

SOUTH WEST WATER LIMITED
ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023



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CHAIR'S LETTER

Thank you to our employees

I would like to start by recognising everyone who works for South West Water. They deserve credit for what we have achieved this year. With c.2,500 people, and nearly the same again in the wider supply chain, it's their dedication, care and consideration for customers and each other, as well as their passion for the places they live and work in, that has enabled us to deliver another year of robust results. It has not always been easy for them with the media headlines shining a spotlight on what we can and need to do better. On behalf of the Board, I thank you all, and we are proud of what you do.

Challenging times for the UK Water sector

We have made steady progress in delivering our strategy, and our operational commitments across the Company, with strong leadership from our Executive Team. However, there is more we need to do, more rapidly, to modernise our Victorian sewage system, and to protect the environment.

The Board are focused on planning, prioritising and investing in the changes needed. We are listening to our customers, stakeholders and regulators. We all share the same view; this is a multi-generational challenge, and one that will take time to achieve sustainably. We can make and must make progress in the short term too.

Our focus has been on reducing the use of storm overflows and we have seen a 30% fall in numbers. Continuing on this trajectory will achieve our planned 50% reduction by 2025. We also continue to reduce pollution levels with sustained improvements of 50% over each of the past 2 years. This is integral to improving our EPA performance. This remains a key area for the Board.

The effects of climate change have also been felt severely in the South West, given our topography and 860 miles of coastline and adjacency to the Atlantic Ocean. We have experienced extreme weather patterns, from storms to freezing temperatures and sustained periods of drought. It is clear we all need to do more to safeguard the planet for future generations and we are making progress with our Net Zero ambitions to 2030.

The drought has brought into clear focus how important it is that we are able to supply world-class drinking water to all our customers. We are therefore investing in additional water resource capacity for Cornwall and Devon. We are also on track to deliver new water treatment works for Bournemouth customers.

Many are struggling financially in these challenging economic times.

The cost-of-living crisis has continued to weigh heavy on many. Our region, given its dependency on agriculture and tourism, can experience socio-economic challenges. Our board commitment to eradicate water poverty has remained a priority. We have kept bill increases below the rate of inflation, lower than the average sector bill rises seen elsewhere and in other utilities. We have focused on those most in need with over 110,000 customers benefiting from our broad range of affordability initiatives.

We also recognise that the same cost-of-living pressures are being felt by our employees and it was right therefore that we have awarded our highest ever pay award to those earning the least and those focused on delivering for our customers and communities, as well as continuing to be a living wage foundation employer for all.

Strengthening our Board, championing diversity

This coming year will be my last as Chair, and I am grateful to work alongside a talented and diverse Board. This year I have focused on our ongoing Board succession and am pleased to welcome Dorothy Burwell and Loraine Woodhouse as new independent Non-Executive Directors. Loraine will succeed Neil Cooper as Audit Chair when he steps down later in the summer, having served on the Board since 2016 alongside me. I would like to thank Neil for his wise counsel and careful stewardship over many years and in his role as Senior Independent Director.

For the first time in South West Water's history, more women now serve on the Board than men, and Susan and I continue to be strong advocates for championing inclusion and diversity. I am encouraged by the good progress being made across the Company, in building a more inclusive culture, and particularly in our graduate and apprenticeship programmes as we build the workforce we need for the future. We are making our largest ever investment in skills and people, with a doubling of apprenticeships and graduates to 1,000 and we will also offer 5,000 work placements over the same period. We do this, because it is important we have people with the right skills to deliver for our customers and the environment, and also in doing what's right in a region where one in three constituencies score above the national average for deprivation.

In summary

South West Water is ready to lead through the next phase of the water sector's evolution. Coupled with our ongoing investments in people, assets and continuing strong financial and operational discipline we are confident we can continue to grow and deliver for all our stakeholders.

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.

DELIVERING SERVICES THROUGH ALL STAGES OF THE NATURAL WATER CYCLE

Water Resources - Ensuring an available and sufficient supply of raw water is critical to ensuring a continuous supply to customers. Our operations play a vital part in maintaining the level of river flows and their ecological health – from the level of water we release from our reservoirs into rivers, to the level we abstract and take to our treatment plants. Protecting the region’s precious resources is at the heart of what we do.

Water treatment and distribution - We take water from our reservoirs, rivers and groundwater sources and transport it to our treatment works, where it is treated to a high standard using a number of processes. Once the water is clean, safe and reliable we transport this to customers’ homes through our c.25,000km of water pipes.

Services to homes and our wider communities – We manage an extensive network to deliver uninterrupted supplies to our customers whilst keeping customers’ bills affordable. Our household contact centre is focused on providing excellent end-to-end customer experiences. From providing water and sanitation, through to environmental protection, recreational facilities, education, local jobs and investment for future generations. The services we provide are essential for the health and economic wellbeing of our local communities.

Wastewater collection - We maintain and operate c.23,000km of sewers in the South West region, removing waste from the homes and properties of our customers. Through our programme of proactive interventions, informed by extensive data and AI, we keep our network in the best possible condition, identifying and repairing issues alongside an extensive sewer cleaning programme.

Wastewater recycling - We treat wastewater to a high standard at our 655 wastewater treatment works before returning treated wastewater to the environment, safely. Bioresources created during the treatment process are a valuable source of both nutrients and energy and contributes to a circular economy.

ROLE OF THE COMPANY

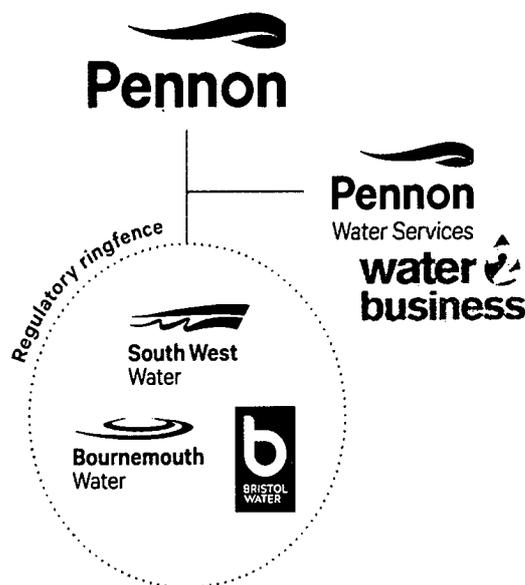
The Company provides strong pillars of strategic direction, financial management, risk management and governance. Combined with the Company’s robust fundamentals this creates resilience in a challenging economic environment and helps to drive long-term sustainable growth.

OUR KEY STRENGTHS AND RESOURCES

Environment - Natural Capital	Social - Social & Human Capital	Governance - Manufactured, Intellectual & Financial Capital
<p>High-quality assets</p> <ul style="list-style-type: none"> Investing in world-class facilities and plants, using innovation and technology to help safeguard our natural resources. 	<p>Strong reputation and customer services record</p> <ul style="list-style-type: none"> High levels of employee engagement and accreditation as best place to work. 	<p>Effective governance</p> <ul style="list-style-type: none"> A strong governance framework, supporting robust decision-making and performance management. Comprehensive risk management processes Fair tax mark accreditation
<p>Environmental stewardship</p> <ul style="list-style-type: none"> Constantly seeking more sustainable ways of working to protect, enhance and reduce our impact on the natural environment. 	<p>A stake and a say</p> <ul style="list-style-type: none"> Our unique Watershare+ framework offers customers a greater stake and a say through Pennon share ownership or bill reductions, alongside a dedicated customer AGM. 	<p>Efficient financing</p> <ul style="list-style-type: none"> Sustainable financing framework Low effective interest costs
		<p>Strong relationships with our suppliers</p> <ul style="list-style-type: none"> Always ensuring their performance meets our expectations, upholds our standards, aligns with our policies, protects human rights and promotes good working conditions

SOUTH WEST WATER'S GROUP CONTEXT

South West Water Limited is a subsidiary of Pennon Group plc (which is South West Water's immediate and ultimate parent company), a FTSE 250 company, whose principal significant trading subsidiaries are shown below:



Note: South West Water's subsidiaries are described in note 18 (page 219).

SOUTH WEST WATER

South West Water provides regulated water and wastewater services across Cornwall, Devon, Isles of Scilly and parts of Dorset and Somerset, water only services in areas of Dorset, Hampshire and Wiltshire (the Bournemouth Water area) and a small amount of non-appointed services. It is responsible for delivering the 2020-25 business plan, in both the original South West Water area of operation and the Bournemouth Water area of operation. South West Water provides retail services to residential (household) customers.

BRISTOL WATER

On 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. The Bristol Water brand will continue as a trading name of South West Water. Where relevant, this report will include details of both South West Water as reported in 2021/22 and the combination of Bristol Water and South West Water in 2022/23.

PENNON WATER SERVICES

Pennon Water Services provides retail services to non-household customers. Whilst part of the wider Pennon Group, South West Water has in place robust policies and practices to ensure full competition compliance with the market codes for the non-household retail market.

SOUTH WEST WATER'S SUBSIDIARIES

South West Water Customer Services manages South West Water's billing, collections and customer contact activities.

Peninsula Properties (Exeter) previously advised South West Water on property development opportunities. The Company has now ceased trading.

South West Water Finance acts as a financing company, raising borrowings for South West Water.

MARKET OVERVIEW

South West Water provides water and wastewater services to a population of c.3.5 million across the South West of England. South West Water provides their services in the context of key trends and challenges faced in the local market and by the wider water industry. In 2023, South West Water has noted the following key trends and challenges in the market:

ACCELERATING CLIMATE CHANGE

IMPACT

We are already experiencing the impact of climate change. These impacts are set to increase, with temperatures anticipated to be at least 1.5-2°C above pre-industrial levels by the end of this century. This is not just a longer-term problem, but a very real issue for us today as the 2022/23 drought in our region has shown.

The South West of England is particularly vulnerable to climate change, given its 860 miles of coastline, and adjacency to the western approaches of the Atlantic Ocean – this exposes the area to impacts from rising sea levels and storm intensity and we are already starting to observe significant and unpredictable impacts on our operations.

HOW WE ARE RESPONDING TO 2050

We will need to optimise investment in asset health and resilience, through integrated long-term planning that will deliver the right level of investment to ensure that our assets and networks are able to cope with more extreme weather and demand. We will need to work collaboratively in the building of new developments in our region, optimising local water cycles through investing in re-use and recycling of water, as well as natural assets. We also need to think about how our infrastructure is impacted by the services we rely on – such as electricity to power our pumps and treatment processes. We have developed a systems thinking approach to consider the resilience of our operations in the context of this wider system.

RAPIDLY EVOLVING CUSTOMER EXPECTATIONS

IMPACT

Putting the customer first has long been a focus of the water sector, as we look to provide excellent service and address issues first time. Customer expectations are rapidly evolving in the following areas:

- **Our operations** – Customers expect a continuous, seamless service with us also being a force for good in our communities
- **Transparency and ethicalness** – we need to be increasingly transparent about operations, performance, and services
- **Personalised services** – Customers are more empowered than ever by digital technology, and expect personalised products and services to meet their needs
- **Smart technology** – Smartphones and social media are transforming how and how often we engage with customers
- **Environment** – Customers are increasingly environmentally aware and expect us to be custodians of our local environment.

HOW WE ARE RESPONDING TO 2050

We will boost active participation of customers and communities in the sector and ensure every customer can afford to pay their water bill.

We will make it easy for customers to reduce their water consumption and manage their water bills.

We will decarbonise our operations and increase biodiversity, using nature-based solutions as a default.

GROWING POPULATION AND CHANGING DEMOGRAPHIC

IMPACT

The global and local population and demographic is changing. Official forecasts suggest an additional 530,000

people will be living and working in our region by 2050, adding to the c.3.5 million who currently live in the regions we serve. As a coastal region, our resident population swells during the year as 10 million visitors come to enjoy the South West. During the Covid-19 pandemic, we saw half of the anticipated 2050 growth in population due across the region, concentrated in the tourism areas of Devon and Cornwall due to the increase in home working and an increase in staycations.

HOW WE ARE RESPONDING TO 2050

A growing population puts pressures on existing water sources, as more people need to access to clean, safe water. Our twin approach is to reduce the demand and leakage of water, whilst also building new sources of water supply. Building on the three disused quarries that have been repurposed into reservoirs for drinking water, we will build new sources from desalinisation plants through to new reservoirs. We will halve leakage by 2050 and help customers use less water – as we look to drive consumption down by one third through water saving initiatives. The roll out of smart meters will help reduce consumption and address customer side leakage – up to one third of all leakage.

A growing population adds to the loads that our sewers and wastewater recycling centres need to process, and we will invest to meet those demands. As areas become more urbanised due to growth, green spaces do naturally shrink. We have ambitious plans to reverse this trend and build more greens spaces which will allow surface waters to drain away naturally rather than run into our sewerage systems. And by moving small, isolated communities from septic tanks and soakaways to full treatment works, we can protect our rivers in the local environment.

DESIRE FOR ENVIRONMENTAL IMPROVEMENTS

IMPACT

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, customers and stakeholders rightly tell us that they expect environmental leadership from us as a priority.

Our research tells us that customers have a more positive attitude to companies that support social and environmental issues.

Our customers are willing to pay more for us to deliver services which also provide social and environmental benefit.

HOW WE ARE RESPONDING TO 2050

Our strategic direction recognises the importance of re-connecting the water cycle, and water cycles operate within catchment.

Catchments are the natural way to consider the marine environment. Better coordinated action at the catchment level by those who use water or nearby land is a great enabler for change.

Engagement and collaboration are at the heart of catchment-based approaches. Catchment work requires joint delivery by all stakeholders within a catchment, supported by regulators and policymakers. This would ensure we address all pressures placed on the water environment including from water company activities, but also diffuse pollution from both agricultural and urban sources.

CHANGING SUPPLY CHAIN

IMPACT

We serve c.3.5 million people a day, through our c.2,500 talented employees and 10,000 jobs in the wider supply chain across the South West. Working together, we have reduced cost and improved service to our customers, keeping increases to customer bills below inflation whilst delivering record levels of investment.

But across the country and in the South West – supply chains are under pressure as they face the twin challenge of:

- Ramping up to deliver boosted investment to deliver improved interconnectivity, transport links, environmental improvements and Net Zero

- Increasing cost of materials and commodities, higher rates of inflation and the recessionary environment

HOW WE ARE RESPONDING TO 2050

We are focused on working with supply chains to build resilience and work together for success:

- Improving end to end visibility of our future investment plans

Working collaboratively to build talent, especially specialist skills:

- Adopting innovations, machine learning and AI
- Building future readiness for potential shocks and uncertainties

TECHNOLOGY ADVANCES

IMPACT

Big Data, digital technologies and open data are being leveraged to increase reliability, optimise assets, improve supply chains, and boost customer relationships.

Some key technology trends which impact us are:

- The availability and accuracy of sensors that collect and transmit data is improving
- The ability to collect, store and analyse data has expanded
- Big Data, digital twins and computing algorithms are being developed which translate unstructured data sets into actionable intelligence.

These trends will only increase as there is more integration of Internet of Things, faster access to the Internet, and advances in the computational power of computers and mainstream devices.

For customers this means that we can predict operational problems and fix them before they have an impact, it allows us to be transparent, to be agile, and therefore, build trust and legitimacy.

HOW WE ARE RESPONDING TO 2050

We will drive technology, leveraging data and the supply chain. We will need to collect and analyse more data to understand better and manage our systems in real time. We will make more data publicly available as a way of stimulating new ideas and partnerships so we can provide better services for customers and better protection of the environment.

We will continue to work with our colleagues across the sector in shared research and learning through organisations such as UKWIR (UK Water Industry Research).

At the very heart of our approach is intelligent asset management – we will invest further in our telemetry, operational control systems, meters and network sensors to provide greater automation, real time system feedback and inform decision-making. We will also replace our asset and work management systems and data analytics capabilities to provide actionable insight, both for us and our customers.

EVOLVING GOVERNMENT INFRASTRUCTURE POLICY

IMPACT

In the last 30 years, over £200 billion of private sector investment has enhanced water sector infrastructure across the UK, benefitting consumers now and for generations to come. But there is more to do as infrastructure continues to form the backbone of a successful modern economy. The government has set out ambition goals for the economy and environment, putting infrastructure at the heart of its plans. These goals include:

- **Environment** – a 25-year plan to improve the environment by removing harmful discharges, improving discharges and reducing water lost through leaks and used by customers
- **Net Zero** – ambitious targets have been set, backed by green jobs that can support clean growth
- **Levelling up** – investing to unlock growth, create opportunities, and jobs, boosting education and living standards, in areas where these are set apart from the rest of the nation.

- **Sustainable housing** – 250,000 homes need to be built each year across the UK to avoid spiralling prices and maintain affordable homes. These homes need to be sustainable – reducing water and energy use, boosting biodiversity, and minimising waste.

HOW WE ARE RESPONDING TO 2050

Our future plans include large-scale infrastructure projects to deliver environmental improvements, including two new reservoirs for the region. We are being clear on the scale of investment that is needed as part of the steps to streamline infrastructure decision-making whilst maintaining transparency and objectivity.

Alongside, we are enhancing wastewater treatment as part of government plans to unlock growth in those areas where environmental issues are slowing down development.

EVOLVING EMPLOYMENT MARKET

IMPACT

Employment market flexibility and diversity has been steadily increasing, with more people than ever working in self-employment, part-time jobs, and under zero-hour contracts.

An important consequence of these changes is ensuring the skills and talent for the future. As sustainability and the environment becomes more important, and as technological advancement and artificial intelligence are increasingly common in the workplace, new and niche skills become more important. STEM based occupations, such as digital literacy and ICT skills, are emerging areas of focus.

Good employers will take ownership for future proofing skills and talent to reflect the new ways of working.

HOW WE ARE RESPONDING TO 2050

We plan to harness energy and creativity by creating great spaces to work and promote diversity to bring together a mix of minds and representation of the communities we serve. We recognise the need to deliver on total wellbeing by being at the forefront of mental health as well as a leader in health and safety performance and offering the most flexible family friendly benefits. We will continue to work with schools, colleges, and universities in our region to create sponsored skills academies to lead on the skills agenda in the region and across the wider supply chain in building emerging talent pipelines.

KEY PERFORMANCE INDICATORS

We measure our performance against our strategy through a range of non-financial and financial metrics. Operating in the UK water sector means we have a number of performance commitments, Outcome Delivery Incentives (ODIs) to meet the requirements of our regulators.

NON-FINANCIAL METRICS

CLEAN, SAFE AND RELIABLE WATER

WATER QUALITY (CRI SCORE)

Compliance Risk Index (CRI) is the Drinking Water Inspectorate's measure of water quality.

In 2022/23, we have continued with our 'Quality First' transformation programme and performance in South West Water has improved. In Bristol Water, our score has been impacted by the drier summer where demand increased over the summer increasing the output and pressure on our network. Across the Company, we continue to invest in advanced treatment including ceramic membranes, granular activated carbon and other innovations to drive improvements.

SUPPLY INTERRUPTIONS (DURATION PER PROPERTY PER YEAR)

The performance across the Company was impacted by ground movement over the summer months as well as the extreme periods of cold weather and rapid thaw over the winter months. As a result, the number of bursts increased, with a number of larger more complex events to respond to, which increased the duration of interruptions.

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. Across the Company improvements in our treatment processes and managing our network continue to improve performance for customers.

LEAKAGE (3-YR AVERAGE – MEGALITRES PER DAY)

Reducing leaks is a critical component of ensuring a sustainable supply. In 2022/23, we enhanced our leakage reduction activities over the summer months to support high demand meeting our regulatory targets despite the colder winter. In Bristol Water, leakage increased in the year driven by an increase in bursts this year.

UNPLANNED OUTAGES (%) AND MAINS REPAIRS (NUMBER OF REPAIRS PER 1,000KM)

Asset health is essential for ensuring a robust supply of water to our customers. 2022/23 performance was again impacted by the colder winter weather with mains bursts increasing across the Company. In South West Water our unplanned outages continued to outperform our targets for the year, however an unplanned and complex event at our largest treatment works in Bristol Water increased this measure during 2022/23.

PROTECTING THE ENVIRONMENT – ROBUST WASTEWATER DELIVERY

POLLUTION INCIDENTS (NUMBER OF WASTEWATER INCIDENTS)

Our targeted pollutions incident reduction plan is delivering results with a 50% reduction over the last two years – but we know there is more to do and we continue to target a further step change in performance.

NUMERIC COMPLIANCE (%)

We measure the compliance of our discharges against our permits. 2022 has seen our best ever score which is expected to be upper quartile across the industry.

BIODIVERSITY (HECTARES)

We are continuing our pioneering catchment management approach with over 111,000 hectares of land restored, including 300 hectares of peatland restoration ahead of our target.

ENVIRONMENTAL PERFORMANCE ASSESSMENT

A combination of basket of measures, the EPA is the Environment Agency's assessment of environmental performance. We have seen improvements across all these measures resulting in a provisional 2 star rating this year; with a planned strategy of achieving a 4 star by 2024, there is much to focus on.

INTERNAL SEWER FLOODING (INCIDENTS PER 10,000 SEWER CONNECTIONS) AND EXTERNAL SEWER FLOODING (NUMBER OF INCIDENTS)

Sewer flooding is a key area that significantly impacts on customers. 2022/23 has continued our positive

performance with a further reduction in internal incidents – continuing our best ever performance. External flooding incidents have however increased with the drier weather over the summer increasing the number of blockages and flooding during the wetter winter months.

SEWER COLLAPSES (INCIDENTS PER 1,000KM) AND SEWER BLOCKAGES (NUMBER)

These measures reflect service impacts to our customers as well as being a lead indicator of asset health. We have seen an increase in these measures with the exceptionally dry weather over the summer months increasing blockages – although both measures have met target.

DELIVERING FOR OUR CUSTOMERS

OVERALL SATISFACTION WITH PSR (%)

We have over c.112,000 customers on the Priority Services Register (PSR) across the Company and we measure customer satisfaction with these services each year. South West Water at 91% and Bristol Water at 88% are both ahead of target.

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. Across the Company, our C-MeX rankings have remained consistent year-on-year with South West Water ranking 12th and Bristol Water ranking 6th.

CUSTOMER AFFORDABILITY (%)

We are targeting zero water poverty by 2025 and our range of affordability schemes are helping around 110,000 customers. South West Water and Bristol Water have a measure which assesses customer affordability which is improving year-on-year.

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 is 11th and Bristol Water is 4th.

BATHING WATERS

South West Water has over 860 miles of coastline to protect, representing over one-third of the UK's bathing waters. In 2022, 100% of our bathing beaches met the high standards set for water quality for the second year in a row.

AVERAGE SPILLS

Our new investment programme 'WaterFit' is focussed on protecting rivers and seas. During 2022 the average number of spills reduced by c.27% and we continue to deliver our plans to reduce to an average of 20 spills by 2025.

FINANCIAL METRICS

OPERATIONAL

PROFIT BEFORE TAX

Profit before tax is a key measure of the Company'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 on page 209. Commentary on performance is set out on the Chief Financial Officer's report on pages 36 to 42.

RETURN ON REGULATED EQUITY (RORE) - WATERSHARE

Return on regulated equity (RORE) expresses the return the Company has managed to earn above and beyond expectations set by the regulator through financial and operational performance. RORE for South West Water is 8.0% and Bristol Water is 5.2%, which represents a doubling of base returns. Commentary on performance is set out on the Chief Financial Officer's report on pages 36 to 42.

RETURN ON CAPITAL EMPLOYED (ROCE)

ROCE provides a measure of the return being generated by the Company compared to the total equity and debt capital deployed to generate that return. Commentary on performance is set out on the Chief Financial Officer's report on pages 36 to 42.

