5	233.0	100.0	-
Repayment of borrowings		(168.7)	(210.3)	-	(33.7)
Cash inflows from lease financing arrangements		64.8	402	-	-
Lease principal repayments (including net recoverable VAT paid / recovered)		(22.4)	(99.2)	-	-
Dividends paid		(111.7)	(101.6)	(111.7)	(101.6)
Repurchase of own shares and associated fees		-	(40.0)	-	(40.0)
Net cash received from/(used in) financing activities		510.8	(180.6)	162.6	(178.4)
Net increase/(decrease) in cash and cash equivalents		1.7	(207.5)	(24.9)	(202.6)
Cash and cash equivalents at beginning of the year	25	143.7	351.2	104.1	306.7
Cash and cash equivalents at end of the year	25	145.4	143.7	79.2	104.1

*See note 2

The notes on pages 191 to 238 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 246. Pennon Group's business is operated through its principal subsidiaries. South West Water Limited, provides water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire, Wiltshire and Bristol. Pennon Group is the majority shareholder of Pennon Water Services Limited, a company providing water and wastewater retail services to non-household customer accounts across Great Britain. Bristol Water Holdings Limited owns a 30% share in Water 2 Business Limited, a joint venture with Wessex Water, operating in the same sector as Pennon Water Services Limited.

On 10 January 2024, the Company acquired 100% of the issued capital of Sumisho Osaka Gas Water UK Limited (which has subsequently been renamed Sutton and East Surrey Group Holdings Limited), the holding company of Sutton and East Surrey Water plc ("SES Water") and Sutton and East Surrey Water Services ("SESWS") a company providing water and wastewater retail services to non-household customer accounts along with certain other ancillary businesses, for £90.2 million from Sumitomo Corporation and Osaka Gas. SES Water is a regulated water only company serving a population of approximately 750,000 customers in the South East region. On 8 January 2024, an Initial Enforcement Order (IEO) was issued by the Competition and Markets Authority (CMA) regarding the Group's acquisition of Sutton and East Surrey Group Holdings Limited (SES). The IEO did not prevent the Group from completing its acquisition of SES, but required Pennon and SES to remain operationally separate, and in the form in which each had existed prior to the IEO coming into force, until the completion of the CMA's review. The Group duly completed its acquisition of SES on 10 January 2024. The Group has been exposed to the variable returns from the results and performance of SES since that date.

The CMA has granted a number of derogations to the IEO in order to permit the Group oversight of SES' activities, for the purposes of, among other things, maintaining SES' financial position and ensuring that the Group as whole (including SES) is able to comply with its corporate governance obligations. These include derogations granted on 9 January 2024 allowing the Group to exercise its rights as shareholder in connection with certain reserved matters, to require SES to appoint individuals to certain internal management functions, and to nominate an observer to attend meetings of SES' board of directors.

On 3 May 2024 the Group offered to provide separate reporting information for Sutton and East Surrey Water plc from the rest of the Group's water businesses post-Merger to allow Ofwat the ability to make comparisons between water enterprises, a similar remedy was accepted by the CMA following the acquisition of Bristol Water plc in 2021. The CMA considers that there are reasonable grounds for believing that the undertakings offered by the Group, or a modified version of them, might be accepted by the CMA. The Group therefore remains reasonably certain that approval of the acquisition will be granted in the coming months.

The Group has considered the requirements of IFRS 10 Consolidated Financial Statements and – in light of the foregoing – has determined that Pennon Group plc should consolidate SES' results within the Group's financial statements for the year ended 31 March 2024 as from the date of the acquisition, i.e. 10 January 2024. The impact of consolidating SES from this date is disclosed in note 43.

2. 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

These financial statements 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. The Company has taken advantage of section 408 of the Companies Act 2006 not to present the parent company profit and loss account. These financial statements are presented in pounds sterling and all values rounded to the nearest one-hundred thousand pounds, except when otherwise indicated.

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.

The going concern basis has been adopted in preparing these financial statements. At 31 March 2024 the Group has access to undrawn committed funds and cash and cash deposits totalling £601.4 million, including cash and other short-term deposits of £171.4 million and £430.0 million of undrawn facilities. Cash and other short-term deposits include £26.0 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. Considering this the Group has a headroom of £435 million, including the impact of £98 million of loans and facilities due for maturity or renewal within the going concern period through to 31 May 2025.

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 55 to 64, individual sensitivities against these risks have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Group's annual budget for FY 2024/25, including the impact of the acquisition of Sutton and East Surrey Group Holdings Limited, and longer-term strategic business plan for the remainder of the going concern period to 31 May 2025. The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic impacts such as inflation and interest rate increases, regulatory impacts such as the ongoing Ofwat price and tariff review, i.e. PR24, covering the period from April 2025 to March 2030, and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Group collectively. The combined weighted impact of the risks occurring is c.£80 million, this value is considered equivalent to an extreme one-off event that could occur within a year, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Group over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. In the combined scenario to ensure that the Group was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. In the combined stress test scenario, the group has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Group. However if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

2. Principal accounting policies *continued*

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

We have considered the Group's funding position and financial projections, which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Subsequent to the year end date, the Group has secured a £150 million private placement and a £350 million liquidity facility, which reflects on the Group's ability to secure finance. 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 31 May 2025, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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 2023 did not have a material impact on the net assets or results of the Group and the parent company.

New standards or interpretations due to be adopted from 1 April 2024 are not expected to have a material impact on the Group's and the parent company's net assets or results. Existing borrowing covenants are not impacted by changes in accounting standards.

Prior period restatement (parent company cash flow statement)

Management considered the FRC's (Financial Reporting Council's) Annual Review of Corporate Reporting 2022/2023 published in October 2023 and performed a review of the parent company statement of cash flow. Management review has identified that £73.1 million of loan extended to subsidiary had been incorrectly classified within cash flows from operating activities as opposed to cash flows from investing activities. As such the prior period parent company statement of cash flow in respect of the "Cash generated/(outflow) from operations" and "Net cash generated/(outflow) from operating activities" have been restated from £38.9 million cash outflow to a cash inflow of £34.2 million and £46.0 million cash outflow to a cash inflow of £27.1 million respectively. Furthermore, cash flow from "Loans to subsidiary undertakings" has increased from £nil to a cash outflow of £73.1 million and "Net cash (used in)/received from investing activities" of £21.8 million cash inflow has decreased to a cash outflow of £51.3 million. In addition to this within Note 37 "Analysis of cash flows given in the statement of cash flows" the prior period amounts relating to "Decrease/(increase) in trade and other receivables" of £31.0 million cash outflow has decreased to a cash inflow of £42.1 million and amounts in respect of "Cash generated/(outflow) from operations" of £38.9 million cash outflow has decreased to a cash inflow of £34.2 million. There is no other impact on the parent company balance sheet or statement of changes in equity.

(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.

2. Principal accounting policies continued

(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.

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 segments, 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.

2. Principal accounting policies *continued*

(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

D 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.

ID 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 plant	10 to 30 years
Vehicles, mobile plant and computers	4 to 20 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 income statement.

(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 at 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. When the Group revisits its estimate of lease term (because, for example, it reassesses an extension option), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which is discounted at the same discount rate that applied on lease commencement. In these circumstances an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

Assets are included as 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 corresponding liability is recorded as borrowings. The interest element of the rental costs is charged against profits using the actuarial method over the period of the lease.

The Group regularly 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.

2. Principal accounting policies continued

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 deposits

Cash and cash deposits 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:

D 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 an unconditional 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.

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 tax

The tax charge for the year comprises current and deferred tax. 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 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 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.

2. Principal accounting policies *continued*

The Organisation for Economic Co-operation and Development (OECD)/G20 inclusive Framework on Base Erosion and Profit Shifting published the Pillar Two model rules designed to address the tax challenges arising from the digitalisation of the global economy.

It is unclear if the Pillar Two model rules created additional temporary differences, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred tax. In response to this uncertainty, the IASB and AASB on 23 May 2023 and 27 June 2023, respectively, introduced a mandatory temporary exception to the requirements of IAS12, 'Income taxes' under which a company does not recognise or disclose information about deferred tax assets and liabilities relating to the proposed Pillar Two model rules. The Group applied the temporary exception at 31 March 2024.

Pillar Two legislation has been enacted in the UK which is the only jurisdiction in which the Group operates. The legislation will be effective for the Group's financial year beginning 1 April 2024. The Group has performed an assessment of the Group's potential exposure to Pillar Two income taxes.

This assessment is based on the most recent financial information available regarding the financial performance of the constituent entities in the Group. Based on the assessment performed, the Pillar Two effective tax rates in the only jurisdiction in which the Group operates, i.e. the UK is above 15% and management is not currently aware of any circumstances under which this might change. Therefore, the Group does not expect a potential exposure to Pillar Two top-up taxes.

(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 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 adjusted for 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, initially measured at an amount other than cost, are measured at the amounts specified in the relevant accounting standards. The residual transaction price is then allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition. Details of acquisitions in the 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 Group 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.

D 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.

Notes to the Financial Statements *continued*

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 2024					
Non-derivative financial liabilities					
Borrowings excluding lease liabilities	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	330.6	-	-	-	330.6
Derivative contracts					
Derivative contracts – net (receipts)/payments	(19.0)	(6.5)	(9.3)	(3.8)	(38.7)
31 March 2023					
Non-derivative financial liabilities					
Borrowings excluding lease liabilities	927	64.4	364.3	1,544.7	2,066.1
Interest payments on borrowings	867	83.0	208.3	768.7	1,146.7
Lease liabilities including interest	70.9	88.5	282.1	1,243.7	1,685.2
Trade and other payables	221.7	-	-	-	221.7
Derivative contracts					
Derivative contracts – net (receipts)/payments	(0.8)	(4.6)	(0.6)	0.3	(5.7)
Company					
31 March 2024					
Non-derivative financial liabilities					
Borrowings (including intercompany borrowings)	8.0	49.7	96.0	99.9	253.6
Interest payments on borrowings	15.3	12.1	26.1	3.8	57.3
Trade and other payables	11.5	-	-	-	11.5
31 March 2023					
Non-derivative financial liabilities					
Borrowings (including intercompany borrowings)	279.1	8.8	146.9	-	434.8
Interest payments on borrowings	9.6	9.3	6.7	6.0	31.6
Trade and other payables	6.3	-	-	-	6.3

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 2024 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 £7.6 million (2023 post tax profit for the year and equity would have increased/decreased by £6.4 million), for the equity sensitivity fair value, with derivative impacts excluded. 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 2024 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 £5.5 million (2023 post tax profit for the year and equity would have increased/decreased by £3.8 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 deposits, 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.

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.

3. Financial risk management *continued*

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 2024 the Group had cash and facilities, including restricted funds, of £601 million (2023 £420 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 deposits. Total capital is calculated as total shareholders' equity plus net borrowings. The Group currently manages a net borrowings position of £3,809.2 million (2023 2,965.4 million).

The gearing ratios at the balance sheet date were:

	2024 £m	2023 £m
Net borrowings (note 38)	3,809.2	2,965.4
Total equity	1,162.6	1,125.2
Total capital	4,971.8	4,090.6
Gearing ratio	76.6%	72.6%

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 table below reflects South West Water Limited's group of companies. The water segment also now includes SES Water, ultimately the ratio of net borrowings to Regulatory Capital Value for the water segment will include SES Water, however this is excluded for the current financial year to aid comparison.

	South West Water	
	2024 £m	2023 £m
Shadow Regulatory Capital Value	5,186.4	4,715.9
Net borrowings	3,294.7	2,865.3
Net borrowings/Regulatory Capital Value	63.5%	60.8%

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 2024 the Group's current trade receivables were £375.3 million (2023 £280.3 million), against which £125.3 million, (2023 £106.5 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.

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 2022 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.

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, excluding SES, operates under one management structure with functional integration across the operating segment generating the synergies of the combination. SES continues to operate under separate management whilst Pennon operates under the CMA's Initial Enforcement Order (IEO). The expected synergies from the acquisition can only begin to be recognised once merger clearance is granted by the CMA. 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.

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 and have not, to date, resulted in a material adjustment within the following 12-month period. 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.

Acquisition accounting

The acquisition of SES Water in January 2024 has been accounted for using the acquisition method under IFRS 3. The identifiable assets, liabilities and contingent liabilities are recognised at their fair value at date of acquisition. The fair value of the net assets identified were determined with assistance from independent experts using professional valuation techniques appropriate to the individual category of asset or liability. Calculating the fair values of net assets, notably the fair values of property, plant and equipment given the nature of the infrastructure assets acquired, involves estimation and consequently the fair value exercise is recorded as an other accounting estimate. The depreciation charge is sensitive to the value of property, plant and equipment, a higher or lower fair value calculation would lead to a change in the depreciation charge in the period following acquisition.

Capitalisation and determination of useful economic lives 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. The useful economic lives of these types of asset vary from 10 to 200 years. 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 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.

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.

Segment assets include goodwill and other intangible assets, property, plant and equipment, inventories, trade and other receivables and cash and cash deposits. 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.

	2024 £m	2023 £m
Revenue		
Water	745.8	701.3
Non-household retail	253.5	218.0
Other	11.8	8.6
Less intra-segment trading ¹	(103.3)	(102.9)
Total underlying revenue	907.8	825.0
Water non-underlying revenue (note 6)	-	(27.8)
	907.8	797.2
Operating profit/(loss) before depreciation, amortisation and non-underlying items (Underlying EBITDA)		
Water	335.8	308.4
Non-household retail	7.7	4.3
Other	(5.2)	(4.9)
	338.3	307.8
Operating profit/(loss) before non-underlying items		
Water	169.9	159.4
Non-household retail	6.9	3.6
Other	(10.5)	(9.9)
	166.3	153.1
Profit before tax and non-underlying items		
Water	11.8	14.1
Non-household retail	4.9	1.8
Other	0.1	0.9
	16.8	16.8
(Loss)/profit before tax		
Water	(13.4)	(29.6)
Non-household retail	4.9	1.8
Other	(0.6)	19.3
	(9.1)	(8.5)

1. Intra-segment 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 2024					
Assets (excluding carrying value in associated companies)	5,794.9	209.7	432.4	(215.6)	6,221.4
Carrying value in associated companies	-	-	9.7	-	9.7
Total assets	5,794.9	209.7	442.1	(215.6)	6,231.1
Liabilities	(4,838.2)	(130.6)	(315.3)	215.6	(5,068.5)
Net assets	956.7	79.1	126.8	-	1,162.6
31 March 2023					
Assets (excluding carrying value in associated companies)	4,925.3	59.3	594.6	(403.3)	5,175.9
Carrying value in associated companies	-	-	9.6	-	9.6
Total assets	4,925.3	59.3	604.2	(403.3)	5,185.5
Liabilities	(3,925.2)	(55.4)	(483.0)	403.3	(4,060.3)
Net assets	1,000.1	3.9	121.2	-	1,125.2

Notes to the Financial Statements *continued*

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 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	15.2	600.9
Depreciation	7	162.4	0.5	5.4	168.3
Finance income	8	7.2	0.4	5.0	12.6
Finance costs	8	165.3	2.4	(4.9)	162.8
31 March 2023					
Intangible asset additions	16	4.5	0.1	-	4.6
Amortisation of other intangible assets	7	3.4	0.2	-	3.6
Capital expenditure (Property, plant and equipment)	17	353.6	-	0.1	353.7
Depreciation	7	145.6	0.5	5.0	151.1
Finance income	8	6.2	0.1	21.3	27.6
Finance costs	8	151.5	1.9	(7.6)	145.8

Finance income and costs above reflect the segment in which the amounts arise and exclude intercompany transactions.

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 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

	Water £m	Non-household retail £m	Other £m	Total £m
Year ended 31 March 2023				
Segment revenue – underlying	701.3	218.0	8.6	927.9
Segment revenue – non-underlying (note 6)	(27.8)	-	-	(27.8)
Inter-segment revenue	(94.7)	-	(8.2)	(102.9)
Revenue from external customers	578.8	218.0	0.4	797.2
Significant service lines				
Water	578.8	-	-	578.8
Non-household retail	-	218.0	-	218.0
Other	-	-	0.4	0.4
	578.8	218.0	0.4	797.2

The Group's country of domicile is the United Kingdom and this is the country in which it generates the majority of its revenue. The Group's non-current assets are all located in the United Kingdom.

The results of the SES Water Group are shown below, the amounts are included in the Water and Non-household retail segments:

	£m
Revenues from SES Water Group	
Revenue	35.7
Inter-segment revenue	(0.1)
Revenue from external customers	35.6
Profit from SES Water Group	
Operating profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)	3.6
Operating result before non-underlying item	-
Loss before tax before non-underlying items	(2.5)
Loss before tax	(2.7)

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.

Revenue	Notes	2024 £m	2023 £m
WaterShare+ ¹		-	(20.2)
Drought incentive ²		-	(7.6)
Operating costs			
Transformation ³		(13.9)	-
SES Water Group acquisition costs ⁴		(9.6)	-
Drought costs ²		(1.8)	(9.4)
Renewables Projects acquisition costs ⁵		(0.6)	-
WaterShare+ ¹		-	(22)
Bristol Water integration costs ⁶		-	(4.3)
Earnings before interest, tax, depreciation and amortisation		(25.9)	(43.7)
Bond redemption ⁷	8	-	18.4
Net tax credit arising on non-underlying items above ⁸	9	4.9	4.7
Deferred tax change in rate ⁹	9	-	0.6
Net non-underlying charge		(21.0)	(20.0)

- In September 2020, the Group offered its WaterShare+ scheme to its customers whereby customers could choose to accept a credit on their bill or take shares in Pennon Group plc. The scheme operated again in the year ended 31 March 2023. The value of the rebate equated to £13 per customer and the total value of £20.2 million was recognised in full as a non-underlying reduction to revenue in the year ended 31 March 2023. £19.9 million of the WaterShare+ credits were taken as credits on customers' bills, with the balance of £0.3 million being taken as shares in Pennon Group Plc. This item was non-underlying in nature given its individual size and its non-recurring nature. Additional costs of £22 million were incurred in relation to the offering.
- 2022 was one of the driest and hottest years on record. Elevated demand on the South West Water region from increased tourism and the hot, dry weather led to an approximate 15% increase in distribution input in the year against the expected level from 2017 included in the drought plan. The combination of these individually extreme factors led to extremely low water storage levels in the Colliford Water Resource Zone, with the main supply of Colliford reservoir falling to around 14% capacity in October. A drought was declared by the Environment Agency in Devon and Cornwall in August 2022. In order to react to the drought and water shortage, South West Water invoked a series of emergency measures and one-off expenditure to ensure the region could be supplied with water over the summer and continuing into 2023. Due to the exceptional combination of these events and the significance of the emergency actions, certain costs have been classified as non-underlying given their size, nature and non-recurring incidence. The costs directly addressing these exceptional circumstances include charges for drought permits, water tankering and other water saving measures. In November 2022, South West Water asked households in Cornwall to reduce water usage as part of the 'Stop The Drop' campaign to increase reservoir levels. Household customers were offered a £30 bill credit if Colliford reservoir reached 30% storage capacity by 31 December 2022 from a low of around 14%. In December 2022 the company announced the water level in Colliford reservoir reached 30% and as a result all household customers in Cornwall received a £30 credit on their bill. This one-off incentive was provided as part of the response to the drought conditions in the Cornwall area in order to further prompt customers to reduce water usage. The total value of the bill credits amounted to £7.6 million.
- £13.9 million of costs were incurred in connection with the setting up of a business transformation programme in South West Water following the merger of Bristol Water into South West Water, £0.7 million of which were employment costs. These implementation costs are one-off in nature and incidence, with the benefits from incurring these costs expected to endure into the future on a recurring basis. The programme is still ongoing with further costs of c.£8 million are expected to be incurred in the year ending 31 March 2025.
- The Group incurred expenses of £9.6 million in the year in connection with the acquisition of SES Water Group and the related investigation by the Competition and Markets Authority (CMA). Due to the one-off nature and incidence of the costs they have been classified as non-underlying.
- Expenses in connection with the strategic review of renewal energy generating investments, not directly attributable to the intangible assets acquired, totalled £0.6 million. Due to the one-off nature and incidence of the costs they have been classified as non-underlying.
- The Group incurred expenses of £4.3 million in the year ended 31 March 2023. These related to the integration and statutory transfer of Bristol Water into South West Water. These costs are classified as non-underlying due to their non-recurring nature.
- On 17 October 2022 Bristol Water plc gave notice of redemption of the £40 million bonds due to be repaid in March 2041. The bonds were redeemed as part of the statutory transfer of the business of Bristol Water to South West Water. The Group carrying value of the bonds at redemption was £91.3 million. The bonds were redeemed on 17 November 2022 for £72.3 million, and the difference arising on early settlement was credited to finance costs in the prior year. Associated legal costs of c.£1 million were also incurred in relation to the bond redemption. The redemption of the bonds is non-recurring and of a material value, hence the credit has been treated as non-underlying.
- The net tax credit arising on non-underlying items, relates to a deferred tax credit in respect of tax losses carried forward, generated by business transformation costs. The prior year credit reflected a £2.8 million current tax credit in respect of losses carried back against prior year profits. The prior year also included a deferred tax credit of £1.9 million relating to tax losses carried forwards and the deferred tax unwind of the fair value adjustment in relation to the Bristol Water bond terminated in the prior year.
- Following the Chancellor's Budget on 4 March 2021 and subsequent substantial enactment of the Finance Act on 24 May 2021, the UK's main rate of corporation tax increased to 25% from 1 April 2023. All deferred tax assets and liabilities were therefore reviewed and where they will crystallise after 1 April 2023 were recalculated to crystallise at 25%. This charge is considered non-underlying due to it arising from a material legislative change and its treatment is consistent with that applied in relation to previous changes in corporation tax rates. A £0.6 million deferred tax credit in respect of rate change arose in the year ended 31 March 2023, in respect of tax losses carried forwards which will be relieved at 25%.

Notes to the Financial Statements *continued*

7. Operating costs

	Notes	2024 £m	2023 £m
Employment costs	13	114.8	102.2
Raw materials and consumables		51.8	33.6
Other operating expenses before non-underlying items include:			
Profit on disposal of property, plant and equipment		(0.8)	(0.4)
Short-term/low value asset lease expense		3.6	5.3
Government grant receivable		-	(18.6)
Trade receivables impairment	22	7.1	7.8
Depreciation of property, plant and equipment:			
• Owned assets	17	133.7	118.3
• Under leases	17	34.6	32.8
Amortisation of other intangible assets	16	3.7	3.6

During the prior year the group received financial support from the UK Government's Energy Relief Bill Scheme totalling £18.6 million. Operating costs include a charge of £25.9 million (2023 £15.9 million) relating to non-underlying items, as detailed in note 6.

Fees payable to the Company's auditor in the year were:

	2024 £000	2023 £000
Fees payable to the Company's auditor and its associates for the audit of parent company and consolidated financial statements	465	384
Fees payable to the Company's auditor and its associates for other services:		
The audit of Company's subsidiaries	969	932
Audit-related assurance services	133	120
Other non-audit services	111	43
Total fees	1,678	1,479
Fees payable to the Company's auditor in respect of Pennon Group pension schemes:		
Audit	35	55

Expenses reimbursed to the auditor in relation to the audit of the Group were £107,000 (2023 £79,000).

A description of the work of the Audit Committee is set out in its report on pages 136 to 143 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	2024			2023		
	Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	(113.0)	-	(113.0)	(111.3)	-	(111.3)
Interest element of lease payments	(44.0)	-	(44.0)	(30.8)	-	(30.8)
Other finance costs	(5.8)	-	(5.8)	(3.7)	-	(3.7)
Interest received	-	7.1	7.1	-	4.9	4.9
Net gains on derivative financial instruments	-	3.8	3.8	-	2.3	2.3
	(162.8)	10.9	(151.9)	(145.8)	7.2	(138.6)
Notional interest						
Retirement benefit obligations	30	-	1.7	-	2.0	2.0
Net finance costs (underlying)	(162.8)	12.6	(150.2)	(145.8)	9.2	(136.6)
Finance income (non-underlying)	6	-	-	-	18.4	18.4
Net finance costs (including non-underlying)	(162.8)	12.6	(150.2)	(145.8)	27.6	(118.2)

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

Other finance costs include £1.1 million (2023 £1.1 million) of dividends payable on listed preference shares issued by Bristol Water plc, which are classified as debt (see note 28).