OPERATIONAL REVIEW

PERFORMANCE AS MEASURED BY OUR OUTCOME DELIVERY INCENTIVES (ODIS) WAS C.70% FOR SOUTH WEST WATER, AND C.65% FOR BRISTOL WATER.

2022/23 has been dominated by the weather, with some of the hottest, driest, weather on record seen over the summer months, followed by rapid periods of extreme low temperatures over the winter months. The impact of the extreme weather varied across our regions – with a focus on water resources in Cornwall, whilst temperatures were coldest in the east of our region.

Our plans to improve our environmental performance continue at pace and our dedicated plans saw pollutions reducing by 50% over the first two years and our treatment works compliance improving to our best ever score.

Both companies have delivered cumulative RORE outperformance with South West Water's cumulative RORE of 8.0% representing a more than doubling of base returns, and Bristol Water's cumulative RORE achieving 5.2% also higher than base returns.

REGULATED WATER

CLEAN, SAFE, RELIABLE DRINKING WATER

Across the Company, we are committed to ensuring the continuous supply of clean, safe and reliable drinking water, whilst preserving the natural resources within the South West. The hot, dry summer has impacted the outcome of some of our water measures, however our dedicated teams and ongoing investments ensure that we are able to respond to challenges now and into the future.

WATER QUALITY

CRI

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

In South West Water CRI was 2.39, and whilst above the industry target of 2, is an improvement from 3.86 last year and expected to be better than the industry average. Our 'Quality First' transformation programme is delivering results and the continued investment in advanced treatment technologies, including ceramic membranes and granular activated carbon, is designed to ensure compliance measures improve in future years.

CRI in Bristol Water at 4.60 is ahead of last year impacted by the drier summer where demand increased over the summer increasing the output from our works to near capacity levels and placing pressure on our network. Further enhanced maintenance and resilience improvements are being delivered across our water treatment works with specific sites targeted for improvement.

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 and we continue to invest in all aspects of our operations from source to tap to maintain that trust.

South West Water contacts per 1,000 population continue to decrease to 1.51 from 1.55 and achieved the performance commitment target, despite our maintenance flushing programmes being temporarily suspended in the region over the hot dry summer to reduce demand on our water supplies. Bristol Water performance at 1.21 shows a continuing improvement but is adverse to their target of 0.98 with increased contacts due to air in supply. We continue to progress well in delivering enhanced manganese removal schemes at Restormel and St. Cleer in Cornwall. To address taste and smell, we are progressing further significant investments in advanced granular activated carbon (GAC) treatment at Stithians in Cornwall and Littlehempston in South Devon, and are installing temporary GAC treatment at Horedown in North Devon to provide great resilience over the coming summer.

BOURNEMOUTH WATER TREATMENT UPGRADES

As part of our business plan, we committed to building two state of the art water treatment works in the Bournemouth area. Good progress continues on both of these schemes. At Alderney work has continued on site clearance, building foundations, and enabling works as well as advanced procurement. Further design and piloting have been completed at Knapp Mill reduce power demand and chemical consumption of the proposed scheme, as well as optimising the scope. Working with the local council we expect to secure Planning Permission by the end of June 2023.

REDUCING LEAKAGE AND SUPPLY INTERRUPTIONS

LEAKAGE

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

At South West Water, the specific investments made since the start of the regulatory period, teamed with the launch of our targeted action plan, are delivering results. Knowing this is a priority area, we have financed £100 million on activities that reduce leakage over the last three years. In 2022, we targeted further leakage activities, focused on the Cornwall region to support supplies during the hot dry summer, which included offering free leak repairs to customers, increasing detection and repair resources in the region as well as using innovative techniques to identify leaks – including satellite scanning. The rapid periods of extreme cold inevitably increased leakage over the winter, however the focus on activity earlier in the year resulted in us achieving our three-year average target. Whilst we know there's still more to do to find, fix and prevent leaks on our network, we're encouraged by the progress we've made to date, and continue to focus on delivering further improvements to achieve a 15% reduction over the K7 period.

In Bristol Water, we also experienced significant increase in the number of major bursts in December when a deep freeze and subsequent thaw put a strain on the water network. However, this leak outbreak was more prolonged in its effect with a marked increase in customer supply pipe leakage. As a result, the three-year rolling average target was missed.

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. The hot dry summer followed by the extreme cold following by rapid thaw has resulted in performance below target of 5 minutes 45 seconds for both South West Water and Bristol at 8 minutes 42 seconds and 8 minutes 3 seconds respectively.

At South West Water, this weather caused an increase in the number of bursts and interruptions during December, and two large diameter, complex trunk mains failures accounted for c.14% of the total interruptions. This reflects the way in which performance against this target can be impacted by a one-off issue. We have set out an action plan to improve performance with our strategy of dedicated, in-house supply continuity and alternative water supply team making long-term improvements to customers and our innovative network training centre ensuring we are managing our network effectively following repairs.

Bristol Water was also impacted by the freeze/thaw as well as increased bursts over the summer months as the network was tested by extreme demand and ground movement, but two significant events accounted for c.42% of the total interruptions.

INVESTING TO SECURE RESILIENCE, NOW AND INTO THE FUTURE

PER CAPITA CONSUMPTION (PCC)

This is an important metric to help the industry be more resilient into the future and help incentivise companies to conserve the natural resources around us. Per capita consumption is measured in percentage terms from a baseline.

In the year, South West Water has targeted demand reductions through our extensive water efficiency programmes – giving away over 130,000 free water saving devices, successfully reducing demand in Cornwall through our 'Stop the Drop' incentive and ongoing 'Save Every Drop' campaign. Overall consumption has reduced, driven by lower numbers of visitors to the region, although still significantly higher than historical levels but the remaining demand from households has increased due to the hot dry summer.

For Bristol Water, the impact of the hot dry summer continues to drive high levels of household demand driving per capita consumption higher than the target.

To help customers reduce their consumption, we provide free water saving devices as well as donations to charities supporting water conservation to help promote and educate customers. This is in addition to our schools outreach programme, which aims to teach children about the importance of looking after our natural resources.

WATER AVAILABILITY

In 2022, some of the hottest, driest weather on record, coupled with elevated demand from customers and tourism in the region placed significant pressure on our water resources. As a result of this, for the first time in 25 years, South West Water placed water restrictions, through 'Temporary use bans' on customers in our Colliford water resource zone in Cornwall. All other areas, including Bristol Water had no water restrictions.

Despite the challenging conditions, positively no customers were without water, and we have established robust plans to recover reservoir storage and manage supplies during this year (as set out on page 31), including a new reservoir on Bodmin Moor, winter recharges for Roadford reservoir and a new treatment works and recommissioning abstractions at Newquay in Cornwall.

Bristol Water's water resources were robust to the hot dry summer with reservoir storage at c.100% at the end of March 2023.

SMARTER HEALTHIER HOMES

As part of our Green Recovery plan, "Smarter, healthier homes" focuses on investments that directly benefit our customers and help improve supply resilience focused on installation of smart meters – enhancing customer engagement to help them manage their water use and bills more easily, carrying out a supply pipe 'adoption' trial, to relieve the worry of sudden unplanned financial demands arising from leaking and/or failed service pipes and embarking on a proactive lead pipe replacement programme.

As part of the acceleration investment ahead of the next regulatory period, we are expanding this programme into the Colliford area with an additional 40,000 smart meters and supply pipe replacements, with plan in the Bristol region to deliver around 2,000 lead and supply pipe replacements

MAINTAINING ASSET HEALTH

MAINS REPAIRS

The ground movement and pressure on the network during the hot dry summer, and the colder winter weather, particularly the 'freeze/thaw' experience in December has impacted the number of mains bursts this year.

In South West Water the work to optimise the operation and control of our network by pressure management and other 'network calming' activities, particularly in the Colliford area to support drought activities, meant that whilst the number of bursts significantly increased above historical levels in December 2022 and early 2023 our target for mains repairs was met at 141.1 repairs per 1,000 km of mains.

The weather impacts in Bristol Water, have been similar, and whilst we have continued to minimise high pressure risks where we can and monitor the network for 'transient' pressure spikes that can lead to mains failures the impact of the weather resulted in a significant increase in mains bursts, missing the target for the year.

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's performance in 2022/23 has remained strong, despite the significant challenges of high demand over the hot dry summer and compares favourably with the rest of the industry. Our 'summer preparedness' programme alongside our demand and supply management during the challenging summer resulted in unplanned outages reducing again this year with a figure of 0.70% compared to the industry wide target of 2.34%.

At Bristol Water, unplanned outage has increased in 2022/23 primarily because of outages at our largest water treatment works, Purton, due to pump failures when the treatment works was operating at near capacity to

manage supplies during drought conditions. These asset failures account for 5.69% of the total 6.21% unplanned outage in 2022/23. However, despite the higher level of unplanned outage during an exceptionally dry year, customers were not impacted with any restrictions.

REGULATED WASTEWATER

PROTECTING THE ENVIRONMENT - ROBUST WASTEWATER DELIVERY

At South West Water we continue to target and drive improvements in wastewater services through innovation by constantly seeking out new ideas, pioneering and piloting new technologies with a focus on nature-based solutions where possible and by enhancing governance and working in partnership with others.

REDUCING FLOODING INCIDENTS

During 2022/23, the number of internal sewer flooding cases decreased again from last year with 0.63 incidents per 10,000 sewer connections (50 individual incidents). This is a significant outperformance against target and places us as one of the best performers in the industry on this measure. External sewer flooding events were impacted by the dry summer which led to debris within the network which increased the number of flooding incidents during the periods of significant rainfall from November onwards. The largest increase was on transferred sewers where smaller supply pipes were more impacted by these blockages.

IMPROVING ASSET HEALTH

SEWER COLLAPSES & BLOCKAGES

The dry summer weather has also increased the number of sewer collapses and blockages which are a key cause of flooding, pollutions, and service impacts to our customers as well as a lead indicator of assets health.

We have seen collapses increase to 8.3 (from 6.7) collapses per 1,000km of sewers ahead of target for the year. Whilst blockages increased to 7,056 (from 6,545) marginally adverse to the 7,020 target. We will continue with the proactive management of our network, including a relentless drive to investigate, clean, and repair sewers. This is supported by an enhanced programme of educational visits to commercial premises over sewer misuse (fats, oils, and grease) and we are developing our approach to target those properties that habitually block our sewers with debris.

PIONEERING CATCHMENT MANAGEMENT FOR OVER 15 YEARS

We maintain that our pioneering catchment management approach for over 15 years is fundamental to help unlock the environmental challenge we all face. Approximately 111,000 hectares have been improved to date with catchment management being undertaken across 80% of our region, working with over 1,700 farmers. Our continued commitment to tree planting is ahead of plan with over 220,000 trees planted towards our 250,000 target by 2025.

The additional catchment management targeted in our Green Recovery initiative is also progressing well with 350 hectares of peatland restored on Dartmoor and delivered with farmers.

TARGETING IMPROVEMENTS IN EPA

A combination of a basket of measures, the EPA is the Environment Agency's assessment of environmental performance. We have seen improvements across all these measures this year with a provisional rating of 2 star this year. With a planned strategy of achieving 4 star by 2024, there is much to focus on.

POLLUTION INCIDENT REDUCTION PLAN DELIVERING RESULTS

Our Wastewater Pollutions Incident Reduction Plan continues to deliver results after being launched in September 2020 – with a 50% reduction in incidents over the last 2 years. In 2022/23 there were 108 Category 1-3 incidents – our lowest ever level. In addition, our more serious Category 2 incidents reduced by 75% and positively we again had none of the most serious (Category 1) events.

Whilst we have seen improvements our focus remains to continue this step change in performance.

Our ongoing Pollution Incident Reduction Plan (PIRP) has continued to deliver with key activities including additional telemetry on our infrastructure with 1,440 sewer depth monitors installed in the year, continued investment at around 50 pollution hotspots to prevent repeat events, MOT investment at pumping stations and treatment works and using predictive analytics to support operations in managing issues before they arise. Our

targeted rising mains replacement programme has delivered at 18 higher risk locations with a further 18 planned for 2023.

NUMERIC COMPLIANCE

Numeric permits place measurable conditions on the final effluent discharged to the environment and measure compliance with these conditions. This year our MOT programme, investment plans and targeting third-party compliance have delivered our best ever score at 99.4% and is expected to be in the top quartile for the industry.

RIVERS AND COASTAL WATER QUALITY

Our WaterFit programme launched in April 2022 is focused on nurturing healthy rivers and seas through reducing the number of storm overflow spills, reducing our impact on rivers by one-third by 2025, maintaining our excellent bathing water quality standards all year round and developing plans to target zero harm on river quality by 2030 with six pledges underpinned by specific targets.

One year into our plan and we have been making great strides towards our 2025 targets.

REDUCING SPILLS FROM STORM OVERFLOWS

With 100% monitoring of storm overflows now in place, a year ahead of plan, we have launched WaterFit Live, giving customers and visitors live information about the storm overflows which impact the region's 90 bathing beaches, as well as the detailed investments we are making to reduce overflow spills across the region's coastline by 2025. Through our latest campaign #Your beach, Your Say, Our investment, we are empowering customers and communities in working together to plan our next phase of improvements. In 2023, we are expanding WaterFit Live to all storm overflows across our assets.

For 2022, overflow spills have reduced by 30% on average (from 38.9 to 28.5), and we remain on target to deliver an average of no more than 20 spills across storm overflows by 2025. Whilst undoubtedly the dry weather will have played a part, over half of the improvements seen in the year are due to interventions we have made - whether capital investment to increase network capacity or through proactive maintenance.

RECORD QUALITY LEVELS RECORDED AT OUR BATHING WATERS

We have over 860 miles of coastline to protect, representing over one-third of the UK's bathing waters. This is something we, and our customers, have always valued and prioritised. In 2022 we achieved 100% bathing water quality – for the second year running, with 99% meeting the more stringent good or excellent levels. We have continued to deliver our planned bathing water investment schemes with 10 schemes at two sites in Bude, Cornwall, and Galmpton in Devon delivery this year.

DRIVING RIVER WATER QUALITY IMPROVEMENTS

As part of our Green Recovery investments, we have started our three-year Rivers Dart and Tavy Inland Bathing Waters Pilot. The pilot aims to increase our understanding of the water quality of these two iconic rivers and build stronger relationships and collaborations with river users, local communities, and stakeholders – with over 50 stakeholders joining our Steering Group for the project.

We have developed an innovative approach to engaging with rivers users through the 'Hello Lamp Post' platform – using QR codes located at potential inland bathing sites and in other riverside locations to raise awareness of river water quality issues and capture people's perceptions of the river throughout the year. In addition, monitoring of the first bathing season has been completed through the use of real-time river monitors and 'spotsamples' and in summer 2023, we will also be using a state-of-the-art genetic monitoring technique to determine which types of animals are contributing bacteria to the river water.

HOW WE DO BUSINESS

WE BELIEVE THAT ESG IS NOT A BOLT ON, IT'S WOVEN INTO HOW WE DO BUSINESS.

We understand that we don't have all the answers and we are here to serve our customers and local stakeholders; hence, we have created a framework to ensure that all voices are heard. This framework is underpinned by our innovative WaterShare+ scheme, which was developed in direct response to feedback from customers who said that they would like to share in our successes and have a greater say in our business.

In 2023, 1 in 14 customers are now Pennon shareholders and have the ability to have their say at our unique Customer AGM with further challenge from the Watershare + Advisory Panel (Meet the WaterShare+ Advisory Panel); those who are not and local interest groups have the ability to voice their concerns at our stakeholder forums.

Our approach to business is based on a bedrock of good governance and a desire to be an exemplar of corporate citizenship. To this end:

- We are proud of the continued progress we have made this year to diversify our Board through the appointments of Dorothy Burwell and Loraine Woodhouse.
- We continue to commit to procuring 100% of our financing needs through our Sustainable Finance Framework, which aligns with the ICMA Green Bond Principles, Social Bond Principles and the LMA Green Loan Principles
- We are the first company operating in the water industry to be awarded Fair Tax status and have maintained this accreditation ever since.

Now is the time to double down on our integrated approach to ESG in order to meet the challenges faced in the communities we serve. Our impact is greater when we work in partnership and to this end, we have developed collaborative solutions to address issues, working with our customers, our people and landowners some of which are highlighted in the following section.

STAKEHOLDER ENGAGEMENT FORUM

In 2022, we developed a Stakeholder Engagement Forum. The Forum brings together all of our stakeholders to listen, collaborate, understand and knowledge share to make improvements across the Great South West. As a result of the Forum, we aim to:

- develop trust and confidence in South West Water as an organisation, genuinely committed to protecting and improving the environment, raising awareness of the activity already being delivered
- ensure that we continue to be regarded by our delivery partners as a credible and suitable funder (in particular the Farming and Wildlife Advisory Group, Devon and Cornwall Wildlife Trusts, Westcountry Rivers Trust) as we seek to expand our collaboration with them
- understand priorities, concerns and project pipelines of our stakeholders in order to reflect and respond in our strategic plans, and identifying opportunities for our involvement
- identify and develop partnership collaboration opportunities to tackle local wastewater, flooding and drinking water challenges, including nature-based solutions, including delivery partners and landowners
- identify and create new forums where required and to respond positively to invitation

Read more about how our Board and Executive engage with our stakeholders in the Governance section which includes our Section 172(1) statement on pages 124 to 127.

OUR CUSTOMERS

DELIVERING MORE FOR OUR CUSTOMERS

PLACING OUR CUSTOMERS AT THE CENTRE OF WHAT WE DO

Stretching from Bristol to Bournemouth, Devon, and Cornwall, including the Isles of Scilly, we serve a unique population. Our region, given its dependency on agriculture and tourism, experiences large socio-economic challenges, particularly in urban and coastal areas.

We have seen the cost-of-living crisis put many of our customers in extremely challenging financial circumstances, some for the first time, placing even greater responsibility on the Company, to develop new, inclusive and creative solutions.

2022/23 HIGHLIGHTS

- Average bills reduced in the year (< 10 years ago) whilst investing at record levels
- Further significant progress vs target of eradicating water poverty by 2025 (c.110,000 customers helped so far)
- Significant funding since 2021 (£375k) for organisations that support the community by saving water, and neighbourhood community projects (146)
- 246 relationships established with local organisations to deliver support to vulnerable customers

2023/24 PRIORITIES

- Deliver value-for-money for customers - annual bill increase below inflation in year ahead
- Maintain investment in projects in our communities
- Increase our support for our vulnerable customers

CASE STUDY: SCHOOL OUTREACH

In the year we launched our WaterFit Warriors programme, to inspire thousands of water quality champions in schools and communities across the region. Our educational officer taught in 83 schools teaching 4,051 pupils, and helped over 280 students through its school talks, work experience and mentoring programmes.

KEEPING BILLS AS LOW AS POSSIBLE

We continue to keep bills as low as possible with South West Water's bills being down £10 in 2022/23 and remaining lower than 10 years ago, whilst the acquisition of Bristol Water by Penon has enabled us to deliver a reduction in customer bills, further aided by an innovative smoothing of bill increases across future periods to mitigate pressure on customers. Despite record levels of investment, the annual increase for 2023/24 will be below inflation.

SHARING PROGRESS AND INNOVATION

We have accelerated innovative, inclusive projects to reduce bills and support our customers – our unique industry leading programmes, Watershare+ and our Stop the Drop targeted water efficiency incentive in Cornwall, has given over £50 million back to customers through reduced bills during these difficult times, whilst also giving customers a greater say in our business and incentivising lower water use to protect our environment for the longer term.

ERADICATE WATER POVERTY

We continue to target support to those who need it the most as measured through our industry leading ambition to eradicate water poverty by 2025, which we are on track to achieve. This is at the heart of our approach and we have already made great strides with nearly 65,000 customers being helped through one of our schemes from April 2020 to March 2023, with over £30 million of support provided over the same period, across both South West Water and Bristol Water.

The innovative use of data is at the forefront of eradicating poverty, allowing us to identify and reach out to the 'struggling silent'. During 2022/23 we have developed a cross sector leading data suite and approach which has given us the ability proactively to identify customers at risk of being in water poverty. This coupled with

information provided through our data sharing agreements with government bodies and local councils, has for the first time allowed us to auto-enrol customers onto support tariffs removing the need for customers to apply.

This has reduced the barriers for customers in getting the right support, allows us to reach the 'struggling silent' and ensures we are helping more customers than ever before. The success of this approach can be seen through the in year growth of number of customers on support tariffs by 12,452k (23%) with this set to further increase by 17,331 (26%) in 2023-24 across both South West Water and Bristol Water.

OUR AFFORDABILITY TOOLKIT

Goes beyond support tariffs and provides a range of measures for all customers designed to lower customers' bills and provide support to those who need it the most. Metering and giving customers the tools, advice and opportunity to save water and save money has not only bill but also environmental benefits with over 133,000 water saving devices issued in 2022-23 alone.

SUPPORTING CUSTOMER IN VULNERABLE CIRCUMSTANCES

We have empowered our staff to identify all types of vulnerability, from transient to long-term, to find the right support for our customers through enhanced, innovative training and ongoing support. We have been supported in the development of our Affordability and Vulnerability Training program, delivered to both Contact Centre and Field Staff, by external partners such as the mental health charity MIND and Dementia Friends. This has enabled us to provide additional insight and awareness for all customer service staff so that they are able to recognise potential and emerging vulnerabilities.

GOING FURTHER

To date over 110,000 customers have accessed or unlocked financial support from our support tariffs, company funded debt write off schemes and income maximisation but we know there is more to do as all customers are impacted by cost-of-living pressures. However, it remains vital that the most financially vulnerable in our society receive the support they need and to do this we expect the number of customers benefiting from support to grow by more than 50% to over 150k to 2025.

SUPPORTING OUR LOCAL COMMUNITIES

The need to reach and support our communities when they need our help the most only strengthens our resolve to work harder. To help us do this, we have launched our largest ever community outreach programme with our significantly expanded Community Team. This team attended 247 events this year to date where our presence is most needed offering support and education and the opportunity to engage face to face.

One of the measures of success of our Community Outreach programme is the number of our most vulnerable customers who are on our Priority Services Register. This currently stands at 8% for South West Water customers with customers awareness of PSR and the extra support and assistance we offer also leads the industry as measured by the CCW.

Our wider understanding of the affordability crisis and where we can help extends to our community teams, who are constantly being trained to have a deeper understanding of energy and other bills so that they can also offer holistic advice.

Through the Bristol Resource West Partnership, a partnership with Wales & West Utilities and National Grid, we are launching a trial of how energy and water messaging and support can be delivered together allowing us to reach even more customers.

COMMUNITY FUNDING

We have launched two community funds which, since 2020/21, have already provided £375k of funding and will continue to provide support in the months and years ahead:

- Water Saving Fund - a first of its kind £75,000-a-year Fund designed to support community groups and registered non-profit organisations within South West Water's service area who can provide a benefit to the community by saving tap water and demonstrating a reduction in water use. This saving not only positively impacts the environment but saves customers money on their bills.
- Neighbourhood Fund - is all about supporting our local community. We have made £100,000-a-year funding available for neighbourhood community groups which inspire physical activities, education, health and wellbeing and deliver positive environmental outcomes.

To date we have funded 146 neighbourhood projects with the aim of:

- Protect nature for the benefit of community health and well-being
- Providing new opportunities for people to learn and develop
- Assisting local projects which bring communities together
- Supporting upkeep neighbourhood centres and facilities to keep communities strong

PARTNERSHIPS

We understand the value of partnership working to deliver support to our financially and non-financially vulnerable customers and have over 170 relationships in place with a variety of organisations across our regions.