9. Taxation

	Before non- underlying items 2024 £m	Non- underlying items (note 6) 2024 £m	Total 2024 £m	Before non- underlying items 2023 £m	Non- underlying items (note 6) 2023 £m	Total 2023 £m
Analysis of charge/(credit) in year						
Current tax credit	(0.6)	-	(0.6)	(27)	(28)	(5.5)
Deferred tax – other	4.9	(4.9)	-	(0.6)	(1.9)	(2.5)
Deferred tax arising on change of rate of corporation tax	-	-	-	(0.3)	(0.6)	(0.9)
Total deferred tax charge/(credit)	4.9	(4.9)	-	(0.9)	(2.5)	(3.4)
Tax charge/(credit) for year	4.3	(4.9)	(0.6)	(3.6)	(5.3)	(8.9)

UK corporation tax is calculated at 25% (2023 19%) of the estimated assessable profit for the year.

UK corporation tax for the Group is stated after a credit relating to prior year current tax of £0.6 million (2023 £2.7 million credit) and a prior year deferred tax charge of £nil (2023 £1.0 million charge). These items relate to prior year adjustments in respect of additional interest deductions due in accordance with UK tax legislation.

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% (2023 19%) as follows:

	2024 £m	2023 £m
Reconciliation of total tax credit		
Loss before tax	(9.1)	(8.5)
Loss multiplied by the standard rate of UK corporation tax of 25% (2023 19%)	(2.3)	(1.6)
Effects of:		
Expenses/(income) not deductible for tax purposes	1.6	(0.4)
Joint venture profits not taxable	(0.2)	(0.1)
Adjustments to tax charge in respect of prior years	(0.6)	(1.7)
Change in UK tax rates	-	(1.0)
Depreciation charged on non-qualifying assets	0.9	0.7
Other	-	(4.8)
Tax credit for year	(0.6)	(8.9)
Reconciliation of current tax credit		
Loss before tax	(9.1)	(8.5)
Loss multiplied by the standard rate of UK corporation tax of 25% (2023 19%)	(2.3)	(1.6)
Effects of:		
Relief for capital allowances in place of depreciation	(37.0)	(37.6)
Disallowance of depreciation charged in the accounts	36.5	24.4
Other timing differences	(5.3)	(11.1)
Expenses/(income) not deductible for tax purposes	1.6	(0.4)
Joint venture profits not taxable	(0.2)	(0.1)
Accounting policy alignment adjustment on acquisition of Bristol Water	-	5.0
Adjustments to tax charge in respect of prior years	(0.6)	(2.7)
Depreciation charged on non-qualifying assets	0.9	0.7
Tax losses carried forward	9.3	18.6
Relief for capitalised interest and foreign exchange gains/losses	(3.5)	(0.7)
Current tax credit for year	(0.6)	(5.5)

The Group's current tax credit is lower than the UK headline rate of 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.

Notes to the Financial Statements *continued*

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 joint ventures are included in the consolidated accounts on an after tax basis, as such these profits are not taxable in the Group accounts.

The accounting policy alignment relates to Bristol Water plc aligning their accounting policy in relation to deferred income to that of South West Water on acquisition. Despite the accounting adjustments reflecting these the restated 2022 figures, for tax purposes the adjustment was subject to corporation tax during the year ended 31 March 2023. This was a one-off item in that year.

Adjustments to the tax charge in respect of prior year arise from the return to provision adjustments booked, having completed and submitted the corporation tax returns for the year ended 31 March 2023 in March 2024, as well as submitting an amended return for the year ended 31 March 2021 as a result of the closure of Viridor enquiries, which have a subsequent affect on the Group. These are routine items with any adjustments reflected in the current year's tax charge.

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 income statement, the following tax charges/(credits) (which include the effect of the change in tax rate) were recognised:

	2024 £m	2023 £m
Amounts recognised directly in other comprehensive income		
Deferred tax credit on defined benefit pension schemes	(2.2)	(9.8)
Deferred tax (credit)/charge on cash flow hedges	(4.1)	7.3
Amounts recognised directly in equity		
Deferred tax charge on share-based payments	0.1	0.5

Factors affecting future tax charges

The Chancellor announced in the November 2023 Autumn statement that full expensing on qualifying plant and machinery has been made permanent. This applies to plant and machinery with an expected life of less than 25 years. The 50% first year allowance on long life plant and machinery has also been made permanent.

Pillar Two legislation has been enacted in the UK which is the only jurisdiction in which the Group operates. The legislation will be effective for the Group's financial year beginning 1 April 2024. The Group has performed an assessment of the Group's potential exposure to Pillar two income taxes.

This assessment is based on the most recent financial information available regarding the financial performance of the constituent entities in the Group. Based on the assessment performed, the Pillar Two effective tax rates in the only jurisdiction in which the Group operates i.e. the UK, is above 15% and management is not currently aware of any circumstances under which this might change. Therefore, the Group does not expect a potential exposure to Pillar Two top-up taxes.

10. Profit of the parent company

	2024 £m	2023 £m
Profit attributable to ordinary shareholders' equity dealt within the accounts of the parent company	34.4	8.4

As permitted by Section 408 of the Companies Act 2006, no income statement 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.

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.

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

11. Earnings per share *continued*

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:

	2024			2023		
	Loss/profit after tax £m	Earnings per share		Profit after tax £m	Earnings per share	
		Basic p	Diluted p		Basic p	Diluted p
Statutory earnings attributable to ordinary shareholders of the parent	(9.5)	(3.6)	(3.6)	0.1	–	–
Deferred tax charge/(credit) before non-underlying items	4.9	1.9	1.9	(0.9)	(0.3)	(0.3)
Non-underlying items (net of tax)	21.0	7.9	7.9	20.0	7.6	7.6
Adjusted earnings	16.4	6.2	6.2	19.2	7.3	7.3

12. Dividends

	2024 £m	2023 £m
Amounts recognised as distributions to ordinary equity holders in the year		
Interim dividend paid for the year ended 31 March 2023 12.96p (2022 11.70p) per share	33.9	31.6
Final dividend paid for the year ended 31 March 2023 29.77p (2022 26.83p) per share	77.8	70.0
	111.7	101.6
Proposed dividends		
Proposed interim dividend for the year ended 31 March 2024 14.04p (2023 12.96p) per share	40.2	33.9
Proposed final dividend for the year ended 31 March 2024 30.33p (2023 29.77p) per share	86.7	77.8
	126.9	111.7

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

The proposed interim dividend for 2024 was paid on 5 April 2024 and the proposed final dividend is subject to approval by shareholders at the AGM.

13. Employment costs

	Notes	2024 £m	2023 £m
Wages and salaries		134.9	110.0
Social security costs		14.2	12.1
Pension costs	30	13.8	11.0
Share-based payments	33	1.1	2.4
Total employment costs		164.0	135.5
Charged:			
• Employment costs (excluding non-underlying items)		114.8	102.2
• Employment costs (non-underlying items)		0.7	–
• Capital schemes – property, plant and equipment		47.8	32.7
• Research and development		0.7	0.6
Total employment costs		164.0	135.5

Details of Directors' emoluments are set out in note 14. There are no personnel, other than Directors, who as key management exercise authority and 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.

	2024	2023
Employees (average full-time equivalent number)		
The average monthly number of employees (including Executive Directors) was:		
Water	3,051	2,639
Non-household retail	192	158
Other	90	67
Total	3,333	2,864

Notes to the Financial Statements *continued*

14. Directors' emoluments

	2024 £000	2023 £000
Executive Directors:		
• Salary	895	784
• Performance-related bonus paid or payable	-	51
• Share-based payments	1,103	786
• Other emoluments, including payments in lieu of pension provision	111	111
Non-Executive Directors	649	583
	2,758	2,315

The cost of share-based payments represents the amount charged to the income statement, as described in note 33. The aggregate gains on vesting of Directors' share-based awards amounted to a total of £nil (2023 £142,000).

Total emoluments include nil (2023 nil) payable to Directors for services as directors of subsidiary undertakings.

At 31 March 2024 no Directors (2023 none) are accruing retirement benefits under defined benefit pension schemes in respect of which the Group contributed.

At 31 March 2024 two Directors (2023 two) are members of the Group's defined contribution pension scheme in respect of which the Group contributed £13,000 (2023 £4,000).

At 31 March 2024 two Directors received payments in lieu of pension provision (2023 two).

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 148 to 170.

15. Goodwill

	£m
Cost:	
At 1 April 2022	163.9
At 31 March 2023	163.9
Acquisition of SES Water Group (note 43)	15.6
At 31 March 2024	179.5
Carrying amount:	
At 1 April 2022	163.9
At 31 March 2023	163.9
At 31 March 2024	179.5

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 £15.6 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.

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 as defined by Ofwat.

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 £m	Total £m
Cost:			
At 1 April 2022	-	19.6	19.6
Additions	-	4.6	4.6
Disposals	-	(1.9)	(1.9)
At 31 March 2023	-	22.3	22.3
Arising on acquisitions		11.6	11.6
Additions	40.3	4.7	45.0
Disposals	-	(1.3)	(1.3)
At 31 March 2024	40.3	37.3	77.6
Accumulated amortisation:			
At 1 April 2022	-	5.7	5.7
Charge for year	-	3.6	3.6
Disposals	-	(1.9)	(1.9)
At 31 March 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
Carrying amount:			
At 1 April 2022	-	13.9	13.9
At 31 March 2023	-	14.9	14.9
At 31 March 2024	40.3	27.4	67.7

Computer software is amortised over the useful life of the assets which at acquisition was ten years. The average remaining life is one year (2023 one year).

Additions to intangible assets during the period include £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 to 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.

17. Property, plant and equipment

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 2022	186.7	2,754.4	952.3	2,250.3	184.2	6,327.9
Additions	0.7	52.3	11.4	85.3	204.0	353.7
Assets adopted at fair value	-	14.3	-	-	-	14.3
Disposals	(0.3)	(15)	(0.6)	(2.4)	-	(4.8)
Transfers/reclassifications	1.7	43.8	8.5	43.8	(97.8)	-
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	7.8	247.0	92.2	89.4	5.2	441.6
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	199.2	3,221.2	1,090.6	2,664.2	567.8	7,743.0
Accumulated depreciation:						
At 31 March 2022	231	368.1	311.9	1,360.8	-	2,063.9
Charge for year	4.5	36.3	20.6	93.4	-	154.8
Disposals	(0.3)	(15)	(0.4)	(2.3)	-	(4.5)
At 31 March 2023	273	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
Net book value:						
At 31 March 2022	163.6	2,386.3	640.4	889.5	184.2	4,264.0
At 31 March 2023	161.5	2,460.4	639.5	925.1	290.4	4,476.9
At 31 March 2024	167.6	2,778.7	737.1	1,110.4	567.8	5,361.6

Of the total depreciation charge of £172.0 million (2023 £154.8 million), £1.5 million (2023 £1.5 million) has been charged to capital projects, £2.2 million (2023 £2.2 million) has been offset by deferred income and £168.3 million (2023 £151.1 million) has been charged against profits. Asset lives and residual values are reviewed annually. During the year borrowing costs of £15.5 million (2023 £5.0 million) have been capitalised on qualifying assets, at an average borrowing rate of 6.4% (2023 5.7%).

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 2023/24.