So we can expand our partnerships, which have never been so important, increase the support help us to reach out to the 'struggling silent' who would not otherwise realise they are entitled to support and we have initiated the facility for local partnerships/charities to apply for support on behalf of customers through a personalised web page called our 'WaterCare Hub' which also incorporates our affordability toolkit.

Some examples of the work we are undertaking with our partners in response to the affordability challenge all customers are facing include the support we are providing to North Somerset Council's public living rooms, which are warm spaces for our most vulnerable customers. We are providing funding to help run some of these living rooms.

As the cost of energy soared, we recognise that our most vulnerable in society will be choosing between heating and eating, or even both.

We have also partnered with Bournemouth and Poole Citizen's Advice Bureau and Wessex Water to jointly fund a 'Water Guru', who works with customers in-person to advise if they might be eligible for support.

Through our partnerships our community teams have also set up regular stalls in local food banks, job centres and community affordability events, as well as in public living rooms, to increase our visibility and awareness in local communities and have agreed with local food banks to provide information packs on our affordability support in food bank parcels.

OUR PEOPLE

WE WANT TO BE THE BEST PLACE TO WORK FOR OUR PEOPLE.

Our people strategy is all about, 'talented people doing great things for customers and each other'.

2022/23 HIGHLIGHTS

- Our parent company Pennon Group plc ranked 1st in the utility section of the FTSE Women Leaders Review
- Achieved external accreditation as a Great Place To Work
- Announced plans to double down on apprenticeships and work placements to 1,000 and 5,000 respectively by 2030

2023/24 PRIORITIES

For 2023/24 we will continue to deliver in line with our People Strategy and our Priority Areas. These include:

- Developing our leadership and management capability
- Refreshing our values
- Continuing to invest in apprentices and graduates

As one of the largest employers in the region, with c.2,500 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, or in providing safe, secure and meaningful employment where all employees are paid fairly for the work they do and where trust is high.

Over the past 10 years the South West has seen significant population growth. It's been estimated that more people moved to the region during the pandemic and just after 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.

Our Reward Strategy continues to evolve each year, noting the feedback we receive from colleagues ensuring it aligns to our People Strategy. The key focus for this year has been on supporting colleagues during the cost of living crisis. Prioritising those colleagues that need it most: those earning up to £40,000 (over 80% of colleagues) were awarded an annual pay increase of 7% as well as a one off lump sum equivalent to three months backdated pay increase and an additional day's holiday for this year, giving a total value of 9.2%. Those earning above £40,000 have received a tapering award with employees earning over £80,000 awarded 4.6%. During 2022/23, as part of the Bristol integration work, we have used the strategy to review the remuneration elements received by Bristol colleagues and to ensure we have parity across the organisation at total remuneration level. All colleagues are now able to participate in the company share arrangements following the roll out of the Share Incentive Plan across Bristol Water and the Sharesave schemes.

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 Great South West has traditionally had a reputation as a well-off region, in reality the picture is far more complex. This places an even greater responsibility on South West Water, as one of the largest employer in the region, and for the c.2,500 colleagues we employ, and the wider supply chain we support.

At South West Water we take our social stewardship role seriously, whether that's through supporting the Green Recovery of our region with a £82 million investment in economic and public health projects, and in creating up to 500 jobs directly and in the supply chain. Bristol Water's Social Contract seeks to do the same. Established in 2019 it looks at the key community wellbeing challenges and identifies specific projects in response. It 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 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.

Across the Company 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.

Over the past two years, we have been focused on making a step change in our approach to leadership, culture, talent, and skills. This ensures we are well placed to meet the challenges of today and also in anticipation of future challenges, as the Company evolves.

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 which 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 deliver across all areas of our People Strategy, ensuring we remain focused on the right areas and meet both the external and internal opportunities and challenges we face. In the battle for talent, it's clear that the most successful organisations will be those who can lead and galvanise others around a sense of mission, offer purposeful opportunities at work, make a broader societal contribution with strong values, and have the appropriate infrastructure in place to invest heavily in skills and development programmes.

On 1 February 2023, Bristol Water colleagues officially became part of the Company, helping us transition into the new team as we successfully TUPE transferred our Bristol Water colleagues into South West Water. We have brought together the best of the best to share our expertise and best practices, building on our respective strengths and our strong heritage in delivering our essential water services for those who rely on us every day.

The integration of Bristol Water has acted as the springboard to review and restructure our organisation design across the business to ensure we develop the most efficient operating model for the future, while embracing the best of both Bristol Water and South West Water.

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, South West Water 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 the 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.

Our 2022/23 Great Place To Work Colleague Survey took place for all South West Water employees. With a record participation rate of 85%, As part of the Pennon Group, we have successfully achieved GPTW accreditation for the second time in a row. This is a strong result, given that typically, whilst the journey to becoming a GPTW is generally associated with big picture actions, maintenance is harder, with more targeted interventions.

We are delighted to be formally recognised as a Great Place To Work for the last two years, but we are determined to keep improving and we are focusing on colleagues 'doing the right thing' across all areas of the business through:

- our Speak Up process where employees can highlight a potential problem or issue
- our improved disciplinary and grievance processes

- our Quality first programme in Drinking Water Services that prioritises always doing the right thing and never compromising on quality
- our HomeSafe programme that focuses on the non-negotiables around safety
- our new STREAM performance review process encourages quarterly review meetings, helping ensure we deal with problems quickly and effectively
- launch of three internal training programmes designed to help in this area, covering People Management, Inclusive Leadership and Bullying & Harassment

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 are engaging and making decisions in our Section 172(1) statement on pages 124 to 127.

Over the course of this year, we have continued to develop and evolve the opportunities for employees' views and input, as well as enabling employee forums across the Company to ensure employees are represented and have opportunities to understand and feed into discussions on matters that impact them and the work they do.

RISE - OUR EMPLOYEE ENGAGEMENT PANEL

During the year we have embedded our relaunched Employee Engagement panel, RISE. The new RISE forum is inclusive and employee-led, with each area of the business establishing its own panel that feeds into a larger, Company-wide panel chaired by the Group Chief Executive Officer. During the year we have integrated Bristol Water employee members into the forum and addressed important topics including cost-of-living, our future working arrangements, onboarding and induction, and employee communications. Throughout the year, we have increased our RISE members to 75 representatives, giving even more employees an even stronger voice.

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 133 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

During the year, we have enhanced and grown many of our employee communications and engagement channels.

Our regular Big Chat video calls with our CEO and the Executive 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, Yammer, is growing in popularity and is now used regularly by the majority of company 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 a new monthly performance measures dashboard which helps employees keep updated on how we are delivering for our customers, communities and the environment.

We continue to praise our HomeSafe Heroes and celebrate the work of our colleagues across the business who make sure that everyone goes home safe every day.

We have a strong commitment to investing in the development of our employees and in building and recognising talent across the Company. Training and development are available for employees at all levels within the Company and is 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 part of the Pennon Group, we joined the 5% club, an organisation with over 750 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. This year, we were delighted when we were awarded Gold Membership status into the 5% Club as we have around 10% of our employees undertaking apprenticeships or on a formal structured graduate programme. We were the only utility sector company to achieve the Gold Membership accolade. Achieving Gold status demonstrates our long-term commitment to investing in structured Apprenticeship and Graduate programmes for our employees.

Also, during the year, Pennon scooped two awards at the National Apprenticeship Awards, winning Large Employer of the Year at the regional finals and were also awarded Highly Commended in Recruitment Excellent category. We are delighted that our apprenticeship programme was recognised for these awards as it confirms the high-quality programme we offer and showcases the talented apprentices we have. The majority of apprentices are employed directly by South West Water.

Throughout 2022/23, we delivered almost 15,000 training days for our 2,500 employees, ensuring that on average each employee received 44 hours of training.

OUR GRADUATE PROGRAMME

In our 2022 Annual Report, we explained how we had launched our new Graduate Management Programme and set a long-term commitment to recruit 100 graduates by 2025. The programme has proved such a success in attracting both female and ethnically diverse talented graduates, we have doubled our commitment to recruiting c.200 graduates by 2030.

Since the launch two years ago, the graduate programme has recruited 55 talented graduates, with over half being female and almost 60% 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.

APPRENTICESHIPS

In addition to our graduate programme, we have a long-standing commitment across our Company to apprenticeships. This year we have doubled our commitment and target for apprenticeships and now pledge to support 1,000 apprenticeships by 2030. 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.

Last year we supported a further 141 new apprentices across the Pennon Group, with the majority employed within our South West Water business. This brings the total number of new apprentices we have supported since 2021 to 342, we are ahead of target to support 1,000 apprenticeships by 2030.

LEADERSHIP DEVELOPMENT

We have continued to invest in our senior leader's talent development programme to provide structured assessment and development opportunities for our senior leaders. This programme supports leaders across the whole Company and was one of the first activities offered to Bristol Water employees as part of the integration.

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 experience a common mental health problem like stress, depression or anxiety. Most of us will understand, from personal experiences or friends and family, the huge personal cost that this can bring.

Our Wellbeing strategy focuses on four main areas:

- **Mental** - Taking care of our Minds, coping effectively with life and creating satisfying relationships
- **Community** - Taking care of our bodies, acknowledging the importance of activity, nutrition & sleep
- **Financial** - Taking care of our financial wellbeing, being in control over our financial future
- **Physical** - Encompassing the major external and internal factors such as social health

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 approach to wellbeing, incorporates a number of initiatives including:

- **Mental Health First Aiders:** We now have 75 Mental Health First Aiders across the Company – one for every 33 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 focused on mental health.
- **This is Me:** a podcast with colleagues talking about their own health and wellbeing experiences and how they have dealt with them.
- **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.

HOMESAFE – OUR FLAGSHIP HEALTH AND SAFETY PROGRAMME

The Company's flagship health and safety programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities, delivering a 16% reduction in our Lost Time Injury Frequency Rate (LTIFR) in the year.

We continue to drive a culture where every person takes ownership to ensure they and their colleagues go home safe every day. After delivering our best performance in 2021/22 in South West Water, recording the lowest number of Lost time Incidents ever, we set the ambitious target to have our best year ever once again, while continuing to drive change and improvement against each of the six HomeSafe strategic pillars, improving risk management and reducing harm.

We set out to achieve this through:

- Continued senior management face-to-face engagement
- implementing a robust consistent approach to incident investigations leading to improved identification of the root cause of incidents, tackling these quickly
- integrating best practice knowledge with Bristol Water and implementing these quickly across the Company.

We have taken the best of the best approach in many areas including improved minimum PPE standards and HomeSafe concepts. Two areas in particular we have quickly standardised is the approach to point of work risk assessment and investigations accountability.

HomeSafe is built on the six strategic pillars:

- Managing Risk
- Sharing and Learning
- Working Together
- Protecting Health

- Enabling Leaders
- Being Resilient

We implemented the Take 5 for Safety approach to point of work risk assessments that was active and delivering benefits in Bristol Water. We launched this to the Company at our inaugural Health and Safety Conference in February 2023. This saw over 170 colleagues and members of our supply chain come together for an interactive day focused on the Take 5 concept and that while no one believes an incident will happen to them, it really can. The audience enjoyed a presentation by the South West Water Board Health and Safety Committee Chair, Jon Butterworth, who shared his safety expertise and experience to help enthuse everyone to be a driver of change and become HomeSafe pioneers.

The second area is bringing in the simple 2:2:2 approach to investigations ensuring a timely response to incidents, investigations, learning and improvement, with a two-hour notification, two day initial investigation and two week finalised report and action plan developed. We have developed and refined our HomeSafe bitesize programme across the year and now have active modules for employees to use to increase knowledge, awareness and accountability to ensure everyone goes home safe every day. These modules are manager-led within teams, focused on the core principles, while supporting managers to focus these on specific activities their teams carry out. The bitesize programmes work for all employees, regardless of role or location.

We have increased our assurance through the year with our health and safety experts completing over 600 individual unannounced site, and activity audits across Bristol, Bournemouth, Devon, Cornwall and the Isles of Scilly. The audits focused on adherence with our Life Saving Rules in Homesafe as part of our Managing Our Risks Strategic Pillar. Minor improvements were identified and resolved with the local teams immediately, with no major non-conformance's found.

Lost Time Injury Frequency Rate (LTIFR) continues to be the Company's primary measure of H&S performance. Against our ambition of our best year ever for the new Company composition, we delivered a 12.5% reduction in actual LTI numbers, with 28 LTIs in the year, compared to 32 last year and an LTIFR of 0.63.

In addition to our supply chain partners involvement and support at the H&S conference, we have held dedicated Tier 1 and Tier 2 supplier H&S days in the year, improving collaboration and showcasing innovations to reduce risk and increase productivity. One of our strategic partners, Kier, hosted a 'Kier Live' event at Exeter Racecourse in August to showcase innovations in health and safety aligned to improved productivity, with particular focus on excavation safety and working in the highway.

FUTURE PLANS

Our targets are ambitious, however ensuring everyone who works for us, with us or interacts with us goes HomeSafe every day is paramount, and that requires us to have ambitious plans. HomeSafe is not a project to be completed. It continues to be the way we work and deliver all our performance commitments. We recognise any injury is one too many and have very ambitious HomeSafe 2025 plans to improve health and safety across the Company, requiring us to have our best year ever, year-on-year. We have delivered on this for two consecutive years. We have set out our roadmap to 2025 that becomes ever more challenging and ambitious. However, we will relentlessly pursue improvement towards ensuring everyone goes home safe every day.

DIVERSITY, EQUITY AND INCLUSION

As one of the largest employers in the Great 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 sixth year and are delighted to voluntarily publish our very first Ethnicity Pay Gap report. These can both be found on our parent company's 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 also understand the importance of inclusion in retaining our people, ensuring our employees feel valued, have a sense of belonging and feel able to be themselves.

Following the acquisition of Bristol Water, we are now working to build a sustainable workforce underpinned by our investment in new talent programmes, with focused support and development for our female colleagues and colleagues from underrepresented backgrounds.

CREATING A DIVERSE WORKFORCE

If there was ever a time for us to put gender and ethnic diversity at the top of our agenda, then that time is now. Building a sustainable, agile and diverse workforce is a key pillar of our People strategy.

Our parent company, Pennon, are one of a handful of top FTSE businesses to have both a female CEO and Chair and have more women on the Board than men for the first time in South West Water's history. Ranking in 1st position in the Utilities section of the FTSE Women Leaders Review, we are pleased to be exceeding the 40% target.

Once again, Pennon were listed in the 2023 Bloomberg Gender Equality Index, as one of almost 500 companies globally committed to disclosing their efforts to support gender equality through policy development, representation and transparency. We have continued to make further progress against this measure for transparency in gender-data reporting. Our overall score increased to 70% from 65% last year with our disclosure score exceeding 97%.

We operate and employ people in the South West of England which traditionally has some of the lowest proportions of ethnic diversity in the country. However, as a responsible business, we believe we have an important role in ensuring we support mobility of all types. Over the last two years, we have increased our proportion of ethnically diverse employees significantly, from c.0.5% to 3%. This increase has come from our more targeted recruitment approaches clearly acknowledging we welcome applications from ethnically diverse applicants as well as the Bristol Water acquisition. Despite the good progress we have made during the last year, there is still much more to do if we are to achieve our ambition to have a much more diverse workforce.

RECRUITMENT

During the last year, we have redefined our Employer Value Proposition to be more attractive to a wider range of talent pools. We launched our new recruitment campaign #justaddwater as well as launching our new careers website to attract a more diverse applicant group.

We have also reviewed 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 masculinity to reduce the potential risk of alienating female applicants. Similarly, we ensure a large proportion of our images used in the adverts are of ethnically diverse employees, this 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 females into what is still a male dominated industry. Last year, around 28% of job applicants were female and around 26% were ethnically diverse. Additionally, offering dedicated support to new employees through the graduate programme and supporting the 10,000 Black Interns Programme have further bolstered these numbers.

OUR EMPLOYEE NETWORK GROUPS

We recognise and appreciate the importance of creating an environment in which all employees feel valued, included, and empowered to do their best and share new ideas. Employee networks play a key role in encouraging and supporting employees in bringing the best version of themselves to work, contributing to an inclusive environment and building a sense of community. Our employee networks provide: Peer to peer support, improved awareness, contribute to the broader Diversity, Equity and Inclusion enhancements and have delivered business improvements in how we work together. The employee network groups support: Race, Ethnicity and Cultural Heritage, LGBTQ+, Women, Menopause, Grief, Financial Wellbeing, New Parents, Carers and New Starters.

CBI CHANGE THE RACE RATIO INITIATIVE

In 2020, Pennon pledged its support to the CBI Change the Race Ratio initiative (of which South West Water adopted), 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 2022/23, our pledge and ongoing commitment continues to help shape our business activities and decisions.

10,000 BLACK INTERNS INITIATIVE

As part of the Pennon Group structure, we are pleased to be a proud supporter and sponsoring business of the

10,000 black interns initiative. During 2022, we successfully completed nine internships which provided opportunities for individuals to experience working in their chosen career functions. Following successful completion of their internships, most students returned to university to complete their degrees. Two have already graduated, and we were delighted to see them successfully apply for roles 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.

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 held Lived Experience group sessions to understand what it is like to work at South West Water 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 PAY GAP

Since our last report, the composition of the Company has further evolved with the integration of Bristol Water, welcoming over 500 additional colleagues. This is therefore the first year of including Bristol Water in the South West Water results.

Our 2022 mean and median pay gaps have both seen an improvement since 2021 which shows positive steps in the right direction.

This has led to a mean gender pay gap of 5.36% for South West Water overall. More can be read on our performance and plans on our website.

ETHNICITY PAY GAP

In 2022, we have voluntarily produced and published our Ethnicity Pay Gap for the first time, which shows a pay gap of 17.7%. There is still more for us to do in their area, including increasing the employee self-disclosure diversity rates across the company and continue to attract more ethnically diverse at all levels across the Company.

Furthermore, by offering dedicated support to new employees through the graduate programme and supporting the 10,000 Black Interns Programme, these approaches have both helped to further attract 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.

SOCIAL MOBILITY PLEDGE

We continue to be a proud signatory of the Social Mobility Pledge and have set further commitments across the Company during this year to strengthen our resolve to delivering for our customers and communities and supporting the drive to address social injustice. During the year we have doubled our commitment to apprenticeships and graduate recruitment and set new targets to support 1,000 apprenticeships 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 but, we believe this 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

Also, as part of the Pennon Group, we have 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 can be published annually and can be found on Pennon's 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 Company ethics policy outlines the high standards of employment practice with which all employees of South West Water are expected to comply. The Company also supports the International Labour Organisation's core conventions for the protection and safety of employees wherever they may work throughout the Company. These standards are also embedded in our sustainable supply chain and documented in our procurement policy and Code of Conduct for supply chain partners.

OUR ENVIRONMENT

The natural environment of the South West is incredibly special. From our precious national parks and areas of outstanding beauty, to beautiful beaches. We're proud to call it home.

FOCUSED ON INITIATIVES TO IMPROVE THE ENVIRONMENT

2022/23 HIGHLIGHTS

- 15,696 hectares of land management was improved, including over 300 hectares of peatland restoration. This now brings the cumulative total to 111,515 ha, as of the end of financial year 22/23, bringing us closer to our end of AMP7 target of 123,209 ha.
- With the help of our delivery partners we planted a total of 72,398 trees, far exceeding our target by nearly 50%. This now brings the cumulative total to 220,187 trees planted, well on our way to achieving our end of AMP7 target of 250,000 trees planted.
- We published our Biodiversity Strategy called "Growing Nature" which is a strategy to grow nature on our land and beyond
- We are becoming increasingly transparent, including increased Sustainability Reporting, which can be found on pages 64 to 103

2023/24 PRIORITIES

- Continuing to deliver land management, peatland restoration and tree planting targets in collaboration with our delivery partners
- Delivering a new programme of biodiversity enhancement schemes at targeted sites across the region, including the creation of wet woodland
- Continuing to improve the environmental impacts of water company operations across the region, including the installation of eel screens, eel and fish passes and the exemplary control of invasive non-native species.

Drought presented opportunities for South West Water to further expand our control of invasive non-native species (INNs).

Burrator reservoir levels dropped to under 40%, which increased the risk of stress in the population of American signal crayfish in the reservoir which could cause them to move and spread, something which landowners are legally obliged to take action to prevent. South West Water worked with leading crayfish specialists and carried out a pilot large scale control of these highly invasive animals. With 2,470 trap days, nearly 6,000 crayfish were caught. This control programme will be repeated next year.

The Bude canal was virtually devoid of water, presenting an unusual opportunity to carry out Zebra mussel surveys to determine their exact location along the canal. We used novel methods to promote awareness of INNS and biosecurity, including sniffer dogs to locate invasive species. South West Water is proud to have the most sites in the AQUA (Aquatic Quality Award) biosecurity accreditation scheme and remains the only organisation to have any gold Awards - at Roadford and Burrator reservoirs. We also have 7 silver and 22 bronze accreditations. We continue to work with a range of stakeholders, especially supporting INNS Site Guardians, anglers and watercraft users (boats, canoes, wind surfers, stand up paddleboarders), both locally and nationally.

WATER RESOURCE AND DROUGHT

2022 saw some of the hottest, driest, weather on record as a consequence of climate change. A combination of a lack of rain – the 4th driest summer in 130 years, the hottest summer, low levels of soil moisture and increased demand exacerbated by the impact of the pandemic and heatwaves, uniquely converged to put pressure at just one of our five strategic reservoirs, at Colliford. Importantly, no-one served by Colliford, or across our region, or visiting our region, suffered a loss of supply or dips in water quality.

At the same time, South West Water maintained the environmental compensation releases throughout 2022, essential to river health, and have continued to do so in dry periods of 2023. We are investing £125 million to increase our access to water suppliers when we need them most. In 2022/23 we have invested to secure the equivalent of 25% demand in Cornwall and 12% in Devon. We can show that, whilst the circumstances in this one area were challenging, culminating in a worse than 1 in 200-year event, our actions were appropriately timed, and we are now more resilient across the region as a consequence.

Despite a lack of new reservoir capacity across the sector in the last 30 years, over the last 15 years we have been focused on building additional capacity. As early as 2007, South West Water invested in disused quarries in Cornwall to repurpose as water resources. Building on this, our proactive acquisition of Hawks Tor in March 2022, was an important mitigation, providing additional storage, and coming online in October 2022. Together with drought permits and focusing on demand side actions, such as 'Stop the Drop' and fixing of customer side leaks for free, has meant that from the lowest point of water resources levels at the end of October 2022, we are now sitting at 76% and 99% respectively for South West Water and Bristol Water. Bournemouth and the Isles of Scilly are also in a better position heading into spring/summer 2023.

We are not being complacent as we look forward for the rest of the year to 2024 and beyond. Our acquisition of Bristol Water, driven by synergies and strategic water resources benefits, and our active progression of the need for the Cheddar 2 reservoir, brings benefits to all of the wider south west region, including the Wessex region.

In the meantime, we are focused on building further resilience into our region, Colliford Water Resource Zone and Roadford Water Resource Zone, and by 2025 we will secure resources to access when we need it most that is equivalent to 45% of Cornwall's demand and 30% of Devon's demand, and this is proactively being managed as part of a Drought and Resilience Programme, led by our new Group Drought and Resilience Director, David Harris. David has significant experience in managing water resources, and in managing through drought in one of the hottest climates in the world. Our objectives are to ensure that by 31 March 2024 Colliford and Roadford strategic storages both reach 90% storage to ensure that we do not have the risk of either dropping into Drought Level 3 during 2024 and therefore that we can break the "drought cycle".

OUR PARTNERSHIPS

South West Water is engaged and participating in the range of local and regional public, private and third sector partnerships tacking action to tackle climate change and nature recovery. We also convene a number of forums and events to engage partners and share best practice and we together reflect on progress and develop 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.

BIODIVERSITY ENHANCEMENT

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. It is supported by our customers as part of South West Water's commitment to protect and enhance the environment in the 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 2022/23, a total of 12,282 hectares of land were added to the Upstream Thinking programme whilst a further 3,414 hectares of land were added to the Green Recovery programme, resulting in an annual delivery of 15,696 against an annual combined target of 12,000 ha. This brings our cumulative position to 111,515 ha of new areas under active catchment management since April 2015. This is above our performance commitment position of 95,209 ha.

BIODIVERSITY COMPLIANCE

In order for South West Water to avoid pollution harming the most special and rare habitats and species present across the Great 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 2022, there were no pollutions events at any of these locations and therefore, as in the previous two years, the target was met. This outcome supports the Company 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 10 years.

PREVENTING BIODIVERSITY DETERIORATION

The maritime nature, climate and geography of the Great 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. This measure is to incentivise the delivery of biosecurity installations at South West Water 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 90 sites. We have also installed 11 biosecurity wash down facilities and are scoping two further watercraft wash downs. Our exemplar biosecurity wash down facilities at Roadford, includes a pressure washer for watercraft, an angling dip tank and a boot scrub.

NET ZERO - OUR PROMISE TO THE PLANET

In 2021, we set our ambitious plans to reduce our operational carbon emissions and hit our Net Zero target by 2030. At the same time, we joined the UN backed Race to Zero commitment to reduce greenhouse gas emissions (GHG) reduction across our entire value chain by 2045.

	Pillar	Our three-pillar strategy remains unchanged	Progress against our three-pillar strategy
1	Sustainable living	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Our fleet transition plans have begun with the first 53 EV vans delivered. We have partnered with Drax to deliver the charging infrastructure required with 15 new 22KW charge points installed across our sites Our energy efficiency programme has audited 19 of our treatment sites which has identified significant savings of nearly 1,175 tCO₂e. Across our offices and depots, we've implemented a number of energy efficiency projects including LED lighting at our Exewater site with an aim to expand our office energy efficiency projects over the coming year as part of our Net Zero plan.
2	Championing renewables	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> From April 2022, South West Water (excluding the acquired Bristol Water business) switched to 100% renewable sourced electricity as part of its new energy supply contract. Across the Pennon Group, we are targeting to produce 50% of our own energy by 2030 from a mix of embedded onsite Solar PV, floating Solar PV, grid connected Solar PV, along with other renewables such as hydroelectricity and making more use of our bioresources for generating energy Our on-site renewable assets have been significantly enhanced, with 2MW of new solar capacity installed We've expanded our renewable energy team to support project delivery whilst maximising performance of our existing renewable assets.
3	Reversing carbon emissions	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Our catchment management programmes include peatland restoration, improving soil management, tree planting, creating wetlands and buffer strips and other nature-based solutions. These all lead to more carbon being stored in the landscape and less loss to the atmosphere. It's also good for water storage in the catchments and long-term resilience. We have planted 72,398 trees against annual target of 50,000 with 303 hectares of peatland restored. Our current peatland

			<p>programme, which aims to restore 2,800 hectares of peat bog across the South West by 2025. Our peatland restoration in AMP7 is expected to save around 650,000 tCO₂e over the next 50 years. Meanwhile the 250k trees we aim to plant by 2025 will save a further 100,000 tCO₂e.</p> <ul style="list-style-type: none"> Looking forward, South West Water is developing an ambitious program of nature-based solutions for the PR24 Business Plan submission (2025-2030) to include investigating how WaterFit can support the improvement and opportunity for carbon sequestration in estuarine and marine environments.
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We have also committed to setting both near and long-term Science Based Targets (SBT) in accordance with the Science Based Targets Initiative (SBTi).

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 71 to 103.

RENEWABLE ENERGY

A key pillar of our Net Zero strategy, we are targeting 50% of our net energy use from renewable sources by 2030.

We've made strong progress against our interim target of 13% in 2025 and achieved 6.8% across South West Water and Bristol Water in 2022/23. In particular we have increased our installed Solar PV capacity to 5.5MW and solar and wind generation overall has increased 5.2% from 2021/22. Overall our renewables capacity now totals 17MW.

In spite of this progress, increased overall energy demand, largely driven additional pumping required as part of our drought response, combined with the impact of the drought conditions on our hydropower generation (down 8% from 2021/22) meant we fell marginally short of the 2022/23 target.

PROCESS 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 and as a sector we are working together to update the calculated carbon aspects of our processes. As part of the sustainable operations pillar, we are doing two things:

- Investing in measurement – we can only manage what we can measure. This includes collaboration with industry partners and undertaking monitoring trials the University of Exeter through our CREWW partnership, to analyse the data outputs from those trials
- Investing the opportunities to mitigate process emissions from our wastewater treatment by optimising our processes to minimise the formation of emissions, as well as exploring the potential for longer-term mitigation strategies such as using more innovative approaches to cover processes and capture emissions.

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 page 71 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 Transition Plan in due course. For further information, please see our Taskforce on Nature-related Financial Disclosures on page 69.

CHIEF FINANCIAL OFFICER'S REPORT

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

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

We recognise the pressure the cost-of-living crisis poses to our customers and we are focused on providing a broad range of affordability measures to support those in financial need. Across the businesses, the potential impact of significant increases in the cost of living on affordability has been considered in assessing our expected credit loss charges

STATUTORY FINANCIAL PERFORMANCE

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

The Company reported a statutory loss before tax of £10.9 million (2021/22 profit £135.5 million) after net non-underlying costs of £31.6 million (2021/22 £2.0 million). Underlying profit before tax decreased to £20.7 million from £137.5 million in 2021/22. This outturn reflects the significant near-term pressures on earnings from elevated power pricing, financing costs and revenue reductions through lower customer demand as a result of continued water efficiency promotion and mechanistic regulatory adjustments.

South West Water's statutory revenue for 2022/23 of £566.4 million includes a non-underlying reduction of £21.2 million in respect of the second WaterShare+ issuance and our "Stop The Drop" demand reduction incentive. Underlying revenue of £587.6 million for 2022/23 has increased by 0.5% (£3.0 million) compared with the prior year (2021/22 £584.6 million). Adjusting for the additional two months of revenue in this financial year from the Bristol Water region (£22.2 million), with the inflationary impact on tariffs being more than offset by the reduction in demand and regulatory adjustments to revenue, including in-year ODI penalties from 2020/21.

Underlying operating costs of £330.9 million increased by £77.6 million (2021/22 £253.3 million) reflecting the following significant factors:

- Inflationary and other macro-economic impacts on wholesale energy market prices and transmission costs (£44.9 million).
- Additional two months of operating costs (not including power) for Bristol Water (£9.3 million).
- Responding to operational drivers including continued elevated demand prolonging high production volumes, supporting improvements to leakage and pollutions performance, and underlying cost increases to address the extreme operating conditions including the freeze/thaw event to ensure resilience of water supply (£4.2 million).
- Increased costs relating to the price review for the next regulatory period
- Pay increases of between 3-5% across the Company, with the majority at 5%.

Underlying EBITDA and underlying operating profit reduced by 22.5% and 38.5% respectively. Despite the level of inflation in tariffs lagging behind actual cost inflation in the year, overall increases in operating costs excluding power were carefully managed to remain broadly in line with the inflation embedded in tariffs.

The net interest charge of £111.0 million is £34.2 million higher than prior year (2021/22 £76.8 million) primarily reflecting the impact of higher RPI and CPI rates on index-linked debt. The Company's efficient funding mix, which includes a relatively low proportion of index-linked debt, and hedging strategy minimises these market effects resulting in an Effective interest rate of 4.3% (2021/22 3.4%).

Capital expenditure on property, plant and equipment was £317.3 million, an increase of £114.8 million (56.6%) on the prior year (2021/22 £202.5 million), primarily due to water resources investments to boost supplies and enhance water quality, including GAC schemes to provide further resilience, and development work at the new Alderney water treatment works in the Bournemouth region. Wastewater investments included the roll out of our WaterFit programme, targeted investments in wastewater pollutions hotspots and the installation of event duration monitors on our storm overflows to achieve 100% coverage in 2022. The increase also includes the additional two months of capital expenditure in the Bristol Water region in this year compared to last.

NET FINANCE COSTS

Net finance costs for the Company of £111.0 million are £34.2 million higher than last year (2021/22 £76.8 million), driven largely by the current high levels of inflation impacting index-linked debt charges but also includes an additional two months' finance cost contribution from Bristol Water in 2022/23. Whilst the Company benefits from a lower proportion of index-linked debt compared to the water industry average, following the Bristol Water acquisition c.30% of the Company's gross debt was index linked. Actions have been taken during the second half of the year to smooth both inflation volatility over the period to 2025 and lower our level of index-linked debt over the long-term to around 20-25%. The non-cash element of our finance charges, which accretes to the debt principal, was c.£70 million (2021/22 c.£27 million).

The Company 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 Company treasury policy, which is achieved through issuing both fixed rate debt and effective interest rate hedging, with a further element being index-linked. Prior to the acquisition of Bristol Water, the index-linked proportion of debt had been maintained at a relatively stable proportion of c.25%.

In the second half of the year, the Company reduced its proportion of index linked debt by entering into £300 million of RPI to fixed rate swaps to fix the interest charge over the period to 2025 to smooth the impact of inflation over K7. These changes have helped to manage the Company's exposure to the current volatility in its finance costs.

NON-UNDERLYING ITEMS

Non-underlying items for 2022/23 total a charge before tax of £31.6 million (2021/22 charge of £2.0 million). Non-underlying items are those that in the Directors' view should be separately identified by virtue of their size, nature or incidence and where they believe excluding non-underlying items provides a more useful comparison of business trends and performance.

The non-underlying charge of £31.6 million mainly consists of:

- £13.6 million reduction in revenue being the recognition in full of the second issuance of our WaterShare+ scheme, which has been extended to include Bristol Water customers and £1.0 million of associated costs.
- A combination of elevated demand from increased tourism and record-breaking extremes of prolonged dry and hot weather led to extremely low water storage levels in the Cornwall region. Drought permits were issued allowing increased extractions and water saving measures were issued for the South West Water region for the first time since 1995. To ensure the region could be supplied with water over the summer and continuing into 2023, South West Water has instigated a series of mitigating measures and one-off expenditure to address the situation. Due to the exceptional combination of these events and the significance of the mitigating actions this has resulted in the recognition of £7.6 million revenue reduction from the Stop the Drop discount incentive to reduce water consumption and £9.4 million of specific costs relating to the measures being treated as non-underlying.
- The non-underlying charges in 2022/23 give rise to a net tax credit of £6.9 million in relation to the above items. This includes a current tax credit of £2.7m in respect of losses which will be carried back to the prior year in accordance with tax legislation, £3.2m in respect of tax losses which will be carried forwards for relief against taxable profits in future periods and £1.0m deferred tax credit as a result of losses crystallising in future years at the higher corporation tax rate of 25%. In 2021/22 the total non-underlying tax charge was £98.3 million, including a credit of £0.4 million in connection with non-underlying pre-tax items and a £98.7 million non-underlying deferred tax charge, recognised for the change in future tax rate which was substantively enacted during the previous financial year.

RESPONSIBLE APPROACH TO TAX

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

The overall 2022/23 tax credit for the Company is £8.7 million (2021/22 charge of £111.0 million). On an underlying basis, the net tax credit for 2022/23 for the Company of £1.7 million (2021/22 charge of £12.7 million) consists of:

Current tax credit of £2.7 million, reflecting an effective tax credit rate of 12.9% (2021/22 charge of £9.6 million, 7.0%). This reflects a £2.7 million current tax credit in respect of the prior year as a result of additional super deductions and lower non-deductible expenditure following the preparation and submission of the 2022 corporate tax computations.

Deferred tax charge of £1.0 million (2021/22 charge of £3.1 million). This reflects a current year deferred tax credit of £0.3 million in relation to capital allowances in excess of depreciation charged across the business, largely due to super-deductions, offset by tax losses carried forward for utilisation in later periods. A £1.1 million credit also arises as a result of the change in tax rate, on current year items (including tax losses generated in the year carried forward for future relief) which will crystallise at 25% rather than 19%. It also includes a deferred tax charge in respect of the prior year of £2.4 million which arises largely due to additional super deductions.

There is also a non-underlying tax credit of £6.9 million in 2022/23 relating to the non-underlying items set out above. This includes a current tax credit of £2.7 million in relation to losses to be carried back to relieve against prior year profits, and a deferred tax credit of £3.2 million which relates to losses carried forward for utilisation in later years.

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

SUSTAINABLE NET DEBT POSITION

The Company's cash flow from operating activities for 2022/23 was £271.5 million (2021/22 £307.7 million). Cash collections have remained robust and we continue to monitor cash collections closely and are focused on providing a broad range of affordability measures to support those in need of support.

Net interest payments were £138.6 million (2021/22 £62.8 million) with the two-month impact of Bristol Water included. A significant element of the increased finance charges arises from our index-linked debt, and is non-cash, as the indexation element accretes to the debt principal, repayable on maturity.

Our accelerated environmental investment programme has resulted in an increase in capital investment cash outflows of £88.2 million to £285.5 million (2021/22 £197.3 million).

The Company's net debt at 31 March 2023 was £3,091.3 million (31 March 2022 £2,305.2 million). This includes Bristol Water net debt that transferred on 1 February 2023.

AGILE AND EFFICIENT FINANCING

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

Since 31 March 2022, the Company has secured and completed c.£750 million of new and renewed facilities, including:

- Our first syndicated £300 million private placement with an average maturity of 12 years.

- £205 million of new term loans and leasing with an average maturity of 9 years.
- £25 million 20-year private placement.
- £220 million of new and renewed revolving credit facilities.

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

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

The Company has taken steps during the year to re-balance the proportion of index-linked debt to align with previously maintained levels for the longer-term.

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

Resulting from the changes above and drawing of new debt during the year, South West Water gross debt at 31 March 2023 was £3,137 million (31 March 2022 £2,495 million). The debt has a maturity of up to 34 years with a weighted average maturity of c.14 years.

Consistent with the industry peer group, the Company is also monitored on the basis of the ratio of its net borrowings to Regulated Capital Value (RCV¹). South West Water's net debt to RCV has decreased to 61.9% which is broadly in line with Ofwat's notional gearing target for the K7 (2020-25) regulatory period is set at 60.0%.

When considering the South West Water sub-group, including the wholly owned subsidiaries of South West Water Finance plc and Bristol Water plc, the net borrowings are £2,865 million, providing effective South West Water group net debt to RCV¹ ratio of 60.8%. This is broadly in line with Ofwat's notional structure of 60%.

South West Water's cost of finance, with an Effective interest rate in 2022/23 of 4.3% remains among the lowest in the industry, continuing to benefit from the diverse portfolio of debt.

FINANCING PORTFOLIO - STRATEGIC POSITIONING

The Company has a strong liquidity and funding position with £196 million of cash and committed facilities as at 31 March 2023. This consists of cash and cash equivalents of £46 million (including £22 million of restricted funds representing deposits with lessors against lease obligations) and £150 million of undrawn facilities.

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

South West Water net debt at 31 March 2023 is a mix of fixed / swapped (£1,944 million, 62%), floating (£791 million, 25%) and index-linked borrowings (£402 million, 13%), which reflects our diverse debt portfolio and compares to an industry average² of fixed / swapped 42%, floating 4% and index linked 54%. New debt raised during this regulatory period has been fixed to align to iBoxx indices in line with Ofwat's approach to allowed cost of debt. Where appropriate, derivatives are used to fix the rate on floating rate debt.

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

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

¹ Shadow RCV as per note 3 of the Financial Statements

² UK water position as at 31 March 2022 as per published annual performance reports – weighted average

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

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 Pennon 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.

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 Company'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. Achieving the Mark demonstrates that we are paying the right amount of corporation tax in the right place at the right time and apply the gold standard of transparency.

Under our tax strategy we:

- At all times consider the Company's corporate and social responsibilities in relation to its tax affairs
- Operate appropriate tax risk governance processes to ensure that the policies are applied
- 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 business decisions
- Do not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation
- Do not undertake transactions which are outside the Company's low risk appetite for tax or not in line with the Code of Conduct
- Engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real-time, such interpretations following both the letter and spirit of the laws
- Do not have any connections with tax havens unless it is necessary for the purposes of trading within those jurisdictions
- As a long-term business with a long-term approach to financial management, there have been no changes to the tax strategy which is reviewed and reaffirmed on an annual basis.

Further details are given in the Group's Tax Strategy document which is available on the Pennon Group website.

TAX CONTRIBUTION 2022/23 – BORNE/COLLECTED

The Company's total tax contribution (TTC) for 2022/23 amounted to £70.2 million (excluding £129.7 million of VAT receipts) (2021/22 £70.4 million reanalysed to exclude 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 Company, such as landfill tax, 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 £23.6 million (2021/22-£19.4 million) including employees' Pay As You Earn (PAYE) and total NICs. A net amount of £15.9 million (2021/22 £13.1 million) was collected on behalf of the authorities for employee payroll taxes.

Business rates of £30.3 million (2021/22 £29.4 million) were paid to local authorities. This is a direct cost to the Company and reduces profit before tax.

There were no payments of UK Corporation Tax payments to HMRC in 2022/23 as the Company has generated tax losses in the year.

Payments to the Environment Agency and other regulatory bodies total £12.1 million (2021/22 £12.5 million). This reduces profit before tax.

Fuel excise duty of £0.9 million (2021/22 £0.9 million) related to transport costs. This reduces profit before tax.

VAT repayments of £129.7 million due (2021/22 £70.4 million) have been received to the Company from HMRC. VAT has no material impact on profit and is excluded from the TTC figure to avoid distortions in this.

PENSIONS

At 31 March 2022, the surplus on retirement obligations of £47.1 million comprised a surplus on the principal pension scheme, Pennon Group Pension Scheme (PGPS).

The overall surplus at 31 March 2023 has reduced to £17.5 million reflecting the following principal movements:

- £27 million net reduction in surplus from the movement in financial actuarial assumptions with significant reductions in liabilities, from the increasing discount rate, offset by the reduction in asset values, (reflecting market volatility and the greater level of hedging in the schemes).
- £4 million reduction in surplus with the change in other actuarial assumptions reflecting the impact of inflation on immediate term pension increases, and other changes in actuarial assumptions from the March 2022 triennial valuation.

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

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

DIVIDENDS AND RETAINED EARNINGS

The statutory net loss attributable to ordinary shareholders of £2.3 million has been transferred to reserves.

The Company has established a dividend policy which includes the following components:

- a sustainable level of base dividend growth, determined by a number of factors including the shareholder's investment and the cost of capital
- a further level of growth funded by efficiency outperformance
- comparison with the assumptions made by Ofwat in setting prices for the regulatory period.

Dividend payments are designed to ensure that key financial ratios are not prejudiced, whilst also taking into account balance sheet considerations. With this in mind, the dividend policy also state that the total dividend payment will not exceed the retained underlying profit in any year, except as a result of a special dividend and balance sheet restructuring, or where there is a significant non-underlying non-cash impact (such as deferred tax).

Payments are designed to ensure that the ability of the Appointee to finance its Appointed Business is not impaired. Dividends of £12.3 million were paid to the parent undertaking (2020/21: £45.0 million), representing the base dividend of £12.0 million and £0.3 million due to the Watershare+ scheme. Whilst the overall dividend, based on the base dividend and regulatory outperformance would be significantly higher, the dividend has been

appropriately reduced, in line with our published policy, to be less than our reported profit after tax, before non-underlying items.

FINANCIAL OUTLOOK

Looking to 2023/24, there are some signs of inflation stabilisation before it falls back, whilst the global economy continues to be volatile reflecting the current geopolitical situation.

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

We expect overall revenues to increase with the combined impact of inflation on our 2023/24 tariffs (net of the year on year impact of regulatory adjustments and ODI penalties).

Whilst wholesale cost levels remain elevated, we anticipate, power costs to remain broadly flat year on year¹ compared to 2022/23 total power costs of c.£93 million (wholesale costs £63 million, non-commodity costs £33 million). We have recognised the pressure sustained high levels of inflation place on our colleagues and pay increases of c.5-7% have been agreed across the Company with a greater allocation to lower income bands. In other areas the sustained elevated levels of inflation continue to place upward pressure on our input costs. Despite these upward cost pressures we are targeting to maintain total operating costs in South West Water at 2022/23 levels.

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

Overall, these impacts are expected to result in improvements in near-term earnings and, in the longer term, the elevated inflationary environment provides the Company with additional growth in long-term sustainable value, with revenues and RCV linked to November and March outturn inflation, respectively.

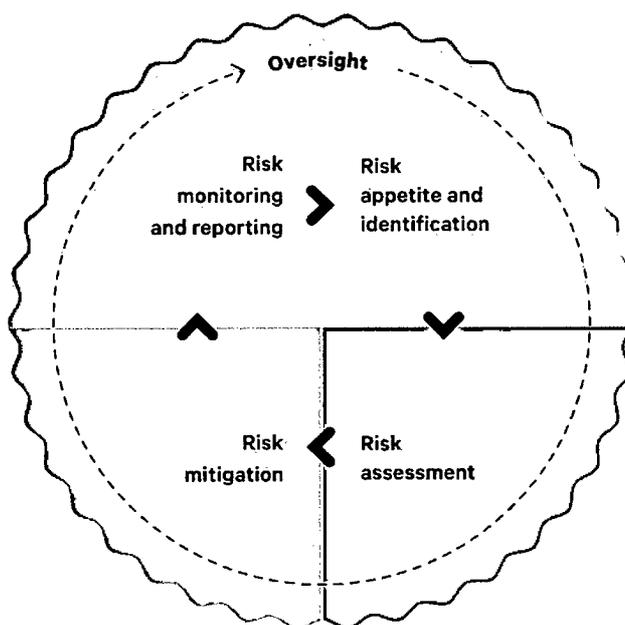
¹ Based on current market pricing and current hedged position of c.75% for 2023/24

RISK MANAGEMENT AND PRINCIPAL RISKS

The Company operates within a complex and evolving risk landscape which includes changing Government policy, multiple regulatory frameworks and increasing customer and wider societal expectations.

The long-term success of the Company is dependent on the effective management of risks and opportunities and remains a key focus for the Board and Executive. To achieve this, South West Water operates mature risk management and internal control frameworks which are aligned to the Company's strategic priorities and are embedded into our processes, culture and ways of working. These frameworks form a key part of our governance structure ensuring that there is robust review, challenge and assurance over the management of both our current and emerging risks and opportunities.

OUR RISK MANAGEMENT FRAMEWORK



The Company's risk management framework encompasses both a 'top down' and 'bottom up' approach. This:

- allows risks and opportunities to be cascaded and escalated effectively
- enables a common understanding of the risks and opportunities and their potential impact on the achievement of the Company's strategic priorities
- provides a multi-layered approach to the review and challenge of risk

During the year, as part of the broader integration of Bristol Water and other organisational changes, the Company's risk management framework and associated governance and processes have been further enhanced and standardised. All members of the South West Water Executive attend the Executive Risk Committee meetings, reflecting the increasing interconnectedness and complexity of the principal risks facing the Company.