17. Property, plant and equipment *continued*

The Group leases many assets as a lessee, across several categories of asset. Right-of-use assets held under leases included in property, plant and equipment above were:

	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 1 April 2022	35.8	399.7	375.6	381.7	-	1,192.8
Additions	0.1	19.3	0.5	20.9	-	40.8
Disposals	(0.5)	(35.1)	(41.0)	(13.6)	-	(90.2)
At 31 March 2023	35.4	383.9	335.1	389.0	-	1,143.4
Additions	1.8	20.1	1.8	44.9	5.5	74.1
Arising on acquisition	-	-	-	0.8	-	0.8
Disposals	-	-	-	(0.9)	-	(0.9)
At 31 March 2024	37.2	404.0	336.9	433.8	5.5	1,217.4
Accumulated depreciation:						
At 31 March 2022	4.1	79.6	102.7	184.5	-	370.9
Charge for year	1.2	4.9	6.0	20.7	-	32.8
Disposals	(0.2)	(14.7)	(18.1)	(13.4)	-	(46.4)
At 31 March 2023	5.1	69.8	90.6	191.8	-	357.3
Charge for year	1.2	5.3	5.8	22.3	-	34.6
Disposals	-	-	-	(0.8)	-	(0.8)
At 31 March 2024	6.3	75.1	96.4	213.3	-	391.1
Net book amount:						
At 31 March 2022	31.7	320.1	272.9	197.2	-	821.9
At 31 March 2023	30.3	314.1	244.5	197.2	-	786.1
At 31 March 2024	30.9	328.9	240.5	220.5	5.5	826.3

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, but is reclassified to right-of-use assets (within property, plant and equipment). Right of use assets includes assets held under sale and leaseback arrangements with a carrying value of £789.8 million (2023 £785.2 million).

	Fixed and mobile plant, vehicles and computers £m
Company	
Cost:	
At 31 March 2022	0.3
At 31 March 2023	0.3
At 31 March 2024	0.3
Accumulated depreciation:	
At 31 March 2022	0.2
At 31 March 2023	0.2
At 31 March 2024	0.2
Net book value:	
At 31 March 2022	0.1
At 31 March 2023	0.1
At 31 March 2024	0.1

Asset lives and residual values are reviewed annually.

18. Financial instruments by category

The accounting policies for financial instruments that have been applied to line items are:

Group	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	
31 March 2024						
Financial assets						
Amounts owed by joint ventures	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 deposits	25	-	-	171.4	-	171.4
Total		0.3	40.5	180.1	250.0	470.9
Financial liabilities						
Borrowings	28	-	-	(3,980.6)	-	(3,980.6)
Derivative financial instruments	23	(8.7)	-	-	-	(8.7)
Trade and other payables	26	-	-	-	(327.5)	(327.5)
Total		(8.7)	-	(3,980.6)	(327.5)	(4,316.8)
31 March 2023						
Financial assets						
Amounts owed by joint ventures	19	-	-	9.3	-	9.3
Trade receivables	22	-	-	-	173.8	173.8
Derivative financial instruments	23	0.4	53.5	-	-	53.9
Cash and cash deposits	25	-	-	165.4	-	165.4
Total		0.4	53.5	174.7	173.8	402.4
Financial liabilities						
Borrowings	28	-	-	(3,130.8)	-	(3,130.8)
Derivative financial instruments	26	(4.8)	-	-	-	(4.8)
Trade and other payables	26	-	-	-	(218.3)	(218.3)
Total		(4.8)	-	(3,130.8)	(218.3)	(3,353.9)
Company						
31 March 2024						
Financial assets						
Amounts owed by subsidiaries	19,22	-	-	202.6	-	202.6
Other receivables	22	-	-	2.5	-	2.5
Derivative financial instruments	23	0.3	0.9	-	-	1.2
Cash and cash deposits	25	-	-	79.2	-	79.2
Total		0.3	0.9	284.3	-	285.5
Financial liabilities						
Borrowings	28	-	-	(253.6)	-	(253.6)
Derivative financial instruments	26	(0.1)	-	-	-	(0.1)
Trade and other payables	26	-	-	-	(11.1)	(11.1)
Total		(0.1)	-	(253.6)	(11.1)	(264.7)
31 March 2023						
Financial assets						
Amounts owed by subsidiaries	19, 22	-	-	101.8	-	101.8
Other receivables	22	-	-	3.4	-	3.4
Derivative financial instruments	23	0.4	0.7	-	-	1.1
Cash and cash deposits	25	-	-	104.1	-	104.1
Total		0.4	0.7	209.3	-	210.4
Financial liabilities						
Borrowings	28	-	-	(434.8)	-	(434.8)
Trade and other payables	26	-	-	-	(5.9)	(5.9)
Total		-	-	(434.8)	(5.9)	(440.7)

19. Other non-current assets

Non-current receivables

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Amounts owed by subsidiary undertakings	-	-	54.1	26.1
Amounts owed by related parties (note 42)	8.7	9.3	-	-
Other receivables	-	13.9	-	-
	8.7	23.2	54.1	26.1

Non-current receivables were due:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Between 1 and 2 years	8.7	13.9	8.0	5.2
Over 2 years and less than 5 years	-	9.3	24.1	15.7
Over 5 years	-	-	22.0	5.2
	8.7	23.2	54.1	26.1

The fair values of non-current receivables were:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Amounts owed by subsidiary undertakings	-	-	54.1	26.1
Amounts owed by joint ventures	8.7	9.3	-	-
Other receivables	-	13.0	-	-
	8.7	22.3	54.1	26.1

The fair values of the above non-current receivables are valued using level 2 measures.

20. Investments

Subsidiary undertakings

	£m
Company	
At 31 March 2022	1,310.8
Investment in subsidiary undertakings:	
Bristol Water disposal	(407.5)
South West Water share acquisition	413.3
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

The recoverable amount of investments is determined based on fair value or value-in-use calculations, which are set out in note 15.

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 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.

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.

During the year, 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.

During the prior year, as part of the statutory licence transfer of Bristol Water to South West Water, the Company transferred its shareholding in Bristol Water plc to South West Water Limited for £413 million. The consideration was satisfied through the Company subscribing for an additional £1 of share capital of South West Water Limited at a premium of £413 million.

Notes to the Financial Statements *continued*

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 2024 is £1.0 million (2023 £0.3 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 2024 is £0.7 million (2023 £0.3 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

	2024 £m			2023 £m		
	W2B	BWBSL	Searchlight	W2B	BWBSL	Searchlight
Current						
Cash and cash equivalents	-	1.3	-	1.5	1.3	-
Other current assets	66.9	2.1	0.1	60.1	2.2	0.1
Total current assets	66.9	3.4	0.1	61.6	3.5	0.1
Non-current assets	4.9	-	-	5.5	-	-
Financial liabilities (excluding trade payables)	(1.2)	-	-	-	-	-
Current liabilities (including trade payables)	(37.9)	(3.4)	-	(35.0)	(3.5)	-
Total current liabilities	(39.1)	(3.4)	-	(35.0)	(3.5)	-
Non-current liabilities	(29.4)	-	-	(31.1)	-	-
Net assets	3.3	-	0.1	1.0	-	0.1

Summarised statement of comprehensive income

	2024 £m			2023 £m		
	W2B	BWBSL	Searchlight	W2B	BWBSL	Searchlight
Revenue	278.3	18.5	0.2	232.9	17.5	0.3
Cost of sales and other operating expenses	(273.1)	(18.5)	(0.2)	(228.7)	(17.5)	(0.3)
Interest	(1.9)	-	-	(1.3)	-	-
Pre-tax profit	3.3	-	-	2.9	-	-
Taxation charge	(1.0)	-	-	(0.7)	-	-
Total comprehensive income	2.3	-	-	2.2	-	-

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 £1.0 million (2023 £0.3 million) which comprises 30% of the Group's share of equity of W2B. For BWBSL and Searchlight, the net equity is £nil (2023 £nil). The Group's share of profit from associated companies is £0.7 million (2023 £0.3 million) which comprises 30% of the Group's share of W2B, restricted by brought forward losses.

21. Inventories

	Group	
	2024 £m	2023 £m
Raw materials and consumables	11.0	10.0
Work in progress	1.6	-
Finished goods	0.6	-
	13.2	10.0

22. Trade and other receivables – current

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Trade receivables	375.3	280.3	–	–
Less: allowance for expected credit losses in respect of trade receivables	(125.3)	(106.5)	–	–
Net trade receivables	250.0	173.8	–	–
Amounts owed by subsidiary undertakings	–	–	148.5	75.7
Amounts owed by associated companies	0.2	0.1	–	–
Other receivables	38.7	20.8	2.5	3.4
Accrued income	45.5	34.1	–	–
Prepayments	19.3	9.2	0.8	1.3
	353.7	238.0	151.8	80.4

Trade receivables include accrued income relating to customers with water budget payment plans. Trade receivables have increased year on year, due to the acquisition of Sutton and East Surrey Water, and the effect in the prior year of one-off bill reductions in the final quarter in relation to Watershare+ and the drought incentive along with tariff increases in the South West Water region.

Accrued income includes £28.3 million (2023 £25.7 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:

	2024 £m	2023 £m
Group		
Not due	40.9	57.5
Past due 1 – 30 days	45.7	14.7
Past due 31 – 120 days	29.5	17.1
More than 120 days	259.2	191.0
	375.3	280.3

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 Pennon Water Services 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		Allowance for expected credit losses	
	2024 £m	2023 £m	2023 £m	2023 £m
Devon, Cornwall & Bournemouth (household customers)				
• Current occupier < 12 months: 1% - 30%	44.8	0.2	35.3	0.2
• Current occupier 12 – 24 months: 10% – 60%	23.1	3.2	14.6	2.8
• Current occupier 24 – 36 months: 15% – 80%	11.5	2.8	10.8	3.4
• Current occupier > 36 months: 20% – 100%	89.2	48.2	90.4	49.5
• Previous occupier: 55% – 100%	53.3	31.3	51.9	31.3
Bristol	37.8	8.6	31.0	5.4
SES	53.3	16.7	–	–
Pennon Water Services (Non-household retail)	40.6	14.3	38.3	13.5
Other	21.7	–	8.0	0.4
	375.3	125.3	280.3	106.5

Notes to the Financial Statements *continued*

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:

	2024 £m	2023 £m
At 1 April	106.5	100.4
Arising on acquisition	19.8	–
Provision for expected credit losses	7.1	7.8
Receivables written off during the year as uncollectable	(8.1)	(1.7)
At 31 March	125.3	106.5

23. Derivative financial instruments

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Derivatives used for cash flow hedging				
Non-current assets	17.2	32.9	–	0.2
Current assets	23.3	20.6	1.0	0.5
Current liabilities	(5.4)	(2.4)	(0.1)	–
Non-current liabilities	(3.3)	(2.4)	–	–
Derivatives used for fair value hedging				
Non-current assets	0.2	0.3	0.2	0.3
Current assets	0.1	0.1	0.1	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 income statement arising from hedging relationships was £nil (2023 £nil).

A net £16.4 million debit (2023 £29.1 million credit) was recognised in other comprehensive income for cash flow hedges, including a £0.2 million credit (2023: £nil) 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 2024 the Group had interest rate swaps to swap from floating to fixed rate and hedged financial liabilities with a notional value of £939.0 million and a weighted average maturity of 3.5 years (2023 £853 million, with 3.4 years). The weighted average interest rate of the swaps for their nominal amount was 1.85% (2023 1.54%).

The Group had cross currency swaps and hedged financial liabilities with a notional value of £64 million and a weighted average maturity of 4.5 years. The weighted average exchange rate of the swaps for their nominal amount was 0.80.

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 statement of financial position is as follows:

Group	Notional amount £m	Carrying amount £m	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness in the period £m
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)
As at 31 March 2023				
Interest rate swaps	853.4	52.4	Derivative financial instruments	33.6
RPI swaps	300.0	(4.4)	Derivative financial instruments	(4.4)
Cross currency swaps	24.0	1.1	Derivative financial instruments	(0.5)
Company				
As at 31 March 2024				
Cross currency swaps	24.0	0.8	Derivative financial instruments	(0.3)
As at 31 March 2023				
Cross currency swaps	24.0	1.1	Derivative financial instruments	(0.5)

23. Derivative financial instruments *continued*

The periods for which the cash flow hedges are expected to affect future profit or loss are as follows:

	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 2024					
Assets	23.3	3.9	9.1	4.2	40.5
Liabilities	(5.4)	(0.7)	(2.0)	(0.6)	(8.7)
31 March 2023					
Assets	20.8	19.0	8.8	5.3	53.9
Liabilities	(2.4)	(2.0)	(0.2)	(0.2)	(4.8)
Company					
31 March 2024					
Assets	0.9	-	-	-	0.9
Liabilities	(0.1)	-	-	-	(0.1)
31 March 2023					
Assets	0.5	0.2	-	-	0.7
Liabilities	-	-	-	-	-

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	
	2024 £m	2023 £m	2024 £m	2023 £m
Assets				
Derivatives used for cash flow hedging	40.5	53.5	0.9	0.7
Derivatives used for fair value hedging	0.3	0.4	0.3	0.4
Total assets	40.8	53.9	1.2	1.1
Liabilities				
Derivatives used for cash flow hedging	(8.7)	(4.8)	(0.1)	-
Total liabilities	(8.7)	(4.8)	(0.1)	-

24. Financial instruments at fair value through profit

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Current liabilities	2.6	2.6	0.1	0.1
Non-current liabilities	31.8	34.0	-	-
Non-current assets	0.9	1.3	0.9	1.3

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.