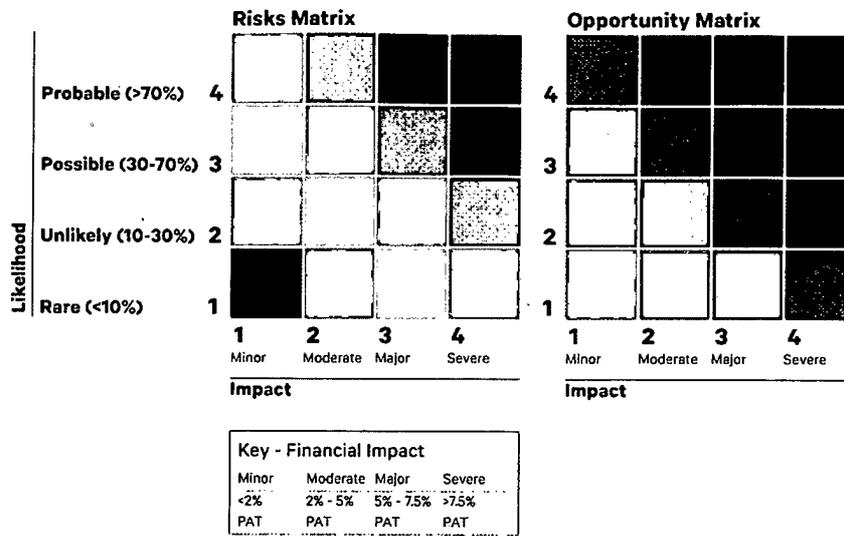
OUR RISK ASSESSMENT METHODOLOGY

A consistent methodology is applied in the assessment of the Company's risks (including climate-related risks) and opportunities, which considers both the likelihood of the risk occurring and the potential impact.

Impact is assessed across the following financial and non-financial categories: financial, safety, environmental, stakeholder and customer impact, reputation, sustainability, and quality. Over the past year the Company has enhanced the impact assessment criteria to better reflect environmental and sustainability considerations, including impacts to the Company's climate, carbon, and nature objectives.

Likelihood is defined as likelihood over the next 5 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. The impact and likelihood is multiplied and plotted on a 4x4 matrix to determine the overall Red, Amber, Green (RAG) risk rating which is used to prioritise risks and actions.



GOVERNANCE OF THE RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The consideration and reporting of risk management and the key responsibilities and activities which encompass the Company's risk management framework are summarised below.

Principal and business-level risks are subject to regular review and challenge by individual functions, the Executive Risk Committee, the Executive and the Board.

The Company mitigates its risk exposure in line with the desired risk appetite and tolerance levels, through the operation of a robust internal control and assurance framework which is aligned to the 'three lines' model.

The Executive and the Board obtain assurance over the effectiveness of the internal control environment across all three lines of defence from a variety of internal and external assurance providers, including an independent Group Internal Audit function.

The key responsibilities and activities which encompass the Company's risk management framework include:

		Key risk management responsibilities	Key assurance activities
OVERSIGHT	Board	<ul style="list-style-type: none"> • Sets the Company's strategic objectives • Establishes the Company's risk appetite • Determines the Company's principal risks • Ensures an effective internal control framework 	<ul style="list-style-type: none"> • Quarterly reviews of the Company's principal risks against the determined risk appetite • Quarterly reviews of the Company's emerging risk log
	Audit Committee	<ul style="list-style-type: none"> • Reviews the effectiveness of the risk management framework • Reviews the adequacy of the internal control framework 	<ul style="list-style-type: none"> • Perform quarterly deep dive reviews on principal risks • Approves the Internal Audit Plan in respect of South West Water • Receive reports on the outcomes of key assurance activities

		Key risk management responsibilities	Key assurance activities
FIRST LINE OF DEFENCE	South West Water directorate functions	<ul style="list-style-type: none"> The identification and assessment of risks Implementation and executes appropriate risk mitigation strategies, aligned with the agreed risk appetite Monitor compliance with internal control framework Review of principal risks on a quarterly basis by senior leadership teams 	<ul style="list-style-type: none"> Functions perform second line assurance across regulatory, legal, health & safety Self-certification of compliance with internal control framework
SECOND LINE OF DEFENCE	Executive	<ul style="list-style-type: none"> Day-to-day management of principal and operational risks Establishes the relevant risk management processes and procedures Maintains the internal controls framework 	<ul style="list-style-type: none"> Performs a thorough appraisal of principal and emerging risk profile quarterly Monitor performance against operational and financial metrics Establish and review policies, procedures and delegated authorities
	Executive Risk Committee	<ul style="list-style-type: none"> Reviews the Company's principal risks and mitigation strategies Provides challenge to individual functions over the management of their business-level risks Considers mitigation plans for High Impact Low Likelihood (HILL) risks. Receives functional and departmental updates on business level (bottom up) risks Performs horizon scanning on emerging risks and opportunities 	<ul style="list-style-type: none"> Quarterly review of Company principal risks and key subsidiary / functional risks Undertakes deep dive reviews of specific risks
	Energy Risk Committee	<ul style="list-style-type: none"> Establishes the Company's approach to energy management and risk exposure in line with the desired risk appetite 	<ul style="list-style-type: none"> Monitors adherence to agreed strategies and risk positions.
THIRD LINE OF DEFENCE	Group Internal Audit	<ul style="list-style-type: none"> Provides independent, risk-based assurance on the effectiveness of the internal control framework Coordination of independent assurance activities 	<ul style="list-style-type: none"> Regular reporting to Audit Committee and Executive on the effectiveness of internal controls and the outcomes of key assurance activities

In addition, the Company also received assurances from a variety of external assessments, including by our regulators, which compliments and further enhances the overall assurance framework.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISK MANAGEMENT

Our purpose and values recognise the broader societal role that the Company plays within the regions and communities it serves. Consequently environmental, social and governance (ESG) considerations are at the heart of the Company's activities and how we operate as a responsible business. The identification, assessment and management of ESG risks and opportunities is integrated into the Company'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 142.

As a water and wastewater company, the Company acknowledges the fundamental impact that climate change has on the Company's strategy and priorities and is considered to be pervasive across the Company'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 impacts, where relevant, and the mitigating actions being taken.

Further detail on the specific physical and transitional climate change risks and opportunities relevant to the Company, along with mitigating actions being taken, are detailed further within TCFD on page 71.

SOUTH WEST WATER TECHNICAL (NON-FINANCIAL) DATA

In addition to the risk management framework detailed above, recognising the importance of the regulatory ODI framework, engage independent, third-party auditors to audit the accuracy of the technical (non-financial) data reported within the various annual performance reports and regulatory publications and submission, including its performance commitments and environmental data. Furthermore, DNV, have also performed additional assurance work over the Company's sustainability measures.

CONTINUOUS IMPROVEMENTS TO RISK MANAGEMENT AND INTERNAL CONTROL

The Company 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 creation of a Compliance function overseen by the Group Compliance Director, bringing together key second line compliance activities undertaken across the Company.
- A Compliance Committee has been established enhancing the governance over key compliance aspects and returns.
- Detailed analysis has been undertaken to inform the Company's capital investment to address long-term water resource and environmental improvement plans as part of the business planning process.
- Testing of resilience and response plans has been undertaken covering various scenarios, including power outages and cyber security.
- The successful launch the 'Quality First' initiative as part of the continuous improvement of drinking water production.

OFWAT'S PRINCIPLES - BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

Ofwat requires that holding companies manage their risks in such a way that the regulated company is protected from risk elsewhere in the Group. Pennon Group's principal risks and uncertainties include those Group-level risks which 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 licence, 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.

Further details of Group-wide principal risks and application of the Group's risk management framework across the Group are provided in the Pennon Group plc annual report (pages 52 to 62).

HORIZON SCANNING

Emerging risks and opportunities are considered to be factors and events which could have a future impact on the achievement of the Company'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 and opportunity review process performed by individual subsidiaries and functions. Emerging risks are reviewed by the Executive Risk Committee, Executive and Board as part of their regular assessment of the Company's risk profile. Notable emerging risks and opportunities are detailed within the table below:

Risk/opportunity	Comment	Risk category impact	Time horizon
Micro-pollutants, plastics and micro-plastics	The continued focus on the impact of micro-pollutants and micro-plastics could present both risks and opportunities arising from changes to treatment processes.	<ul style="list-style-type: none"> Operating performance Business systems and capital investment 	Medium-term
Biodiversity	Threats to the region's biodiversity, as a result of climate change, may require changes to how we interact with species and habitats in the areas that we operate in.	<ul style="list-style-type: none"> Operating performance 	Long-term
Changes to the demographics within the South West	Increases in population migration to the South West due to the longer-term impact of COVID-19 and climate change could place further demand on our resources and assets.	<ul style="list-style-type: none"> Operating performance 	Long-term
Artificial intelligence and machine learning	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 	Long-term
PFAS and forever chemicals	Changes in regulatory requirements or the introduction of statutory standards 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 	Long-term

RISK APPETITE

The UK Corporate Governance Code requires companies to determine the risk appetite considered appropriate in achieving the Company's strategic priorities. Striking an appropriate balance between risk and reward is key to the success of the Company's strategy.

The Board has established its risk appetite for each risk category and also for each principal risk. This allows the business to pursue value-enhancing opportunities, whilst maintaining an overall level of risk exposure that the Board considers to be appropriate. The Board's evaluation of the effectiveness of the comprehensiveness of the Company's internal controls in mitigating its principal risks to an acceptable level is considered with due consideration of the relevant risk appetite. The risk appetite for each risk category is detailed below:

Risk category	Risk appetite statement
Law, regulation and finance	<p>The Board is committed to fully complying 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) health & safety, where the Board places the highest level of importance on the welfare of our employees, the public and those who work with, or on behalf of, South West Water. The Company also operates a prudent approach to our financing strategy to ensure our long-term financing commitments are met.</p> <p>The Board acknowledges, however, that South West Water operates in a complex environment influenced by Government policy and regulatory reform. Consequently, there is a greater</p>

	acceptance of risk in these areas and the Company seeks to mitigate any potential downside and leverage opportunities that may arise from Government policy and regulatory change.
Market and economic conditions	The Board recognises that our activities are exposed to changes in macroeconomic and external market conditions. The Company 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	<p>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.</p> <p>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.</p>
Business systems and capital investment	<p>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 investment with decisions taken through weighting risks against the expected level of return on a case- by-case basis.</p> <p>South West Water seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Company's operations.</p>

PRINCIPAL RISKS AND UNCERTAINTIES

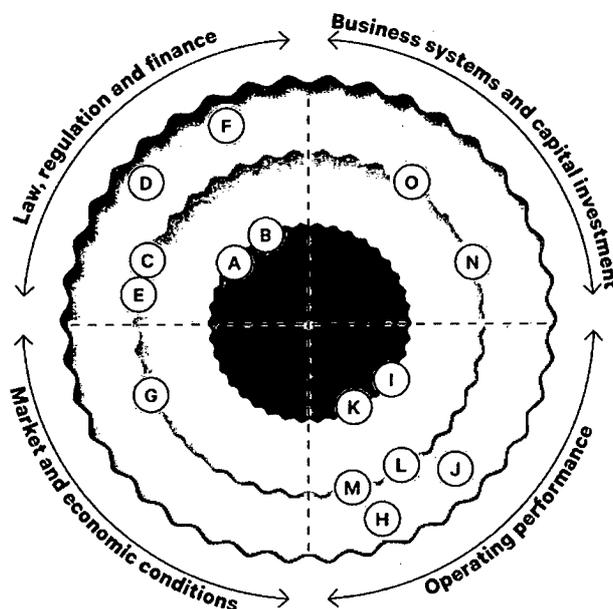
South West Water's business model exposes the business to a variety of external and internal risks which are influenced by the potential impact of macro political, economic and environmental factors. Specifically, the macro level events have contributed to the high inflationary environment and consequential impact on power prices and interest rates both in the UK and globally has continued to directly and indirectly impact the Company during the year. While the ability of the Company to influence these macro level risks is limited, they continue to be regularly monitored and the potential implications are considered as part of the ongoing risk assessment process. The Company performs a range of scenario planning and analysis exercises to understand the risk exposure of one, or a number, of these events occurring.

During the year the Board have carried out a detailed review of the of the current and emerging risks in the context of the Company's strategic objectives and priorities as well as the external environment within which it operates. This has resulted in the following changes to the Company's principal risks compared with those previously reported:

- The availability of sufficient water resources has been separated from the broader drinking water principal risk and is now included as a standalone Company principal risk
- The Company's principal risks reflect the delivery of the Company's 2030 Net Zero commitment in mitigating the impact of climate change
- The delivery of customer and environmental commitments have been combined to form a standalone principal risk
- Non-recovery of customer debt has been removed as a principal risk reflecting the Company's robust debt management and customer collections processes. With ongoing cost of living challenges for our customers, this continues to be carefully monitored as an operational risk
- Key risks associated with the delivery of regulatory outcomes and performance commitments is reflected within individual principal risks and has therefore been removed as a standalone principal risk

These principal risks have been considered in preparing the viability statement on page 60.

AN OVERVIEW OF THE PRINCIPAL RISK PROFILE



Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
Law, regulation and finance	A	Fair charging and affordable bills for all Protecting the environment	Changes in Government policy	RED	↑
	B	Fair charging and affordable bills for all Protecting the environment	Regulatory Frameworks	RED	↑
	C	Fair charging and affordable bills for all Protecting the environment	Non-compliance with laws and regulations	AMBER	↑
	D	Fair charging and affordable bills for all	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	GREEN	↑
	E	Benefitting the community	Non-compliance or occurrence of avoidable health & safety incident	AMBER	↓
	F	Fair charging and affordable bills for all	Failure to pay all pension obligations as they fall due and increased costs to the Company should the defined benefit pension scheme deficit increase	GREEN	↔
Market and economic conditions	G	Fair charging and affordable bills for all	Macro-economic risks impacting inflation, interest rates and power prices	AMBER	↓

Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
Operating performance	H	Protecting the environment	Failure to deliver the Company's 2030 Net Zero Commitment to respond to the impact of climate change	GREEN	↔
	I	Available and sufficient resources Resilience	Availability of sufficient water resources to meet current and future demand	RED	↔
	J	Clean, safe and reliable drinking water Available and sufficient resources	Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water	GREEN	↑
	K	Reliable wastewater services Protecting the environment	Failure of operational wastewater treatment assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions	RED	↔
	L	Responsive to customers Benefitting the community Protecting the environment	Non-delivery of customer service and environmental commitments	AMBER	↔
	M	Benefitting the community	Insufficient skills and resources to meet the current and future business needs and deliver the Company's strategic priorities	AMBER	↑
Business systems and capital investments	N	Resilience Fair charging and affordable bills for all	Insufficient capacity and resilience of the supply chain to deliver the Company operational and capital programmes	AMBER	↑
	O	Clean, safe and reliable drinking water Responsive to customers Fair charging and affordable bills for all Resilience	Inadequate technological security results in a breach of the Company's assets, systems and data	AMBER	↑

LAW REGULATION AND FINANCE

Strategic impact	Mitigation and commentary	Risk appetite
Principal Risk A: Changes in Government policy		
2023 Net risk and direction:		2022 Net risk and direction:
RED, INCREASING		AMBER, INCREASING
<p>Fair charging and affordable bills for all</p> <p>Protecting the environment</p> <p>Climate change impact: Transitional</p> <p>Changes in Government policy may fundamentally impact our ability to deliver the Company's strategic priorities.</p>	<p>There has been continued focus on the performance of the water sector by Government, with its Plan for Water launched in March 2023 following on from its Storm Overflows Discharge Reduction Plan in August 2022. With a General Election due in 2024 this focus is expected to continue.</p> <p>South West Water has been given approval to accelerate c.£125m of investment to meet these requirements alongside the delivery of its WaterFit strategy that is designed to go further than the Government's Plans.</p> <p>We actively engage and respond to policy consultations and the Company regularly engages with MPs and other political stakeholders, both directly and via Water UK, demonstrating the value from our operational performance, continued investment in our network and wider societal contribution.</p> <p>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 Company.</p>	<p>We recognise that Government Policy evolves. The Company seeks to minimise the potential risk and maximise opportunities through regular engagement and robust scenario planning.</p>
Principal Risk B: Regulatory Reform		
2023 Net risk and direction:		2022 Net risk and direction:
RED, STABLE		AMBER, STABLE
<p>Fair charging and affordable bills for all</p> <p>Protecting the environment</p> <p>Climate change impact: Transitional</p> <p>Changes to regulatory frameworks may impact on the deliverability and affordability of the Company's priorities, which can impact value.</p>	<p>Ofwat has published its final methodology for the next Price Review period and investment plans and priorities are well developed, overlaid by a robust governance and assurance framework. South West Water's business plan will be submitted in Autumn 2023.</p> <p>We are actively engaging with regulators through this process but there remains a risk sufficient funding is not provided through the regulatory mechanism to achieve the environmental and climate related ambitions of the Company, or that the priorities of regions we serve are not recognised by regulators.</p> <p>Established processes exist for monitoring changes in the regulatory environment and responding to regulatory consultations, including via Water UK.</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 Net Present Value (NPV) neutral over the longer-term to protect customer affordability and shareholder value.</p>

LAW REGULATION AND FINANCE (CONTINUED)

Strategic impact	Mitigation and commentary	Risk appetite
Principal Risk C: Non-compliance with laws and regulations		
2023 Net risk and direction:		2022 Net risk and direction:
AMBER, INCREASING		AMBER, INCREASING
<p>Fair charging and affordable bills for all</p> <p>Protecting the environment</p> <p>Climate change impact: Transitional Physical</p> <p>South West Water is required to comply with a range of laws and regulations.</p> <p>Non-compliance with one, or a number of these may result in financial penalties or a negative impact on our ability to operate effectively and reputational damage to the Company.</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. The Government is also seeking to amend the maximum amount that water companies can be penalised for damaging the environment.</p> <p>The Company operates within robust and mature regulatory frameworks, ensuring compliance with the requirements of Ofwat, Environment Agency and other relevant regulators. These frameworks are regularly reviewed to ensure the Company remains compliant with the increasingly complex legal and regulatory landscape.</p> <p>The Company also maintains a comprehensive internal framework to ensure compliance with corporate laws and regulations, reinforced through key policies endorsed by the Board and compliance training provided to staff.</p> <p>These frameworks have been further strengthened during the year through the establishment of an executive led Compliance Committee and Ethics Management Committee, that maintains oversight of the Company's confidential whistleblowing processes, allowing concerns to be raised confidentially and appropriately investigated.</p>	<p>South West Water maintains the highest standards of compliance and has no appetite for legal or regulatory breaches.</p>
Principal Risk D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments.		
2023 Net risk and direction:		2022 Net risk and direction:
GREEN, INCREASING		GREEN, STABLE

Strategic impact	Mitigation and commentary	Risk appetite
<p>Fair charging and affordable bills for all</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>The Company has well established treasury, funding and cash flow arrangements in place, underpinned by a Treasury Management Policy endorsed by the Board.</p> <p>The Company's financing commitments and cash flow, funding and covenant compliance is regularly reviewed by the Executive and the Board.</p> <p>Whilst the macro-economic environment has increased financing costs, the Company remains comfortably within debt covenant levels with sufficient headroom in place to meet ongoing commitments.</p> <p>South West Water retains £196m of cash and committed facilities as at 31st March 2023 and is fully funded for the 2020-25 regulatory period.</p>	<p>We operate a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.</p>
Principal Risk E: Non-compliance or occurrence of an avoidable health & safety incident		
2023 Net risk and direction:		2022 Net risk and direction:
AMBER, DECREASING		AMBER, STABLE
<p>Benefitting the community</p> <p>A significant health & safety event could result in financial penalties, significant legal costs and damage to the Company's reputation.</p>	<p>During the year the Company has continued to deliver and embed the 2025 Homesafe strategy, which has included launching HomeSafe within the Bristol region.</p> <p>Health and safety training, communication and policy updates is provided to all staff and senior leaders regularly visit sites, reinforcing the Company's health and safety culture.</p> <p>Health and safety performance is monitored by the Executive and the respective Board and Executive Health and Safety Committees. There has also been continued investment for safety improvements, focused on operational sites and activities.</p>	<p>We have no appetite for health & safety related incidents and we maintain the highest standards of compliance for our staff, contractors and other third parties.</p>
Principal Risk F: Failure to pay all pension obligations as they fall due and increased costs to the Company should the deferred pension scheme deficit increase		
2023 Net risk and direction:		2022 Net risk and direction:
GREEN, STABLE		AMBER, STABLE
<p>Fair charging and affordable bills for all</p> <p>The Company could be called upon to increase funding to reduce the deficit, impacting our cost base.</p>	<p>The Company has in-house pensions expertise supplemented by external specialists, including professional advisors who manage the scheme's investment strategy.</p> <p>In response to the fall in gilt yields in October 2022, the investment portfolio has been de-risked through increasing the scheme's real</p>	<p>The Company will ensure that all obligations are met in full but seeks to manage this without unnecessary increased costs to the Company.</p>

Strategic impact	Mitigation and commentary	Risk appetite
	<p>gilt hedging position through LDIs (Liability Driven Investments).</p> <p>As at 31st March 2023 the Company's pension schemes remain in surplus, reflecting the improvements in the funding of PGPS in recent years, and no deficit recovery payments are required following the triennial valuation of PGPS as at 31 March 2022.</p>	

MARKET AND ECONOMIC CONDITIONS

Strategic impact	Mitigation and commentary	Risk appetite
Principal Risk G: Macro-economic risks impacting on inflation, interest rates and power prices		
2023 Net risk and direction:		2022 Net risk and direction:
AMBER, DECREASING		RED, INCREASING
<p>Fair charging and affordable bills for all</p> <p>Climate change impact: Transitional Physical</p> <p>Significant changes in inflation, interest rates and power prices could increase the Company's near term cost base.</p>	<p>The macro-economic volatility experienced during the year has stabilised with UK power prices and inflation softening and expected to fall further over the next 12 months.</p> <p>A significant proportion of the Company's power prices have been hedged in-line with the agreed strategy set by the Company's Energy Risk Committee. Careful management of the debt portfolio has also enabled c.65% of the Group's net debt to be fixed or swapped.</p> <p>The Company's in-house procurement function also drives value through competitive tendering of high value</p> <p>Long-term protection from the increasing inflationary environment is also provided through regulatory mechanisms with inflation linked revenues and RCV growth, along with regulatory true-ups.</p>	<p>The Company seeks to mitigate the potential impact of macroeconomic events where possible including through inflation linked revenues and RCV growth, recognising there remains a degree of near-term exposure beyond its control.</p>

OPERATING PERFORMANCE

Strategic impact	Mitigation and commentary	Risk appetite
Principal Risk H: Failure to deliver the Company's 2023 Net Zero commitment to respond to the impact of climate change		
2023 Net risk and direction:		
GREEN, STABLE		
<p>Protecting the environment</p> <p>Climate change impact: Transitional</p> <p>Failure to successfully transition to Net Zero may result in an adverse environmental impact,</p>	<p>The Company remains on track to deliver its commitments within the 2030 Net Zero strategy which is overseen by an executive led Net Zero Committee.</p> <p>During the year we have continued to support carbon capture through peatland restoration, increased the deployment of electric vehicles.</p> <p>Across the Pennon Group, we are targeting to produce 50% of our own energy by 2030 from a mix of embedded onsite Solar PV,</p>	<p>The Company is committed to transitioning achieving net zero whilst recognising that this needs to be balanced against the need to deliver other priorities for our customers and the environment.</p>