The hedged item was the £150 million bond issued by South West Water Finance Plc in 2010 which matures in July 2040 (see note 28). The hedging relationship was de-designated in previous periods 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.

25. Cash and cash deposits

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Cash at bank and in hand	78.8	69.7	29.2	34.0
Short-term bank deposits	50.0	25.0	50.0	25.0
Other deposits	42.6	70.7	-	45.1
Total cash and cash deposits	171.4	165.4	79.2	104.1

Group short-term deposits have an average maturity of one working day (2023 one working day).

Group other deposits have an average maturity of 73 days (2023 45 days).

Group other deposits include restricted funds of £26.0 million (2023 £21.7 million) to settle long-term lease liabilities (note 28) and £11.3 million (2023 £nil) held in an instant access account under the terms of other loan agreements. Restricted funds are available for access, subject to being replaced by an equivalent valued security.

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

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Cash and cash deposits as above	171.4	165.4	79.2	104.1
Less: deposits with a maturity of three months or more (restricted funds)	(26.0)	(21.7)	-	-
	145.4	143.7	79.2	104.1

26. Trade and other payables – current

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Trade payables	227.5	150.7	2.6	2.0
Contract liabilities	10.6	3.7	-	-
Other tax and social security	3.1	3.4	0.4	0.4
Accruals	37.4	44.3	7.4	2.3
Other payables	62.6	233	1.1	1.6
Amounts owed to joint venture	-	-	-	-
	341.2	225.4	11.5	6.3

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	
	2024 £m	2023 £m
Contract liabilities		
At 1 April	159.0	140.5
Revenue recognised in the year	(4.8)	(6.4)
Consideration received in advance of completion of performance obligations	5.9	24.9
Amounts acquired on acquisition	5.4	-
At 31 March	165.5	159.0

The analysis of contract liabilities between current and non-current is:

	Group	
	2024 £m	2023 £m
Current	10.6	3.7
Non-current (note 29)	154.9	155.3
	165.5	159.0

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 2025.

27. Current tax assets/(liabilities)

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Current year debtor/(creditor)	0.4	3.1	(0.4)	(0.2)
Prior year tax items	5.6	5.3	(2.8)	(3.2)
	6.0	8.4	(3.2)	(3.4)

28. Borrowings

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Current				
Bank and other loans	178.3	92.7	-	-
Private placements	8.0	-	8.0	-
Amounts owed to subsidiary undertakings	-	-	-	279.1
	186.3	92.7	8.0	279.1
Leases	51.9	320	-	-
Total current borrowings	238.2	124.7	8.0	279.1
Non-current				
Bank and other loans	732.2	697.0	148.9	49.8
Private placements	719.1	305.3	96.7	105.9
Fixed rate bonds	210.0	214.6	-	-
RPI index-linked bonds	997.4	744.0	-	-
Listed preference shares	12.5	12.5	-	-
	2,671.2	1,973.4	245.6	155.7
Leases	1,071.2	1,032.7	-	-
Total non-current borrowings	3,742.4	3,006.1	245.6	155.7
Total borrowings	3,980.6	3,130.8	253.6	434.8

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 £125.7 million (2023 £124.0 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 authorised preference share capital consists of 14,000,000 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.

Notes to the Financial Statements *continued*

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:

	2024		2023	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Group				
Bank and other loans	178.3	178.3	92.7	92.7
Private placement	8.0	8.0	–	–
	186.3	186.3	92.7	92.7
Leases	51.9	–	32.0	–
Total current borrowings	238.2	186.3	124.7	92.7
Group				
Bank and other loans	732.2	704.7	697.0	684.1
Private placements	719.1	737.2	305.3	288.2
Fixed rate bonds (level 1)	136.2	145.2	135.8	137.8
Fixed rate bonds	73.8	64.6	78.8	66.8
RPI index-linked bonds (level 1)	216.4	230.5	–	–
RPI index-linked bond	781.0	658.6	744.0	614.5
Listed preference shares	12.5	20.1	12.5	21.5
	2,671.2	2,560.9	1,973.4	1,812.9
Leases	1,071.2	–	1,032.7	–
Total non-current borrowings	3,742.4	2,560.9	3,006.1	1,812.9
Total borrowings	3,980.6	2,747.2	3,130.8	1,905.6
Company				
Private placements	8.0	8.0	–	–
Amounts owed to subsidiary undertakings	–	–	279.1	279.1
Total current borrowings	8.0	8.0	279.1	279.1
Bank and other loans	148.9	148.4	49.8	50.4
Private placements	96.7	97.1	105.9	105.7
Total non-current borrowings	245.6	245.5	155.7	156.1
Total borrowings	253.6	253.5	434.8	435.2

Under IFRS 13 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, 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		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Between 1 and 2 years	191.0	64.4	49.7	8.7
Over 2 years and less than 5 years	335.2	364.2	96.0	147.0
Over 5 years	2,145.0	1,544.8	99.9	–
	2,671.2	1,973.4	245.6	155.7

The weighted average maturity of non-current borrowings, excluding leases, was 12.0 years (2023 13.2 years).

Undrawn committed borrowing facilities at the balance sheet date were:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Floating rate:				
Expiring within 1 year	50.0	119.8	–	80.0
Expiring after 1 year	380.0	135.0	125.0	25.0
	430.0	254.8	125.0	105.0

28. Borrowings *continued*

Information on leases

The Group has leases for various assets as shown in note 17.

The maturity of lease liabilities was:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Within 1 year	51.9	32.0	-	-
Over 1 year and less than 5 years	187.4	181.7	-	-
Over 5 years	883.8	851.0	-	-
	1,123.1	1,064.7	-	-
Analysed as:				
	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Current	51.9	32.0	-	-
Non-current	1,071.2	1,032.7	-	-
	1,123.1	1,064.7	-	-

For the purposes of calculating debt or borrowings under the Group's financing agreements, all of which were negotiated under IFRS prior to the implementation of IFRS 16, borrowings that were previously categorised as operating leases under IAS 17 are excluded from the definition of debt. As at 31 March 2024 the carrying value of leases previously categorised as IAS 17 operating leases was £36.4 million (2023 £37.3 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 2024 the range of IBRs used was between 6.1% and 6.8% (2023 between 2.6% and 3.9%) and the weighted average IBR across all leases was 6.3% (2023 3.3%). If the weighted average rate used increased or decreased by 10bps, this would result in a c.1.0% increase or reduction in the present value of lease liabilities recognised at 31 March 2024 (2023 c.1.1%).

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, £25.9 million at 31 March 2024 (2023 £21.6 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 £19.0 million (2023 £120.3 million) and interest repayments of £53.1 million (2023 £100.5 million), in addition to inflows from lease financing arrangements of £64.8 million (2023 £40.2 million).

Other information required to be disclosed under IFRS 16 is included in note 17.

29. Other non-current liabilities

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Amounts owed to subsidiary undertakings	-	-	-	8.5
Contract liabilities	154.9	155.3	-	-
	154.9	155.3	-	8.5

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.

Notes to the Financial Statements *continued*

30. Retirement benefit obligations *continued*

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 has been appealed and is due to be reconsidered by the Court of Appeal in June 2024. The impact will therefore be uncertain for some time to come. Given this uncertainty, the updated valuation as at 31 March 2024 does not reflect the High Court ruling as it is currently unclear as to whether any additional liabilities might arise, and if they were to arise, how they would be reliably measured. The case is subject to appeal in 2024 and following the outcome of the appeal and any DWP response, management will conclude whether any subsequent actions or amendments to IAS 19 liabilities are required.

Defined contribution schemes

Pension costs for defined contribution schemes were £12.0 million (2023 £9.4 million).

Defined benefit schemes

Assumptions

The principal actuarial assumptions at 31 March were:

	2024 %	2023 %
Rate of increase in pensionable pay	2.6	2.7
Rate of increase for current and future pensions	2.8	2.8
Rate used to discount schemes' liabilities and expected return on schemes' assets	4.8	4.7
Inflation	3.2	3.3

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 2022 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:

	2024	2023
Male	24.1	24.2
Female	26.8	26.7

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2024	2023
Male	25.5	25.6
Female	28.3	28.2

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%	+/- 4.8%
Rate used to discount schemes' liabilities	+/- 0.5%	-/+ 6.2%
Inflation	+/- 0.5%	+/- 4.4%
Life expectancy	+/- 1 year	+/- 3.9%

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	
	2024 £m	2023 £m	2024 £m	2023 £m
Present value of financial obligations	(774.2)	(719.5)	(138.0)	(139.5)
Fair value of plan assets	806.2	753.2	141.5	144.2
Surplus/(deficit) of funded plans	32.0	33.7	3.5	4.7
Less: restriction of surplus	(5.4)	(4.4)	-	-
Net asset/(liability) recognised in the balance sheet	26.6	29.3	3.5	4.7

30. Retirement benefit obligations *continued*

The movement in the net defined benefit obligation over the accounting period is as follows:

	2024			2023		
	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	(719.5)	748.8	29.3	(985.9)	1,052.2	66.3
Acquisition SES Water Group	(66.8)	70.1	3.3	-	-	-
Current service cost	(1.2)	(0.6)	(1.8)	(1.0)	(0.6)	(1.6)
Past service cost, curtailments and gains/losses on settlements	(0.2)	-	(0.2)	-	-	-
Interest (expense)/income	(33.5)	35.2	1.7	(26.5)	28.5	2.0
	(101.7)	104.7	3.0	(27.5)	27.9	0.4
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	-	(13.6)	(13.6)	-	(288.7)	(288.7)
Gain/(loss) from change in demographic assumptions	5.9	-	5.9	9.7	-	9.7
Gain from change in financial assumptions	13.7	-	13.7	266.0	-	266.0
Experience (losses)/gains	(14.9)	1.2	(13.7)	(25.9)	(0.1)	(26.0)
	4.7	(12.4)	(7.7)	249.8	(288.8)	(39.0)
Contributions:						
Employers	-	2.0	2.0	-	1.6	1.6
Payments from plans:						
Benefit payments	42.3	(42.3)	-	44.1	(44.1)	-
	42.3	(40.3)	2.0	44.1	(42.5)	1.6
At 31 March	(774.2)	800.8	26.6	(719.5)	748.8	29.3

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 statement of financial position 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% (2023 35%) 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 effect of the change in the rate of tax in the year of £1.2 million is presented within Experience (losses)/gains.

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.