Strategic impact	Mitigation and commentary	Risk appetite
increased costs and reputational damage.	floating Solar PV, grid connected Solar PV, along with other renewables such as hydroelectricity and making more use of our bioresources for generating energy	
Principal Risk I: Availability of sufficient water resources to meet current and future demand		
2023 Net risk and direction:		2022 Net risk and direction:
RED, STABLE		AMBER, INCREASING
<p>Available and sufficient resources</p> <p>Resilience</p> <p>Climate change impact: Transitional Physical</p> <p>An inability to ensure the necessary water resources exist to meet demand may lead to impacts for our customers, increased operational costs and reputational damage.</p>	<p>The drought of 2022 had a significant impact on river flows, groundwater levels and reservoir stocks in our regions. Climate change is expected to result in hotter, drier summers becoming more frequent and greater demand through increased population within the South West.</p> <p>During the year the Company has enacted their Drought Management Plans, alongside extensive engagement and collaboration with regulators and innovative initiatives – such as the Stop the Drop campaign – to minimise the impact of the dry weather on both customers and the environment.</p> <p>Additionally, there has been continued focus on leakage reduction and the launch of region wide customer communication campaigns.</p> <p>Despite the action taken, storage levels remain below their historical levels heading into Summer 2023.</p> <p>Further action is being taken including exploring two desalination plants in Cornwall as well as more water storage options and increasing the ability to move water around our network.</p>	<p>The Company is committed to ensuring there are sufficient water resources through careful management of both supply and demand activities.</p>
Principal Risk J: Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water		
2023 Net risk and direction:		2022 Net risk and direction:
GREEN, INCREASING		AMBER, INCREASING
<p>Clean, safe and reliable drinking water</p> <p>Available and sufficient resources</p> <p>Climate change impact: Transitional Physical</p>	<p>Our drinking water assets and processes have remained resilient despite challenging conditions during the drought and the freeze / thaw conditions that occurred in 2022. Where such events do occur, these are managed through established incident management procedures and utilises the Company's supply chain partners.</p> <p>Asset health is managed through a well-established programme of routine planned and preventative maintenance works with</p>	<p>We continually assess risks across our water treatment works and assets adopting a risk based approach. This includes using key metrics such as the DWI's CRI which provides an overall measure of water quality to inform this assessment. Where sites are considered to be of higher risk, including those with agreed DWI notices, these assets are addressed through significant</p>

Strategic impact	Mitigation and commentary	Risk appetite
<p>An inability to produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Company's reputation.</p>	<p>asset and network performance monitored by the 24/7 Control Centre.</p> <p>Additionally, our 'Quality First' initiative was also launched during the year and is a cultural and training programme reinforcing the continuous improvement approach adopted by our Drinking Water operational teams.</p>	<p>investment plans and other operational interventions.</p>
<p>Principal Risk K: Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions</p>		
<p>2023 Net risk and direction:</p>		<p>2022 Net risk and direction:</p>
<p>RED, STABLE</p>		<p>RED, INCREASING</p>
<p>Reliable wastewater services</p> <p>Protecting the environment</p> <p>Climate change impact: Transitional Physical</p> <p>An inability to remove or treat wastewater could result in adverse environment impacts, financial penalties, regulatory enforcement and damage to the Company's reputation.</p>	<p>Minimising the impact of our activities on the environment remains a strategic priority for the Board and Executive.</p> <p>Delivery of the Company's WaterFit strategy and Pollution Incident Reduction Plan continues as the Company drives for a step change in environmental performance, which include enhanced processes, targeted capital investment and proactive asset maintenance.</p> <p>These strategies have contributed to a further decrease in the number of pollution events and our best ever performance during 2022/23, 100% of our bathing waters being rated excellent or good and a c.30% year on year reduction in the number of storm overflow spills.</p> <p>During the year WaterFit Live has been launched providing the public with information on where bathing waters may be affected by the operation of our overflows as well as information on future investment.</p> <p>Despite this progress it is recognised there is more work to do to deliver a step change in our environmental performance and this will continue to remain an area of strategic focus in both the current and next regulatory period.</p>	<p>Waste water assets are managed using a risk based approach. Alongside the Environment Agency, where works or assets are considered to be medium or high risk there is a greater focus on these through planned tactical interventions and strategic investment to mitigate the risk of operational failures occurring.</p>

Strategic impact	Mitigation and commentary	Risk appetite
Principle Risk L: Non-delivery of customer service and environmental commitments		
2023 Net risk and direction:		2022 Net risk and direction:
AMBER, STABLE		AMBER, INCREASING
<p>Responsive to customers</p> <p>Benefitting the community</p> <p>Protecting the environment</p> <p>Climate change impact: Transitional Physical</p> <p>Failure to deliver our customer and environmental commitments may result in reputational damage, and financial penalties impacting on shareholder value.</p>	<p>The Company continues to enhance and invest in its customer services teams, expanding the channels by which it can interact with and support customers.</p> <p>The Company offers a range of schemes and tariffs to support customers with affordability challenges and is BSI18477 accredited, a dedicated standard for identifying and responding to customer vulnerability.</p> <p>South West Water also has a number of initiatives which support the communities that we service.</p> <p>It is recognised that further work is required to improve both South West Water and Bristol Water's regulatory customer service metrics.</p> <p>The Company's environmental commitments are measured through 39 metrics with performance reported on the Pennon Group's website. The delivery of the WaterFit strategy, is key to this and progress remains on track. See page 18 for further details.</p>	<p>The Company continually seeks to deliver high levels of customer service.</p>
Principal Risk M: Insufficient skills and resources to meet the current and future business needs and deliver the Companies strategic priorities		
2023 Net risk and direction:		2022 Net risk and direction:
AMBER, INCREASING		AMBER, STABLE
<p>Benefitting the community</p> <p>Climate change impact: Transitional</p> <p>Failure to have 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 Company forward.</p>	<p>There remains high demand nationally for skills and experiences utilised across the Company.</p> <p>Our People strategy enables the Company to attract, retain and develop our employees as well as recognising the significant contribution that our people make. The Company's RISE employee engagement forum provides a platform for our people to provide feedback, raise their priorities and promote ideas.</p> <p>Additionally, we have continued to develop a diverse and inclusive talent pipeline and have updated long-term commitments with enhanced recruitment targets for graduates and apprentices through to 2030 and continued prioritisation of our diversity and inclusion agenda. Furthermore, the acquisition of Bristol Water has enabled the</p>	<p>While turnover of employees does occur, we ensure the appropriate skills and experience are in place with succession plans providing adequate resilience.</p>

	<p>best talent from across the business to come together.</p> <p>The Company's senior leadership has also been further strengthened during the year with a number of key Executive appointments, as described on pages 118.</p>	
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BUSINESS SYSTEMS AND CAPITAL INVESTMENT

Strategic impact	Mitigation and commentary	Risk appetite
Principal Risk N: Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes		
2023 Net risk and direction:		2022 Net risk and direction:
AMBER, INCREASING		AMBER, INCREASING
<p>Resilience</p> <p>Fair charging and affordable bills for all</p> <p>Climate change impact: Transitional Physical</p> <p>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 to achieve our change and growth agenda.</p>	<p>The Company engages with a range of partners to support in the delivery of operational and capital programmes. The demand for these skills and expertise continues to increase, particularly across the Water Industry to deliver programmes in the current regulatory period and to prepare for future investment programmes during 2025-30.</p> <p>We are underway with a full tender for Tier 1 contractors to support our current, accelerated investments and to be in place for the next regulatory period. We anticipate awarding more Tier 1 contractors than in our current framework to support elevated investment levels.</p> <p>Supplier events have been held to expand the number of partners we work with and to utilise the expertise that exists within the regions we serve. The Company also uses its in-house procurement expertise to help source and drive value within the purchasing process.</p> <p>The Company 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>The Board has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan.</p>

Strategic impact	Mitigation and commentary	Risk appetite
Principal Risk O: Inadequate technological security results in a breach of the Company's assets, systems and data		
2022 Net risk and direction:		2022 Net risk and direction:
AMBER, INCREASING		AMBER, INCREASING
<p>Clean, safe and reliable drinking water</p> <p>Responsive to customers</p> <p>Fair charging and affordable bills for all</p> <p>Resilience</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 South West Water.</p>	<p>External threats are increasing in complexity and sophistication and continues to be carefully monitored by the Company's information security teams.</p> <p>The Company maintains a strong preventive and detective information security framework, aligned to guidance issued by the National Cyber Security Centre with regular awareness training provided to staff. South West Water continues to hold the ISO27001 accreditation.</p> <p>As part of the Company's planning, cyber response exercises have taken place during the year featuring members of the Executive. Broader disaster recovery plans are also in place for both corporate and operational technology and are subject to regular review.</p> <p>South West Water continue to progress actions as part of the roadmap to meet the requirements of the Network and Information Systems (NIS) Directive, with activities aligned to the priorities identified by the Drinking Water Inspectorate.</p>	<p>We seek to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Company's operations.</p>

VIABILITY STATEMENT

The Directors of South West Water are responsible for ensuring the long-term viability of the company. 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 longer-term viability of the company is an extension of the 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. South West Water is 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 Company'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 Company's principal risks and how these are managed, as detailed on pages 43 to 59 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 Company's viability remains unchanged until the end of 2030, which recognises the longer-term visibility in the regulatory environment of the South West Water business to the end of the next price setting period in 2030. The changing nature of regulation and current scrutiny of the water industry means that assessing viability on a longer term basis than the seven years to 2030 would introduce significant uncertainty, therefore the Board has focussed on the period to 2030 for its assessment of viability.

RISKS

The Board considers the preventative and risk management actions in place and the potential impact of the principal risks (as detailed on pages 43 to 59) 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 Company has a strong liquidity and funding position with £196 million of cash and committed facilities as at 31 March 2023 and net assets of £971.9 million. The Company has a mixture of fixed, floating and index linked debt financing with a weighted average maturity of c.14.0 years. In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company'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:

- Cyber security
- Non-collection of debt
- Insufficient finance and funding
- PR24
- Power outage

STRESS TESTING

The Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 43 to 59, 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 Company's annual budget for FY 2023/24 and longer-term strategic business plan through to March 2030. The following table sets out the specific risks and specific application of this approach to each risk. The total value of the accumulated impact of these sensitised risks has been quantified to provide a combined weighted amount that is used to assess the impact on the viability of the Company.

The impact of climate risks have been assessed in detail in as referenced in the Task Force on Climate-related Financial Disclosures (TCFD) section on page 71. The Company's strategic business plan includes the expected

investment identified at this stage to meet climate changed 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 Company's cash flows from a range of potential policy changes has been applied as a sensitivity.
B: Regulatory reform	Potential changes in PR24 price review may impact allowed regulatory returns in South West Water. The estimated average adverse impact on the Company's cash flows from a range of potential policy 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 to meet ongoing commitments	The impact of reduced availability of financing resulting in increased costs.
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 Company should the defined benefit pension scheme deficit increase	The financial impact on the Company's gearing from additional funding being required to support the Company's defined benefit pension schemes has been applied as an adverse scenario.
G: Macroeconomic risks impacting on inflation, interest rates and power prices	The adverse impact 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. As well as a reduction in the collection of customer debt from adverse economic conditions.
H: Failure to deliver the Group's 2030 Net Zero commitments in response to the impact of climate change	The adverse impact of the failure to transition towards Net Zero in a timely manner could lead to increased costs, these have been applied as a sensitivity.
I: Availability of sufficient water resources to meet current and future demand	The cost of sourcing water from outside the South West Water catchment area to ensure availability of supply has been included as an adverse scenario.
J: Failure of operational water treatment assets and processes resulting in an inability to produce and supply clean drinking water	
K: Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential adverse environmental impacts, including pollutions	The adverse impact from non-delivery of regulatory performance targets which result in ODI penalties, other financial penalties and required additional investment reducing Company revenues and cash inflows have been applied as a sensitivity to the base plan.
L: Non-delivery of customer service and environmental commitments	
M: Insufficient skills and resources to meet the current and future business needs and deliver the Company's strategic priorities	

Principal risk	Viability sensitivities tested
N: Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes	
O: Inadequate technological security results in a breach of the Company's assets, systems and data Inefficient or ineffective delivery of capital projects	The adverse financial impacts of a cyber attack resulting in operational disruption, potential loss of data, potential detrimental impacts on customers with potential for financial penalties have been included in the sensitivity analysis.

A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Company which include the impact of inflation, interest and power costs being higher than the levels forecast in the base scenario. The combined weighted impact of the risks occurring is c.£120m, this value is considered equivalent to an extreme one-off event that could occur within a year, the probability of such an event happening is deemed unlikely. The financial impact of individual sensitivities is not shown as there can be an interaction between risks which need to be considered in totality when reviewing the overall combined stress test.

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 Company's viability over the seven-year period, the assessment has been considered 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 company 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 essential capital expenditure
- Reduction in the amount of dividend payable
- Raising additional funding

The Company has confidence in its ability to raise additional funding if required should it be required to ensure the Company maintains solvency.

In addition, a reverse engineered scenario that could possibly compromise the Company's viability over the seven-year assessment period has been modelled. This scenario builds on the factors above and additionally assumes all the Company's principal risks in any given year across the viability period, with no probability weightings attached. The Board considered the likelihood of this scenario on the Company's viability over the seven-year viability period, as remote, concluding the Company could remain viable. Mitigations, as noted above, could also be deployed over the period if deemed necessary.

In making its assessment of the Company's viability, the Directors have taken account of the Company's strong capital solvency position, the Company's latest assessments of the impact of the Ukraine crisis on 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 Company, the Directors note that, as the Company 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 135 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 Company's financial viability and confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a seven-year period, the period considered to be appropriate by the Board in connection with the UK Corporate Governance Code.

OUR INTEGRATED APPROACH TO ESG

Our approach to ESG ensures everything we do supports our commitment to provide environmental stewardship and to support our customers and local communities. As a responsible employer, we remain focused on employee development alongside a robust health, safety and wellbeing programme. Our activities are underpinned by a strong governance framework that upholds our core values within the organisation and throughout our supply 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

Our Natural Capital – Environment	Our Social & Human Capital – Social	Our Manufactured, Intellectual & Financial Capital – Governance
<ul style="list-style-type: none"> • Freshwater • Land (including soils) • Species • Ecological communities • Coasts • Atmosphere • Waste 	<ul style="list-style-type: none"> • Colleagues • Customers • Commitments 	<ul style="list-style-type: none"> • Supply Chain • Responsible business • Stakeholders and partnerships • Finance

OUR ESG CAPITALS PROGRESS

We are on track with our plans to develop appropriate measures, benchmarking our approach and identifying tools and methodologies to help us value these metrics in line with our materiality assessment, keeping close alignment with our Net Zero and Green Recovery ambitions.

ESG performance and targets can be seen in the Pennon Group plc Annual report and accounts on page 66.

SUSTAINABILITY REPORTING

SASB DISCLOSURE

For the second year, our parent company, Pennon Group plc, has aligned its non-financial disclosures to the Sustainability Accounting Standards Board (SASB) reporting framework. SASB provides a set of industry specific standards (Water Utility and Services industry), which each contain topics which are material to our investors. These topics contain a number of metrics that Pennon has disclosed against. SASB metrics now include Bristol Water for the first time however some metrics related to regulated figures which are currently reported separately within the South West Water and Bristol Water Annual Performance Reports (APR) respectively. The latest APR's were published in July 2023.

Metric	Code	Disclosure
Energy Management		
(1) Total energy consumed (2) percentage grid electricity (3) percentage renewable	IF-WU-130a.1	Pennon Annual Report page 69, SECR, Energy Usage The Company has taken advantage of the exemption offered under the Companies Act 2006 and has not reported details of Greenhouse gas emissions during the financial year. Details of South West Water's greenhouse gas emissions can be found in the Annual Performance Report (APR).
Drinking Water Quality		
Number of: (1) acute health-based (2) nonacute health-based (3) non-health-based drinking water violations	IF-WU-250a.1	Clean, safe and reliable water, (CRI Score), page 14 Taste, smell and colour contacts, page 14
Discussion of strategies to manage drinking water contaminants of emerging concern	IF-WU-250a.2	For more information about our specific strategies such as the Upstream Thinking Project, please refer to: Upstream Thinking – available at https://www.southwestwater.co.uk/environment/working-in-the-environment/upstream-thinking/the-project/ For more information about Bristol Water's catchment sensitive farming partnership to improve water quality and enhance habitats see: www.bristolwater.co.uk/about-us/catchment-management
Distribution Network Efficiency		
Water main replacement rate	IF-WU-140a.1	Mains Repairs, (Number of repairs per 1,000km), page 16
Volume of non-revenue real water losses	IF-WU-140a.2	Leakage (3 year average), page 15
Effluent Quality Management		
Number of incidents of non-compliance associated with water effluent	IF-WU-140a.2	South West Water EPA Data Report, Section 4. Discharge Permit Compliance metric – produced by the EA, available from Gov.UK

quality permits, standards, and regulations		
Discussion of strategies to manage effluents of emerging concern	IF-WU-140a.2	To access data that 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 last CIP2 report, please refer to: CIP2 report – available at https://ukwir.org/the-chemicals-investigation-programme-phase-2,-2015-2020
End-Use Efficiency		
Percentage of water utility revenues from rate structures that are designed to promote conservation and revenue resilience	IF-WU-420a.1	Omitted based on lack of applicability – South West Water do not offer different rate structures
Customer water savings from efficiency measures	IF-WU-420.a	Pennon Annual Report, Water Saving Community Fund, page 21
Network Resiliency & Impacts of Climate Change		
Wastewater treatment capacity located in 100-year flood zones	IF-WU-450a.1	This year we are publishing our first Drainage and Wastewater Management Plans (DWMP), in accordance with new government regulations. Within this plan we have outlined which of our assets are within flood zones 3 (FZ3). This plan will be accessible from May 2023, via the South West Water webpage.
1) Number and (2) volume of sanitary sewer overflows (SSO), (3) percentage of volume recovered	IF-WU-450a.2	Please refer to: EDM Return – accessible via https://www.southwestwater.co.uk/search/?category=0&searchTerm=EDM
(1) Number of unplanned service disruptions, and (2) customers affected, each by duration category	IF-WU-450a.3	Pennon Annual Report, Operational KPI, page 12
Description of efforts to identify and manage	IF-WU-450a.4	South West Water

risks and opportunities related to the impact of climate change on distribution and wastewater infrastructure		<p>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/water-resources-management-plan/</p> <p>Climate change Adaptation Report, 2021. Appendix A: Detailed risk management matrix - available at https://www.southwestwater.co.uk/siteassets/document-repository/environment/climate-change-adaption-2021.pdf</p> <p>Bristol Water</p> <p>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/</p>
Water Affordability & Access		
Average retail water rate for: (1) residential (2) commercial (3) industrial customers	IF-WU-240a.1	<p>The average retail water rates for business customers is available at – https://www.source4b.co.uk/manage-your-account/publications-tariffs</p> <p>The average retail water rate for residential customers is available at – https://www.southwestwater.co.uk/bills/our-charges/</p> <p>Bristol Water household charges, available at: https://7850638.fs1.hubspotusercontent-na1.net/hubfs/7850638/Bristol%20Water%20Charges%20scheme%202022-23.pdf</p> <p>Non-household and wholesale charges, available at: https://f.hubspotusercontent30.net/hubfs/7850638/Assurance%20statement%202022-23.pdf</p>
Typical monthly water bill for residential customers for 10 Ccf (1,000 cubic feet) of water delivered per month	IF-WU-240a.2	<p>South West Water charges document, available at – https://www.southwestwater.co.uk/bills/our-charges/</p> <p>Bristol Water household charges available at – https://www.bristolwater.co.uk/our-blogs/charges-2021-22</p>
Number of residential customer water disconnections for non-payment, percentage reconnected within 30 days	IF-WU-240a.3	Omitted based on lack of applicability – South West Water 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	<p>South West Water's addressing affordability and vulnerability Document – available at:</p> <p>https://www.southwestwater.co.uk/siteassets/document-repository/business-plan-2020-2025/addressing-affordability-and-vulnerability.pdf</p>

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	<p>South West Water and Bournemouth Water Drought Plan (2022)- available at: https://www.southwestwater.co.uk/siteassets/document-repository/environment/sww-bw-final-drought-plan-september-2022.pdf</p> <p>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</p> <p>Under the EA classification Bristol Water do not source water from regions with high or extremely high-water stress</p>
Volume of recycled water delivered to customers	IF-WU-440a.2	Omitted based on lack of applicability – We do not deliver recycled water to customers
Discussion of strategies to manage risks associated with the quality and availability of water resources	IF-WU-440a.3	<p>South West Water Draft WRMP 2024, chapter 1 section 9.5.9 Drinking Water Safety Plans, and chapter 10 modelling & scenario analysis.</p> <p>Please refer to: South West Water Draft Water Resource Management Plan (WRMP) 2024. - available here https://www.southwestwater.co.uk/environment/water-resources/water-resources-management-plan/</p> <p>Bristol Water Draft WRMP 2024, section 5. Water Supply and section 8. Sustainable Abstraction.</p> <p>Please refer to: Bristol Water's Draft Water Resource Management Plan (WRMP) 2024 - available here https://www.bristolwater.co.uk/about-us/our-plans/water-resources/</p>
Activity Metric		
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
Total water delivered to: (1) residential (2) commercial (3) industrial (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

<p>Average volume of wastewater treated per day, by:</p> <p>(1) sanitary sewer</p> <p>(2) stormwater</p> <p>(3) combined sewer</p>	<p>IF-WU-000.D</p>	<p>South West Water and Bristol Water APR</p> <p>Additional regulatory information -Wastewater network plus, Wastewater network+ – Sewer and volume data able and Sewage treatment works data table</p>
<p>Length of:</p> <p>(1) water mains</p> <p>(2) sewer pipe</p>	<p>IF-WU-000.E</p>	<p>South West Water APR</p> <p>Additional Regulatory Information –Water Network Plus section, Water Network+ table – mains, communication pipes and other data</p> <p>Wastewater network plus, Wastewater network+ table –sewer and volume data</p>

TASK FORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD) 2023 – OUR APPROACH

The aim of TNFD is to support a shift in global financial flows toward 'nature-positive' outcomes. We welcome the development of TNFD as an important mechanism for further embedding environmental leadership across the business. Our voluntary engagement with the TNFD framework is strengthening our long-term risk management and aligns to our strategic ambition to create green investment opportunities.

OUR INTERPRETATION OF TNFD

We recognise this is the decade of action for nature restoration and we are adapting to the national policy landscape which is developing at pace to set new standards and frameworks for businesses to better prioritise, manage and disclose nature-related risk and opportunities.

Stakeholders rightly tell us that they expect environmental leadership from us as a priority, which we intend to deliver with increased transparency around our management of green and blue spaces, our environment, and our natural resources.

WHAT WE ARE DOING

Across the business, there is already a wide variety of nature-related activity facilitating the TNFD which we are in the processes of assessing to inform future financial planning. We are continuing to align processes and plans for nature-related risk management whilst using TNFD to inform our decision making as we aspire to meet best practice and maximise 'win-win' opportunities. For example, we have made significant investment into nature-based solutions through our climate change adaptation plan to tackle simultaneously a range of emerging risks such as pollution, climate change and biodiversity loss.

Baseline natural capital assessments undertaken in 2019 provide good indication of our 'business footprint' which, informs how we map our interface with nature as well as better understand our upstream, direct and downstream activities dependent on natural resource management. Furthermore, in the past year internal teams began working together to understand how we can incorporate existing tools and platforms into the (LEAP) methodology for TNFD.

KEY CONSIDERATIONS

Going forward, our intention is to incorporate nature-climate related risks and opportunities into strategic decision making. There are key interdependencies to address between TNFD and Taskforce for Climate related Financial Disclosure (TCFD), which we have implemented since 2019. Importantly, we need to consider potential negative trade-offs between nature and climate for future financial planning. For example, if water quality is best improved using end-of-pipe solutions vs. grey structures with more embodied carbon.

Furthermore, individuals and businesses will depend on nature in river catchments we interface with, but we are not the sole actor impacting on them and therefore developing collaborative approaches to nature-related risk and opportunity management is very important e.g., engagement in regional planning groups for the WRMP to deliver collaborative catchment management approaches such as Upstream Thinking.