The movement in the Company's net defined benefit obligation over the accounting period is as follows:

	2024			2023		
	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	(139.5)	144.2	4.7	(190.7)	203.1	12.4
Current service cost	(0.4)	-	(0.4)	(0.4)	-	(0.4)
Interest (expense)/income	(6.4)	6.6	0.2	(5.2)	5.6	0.4
	(6.8)	6.6	(0.2)	(5.6)	5.6	-
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	-	(2.1)	(2.1)	-	(56.4)	(56.4)
Gain from change in demographic assumptions	1.1	-	1.1	2.0	-	2.0
Gain from change in financial assumptions	2.8	-	2.8	52.6	-	52.6
Experience losses	(3.2)	-	(3.2)	(6.2)	-	(6.2)
	0.7	(2.1)	(1.4)	48.4	(56.4)	(8.0)
Contributions:						
Employers	-	0.4	0.4	-	0.3	0.3
Payments from plans:						
Benefit payments	7.7	(7.7)	-	8.4	(8.4)	-
	7.7	(7.3)	0.4	8.4	(8.1)	0.3
At 31 March	(137.9)	141.4	3.5	(139.5)	144.2	4.7

30. Retirement benefit obligations *continued*

The schemes' assets relating to the Group were:

	2024			2023		
	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	163.7	–	20	124.3	–	17
Government bonds	13.5	–	2	14.4	–	2
Other bonds	117.2	55.7	22	175.8	72.1	33
Diversified growth	38.8	–	5	43.9	–	6
Property/Infrastructure	41.2	32.6	9	19.0	22.4	5
Insurance linked security	44.2	165.8	26	41.2	107.0	20
LDI investments	96.5	–	12	109.2	–	14
Other (including cash funds)	10.1	21.5	4	6.3	13.2	3
	525.2	275.6	100	534.1	214.7	100

The Company's share of the schemes' assets at the balance sheet date was:

	2024			2023		
	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	37.7	–	27	28.5	–	20
Government bonds	3.1	–	2	3.3	–	2
Other bonds	27.0	12.8	28	40.3	16.5	39
Diversified growth	8.9	–	6	10.1	–	7
Property/Infrastructure	9.5	7.5	12	4.4	5.2	7
Insurance linked security	10.2	–	7	9.5	–	7
LDI investments	22.3	–	16	25.1	–	17
Other	2.4	–	2	1.4	–	1
	121.1	20.3	100	122.6	21.7	100

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.

30. Retirement benefit obligations *continued*

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 12 to 13 years (2023: 12 to 15 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 £2.0 million were paid into the scheme in respect of scheme expenses (2023: £1.6 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 2025.

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	
	2024 £m	2023 £m	2024 £m	2023 £m
Liabilities/(assets) at 1 April	507.0	512.4	(18.6)	(13.1)
Charged/(credited) to the income statement	4.9	(0.9)	(0.7)	(2.4)
(Credited)/charged to other comprehensive income	(6.3)	(2.5)	(0.3)	(2.0)
Credited to equity, including impact of change in tax rate	0.1	0.5	-	0.2
Other non-underlying credits in the income statement	(4.9)	(2.5)	(1.1)	(1.3)
Amounts relating to acquired operations	47.5	-	-	-
Liabilities/(assets) at 31 March	548.3	507.0	(20.7)	(18.6)

Deferred tax assets have been recognised in respect of all temporary differences where it is probable that these assets will be recovered.

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 the taxable temporary differences are expected to reverse in the same periods as the deductible temporary differences and there is a right of offset.

The movements in deferred tax assets and liabilities were:

Group

Deferred tax liabilities

	Derivatives £m	Accelerated tax depreciation £m	Fair value adjustments £m	Short-term liabilities including provisions £m	Retirement benefit obligations £m	Total £m
At 1 April 2022	-	459.6	95.7	6.1	9.7	571.1
Charged/(credited) to the income statement	-	13.6	(12)	(4.6)	3.0	10.8
Charged/(credited) to equity	-	-	-	-	(9.8)	(9.8)
Reclassification	2.9	-	-	-	-	2.9
At 31 March 2023	2.9	473.2	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)	-	-	-	(2.2)	(6.3)
Reclassification	4.2	-	-	-	-	4.2
Transferred in on acquisition of SES	(3.5)	4.3	15.6	-	(0.9)	54.5
At 31 March 2024	-	522.3	104.6	4.9	2.3	634.1

Notes to the Financial Statements *continued*

31. Deferred tax *continued*

Deferred tax assets

	Derivatives £m	Share-based payments £m	Tax losses £m	Fair value adjustment £m	Total £m
At 1 April 2022	(4.7)	(2.0)	(10.6)	(41.4)	(58.7)
Charged/(credited) to the income statement	0.3	0.5	(14.7)	2.2	(11.7)
Non-underlying (credit)/charge to the income statement	-	-	(10.6)	8.1	(2.5)
Charged to other comprehensive income	7.3	-	-	-	7.3
Reclassification to deferred tax liabilities	(2.9)	-	-	-	(2.9)
Charged to equity, including impact on change in tax rate	-	0.5	-	-	0.5
At 31 March 2023	-	(1.0)	(35.9)	(31.1)	(68.0)
Charged/(credited) to the income statement	-	0.3	(5.1)	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)	(52.9)	(28.1)	(85.8)

Net liability

At 31 March 2023	507.0
At 31 March 2024	548.3

Deferred tax assets not recognised

	Accelerated tax depreciation £m	Short-term liabilities including provisions £m	Tax losses and non-trade loan relationship deficits available indefinitely £m	Total £m
Gross				
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

	Accelerated tax depreciation £m	Short-term liabilities including provisions £m	Tax losses available indefinitely £m	Total £m
Tax effect				
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

Following the acquisition of SES Water, the Group has acquired temporary differences for which no deferred tax asset is recognised in relation to post 2017 tax losses (£13.2 million), non-trade deficits carried forwards in relation to the UK's corporate interest restriction rules (£8.7 million), fixed assets (£0.4 million) and provisions (£0.2 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 1 April 2022	(1.3)	(1.2)	(10.6)	(13.1)
Charged/(credited) to the income statement	2.0	0.3	(4.7)	(2.4)
Non-underlying credit to the income statement	-	-	(1.3)	(1.3)
Credited to other comprehensive income	(2.0)	-	-	(2.0)
Charged to equity, including impact on change in tax rate	-	0.2	-	0.2
At 31 March 2023	(1.3)	(0.7)	(16.6)	(18.6)
Charged/(credited) to the income statement	2.5	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)

31. Deferred tax continued

Deferred tax (credited)/charged to equity or other comprehensive income during the year was:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Remeasurement of defined benefit obligations	(2.2)	(9.8)	(0.3)	(2.0)
Cash flow hedges	(4.1)	7.3	-	-
Share-based payments	0.1	0.5	-	0.2
	(6.2)	(2.0)	(0.3)	(1.8)

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. As explained in note 9, 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 5 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 141 years.

Where interest charges or other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

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 trading losses, 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. With respect to the non-trade deficits, current forecasts indicate that these deficits will be utilised over the next 25 to 35 years on the basis the group does not retract any of its existing Public Benefit Exemption elections.

32. Provisions

	Restructuring £m	Other £m	Total £m
Group			
At 1 April 2023	0.4	-	0.4
Utilised	(0.4)	-	(0.4)
Arising on acquisition	-	0.4	0.4
At 31 March 2024	-	0.4	0.4

The restructuring provision related principally to severance costs.

33. Share capital

Allotted, called-up and fully paid

	Number of shares		£m
	Treasury shares	Ordinary shares	
Group and Company			
At 1 April 2022 ordinary shares of 61.05p each	5,628	264,846,948	161.7
For consideration of £23 million, shares issued under the Company's Sharesave Scheme	-	379,044	0.2
Shares cancelled	-	(3,910,503)	(2.4)
At 31 March 2023 ordinary shares of 61.05p each	5,628	261,315,489	159.5
For consideration of £0.5 million, shares issued under the Company's Sharesave Scheme	-	72,299	-
Shares issued	-	24,657,535	15.1
At 31 March 2024 ordinary shares of 61.05p each	5,628	286,045,323	174.6

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

33. Share capital *continued*

During the year 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 will be used to reduce leverage in the enlarged group following the acquisition.

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

Employee share schemes

The Group operates a number of equity-settled share plans for the benefit of employees. Details of each plan are:

D 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 17% or 20% 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.

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	
			2024	2023
3 July 2018	635p	2021 – 2023	1	100
9 July 2019	620p	2022 – 2024	69	84
19 July 2020	928p	2023 – 2025	30	193
6 July 2021	879p	2024 – 2026	306	552
5 July 2022	828p	2025 – 2027	302	533
4 July 2023	663p	2026 – 2028	753	–
			1,461	1,462

The number and weighted average exercise price of Sharesave options are:

	2024		2023	
	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	1,462	835	1,501	789
Granted	847	663	598	828
Forfeited	(617)	828	(215)	781
Exercised	(72)	639	(379)	633
Expired	(159)	859	(43)	859
At 31 March	1,461	746	1,462	835

The weighted average price of the Company's shares at the date of exercise of Sharesave options during the year was 689 pence (2023 927 pence). The options outstanding at 31 March 2024 had a weighted average exercise price of 746 pence (2023 835 pence) and a weighted average remaining contractual life of 2.0 years (2023 1.91 years). The number of exercisable Sharesave options at 31 March 2024 was 1,000 (2023 1,000) and the weighted average exercise price of exercisable Sharesave options was 799 pence (2023 620 pence).

The aggregate fair value of Sharesave options granted during the year was £0.7 million (2023 £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:

	2024	2023
Weighted average share price (pence)	700	957
Weighted average exercise price (pence)	663	828
Expected volatility	26%	25%
Expected life	3.4 years	3.3 years
Risk-free rate	4.5%	1.3%
Expected dividend yield	6.1%	4.0%

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.

33. Share capital *continued*

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 148 to 170.

The number and price of shares in the LTIP are:

	2024		2023	
	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	880	990	1,170	902
Granted	553	714	255	1,038
Vested	(125)	784	(357)	790
Lapsed	(186)	1,069	(188)	876
At 31 March	1,122	863	880	990

The awards outstanding at 31 March 2024 had a weighted exercise price of 863 pence (2023 990 pence) and a weighted average remaining contractual life of 2.6 years (2023 2.6 years).

The aggregate fair value of awards granted during the year was £1.8 million (2023 £1.1 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depends on non-market performance vesting conditions.

In the prior year, having reflected on the exceptional economic backdrop and in particular the cost-of-living crises faced by many of our customers, the CEO recommended that the Remuneration Committee consider lapsing her bonus and 2020 LTIP awards in full, and diverting an equivalent value into the Group's Watershare+ scheme. The Watershare+ scheme directly benefits the Group's customers by either providing money off their bill or via ownership of Pennon Group plc shares. While recognising the performance delivered, the Remuneration Committee accepted and approved the CEO's recommendation regarding her awards.

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:

	2024		2023	
	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	141	1,065	206	955
Granted	124	700	54	988
Vested	(41)	1,079	(110)	756
Lapsed	(7)	972	(9)	1,001
At 31 March	217	863	141	1,065

The awards outstanding at 31 March 2024 had a weighted average exercise price of 863 pence (2023 1,065 pence) and a weighted average remaining contractual life of 1.3 years (2023 1.3 years). The Company's share price at the date of the awards ranged from 700 pence to 1,141 pence (2023 988 pence to 1,141 pence).

The aggregate fair value of awards granted during the year was £0.9 million (2023 £0.5 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 1 April 2022	235.5
Shares issued under the Sharesave Scheme	2.1
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

Notes to the Financial Statements *continued*

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 2022	154.7
Share capital redeemed	2.4
At 31 March 2023	157.1
At 31 March 2024	157.1

36. Retained earnings and other reserves

	Own shares £m	Hedging reserve £m	Retained earnings £m	Total £m
Group				
At 31 March 2022	(3.9)	17.1	709.4	722.6
Profit for the year	-	-	0.1	0.1
Other comprehensive income/(loss) for the year	-	21.8	(29.2)	(7.4)
Dividends paid relating to 2022	-	-	(101.6)	(101.6)
Credit to equity in respect of share-based payments (net of tax)	-	-	1.9	1.9
Charge in respect of share options vesting	5.4	-	(5.4)	-
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(5.0)	-	-	(5.0)
Shares purchased for cancellation (included related expenses)	-	-	(40.0)	(40.0)
At 31 March 2023	(3.5)	- 38.9	535.2	570.6
Loss for the year	-	-	(9.5)	(9.5)
Other comprehensive income/(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

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 162,024 ordinary shares (2023 152,000 ordinary shares) held by the Trust at 31 March 2024 was £1.0 million (2023 £1.2 million).

	Retained earnings £m	Total £m
Company		
At 1 April 2022	689.1	689.1
Profit for the year	8.4	8.4
Other comprehensive loss for the year	(6.1)	(6.1)
Dividends paid relating to 2022	(101.6)	(101.6)
Shares purchased for cancellation (including related expenses)	(40.0)	(40.0)
Credit to equity in respect of share-based payments (net of tax)	1.3	1.3
Charge in respect of share options vesting	(5.4)	(5.4)
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

In making decisions about the level of dividends to be proposed the Directors take steps to check that retained earnings reflect 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		Company	
	2024 £m	2023 £m	2024 £m	2023 Restated* £m
(Loss)/profit for the year	(8.5)	0.4	34.4	8.4
Adjustments for:				
Share-based payments	1.2	2.4	1.1	1.5
Profit on disposal of property, plant and equipment	(0.7)	(0.4)	-	-
Depreciation charge	168.2	151.1	-	-
Amortisation of intangible assets	3.7	3.6	-	-
Investment impairment charge	-	-	283.7	-
Non-underlying bond early redemption gain	-	(18.4)	-	-
Share of post-tax profit from associated companies	(0.7)	(0.3)	-	-
Finance income (before non-underlying items)	(12.6)	(9.2)	(14.7)	(11.8)
Finance costs (before non-underlying items)	162.8	145.8	17.5	13.3
Dividends receivable	-	-	(333.2)	(15.7)
Taxation credit	(0.6)	(8.9)	(2.2)	(4.3)
Changes in working capital:				
Increase in inventories	(1.1)	(2.3)	-	-
(Increase)/decrease in trade and other receivables	(47.6)	15.9	(0.4)	42.1
(Decrease)/increase in trade and other payables	(2.0)	34.6	4.6	0.6
Increase/(decrease) in retirement benefit obligations from contributions	-	-	-	0.1
Decrease in provisions	(0.4)	(0.6)	-	-
Cash generated/(outflow) from operations	261.7	313.7	(9.2)	34.2

Reconciliation of total interest paid:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Interest paid in operating activities	116.2	159.7	11.9	7.7
Interest paid in investing activities	-	5.0	-	-
Total interest paid	116.2	164.7	11.9	7.7

* See note 2.

During the year, the Group completed a number of sale and leaseback transactions in respect of its infrastructure assets as part of its ongoing financing arrangements. Cash proceeds of £64.8 million (2023 £40.2 million) were received and a gain of £nil (2023 £nil) was recognised. These assets are being leased back at market rentals over varying lease terms from 9.0 to 9.5 years.

Notes to the Financial Statements *continued*

38. Net borrowings

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Cash and cash deposits	171.4	165.4	79.2	104.1
Borrowings – current				
Bank and other current borrowings	(186.3)	(92.7)	(8.0)	-
Lease obligations	(51.9)	(32.0)	-	-
Amounts owed to subsidiary undertakings	-	-	-	(279.1)
Total current borrowings	(238.2)	(124.7)	(8.0)	(279.1)
Borrowings – non-current				
Bank and other non-current borrowings	(2,658.7)	(1,960.9)	(245.6)	(155.7)
Listed preference shares	(12.5)	(12.5)	-	-
Lease obligations	(1,071.2)	(1,032.7)	-	-
Total non-current borrowings	(3,742.4)	(3,006.1)	(245.6)	(155.7)
Total net borrowings	(3,809.2)	(2,965.4)	(174.4)	(330.7)

The movements in net borrowings during the periods presented were as follows:

Group

	Net borrowings at 1 April 2022 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2023 £m
Cash and cash deposits	519.0	(353.6)	-	-	165.4
Bank and other current borrowings	(70.0)	20.4	(43.3)	0.2	(92.7)
Current lease obligations	(170.2)	221.1	(49.1)	(33.8)	(32.0)
Bank and other non-current borrowings	(1,907.4)	(57.2)	43.3	(39.6)	(1,960.9)
Listed preference shares	(12.5)	-	-	-	(12.5)
Non-current lease obligations	(1,041.8)	(40.2)	49.1	0.2	(1,032.7)
Net borrowings	(2,682.9)	(209.5)	-	(73.0)	(2,965.4)

	Net borrowings at 1 April 2023 £m	SES Water Group acquisition £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2024 £m
Cash and cash deposits	165.4	-	6.0	-	-	171.4
Bank and other current borrowings	(92.7)	(58.5)	52.9	(88.8)	0.8	(186.3)
Current lease obligations	(32.0)	(0.7)	20.2	(33.8)	(5.6)	(51.9)
Bank and other non-current borrowings	(1,960.9)	(300.4)	(458.7)	88.8	(27.5)	(2,658.7)
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)
Net borrowings	(2,965.4)	(360.1)	(444.4)	-	(39.3)	(3,809.2)

Other non-cash movements for the Group in 2024 includes the increase in borrowings from interest which is rolled into the amount repayable. Cash flows of £6.0 million include the cash acquired on acquisition of SES Water Group of £27.5 million (see note 43).

38. Net borrowings *continued*

The movements in net borrowings during the periods presented were as follows:

Company

	Net borrowings at 1 April 2022 £m	Cash flows £m	Other non-cash movements £m	Net borrowings at 31 March 2023 £m
Cash and cash deposits	306.7	(202.6)	-	104.1
Bank and other loans due within one year	(30.0)	30.0	-	-
Amounts due to subsidiary undertakings	(282.8)	3.7	-	(279.1)
Bank and other loans due after one year	(154.5)	-	(1.2)	(155.7)
	(160.6)	(168.9)	(1.2)	(330.7)

	Net borrowings at 1 April 2023 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2024 £m
Cash and cash deposits	104.1	(24.9)	-	-	79.2
Bank and other loans due within one year	-	-	(8.5)	0.5	(8.0)
Amounts due to subsidiary undertakings	(279.1)	-	-	279.1	-
Bank and other loans due after one year	(155.7)	(100.0)	8.5	1.6	(245.6)
	(330.7)	(124.9)	-	281.2	(174.4)

The non-cash movement of £279.1 million is due to the extinguishment of an intercompany loan payable to Viridor Waste 2 Limited. As detailed in note 20, the Company received a dividend in specie of £283.6 million from the subsidiary which fully extinguished the outstanding loan.

Notes to the Financial Statements *continued*

39. Subsidiary and joint venture undertakings at 31 March 2024

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	66-64 London Road, Redhill, RH1 1LJ	England
Non-household retail		
Pennon Water Services Limited ^{2D}	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Sutton and East Surrey Water Services Limited	66-64 London Road, Redhill, RH1 1LJ	England
Other		
Advanced Minerals Limited ^{CD}	66-64 London Road, Redhill, RH1 1LJ	England
Allmat (East Surrey) Limited	66-64 London Road, Redhill, RH1 1LJ	England
Dunfermline Solar Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
East Surrey Holdings Limited	66-64 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 ^{2D}	Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ	Guemsey
Pennon Power Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SES Business Water Limited	66-64 London Road, Redhill, RH1 1LJ	England
SES Home Services Limited	66-64 London Road, Redhill, RH1 1LJ	England
Sutton and East Surrey Group Holdings Limited*	66-64 London Road, Redhill, RH1 1LJ	England
SESW Holding Company Limited	66-64 London Road, Redhill, RH1 1LJ	England
Surrey Downs Estates Limited	66-64 London Road, Redhill, RH1 1LJ	England
Surrey Downs Property Investment Limited	66-64 London Road, Redhill, RH1 1LJ	England
The Cheam Group Plc	66-64 London Road, Redhill, RH1 1LJ	England

* Indicates the shares are held directly by Pennon Group plc, the Company.

- 80% of share capital owned by Pennon Group plc. All shares in issue are ordinary shares.
- Captive insurance company established with the specific objective of financing risks emanating from within the Group.

Other trading companies	Registered office address	Country of incorporation
Bristol Water Core Holdings Limited	Bridgwater Road, Bristol, BS13 7AT	England
Bristol Water Holdings Limited	Bridgwater Road, Bristol, BS13 7AT	England
Bristol Water Holdings UK Limited*	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 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
Pennon Trustee Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste 2 Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Dormant companies		
Avon Valley Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Share Scheme Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SES Water Limited	66-64 London Road, Redhill, RH1 1LJ	England
Source for Business 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. ^{CD}	Moezelhavenweg 9, 1043 AM, Amsterdam	Netherlands
The Sutton District Water Plc	66-64 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

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 2024 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 Core Holdings Limited	04637554
Bristol Water Holdings Limited	02630760
Bristol Water Holdings UK Limited	04789566
Dunfermline Solar Limited	12683727
EEB16 Limited	10789260
EEB17 Limited	10790759
EEB31 Limited	11780715
Peninsula Properties (Exeter) Limited	02307220
Pennon Power Limited	00736732
South West Water Customer Services Limited	07620338
Viridor Waste 2 Limited	02298543

40. Contingencies

Contingent liabilities

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Guarantees:				
Performance bonds	13.8	9.7	13.8	9.7
	13.8	9.7	13.8	9.7

Guarantees in respect of performance bonds relate to changes to the collateral requirements for the non-household retail business with other wholesalers. 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 announced an industry-wide investigation into sewage treatment works on 18 November 2021. On 27 June 2022, as part of its ongoing investigation, Ofwat announced enforcement action against South West Water Limited, the company is now included alongside the five companies that received enforcement notices in March 2022. The Group continues to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The Group has undertaken its own internal investigation and investment interventions have been undertaken at a small number of our sites. In addition, the Group has looked for opportunities for additional future investment to include further storm storage and an extension of its sewer misuse programme which has been shared with Ofwat. Ofwat have yet to formally respond on the investigation and the timing of a response is unknown, although has been potentially indicated for Summer 2024.

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

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

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

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

The Group establishes provisions in connection with contracts and litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where it is uncertain that these conditions are met, a contingent liability is disclosed unless the likelihood of the obligation arising is remote or the matter is not deemed material.

41. Capital commitments

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Contracted but not provided	211.5	72.0	-	-

42. Related party transactions

Group companies entered into the following transactions with joint ventures which were not members of the Group. Bristol Wessex Billing Services Limited and Water 2 Business Limited are joint venture investments of Bristol Water Holdings Limited.

	2024 £m	2023 £m
Sales of goods and services		
Water 2 Business Limited	19.8	17.9
Purchase of goods and services		
Bristol Wessex Billing Services Limited	4.0	3.5
Year-end balances		
	2024 £m	2023 £m
Receivables due from related parties		
Water 2 Business Limited (including loan receivable of £8.7 million (2023 £9.3 million))	8.9	10.8
Bristol Wessex Billing Services Limited	-	1.6
Payables due to related parties		
Bristol Wessex Billing Services Limited	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 31 July 2027 and carry interest at SONIA plus 2.00%.

Company

The following transactions with subsidiary undertakings occurred in the year:

	2024 £m	2023 £m
Sales of goods and services (management fees)	10.9	7.9
Purchase of goods and services (support services)	0.3	0.5
Interest receivable	4.9	3.0
Dividends received	333.2	15.7

Sales of goods and services to subsidiary undertakings are at cost. Purchases of goods and services from subsidiary undertakings are under normal commercial terms and conditions which would also be available to unrelated third parties.

Year-end balances

	2024 £m	2023 £m
Receivables due from subsidiary undertakings		
Loans	154.1	99.2
Trading balances and other receivables	48.5	2.6

The loan balance comprises three loans. A loan with a balance of £26.1 million is due for repayment in instalments over a five-year period following a receipt of a request to repay. No request to repay has been issued at the current time. Interest on £13.1 million (2023 £13.1 million) of the loan has been charged at a fixed rate of 5%. Interest on £13.0 million (2023 £13.0 million) of the loan has been charged at Bank of England base rate +3.0%. A loan with a balance of £28.0 million is due for repayment in instalments over a ten-year period following a receipt of a request to repay. No request to repay has been issued at the current time. Interest on the loan has been charged at Bank of England base rate +3.0%. A loan with a balance of £100.0 million is due for repayment within one month. Interest on the loan has been charged at Bank of England base rate +1.0%. A loan with a balance of £73.1 million was repaid on 16 May 2023. This loan was issued on 16 November 2022 to Bristol Water plc and novated to South West Water limited on 1 February 2023. Interest was charged on the loan balance at Bank of England base rate +0.75%.