SIGNPOSTING EXISTING RESOURCES FOR TNFD

GOVERNANCE

We have developed our governance framework for South West Water's ESG Committee to include oversight of the company's nature-related risks and opportunities. These were identified through our ESG materiality assessment undertaken in 2020/21 in line with the 'risk appetite and identification' stage of our existing risk management cycle.

Our approach to following best practice and how we comply with legal and regulatory requirements is outlined in our Biodiversity and Environmental policies.

STRATEGY

Our plans set out how we strive to maintain compliance, meet regulatory requirements, drive performance using targets, adopt best practice and invest in nature-based solutions (NBS).

Our policies are underpinned by a series of environmental strategies and plans that interlink up to 2050.

RISK AND IMPACT MANAGEMENT

Through our longer-term planning processes we measure a range of nature-related risks such as flood risk, biosecurity risk prevention and habitat restoration.

METRICS AND TARGETS

Our long-term targets align with government expectations for bathing water quality improvement, delivering Biodiversity Net Gain and achieving favourable conditions for SSSI sites.

We measure Company performance on nature-related metrics against our ESG targets and communicate the environmental impact of our operations using South West Water's Environmental Dashboard.

NEXT STEPS

Initially we have drawn together our interpretation of the TNFD guidance and LEAP process (Locate, Evaluate, Assess, Prepare) and are starting to gain oversight on how we map our interfaces with nature across our operations, activities, and supply chain. From this, the way we identify, assess, and prioritise nature-related risks and opportunities (transition and physical risks) will inform our nature-related risk registers.

We are using previous work and relevant risk assessments in this area and considering the additional actions required to manage our nature-related risks to deliver on our nature-positive objectives.

The delivery of our business plans including Green Recovery, WaterFit and Net Zero Plan to 2030 will define our contribution to a nature positive economy. Looking to the future of ESG reporting, the Company is now looking to further embed TNFD recommendations for nature-related risk and opportunity management into business decision making in preparation for PR24 and beyond.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

We are driven by our strategic focus of leading 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 and the transition to Net Zero. Our TCFD disclosure sets out the key climate-related risks and opportunities being addressed by the Company.

TCFD RECOMMENDATIONS

Created by the Financial Stability Board (FSB), the TCFD published its recommendations in June 2017. This is Pennon Group's fourth year of TCFD reporting and the below shows our progress and compliance to the recommendations including the updated TCFD guidance (2021 Annex). The majority of the work completed has been focused around the water business.

Each year our disclosures have been enhanced as knowledge and guidance improves. South West Water 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 enhanced our assessment of physical risks, transition risks, and climate-related opportunities. In 2022 we expanded upon our focus on physical risks, which was the focus of our 2021 TCFD disclosure and South West Water's Climate Adaptation Report in 2021.

The year of 2022 provided record-breaking weather events, including extreme high temperatures, prolonged dry conditions, and consecutive red weather warnings for storms and high winds. These events have provided us with significant insight into our resilience to these kinds of events (which we could see more frequently in the future) which are factored into our update of physical risk assessment and our review of adaptive strategies.

Since our 2022 TCFD disclosure, South West Water have published a draft Water Resources Management Plan (dWRMP24) and Drainage & Wastewater Management Plan (DWMP), and are currently developing our business plan for PR24, which involved developing best-value plans and strategies to ensure the resilience of our assets and operations, supporting our communities and the environment. Therefore, our TCFD disclosure this year reflects updated current and future actions to mitigate risks and realise opportunities. The updates to our risk assessments also consider new climate-related evidence and recent publications from the IPCC and CCC, further to recent publications from Ofwat (South West Water's 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.

We have also provided further details on impacts under each horizon and distinguished primary financial impacts to our business between impacts of the unmitigated risk and impacts from mitigating the risk to emphasise the investment required to build adaptive capacity (or alternatively, the costs of not taking action).

The Company is focused on delivering for our stakeholders. As a result, we are continuing to embed climate change resilience and sustainability into decision making within our business, as well as managing the near-term inflationary pressures including power prices. We will also continue to manage change 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.

2022/23 progress	2024 and beyond
Governance The organisation's governance around climate-related risks and opportunities	
<ul style="list-style-type: none"> We have further developed 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 	<ul style="list-style-type: none"> Whilst climate change is already considered as part of the decision-making process across the business, we will continue to further embed the TCFD considerations into the governance and management of climate risks across our business in 2023/24.

<ul style="list-style-type: none"> We have enhanced how carbon impacts are considered in our capital planning by incorporating carbon values into investment appraisal. 	<ul style="list-style-type: none"> We will continue to further embed the assessment and identification of climate-related risks within our investment appraisal processes
<p>Strategy</p> <p>The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning</p>	
<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 Company and enhanced the actions we are taking to manage the most pressing risks. We have considered climate change in South West Water's strategic planning for Water Resources (dWRMP24) and Drainage & Wastewater (DWMP), and we are embedding climate resilience and Net Zero into the business plan as part of PR24. 	<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 Company. Risk owners will continue to drive and monitor action to manage risks and pursue opportunities. We will continue to review our policies and strategic decision-making across the Company in order to enhance considerations of climate risks and opportunities. South West Water will publish its final WRMP and our draft business plan for PR24.
<p>Risk Management</p> <p>The processes used by the organisation to identify, assess, and manage climate-related risks and opportunities</p>	
<ul style="list-style-type: none"> We have enhanced our risk management methodology to improve consideration of impacts related to carbon, sustainability, nature, and the Company's ESG goals. We have reviewed our principal risks and enhanced our recognition of how climate change and Net Zero impact and influence our principal risks. 	<ul style="list-style-type: none"> We will continue to review and update our management of climate change and our decision-making frameworks to ensure climate-related risks are clearly identified and assessed through the investment processes and operational decision-making.
<p>Metrics and Targets</p> <p>The metrics and targets used to assess and manage the relevant climate-related risks and opportunities</p>	
<ul style="list-style-type: none"> We have enhanced our metrics linked to key 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 GOVERNANCE

Disclose the organisation's governance around climate-related risks and opportunities.

Recommended Disclosures	Board oversight
a. Describe the Board's oversight of climate-related risks and opportunities.	The Company has a strong governance structure in place to oversee the effective operation of our business and to manage all risks - including climate-related risks and opportunities. Overall ownership and responsibility for risks, opportunities, and mitigation actions is held by the Board and CEO.

b. Describe management's role in assessing and managing climate-related risks and opportunities.	<p>Various Board Committees and executive sub-committees play a key role in overseeing climate-related risks within their domain.</p> <p>The Company recognises that climate change and the transition to Net Zero impacts and influences several of the Company's principal risks (see our Principal Risks report on page 43. 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.</p>
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SOUTH WEST WATER BOARD

The South West Water Board provides oversight to the management of the climate-related risks and opportunities. The Board has overall responsibility for the Company's risk management policies and processes, and all principal risks are reviewed by the Board on a regular basis. The Board considers climate-related risks and opportunities throughout its duties - including when considering the Company's strategy and objectives, monitoring business and operational performance, business planning and annual budget setting, reviewing major capital expenditures and existing investments, and in considering acquisitions/divestitures. We are continuing to enhance the awareness and capacity of our Board and senior executives relating to climate risks and opportunities. For more information see our Corporate Governance report pages 108 to 180.

BOARD COMMITTEES¹

All Board Committees play a role in managing our climate-related risks and opportunities, and 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 and the transition to Net Zero. The responsibility for climate-related risks and opportunities is cascaded through the business in order to meet our targets and objectives.

<p>Audit Committee</p> <p>Attendance: Meets 4 times annually. Attended by the Chair and other Non-Executive Directors.</p> <p>Role relating to climate risks and opportunities: The Committee monitors the Company'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 Company's internal control processes including risk management and internal audit. Further information on page 135.</p>	<p>ESG Committee</p> <p>Attendance: Meets 4 times annually. Attended by the Board, CEO, CFO and other Company Executives.</p> <p>Role relating to climate risks and opportunities: Provides the platform for discussion of the Company's ESG agenda and related climate 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 142.</p>
<p>Nomination Committee</p> <p>Attendance: Meets 4 times annually. Attended by the Chair and other Non-Executive Directors.</p> <p>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 Company. Further information on page 145.</p>	<p>Remuneration Committee</p> <p>Attendance: Meets 4 times annually. Attended by the Chair and other Non-Executive Directors.</p> <p>Role relating to climate risks and opportunities: Considers the Company's objectives and responsibilities, and advises the Board on the framework of executive remuneration for the Company and for the wider workforce, including mechanisms to incentivise achievement of the Company's objectives related to climate change, Net Zero, and sustainability goals. Further information on page 153.</p>
<p>Health and Safety Committee</p>	<p>PR24 Committee</p>

<p>Attendance: Meets 3 times annually. Attended by the Chair, CEO, CFO, and other Non-Executive Directors.</p> <p>Role relating to climate risks and opportunities: Supports the Executive Board on matters of risk across all areas of health & safety, resilience, and process safety - including areas impacted by climate-related risks, particularly related to extreme weather events. Also reviews the effectiveness of the Company's procedures for H&S reporting and performance. Further information on page 151.</p>	<p>Attendance: Meets during the Board cycle as we progress the plan. Attended by the Chair, other Non-Executive Directors, CEO, CFO and other Company Executives.</p> <p>Role relating to climate risks and opportunities: Considers climate change and Net Zero as part of business planning and the Company's PR24 strategy.</p>
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EXECUTIVE COMMITTEES¹

Attendance: CEO, CFO, COO, GCCS, CPO, CCDO, Director of Regulation Strategy and Asset Management, Chief Engineering Director, Director of Drought and Resilience

Role relating to climate 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 risks and opportunities are considered and actions to manage risks are embedded in business planning and Investment decision-making. There are several executive committees who report to PEx, and below are some of the key committees which consider climate-related risks and opportunities within their remit:

- The monthly business review meeting - oversees and informs Board Committees on operational performance and risks across the Company, including the impacts of climate-related risks to operations and the actions being taken to manage operational risks. Other committees report to OPEX, and key committees with a specific remit related to climate risks and opportunities include: PR24 Executive Committee, Compliance Committee, and Drought & Resilience Programme Steering Committee
- Energy Risk Committee - focused on managing the Company's energy risk exposure and reviewing renewable energy opportunities
- Executive Risk Committee - reviews and approves items relating to principal risks before they are presented to Committees at Board level - including risks and opportunities relating to and influenced by climate change
- IPC Procurement Committee - considers climate-related risks and opportunities when reviewing and approving investment planning and major procurement items
- ESG Executive Committee - reviews and approves items relating to ESG before they are presented to the ESG Committee at Board level - including items which relate to or are influenced by climate change
- 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

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 risks is clearly owned, managed, and assessed by a number of the Company's management teams across our business including our management responsible for water resources, wastewater, regulation, procurement, 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 escalates risks to the Executive Committees as appropriate.

The Executive Directors' remuneration policy is set to incentivise the achievement of key performance objectives. In 2021/22, the element previously based on personal objectives was changed and now relates to ESG

¹ CBO = Chair of the Board, CEO = Chief Executive Officer, CFO = Chief Financial Officer, GCCS = General Counsel & Company Secretary, COO = Chief Operating Officer, CPO = Chief People Officer, CCDO = Chief Customer and Digital Officer

objectives and performance including targets relating to our carbon reduction goals, the working environment for our employees, and diversity.

STRATEGY

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

RECOMMENDED DISCLOSURES

- Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.
- Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.
- Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

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 pages 93 to 94. The risks have been assessed using the South West Water 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 43. 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 93).

Due to the nature of the business, the opportunities are not only assessed on financial merits, with some opportunities not increasing revenues but 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 pages 93 to 94).

PHYSICAL RISKS

	Key impacts identified on our operations and customers	Examples of our actions to mitigate risks and realise opportunities	Primary financial and reputational impacts to our business
<p>Key physical climate risks</p> <p>Increasing frequency and intensity of droughts - risks to water supply, wastewater networks, and services.</p> <p>Relevant time horizon</p> <p>Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon</p>	<ul style="list-style-type: none"> • Increased daily and peak demand for garden watering, crop irrigation, and tourism during drought events exceeds capacity to redistribute water. • Sustained drought can lead to supply shortfalls with a heightened risk for recovering water storage if there are consecutive drought years. • 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 	<p>Current actions:</p> <ul style="list-style-type: none"> • 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 Per Capita Consumption (PCC) reductions and leakage reduction strategy. • Investigation of regional water transfers. 	<p>Impacts from mitigating the risk:</p> <p>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.</p> <p>Impacts of the unmitigated risk:</p>

<p>Risk score in 2025 including current actions = Medium / increasing</p> <p>Risk score in 2050 without further action = High / increasing</p>	<p>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).</p> <ul style="list-style-type: none"> • Lower groundwater levels reduce borehole yields. Intake, borehole pump and reservoir draw-off levels may not match reduced levels. • Saline intrusion due to lowering groundwater compounded by sea level rise (see 'Rising sea levels' risk). • Decreased intake raw water quality (see 'Increasing average temperatures and heatwaves' risk). • Impacts on wastewater networks due to low flows from surface water. 	<ul style="list-style-type: none"> • Potential Abstraction Incentive Mechanism (AIM) schemes. • Enhancements to distribution system to remove bottlenecks/ support us to meet peak demand. • Desalination scheme in development for 2023 to enhance our drought management. <p>Planned or future actions:</p> <ul style="list-style-type: none"> • Finalise draft Water Resources Management Plan 2024 including: <ol style="list-style-type: none"> a. demand management options i.e. increased metering, leakage reduction. b. schemes to increase water supply (e.g. Cheddar SRO, Mendip SRO, enhancing interconnectivity of water resource zones) with new sources, storage. c. water treatment improvements and wastewater reuse • Potential for additional desalination schemes. 	<p>Service disruptions could negatively impact our reputation and reduce ODI rewards/ increase ODI penalties (affecting our revenue).</p> <p>We could face additional expenditure (Opex and Capex) to recover from service disruptions, reduce leakage, and manage water demand.</p> <p>Some of our assets could deteriorate and face impairment due to physical impacts.</p>
<p>Key physical climate risks</p> <p>Increasing average temperatures and heatwaves - risks to water quality and water treatment</p> <p>Relevant time horizon</p> <p>Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon</p>	<ul style="list-style-type: none"> • 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 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 	<p>Current actions:</p> <ul style="list-style-type: none"> • Upstream Thinking catchment management tackling raw water quality to increase resource availability in 80% of our drinking water catchments. • Granular activated carbon at certain Water Treatment Works (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. 	<p>Impacts from mitigating the risk:</p> <p>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.</p> <p>Impacts of the unmitigated risk:</p>

<p>Risk score in 2025 including current actions = medium / increasing</p> <p>Risk score in 2050 without further action = medium / increasing</p>	<p>and intensity of droughts' risk).</p> <ul style="list-style-type: none"> Decreased water quality during heatwaves compounded by overheating of equipment/assets. Cascading impacts to interdependent networks (e.g. power supply) from overheating, leading to service disruption. Increased prevalence of invasive non-native species (INNS). 	<p>Planned or future actions:</p> <ul style="list-style-type: none"> Upgrade to granular activated carbon treatment at further WTWs. 	<p>Service disruptions and lower-quality service provision could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue).</p> <p>We could incur increased expenditure (Capex and Opex) to recover our services or use alternative water supplies.</p> <p>Some of our assets could deteriorate and face impairment due to physical impacts.</p>
<p>Key physical climate risks</p> <p>Increasing frequency of heavy rainfall and floods - risks to assets & services, water quality, and the environment</p> <p>Relevant time horizon</p> <p>Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon</p> <p>Risk score in 2025 including current actions = medium / increasing</p> <p>Risk score in 2050 without</p>	<ul style="list-style-type: none"> 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 	<p>Current actions:</p> <ul style="list-style-type: none"> Drainage & Wastewater Management Plan (DWMP). 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 PR19 to improve flood defences at four WTWs 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. 	<p>Impacts from mitigating the risk:</p> <p>We could incur additional expenditure (Opex and Capex) to improve operational resilience and flood defences, and to enhance our Upstream and Downstream Thinking programmes.</p> <p>Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon.</p> <p>Impacts of the unmitigated risk:</p> <p>Service disruptions and combined storm overflows could negatively impact our reputation and reduce ODI rewards/increase</p>

<p>further action = medium / increasing</p>	<p>leaching that increase algal growth in waterbodies and reservoirs.</p> <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • New Mayflower WTW in Plymouth increases local flood resilience. • Partnership flood schemes e.g. Countess Wear Wastewater Treatment Works (WWTW)(Exeter). <p>Planned or future actions:</p> <ul style="list-style-type: none"> • 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 CSOs). • Continue to improve incident management. 	<p>ODI penalties (affecting our revenue).</p> <p>We could incur additional expenditure (Opex and Capex) to recover our services and repair damaged assets.</p> <p>Some of our assets could deteriorate and face impairment due to physical impacts.</p>
<p>Key physical climate risks</p> <p>Rising sea levels and coastal erosion - risks to assets and services</p> <p>Relevant time horizon</p> <p>Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon</p> <p>Risk score in 2025 including current actions = Medium / stable</p> <p>Risk score in 2050 without further action = high / increasing</p>	<ul style="list-style-type: none"> • 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 average temperatures and heatwaves' risk). • Coastal estuarine storm overflow discharges become tide-locked hindering free discharge 	<p>Current actions:</p> <ul style="list-style-type: none"> • Asset flood risk assessments undertaken every five years. • 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. <p>Planned or future actions:</p> <ul style="list-style-type: none"> • Protection of further sites from saline intrusion/incursion. • Desalination programme. 	<p>Impacts from mitigating the risk:</p> <p>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.</p> <p>Impacts of the unmitigated risk:</p> <p>Service disruptions could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue).</p> <p>We could face additional expenditure (Opex and Capex) for using alternative water supply if</p>

	<ul style="list-style-type: none"> 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). 		<p>sites/sources become unusable.</p> <p>Some of our assets could deteriorate and face impairment due to physical impacts.</p>
<p>Key physical climate risks</p> <p>Increasing frequency of extreme weather events and storms - risks to assets and services</p> <p>Relevant time horizon</p> <p>Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon</p> <p>Risk score in 2025 including current actions = Medium / increasing</p> <p>Risk score in 2050 without further action – medium / increasing</p>	<ul style="list-style-type: none"> 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. 	<p>Current actions:</p> <ul style="list-style-type: none"> Cold weather plan, including prioritisation of support for vulnerable customers. Investment in centralised control room and alternative water supply teams. Duplication of strategic water mains network. Backup power at plants to manage risks of energy supply interruption. Recovery plans for 100 WWTWs. Working with other stakeholders (e.g. energy providers) to enhance resilience. <p>Planned or future actions:</p> <ul style="list-style-type: none"> Extend real-time monitoring and control. Extend recovery plans at more WWTWs. Further investment in generating renewable energy and back-up power. 	<p>Impacts from mitigating the risk</p> <p>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.</p> <p>Impacts of the unmitigated risk</p> <p>Service disruptions could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue).</p> <p>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.</p>

TRANSITION RISKS

<p>Key impacts identified on our operations and customers</p>	<p>Examples of our actions to mitigate risks and realise opportunities</p>	<p>Primary financial and reputational</p>
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			impacts to our business
<p>Type as defined by TCFD</p> <p>Policy, Regulation and Legal Risks</p> <p>Relevant time horizon of risk</p> <p>Short and medium term</p> <p>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.</p> <p>Current Risk Rating = medium / increasing</p>	<p>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.</p> <p>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 South West Water or increasing our carbon footprint, in other cases the absence of policies and regulation pose a risk due to potential that costs incurred by South West Water may not be recovered through the regulatory system.</p> <p>Some examples include:</p> <ul style="list-style-type: none"> 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: <ol style="list-style-type: none"> reduced abstraction allowances and 	<p>Balancing trade-offs from actions to address different agendas in policy and regulation:</p> <p>Current actions:</p> <ul style="list-style-type: none"> 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. Adaptive planning approach within dWRMP24, including high, moderate, and low environmental ambition. Considering options which South West Water can take outside of the regulatory framework (e.g. offsite investment in renewable energy). <p>Future actions:</p> <ul style="list-style-type: none"> Pursuing opportunities for 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. 	<p>Impacts from mitigating the risk:</p> <p>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 enhance regulations.</p> <p>Some of these costs could be recoverable through the regulatory system.</p> <p>Increased energy and material use to meet increased regulatory requirements has potential to increase our carbon footprint through operational and embodied carbon.</p> <p>Impacts of the unmitigated risk:</p> <p>If we fail to balance regulatory requirements, we could face</p>

	<p>increased compensation flows into our rivers being imposed (see our 'drought' physical risk)</p> <p>b. increased environmental ambition by other stakeholders to replace lost coastal habitat and manage coastal erosion (see our 'rising sea levels' physical risk).</p> <ul style="list-style-type: none"> • changes to carbon accounting methodologies and scope boundaries, including changes to location-based GHG accounting methodology instead of market-based accounting (e.g. disincentivising power purchase agreements (PPAs) for renewable energy). • enhanced requirements which increase South West Water'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. 		<p>reduced ODI rewards/ increased ODI penalties (affecting our revenue).</p> <p>Public perception of how we balance trade-offs could result in negative impacts on our reputation (see our 'Negative public and stakeholder' reputation risk).</p> <p>Some of our assets could incur obsolescence and impairment If they are driving high carbon emissions or poor environmental outcomes.</p>
<p>Type as defined by TCFD</p> <p>Policy, Regulation and Legal Risks</p> <p>Relevant time horizon of risk</p> <p>Short and medium term</p> <p>In the short term the risk is more focused on funding to achieve Net Zero, over the medium and long term the</p>	<p>Regulatory funding risk for achieving South West Water'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 South West Water, is not allowed under the regulatory framework.</p>	<p>Managing regulatory funding risk:</p> <p>Current actions:</p> <ul style="list-style-type: none"> • Business planning/ making case for investment. • 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 Net Zero 2030 for the water sector is a helpful milestone on the way to Government's goal for Net Zero 2050. • Exploring options which South West Water can take outside of the regulated water 	<p>Impacts from mitigating the risk:</p> <p>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</p>

<p>risk will increasingly focus on funding to enable adaptation to climate change.</p> <p>Current Risk Rating = medium / stable</p>		<p>businesses (e.g. offsite investment in renewable energy; enhancing revenue through water transfers and water resource schemes for other companies).</p> <p>Future actions:</p> <ul style="list-style-type: none"> • Explore options for third-party funding or partnerships for climate action. • Potential for South West Water to review climate change objectives if they are not supported by regulators and Government 	<p>Services' climate opportunity.</p> <p>Impacts of the unmitigated risk:</p> <p>If we cannot proactively invest in carbon reduction and climate resilience we could face reduced ODI rewards/ increased ODI penalties (affecting our revenue).</p> <p>Increased costs to our customers in the long-term would negatively impact our reputation (see our 'Negative public and stakeholder' and 'Customer affordability' reputation risks).</p> <p>Some of our assets could deteriorate and face impairment due to physical impacts from climate change.</p> <p>We may be limited in our ability to reduce our carbon emissions.</p>
<p>Type as defined by TCFD</p>	<p>Capacity and readiness of technology and resources to achieve Net Zero before other sectors and the wider UK:</p>	<p>Managing capacity constraints in Pennon:</p>	<p>Impacts from mitigating the risk:</p>