No material expected credit loss provision has been recognised in respect of loans to subsidiaries (2023 nil).

	2024 £m	2023 £m
Payables due to subsidiary undertakings		
Loans	-	279.1
Trading balances	-	8.5

The loans from subsidiary undertakings are unsecured and interest-free without any terms for repayment.

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 is currently under review by the Competition and Markets Authority, and the SESGHL Group has been 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.

Revenue and profit contribution

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

The details of the business combination are as follows:

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

Acquisition related costs

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

43. Acquisition of SES Water Group *continued*

Adjustments made to the carrying values of SES Water Group at acquisition

The net assets recognised in the 31 March 2024 financial statements were based on a provisional assessment of their fair value, whilst all necessary information is finalised to complete the valuation exercise. The initial significant fair value adjustments are described further below and have been incorporated into the 10 January 2024 fair value balance sheet.

Acquired receivables

The provisional fair value of trade and other receivables acquired as part of the business combination amounted to £32.9 million with a gross contractual amount of £35.1 million. At the acquisition date the Group's best estimate of the contractual cash flows expected not to be collected amounted to £2.2 million.

Goodwill

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

44. Events after the reporting period

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

Alternative performance measures

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

As the Group defines the APMs they might not be directly comparable to other companies' APMs. They are not intended to be a substitute for, or superior to, IFRS measurements. In 2023/24, the following APMs were added or amended to those presented previously:

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

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:

Underlying earnings reconciliation 31 st March 2024	Non-underlying items					Statutory results	Earnings per share
	Underlying	Drought costs	SES acquisition	Renewables acquisition	Transformation		
	£m	£m	£m	£m	£m	£m	p
EBITDA (see below)	338.3	(1.8)	(9.6)	(0.6)	(13.9)	312.4	
Operating profit	166.3	(1.8)	(9.6)	(0.6)	(13.9)	140.4	
Profit before tax	16.8	(1.8)	(9.6)	(0.6)	(13.9)	(9.1)	
Taxation	(4.3)	0.5	0.9	0.1	3.4	0.6	
Profit after tax						(8.5)	
Non-controlling interests						(1.0)	
Profit after tax attributable to shareholders						(9.5)	(3.6)

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

Underlying EBITDA

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

Alternative performance measures *continued*

Effective interest rate

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

	2024 £m	2023 £m
Net finance costs before non-underlying items (note 8)	150.2	136.6
Remove: net finance income before non-underlying items not associated with South West Water Limited's group of companies	5.3	8.7
Net finance costs before non-underlying items associated with South West Water Limited's group of companies	155.5	145.3
Net interest on retirement benefit obligations associated with South West Water Limited's group of companies	1.4	1.6
Capitalised interest	14.1	5.0
Net finance costs for effective interest rate calculation	171.0	151.9
Group net debt (opening) (note 38)	2,965.4	2,682.9
Remove: opening net debt not associated with South West Water Limited's group of companies	(100.1)	(43.8)
Opening net debt for calculation	2,865.3	2,639.1
Group net debt (closing) (note 38)	3,809.2	2,965.4
Remove: closing net debt not associated with South West Water Limited's group of companies	(514.5)	(100.1)
Closing net debt for calculation	3,294.7	2,865.3
Average net debt (opening net debt + closing net debt divided by 2)	3,080.0	2,752.2
Effective interest rate (%)	5.6	5.5

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).

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

Underlying interest cover

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

	2024 £m	2023 £m
Net finance costs after non-underlying items (note 8)	150.2	136.6
Net interest on retirement benefit obligations (note 8)	1.7	2.0
Net finance costs for interest cover calculation	151.9	138.6
Operating profit before non-underlying items (see 'Underlying earnings' above)	166.3	153.1
Interest cover (times)	1.1	1.1

EBITDA dividend cover

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

	2024 £m	2023 £m
Underlying EBITDA (see 'Underlying earnings' above)	338.3	307.8
Proposed dividends (note 12)	126.9	111.7
EBITDA dividend cover (times)	2.7	2.8

Group dividend cover

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

	2024 £m	2023 £m
Proposed dividends (note 12)	126.9	111.7
(Loss)/profit for the year attributable to ordinary shareholders	(9.5)	0.1
Deferred tax charge/(credit) before non-underlying items (note 9)	4.9	(0.9)
Non-underlying items after tax in profit for the year (note 6)	21.0	20.0
Adjusted profit for dividend cover calculation	16.4	19.2
Dividend cover (times)	0.1	0.2

Capital investment

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

	2024 £m	2023 £m
Additions to property, plant and equipment (note 17)	604.5	353.7
Additions to intangible assets (note 16)	45.0	4.6
Capital investment	649.5	358.3

Capital payments

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

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

Alternative performance measures *continued*

Return on capital employed

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

	2024 £m	2023 £m
Capital employed (opening):		
Net debt (note 38)	2,965.4	2,682.9
Total equity invested (notes 33, 34, 35)	554.2	551.9
Opening capital employed for return on capital employed calculation	3,519.6	3,234.8
Capital employed (closing):		
Net debt (note 38)	3,809.2	2,965.4
Total equity invested (notes 33, 34, 35)	729.9	554.2
Closing capital employed for return on capital employed calculation	4,539.1	3,519.6
Underlying operating profit (see 'Underlying earnings' above)	166.3	153.1
Capital employed for return on capital employed calculation (opening capital employed + closing capital employed divided by 2)	4,029.4	3,377.2
Return on capital employed (%)	4.1	4.5

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 2020-25) plus totex outperformance, financing outperformance and ODI outperformance. Returns are calculated post tax and post sharing (only a proportion of returns are attributed to shareholders and shown within RORE). The three different types of return calculated and added to the base return are:

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

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

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

	Continuing operations ¹					Total Group
	2024 £m	2023 £m	2022 £m	2021 £m	2020 £m	2020 £m
Income statement						
Revenue before non-underlying items	907.8	825.0	792.3	644.6	636.7	1,389.9
Operating profit before non-underlying items	166.3	153.1	237.2	215.3	245.5	361.5
Net finance costs before non-underlying items	(150.2)	(136.6)	(93.7)	(58.3)	(62.5)	(88.7)
Share of profit in joint ventures	0.7	0.3	-	-	-	14.8
Profit before tax and non-underlying items	16.8	16.8	143.5	157.0	183.0	287.6
Net non-underlying items before tax	(25.9)	(25.3)	(15.8)	(24.9)	10.1	13.9
Taxation charge	0.6	8.9	(112.1)	(24.8)	(70.6)	(95.2)
(Loss)/profit for the year	(8.5)	0.4	15.6	107.3	122.5	206.3
Attributable to:						
Ordinary shareholders of the parent	(9.5)	0.1	15.4	107.5	116.6	200.4
Perpetual capital security holders	-	-	-	-	7.0	7.0
Non-controlling interests	(1.0)	0.3	0.2	(0.2)	(1.1)	(1.1)
Dividends proposed/declared	126.9	111.7	102.0	91.8	184.3	184.3
Earnings per ordinary share (basic):						
From continuing and discontinuing operations						
Earnings per share	(3.6p)	-	4.9p	25.5p	27.7p	47.7p
Deferred tax before non-underlying items	1.8p	(0.3p)	2.6p	1.6p	2.4p	7.9p
Non-underlying items (net of tax)	7.9p	7.6p	36.5p	4.8p	5.3p	6.9p
Non-controlling interests' share of non-underlying items	-	-	-	-	(0.2p)	(0.2p)
Adjustment for full year depreciation charge in the Disposal Group	-	-	-	-	-	(0.6p)
Earnings per share before non-underlying and deferred tax	6.2p	7.3p	44.3p	31.9p	35.2p	61.7p
Declared dividends per share	44.37p	42.73p	38.53p	21.74p	43.77p	43.77p
Capital expenditure						
Acquisitions (including investment in joint ventures)	90.2	-	425.1	-	-	-
Property, plant and equipment	604.5	353.7	237.3	168.3	326.8	326.8
Intangibles	45.0	4.6	3.6	0.2	0.7	0.7
Balance sheet						
Non-current assets	5,663.4	4,743.0	4,527.0	3,277.1	3,226.0	3,226.0
Net current (liabilities)/assets ²	(19.7)	87.0	389.5	2,919.1	2,595.8	2,595.8
Non-current liabilities	(4,481.1)	(3,704.8)	(3,641.9)	(3,211.4)	(4,109.7)	(4,109.7)
Net assets	1,162.6	1,125.2	1,274.6	2,984.8	1,712.1	1,712.1
Number of employees (average full time equivalent for year)						
Water	3,051	2,639	2,394	1,745	1,623	1,623
Waste management	-	-	-	-	-	2,986
Non-household retail	191	158	177	160	143	143
Other businesses	90	67	65	82	101	101
	3,334	2,864	2,636	1,987	4,853	4,853

1. Continuing operations comparative values for 2020 and 2021 are presented excluding discontinued operations following the sale of Viridor (with associated assets held for sale at March 2021, resulting in no 'Total Group' comparative for this period). Results for 2022 to 2024 reflect the current Group totals, but remain classified as 'Continuing operations' in this table for comparative purposes.

2. Net current assets for 2020 includes assets held for sale of £2,675.3 million and liabilities directly associated with assets classified as held for sale of £756.3 million.

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
DNV	an independent management consultancy specialising in technical assurance in the utility sector
EBITDA	earnings before interest, tax, depreciation and amortisation
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. In December 2018, Pennon became the first water services and waste management utility to receive it
GHG	greenhouse gases
HomeSafe	our health & safety improvement programme
K7	the current regulatory price review period
KPI	key performance indicator, our measures of business performance against the key targets monitored by Board and Pennon Executive
LTIFR	lost time injury frequency rate
ODI	outcome delivery incentives, 15 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
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
TCFD	Task force on climate-related financial disclosures
Totex	total expenditure
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended
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

Shareholder information

Financial calendar, including Dividend Reinvestment Plan (DRIP) alternative

Financial year end	31 st March 2024
Full Year Results 2023/24	21st May 2024
Annual Report and Accounts Published	10th June 2024
Annual General Meeting 2024	24th July 2024
Ordinary shares quoted ex-dividend	25th July 2024*
Record date for final dividend	26th July 2024*
Final date for receipt of DRIP applications	8th August 2024*
Final dividend payment date	5th September 2024*
Trading Statement	26th September 2024
Half Year Results 2024/25	28th November 2024

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

Shareholder analysis at 31st March 2024

Number of holding of shares	Number of shareholders	% of total shareholders	% of ordinary shares
1-100	2,469	17.1	0.02
101-1,000	6,991	48.3	1.18
1,001-5,000	4,095	28.4	3
5,001-50,000	634	4.4	2.5
50,001-100,000	74	0.5	1.9
100,001+	186	1.3	91.4
	14,449		

	Number of accounts	% of total accounts	% of total shares
Individuals	13,744	95.1	5.8
Companies	617	4.3	84.3
Trust companies (pension funds etc.)	5	-	-
Banks and nominees	83	0.6	9.9
	14,449		

Major Shareholders as at 31st March 2024

Shareholder	Shareholding in Pennon Group plc shares	% of issued share capital
Lazard Asset Management	24,804,242	8.67
KBI Global Investors	15,290,447	5.35
Nuance Investments	15,197,966	5.31
Impax Asset Management	15,072,205	5.27
BlackRock	13,463,388	4.71
ClearBridge Investments	12,659,843	4.43
Pictet Asset Management	11,733,667	4.10
Legal & General Investment Management	10,193,253	3.56
Vanguard Group	10,055,380	3.52

As at 20th May 2024, the Company has been notified of the following holdings of voting rights in the ordinary share capital of the Company: BlackRock on 25th April 2024 of 16,733,301 shares (5.85%); and Amundi Asset Management on 10th April 2024 of 14,630,777 shares (5.11%). 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.

Shareholder information *continued*

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, Link Group, who can be contacted as follows:

Link Group
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@linkgroup.co.uk
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, Link Group, 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 2024 Annual General Meeting for the payment of a final dividend for the year ended 31st March 2024, 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

Ernst & Young LLP

Online portfolio service

The online portfolio service, provided by Link Group, 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 Link Group'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, Link Asset Services. 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.

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