<p>Technology Risks</p> <p>Relevant time horizon of risk</p> <p>Short and medium term</p> <p>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 across the UK and beyond), over the medium term the risk will be increasingly driven by high demand for technology and resources.</p> <p>Current Risk Rating = medium / increasing</p>	<p>Risks that skills, technology, resources, and infrastructure are not ready and available to enable South West Water's transition to Net Zero operational carbon by 2030, resulting in delays and in some cases resulting in South West Water paying high costs to access resources. Some examples include:</p> <ul style="list-style-type: none"> • availability and capacity of South West Water's workforce and supply chain to procure and design low-carbon solutions (which is compounded by wider risks, such as geopolitical events and macro-economic conditions such as high inflation). • availability and capacity of technology and infrastructure, particularly in the Great South West of England, to enable development Net Zero programme activities. • high demand for resources and technologies from others causing delays and increasing costs for South West Water (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. 	<p>Current actions:</p> <ul style="list-style-type: none"> • Continual enhancement of capacity within South West Water (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 Great South West). • Collaboration with other water companies and across the sector to develop standard approaches and enhance capacity. <p>Future actions:</p> <ul style="list-style-type: none"> • Prioritising actions/solutions which are low-regret/ flexible e.g. nature-based solutions • Piloting options/technology before scaling. <p>Managing supply chain and infrastructure limitations:</p> <p>Current actions:</p> <ul style="list-style-type: none"> • 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 South West Water to reduce reliance on suppliers. • Purchasing renewable electricity. <p>Future actions:</p> <ul style="list-style-type: none"> • 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). 	<p>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.</p> <p>Impacts of the unmitigated risk:</p> <p>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.</p> <p>We could incur penalties and/or negative impacts to our reputation if delays in technology and resources mean</p>
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		<p>Managing costs to transition:</p> <p>Current actions:</p> <ul style="list-style-type: none"> • Seek to fund investment through the regulatory process (business planning and price reviews). • Investment in innovation to reduce costs of low-carbon technology. <p>Future actions:</p> <ul style="list-style-type: none"> • 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). <p>Managing research and development investment:</p> <p>Current action:</p> <ul style="list-style-type: none"> • 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 international. • Engagement with regulators and community to test acceptability of strategies and schemes. <p>Future action:</p> <ul style="list-style-type: none"> • Prioritising solutions that are low-regret, particularly nature-based solutions through piloting technology before scaling. 	<p>we do not meet our targets and/or Net Zero programme (see our 'Negative public and stakeholder reputation' risk).</p> <p>We may be limited in our ability to reduce our carbon emissions.</p>
<p>Type as defined by TCFD</p> <p>Market Risks</p>	<p>Increased costs of energy and materials due to the transition to Net Zero, impacts of climate change, and wider factors:</p> <p>Increases in costs of energy sources and input materials - influenced by the Net Zero</p>	<p>Managing cost of energy:</p> <p>Current actions:</p> <ul style="list-style-type: none"> • Generation of renewable energy by South West Water, including exploring additional 	<p>Impacts from mitigating the risk:</p> <p>We could incur increased expenditure</p>

<p>Relevant time horizon of risk</p> <p>Short and medium term</p> <p>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.</p> <p>Current Risk Rating = Medium / decreasing</p>	<p>transition and/or impacts of climate change and compounded by geopolitical events and macro-economic conditions (e.g. such as high inflation). Some examples include:</p> <ul style="list-style-type: none"> Record high price 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 of materials in the short/medium term). Price of some technologies for generating renewable electricity has increased due to high demand/limited supply. 	<p>options and power purchase agreements (PPAs).</p> <ul style="list-style-type: none"> Increasing efficiency to reduce energy demand (e.g. enhance energy efficiency, reduce leakage - see our 'resource efficiency' opportunity). Electricity price hedging. <p>Future actions:</p> <ul style="list-style-type: none"> 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. <p>Managing cost of input materials:</p> <p>Current actions:</p> <ul style="list-style-type: none"> procurement strategies to reduce cost (e.g. competitive pricing). <p>Future actions:</p> <ul style="list-style-type: none"> Increasing efficiency to reduce material use and light-weighting/reducing material consumption. Enhancing supply chain resilience (e.g. diversifying suppliers to reduce cost). Investing in innovation to use different chemicals and materials. 	<p>(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).</p> <p>Impacts of the unmitigated risk:</p> <p>We could incur increased expenditure (Capex and Opex) due to increased cost of energy/REGOs and materials.</p> <p>We may be limited in our ability to reduce our carbon emissions.</p>
<p>Type as defined by TCFD</p> <p>Reputational Risks</p> <p>Relevant time horizon of risk</p>	<p>Negative public and stakeholder relations due to South West Water 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:</p>	<p>Managing public and stakeholder relations:</p> <p>Current actions:</p> <ul style="list-style-type: none"> Risk management practices. Investment to reduce key risks, including our WaterFit programme. Net Zero programme. Environmental programmes (e.g. Water Industry National Environment Programme – WINEP). 	<p>Impacts from mitigating the risk:</p> <p>We could potentially incur increased expenditure (Opex) to manage stakeholder relations and</p>

<p>Short and medium term</p> <p>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.</p> <p>Current Risk Rating = Medium / increasing</p>	<ul style="list-style-type: none"> 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 more than positive actions compounds this risk. Shifts in stakeholder/customer expectations related to carbon and climate which are difficult for Water companies to manage. Stakeholder and customer dissatisfaction if South West Water fails to meet Net Zero commitments. 	<ul style="list-style-type: none"> Customer and stakeholder engagement/public relations. Community outreach and educational programmes. Engagement and pilots to test and build customer acceptability for schemes. ESG and sustainability initiatives. '6 capitals' considered in decision making. <p>Future actions:</p> <ul style="list-style-type: none"> 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). 	<p>public perception to mitigate reputational impacts.</p> <p>Impacts of the unmitigated risk:</p> <p>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).</p>
<p>Type as defined by TCFD</p> <p>Reputational Risks</p> <p>Relevant time horizon of risk</p> <p>Short and medium term</p> <p>The need for additional investment to meet the Net Zero and climate adaptation challenges will likely continue to impact across the medium</p>	<p>Customer affordability and fairness concerns for achieving Net Zero and adapting to climate change:</p> <p>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:</p> <ul style="list-style-type: none"> 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 as high costs/impacts. 	<p>Managing customer affordability:</p> <p>Current actions:</p> <ul style="list-style-type: none"> 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.) 	<p>Impacts from mitigating the risk:</p> <p>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).</p> <p>Impacts of the unmitigated risk:</p>

<p>term, particularly if global climate action is slow and the physical impacts are greater.</p> <p>Current Risk Rating = Medium / increasing</p>	<ul style="list-style-type: none"> Multiple agendas and misalignment from different Government departments and regulators requiring increased investment from water companies. 	<ul style="list-style-type: none"> 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. <p>Future actions:</p> <ul style="list-style-type: none"> 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. 	<p>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).</p> <p>We could incur penalties if we failed to support customers in need / vulnerable customers suffering from high bills.</p>
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CLIMATE RELATED OPPORTUNITIES

	Key impacts identified on our operations and customers	Examples of our actions to mitigate risks and realise opportunities	Primary financial and reputational impacts to our business
<p>Type as defined by TCFD</p> <p>Resilience</p> <p>Relevant time horizon of risk</p> <p>Short, medium, and long term</p> <p>Enhancing resilience to climate change and extreme weather events is of high relevance today, with increasing likelihood and</p>	<p>Enhancing resilience across South West Water's operations, asset base, and supply chain to avoid costs and enhance value:</p> <p>Opportunity to invest in enhancing resilience across South West Water's business and supply chain, in some cases saving costs (e.g. avoided damage to assets, avoided losses in revenue, avoided penalties on ODIs and GSS) and enhancing company reputation and value. Some examples include:</p> <ul style="list-style-type: none"> Enhancing South West Water's resilience by investing in climate 	<p>Enhancing South West Water's resilience:</p> <p>Current actions:</p> <ul style="list-style-type: none"> 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 and regulators and customers. 	<p>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.</p> <p>However, this requires significant investment (Opex and Capex), including strengthening our infrastructure and</p>

<p>magnitude of risk over each horizon.</p> <p>Current opportunity rating = High / increasing</p>	<p>change adaptation e.g. investing in drought and flood prevention measures to avoid customer disruption/ penalties/ compensation payments and avoid asset damage.</p> <ul style="list-style-type: none"> Enhancing supply chain resilience by investing in buffers/storage for critical resources, diversifying suppliers, replacing suppliers who have high climate risks, thereby reducing potential risks and costs associated with supply chain disruption and delays. 	<ul style="list-style-type: none"> Investments in response and recovery to operational disruption. <p>Future actions:</p> <ul style="list-style-type: none"> Actions to adapt to climate change (e.g. enhancing drought resilience) and to mitigate climate risks. <p>Enhancing supply chain resilience:</p> <p>Current actions:</p> <ul style="list-style-type: none"> Enhancing capacity within South West Water 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). Existing diversity in suppliers. <p>Future actions:</p> <ul style="list-style-type: none"> 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. 	<p>enhancing our adaptive capacity. Some of these costs could be recoverable through the regulatory system.</p> <p>We will need to manage the carbon footprint associated with schemes related to climate resilience.</p>
<p>Type as defined by TCFD</p> <p>Energy Source</p>	<p>Reducing carbon and enhancing energy resilience by using and generating renewable energy: Opportunities to lower carbon emissions by using renewable energy and opportunities to invest in</p>	<p>Using renewable energy:</p> <p>Current actions:</p> <ul style="list-style-type: none"> Procurement strategy for renewable energy to minimise the impact of increasing costs of energy. 	<p>We could incur increased expenditure (Capex and Opex) due to investment in generating renewable energy, however this has potential to reduce our carbon footprint.</p>

<p>Relevant time horizon of risk</p> <p>Short and medium term</p> <p>This opportunity is of high relevance to meet our 2030 Net Zero target, with continued relevance into the medium and long term due to increasing market risks to energy pricing and resilience of energy supply as physical risks increase in magnitude and likelihood over each horizon.</p> <p>Current opportunity rating = High / Increasing</p>	<p>renewable energy generation which can lower our carbon emissions, enhance our energy resilience (e.g. less reliance on energy suppliers), and enhance our revenue through sale of renewable energy.</p> <p>Some examples include:</p> <ul style="list-style-type: none"> • South West Water's commitment to purchase 100% renewable electricity from 2022 onwards. • Generating renewable energy on South West Water's sites and through partnerships (e.g. PPAs) such as through generating energy from wastewater and sludge, and generating electricity through solar and wind. • Switching fuels to lower-carbon sources, such as switching diesel to renewable electricity and HVO as a transition fuel. 	<ul style="list-style-type: none"> • Supply contract for 100% renewable energy by 2023 for South West Water (currently excludes newly integrated Bristol Water operations). • Generation of renewable energy by South West Water, including exploring additional options and power purchase agreements (PPAs). • Net Zero programme. • Prioritising investment to deliver highest carbon reduction. • Seeking return on investment (ROI) where possible. • Investment in generating renewable energy. <p>Future actions:</p> <ul style="list-style-type: none"> • Trialling low-carbon fuels. • Innovation programme (e.g. exploring options to generate and recover energy from sewers). • Engagement with potential partners for PPAs. • Establishing the commercial and legal arrangements to co-fund renewable energy investments. 	<p>Some of these costs could be recoverable through the regulatory system).</p> <p>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).</p> <p>We could enhance our revenue through selling renewable energy.</p> <p>We will need to manage the carbon footprint associated with generating renewable energy.</p>
<p>Type as defined by TCFD</p> <p>Markets</p> <p>Relevant time horizon of risk</p> <p>Short and medium term</p> <p>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</p>	<p>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</p>	<p>Sustainable finance:</p> <p>Current actions:</p> <ul style="list-style-type: none"> • Sustainable financing framework. • TCFD and TNFD programme. • Investigating requirements to access sustainable finance markets. • Procurement and finance strategies. • ESG initiatives. <p>Future actions:</p> <ul style="list-style-type: none"> • Establishing commercial and legal arrangements for buying and selling 	<p>Through sustainable financing, we have potential to reduce our expenditure by avoiding cost increases related to financing/ cost of capital.</p> <p>We also have potential to enhance our reputation and mitigate reputational risks (see our 'reputation' transition risks).</p>

<p>opportunity will increasingly focus on environmental targets and climate change resilience to long term challenges.</p> <p>Current opportunity rating = Medium / increasing</p>	<p>Taxonomy/UK Green Taxonomy.</p>	<p>green financial assets/credits.</p> <ul style="list-style-type: none"> • Future disclosure/ESG initiatives (e.g. EU/UK taxonomy, Taskforce on Nature-related Financial Disclosures, ISSB, Transition Plans/TPT). • Exploring opportunities to attract third-party funding. 	
<p>Type as defined by TCFD</p> <p>Resource Efficiency</p> <p>Relevant time horizon of risk</p> <p>Short and medium term</p> <p>In the short and medium term, investment in resource efficiency is central to many of our options and decisions in our business plan and WRMP's best value plan. This will enhance our resilience, our ability to meet our environmental and our Net Zero targets and enhance our revenue over the medium and long term.</p> <p>Current opportunity rating = High / increasing</p>	<p>Saving water, energy, materials, and carbon by enhancing efficiency, using low-carbon and nature-based solutions, and reducing emissions across South West Water's supply chain: Opportunities to invest in enhancing efficiency and reduce wastage 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:</p> <ul style="list-style-type: none"> • South West Water'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 	<p>Enhancing water efficiency:</p> <p>Current action:</p> <ul style="list-style-type: none"> • Demand management and water efficiency programme (within South West Water's own operations and across customer networks), including Per Capita Consumption (PCC) reductions and leakage reduction strategy. • Smart metering. • Customer education/outreach. • Communications around carbon. • Farm water efficiency and resilience project – 1,000 pond nature-based solutions. <p>Future actions:</p> <ul style="list-style-type: none"> • Rainwater harvesting • Incentivising customers to use less water. • Considering applying an internal carbon value to consider full costs and benefits of decisions. • Extend real-time monitoring and control. <p>Enhancing process, building, and transport efficiency:</p> <p>Current actions:</p> <ul style="list-style-type: none"> • Actions to enhance process efficiency. 	<p>Potential to reduce our carbon footprint and our Opex in some cases where there are cost savings from resource efficiency.</p> <p>However this requires significant investment (Opex and Capex), including additional monitoring, metering, and capital projects.</p> <p>Some of these costs could be recoverable through the regulatory system.</p> <p>We will need to manage the carbon footprint associated with actions to realise resource efficiency opportunities.</p>

	<p>interventions, such as using Real Time Control in sewers to increase operational capacity instead of constructing bigger sewers (see also our 'technology' risk).</p> <ul style="list-style-type: none"> • 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 opportunity to access new suppliers with high ESG credentials. 	<ul style="list-style-type: none"> • Energy efficiency programme for South West Water'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. <p>Future actions:</p> <ul style="list-style-type: none"> • Investments in innovation to enhance efficiency. • Changes to operational practices to enhance efficiency (e.g. real time monitoring and control). • Partnerships with suppliers/ outsourcing specific operations. • Employee carpooling. • Light-weighting vehicles. • Considering applying an internal carbon value to consider full costs and benefits of decisions. <p>Using low-carbon solutions:</p> <p>Current actions:</p> <ul style="list-style-type: none"> • Implementing capital carbon accounting. <p>Future actions:</p> <ul style="list-style-type: none"> • Net Zero programme (embodied carbon initiatives), • Engagement with supply chain. • 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. 	
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		<ul style="list-style-type: none"> • Considering applying an internal carbon value to consider full costs and benefits of decisions. <p>Using nature-based solutions:</p> <p>Current actions:</p> <ul style="list-style-type: none"> • Embedding natural capital into decision making. • Investing in innovation and piloting. <p>Future actions:</p> <ul style="list-style-type: none"> • 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. • Considering applying an internal carbon value to consider full costs and benefits of decisions. <p>Reducing supply chain carbon:</p> <p>Current actions:</p> <ul style="list-style-type: none"> • Engaging with suppliers. <p>Future actions:</p> <ul style="list-style-type: none"> • Procurement strategies (e.g. requirements on suppliers to meet ESG criteria/ low climate risks, reduce emissions), 	
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		<ul style="list-style-type: none"> • 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. 	
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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 relative 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 changes. Transition risks and physical risks will both impact our business across this period to varying levels depending on global GHG emissions and the Net Zero pathway taken by the UK and globally.

Long-term – 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 over 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 our 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, which map onto ‘fast’ and ‘slow’ transition scenarios. We have selected these contrasting scenarios as they span a range of possible futures, and present different challenges and opportunities for our business. We will continue to re-visit our scenario analysis in future, including considering the merit in selecting additional scenarios.

Physical risk scenarios

- **RCP2.61: Lower Physical Impacts** - an approximate 2°C warming scenario by the year 2100 – corresponding to a low emissions 'optimistic' scenario.
- **RCP8.51: High Physical Impacts** - an approximate 4°C warming scenario by the year 2100 – corresponding to a high emissions 'business-as-usual' scenario, which is appropriate to use when considering high risks.

Transition risk scenarios

- **1.5 degree scenario: Fast Transition** - a scenario which sees the UK as a global leader with strong policies and actions to mitigate climate, aligned with the Paris Agreement.
- **Current policies' scenario: Slow Transition** - a scenario which sees the UK make incremental progress to mitigate climate change, but assumes no major policy changes and results in missing the aims of the Paris Agreement.

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 South West Water'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).

PHYSICAL RISKS

Approach taken

The Company 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 Company'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 region (acquired June 2021) within this disclosure.

Impacts

This section discusses impacts under each physical risks scenario of RCP2.6 and RCP8.5.

- **Climate resilience will require increased expenditure and investment.** The most significant financial impacts for the Company are on our expenditures (Opex and Capex), to mitigate against future climate risks by increasing capacity for water supply infrastructure; managing drought conditions and water demand; improving water and wastewater treatment and odour management; 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 South West Water'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 Company could also be impacted financially by Outcome Delivery Incentive (ODIs) penalties and

rewards due to potential failure to achieve performance commitments as part of the regulatory framework, further resulting in negative impacts to our reputation. This impact is more likely under the higher emissions scenario over the long-term horizon due to higher projected magnitude of climate impacts and frequency of extreme weather events.

- **Investment required is high, but the cost of inaction is much higher.** The 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 wastewater assets all of which will be affected by climate change in some way. The unmitigated risk would result in additional expenditure (Opex and Capex) to recover from service interruptions and repair or replace deteriorated assets. The unmitigated risk would result in more frequent and greater ODI penalties. Although some of this will be at our Company's expense, 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

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 their 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 draft WRMP24 and DWMP23 for delivering reliable, efficient, and high-quality drinking water and wastewater services is driven by best-value adaptive planning, as per Ofwat's final methodology for PR24. This means that, using the same physical scenarios analysed here (RCP2.6 and RCP8.5), our draft 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.

Compared to today, overall our revenue is unlikely to be impacted significantly 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, 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.

TRANSITION RISKS

Approach taken

The Company undertook qualitative scenario analysis in 2022 considering the financial implications of transition climate risks and opportunities for South West Water (including Bristol Water) under the two transition scenarios described earlier. The assessment considered impacts to the year 2030; this time horizon was selected as it aligns with our operational Net Zero target and there is much uncertainty beyond this time with regards to changes to policy, technology, markets, and public opinion.

Impacts - UK Slow Transition scenario

This scenario provides a challenging context for meeting our 2030 operational Net Zero target. In this scenario we have identified the following main impacts for our business:

- **The cost to our business of achieving our 2030 Net Zero target rises, and there is less ability to recover costs through the regulatory pricing system.** This is compounded by the readiness and higher costs for access to low-carbon technologies and related skills (due to the UK's 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).
- **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, 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 Fast Transition scenario.** Opportunities for our business remain, however, they are in general more limited, and with lower return than in the Fast 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.

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 - UK Fast Transition 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, climate resilience, environmental protection, 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 Slow 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 Slow 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 Slow Transition scenario, however the regulatory environment may be more favourable for nature-based solutions (NBS) which can also sequester carbon, as there may be more stringent carbon management requirements, and carbon markets would also be stronger and provide more incentives for NBS.
- **Enhanced support to low-income customers may be needed.** Fairness in the distribution of the costs of the UK's transition to Net Zero is a key concern among stakeholders. Increased support to some customers may be required, and our investments will need to be carefully planned and phased to ensure they are efficient and avoid sudden price impacts.
- **Opportunities are higher than the Slow 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.

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 Company to take advantage of opportunities:

- **Investing in efficiency.** Under both scenarios there are major carbon savings that can be achieved by increasing efficiency, both 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 stakeholders.** We will continue to pursue opportunities to reduce costs and enhance sustainability. This includes reducing our financing costs through our sustainable finance framework, investing in our environmental programme which includes restoring ecosystems to capture carbon, and working with partners and suppliers to enhance our resilience and reduce emissions across our supply chain. We will also continue to explore opportunities to enhance our revenue through water resource options, selling renewable energy, and markets for bioresources and natural capital.

STATEMENT OF RESILIENCE

There are clear impacts on our business under different climate scenarios, in particular:

- higher costs in the short term to meet our operational Net Zero target by 2030 under the Slow 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 remain resilient under the different climate scenarios considered. Further analysis, including quantitative analysis is planned going forward to enhance South West Water'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).

RISK MANAGEMENT

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Recommended disclosures

- Describe the organisation's processes for identifying and assessing climate-related risks.
- Describe the organisation's processes for managing climate-related risks.
- Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

The Company's risk management framework is explained in detail on pages 43 to 59, including the methodology for assessing risks.

The Company is continuing to integrate climate-related risk management within the Company's overall risk management process, and climate-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 business functions can effectively identify climate-related risks, like they do with other risks (in many cases, climate 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 function.

Furthering our progress, the Company has identified several principal risks which are impacted or influenced by physical and transitional climate risks and opportunities, and as such we are increasingly cognisant that climate

risk management is integral to the performance and resilience of our business and strategy. The link between climate-related risks and opportunities on our principal risks is summarised in the table below.

We recognise the evolving landscape of climate-related risk which is reflected in the changing regulatory frameworks, customer expectations and Government policies that are inherent to our operating context. This is particularly true for climate 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 Company's risk framework. This target risk level or tolerance level reflects the acceptable level of risk by the Company and also stands as a target and equitable measure for alleviatory measures to approach the risk going forward. Climate-related risks are approached with a minimal level of appetite, and this is subject to Board approval where all appetite levels are established. The appropriate action then follows from the level of difference between the net risk and the desired risk appetite. Actions to manage risks cover four response types:

- **Tolerate:** where decisions are taken to tolerate a risk, subject to ongoing monitoring. An example is climate-related risks where uncertainty is high and therefore we might decide to monitor risks until such time as it may be necessary to take further action.
- **Treat:** where actions are taken to manage and reduce risks, such as implementing operational measures in our drought plan or capital investments to enhance our resilience to droughts.
- **Transfer:** used where possible to transfer risks to other organisations - such as through insurance or through contracting out responsibilities. We recognise it is not possible to fully transfer risks, rather this approach helps to reduce our exposure. For example, reducing our exposure to the impacts of flooding through flood insurance.
- **Terminate:** where decisions are taken to stop activities so that we are not exposed to particular risks. For example, we may decide not to undertake a capital project if risks cannot be effectively mitigated - for example due to high costs for energy, materials, and specialist resources related to Net Zero or climate adaptation.

Actions to mitigate risks are allocated to action owners and progress is monitored through the risk review process.

CLIMATE-RELATED RISKS IMPACT AND INFLUENCE OUR PRINCIPAL RISKS

Principal risks	Risk description	Physical Risks	Transition Risks
Law, regulation and finance	Changes in Government policy		X
	Regulatory Frameworks		X
	Non-compliance with laws and regulations	X	X
	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments		
	Non-compliance or occurrence of avoidable health & safety incident		
	Failure to pay all pension obligations as they fall due and increased costs to the Company should the defined benefit pension scheme deficit increase		
Market and economic conditions	Macro-economic risks impacting inflation, interest rates and power prices		X
Operating performance	Failure to deliver the Company's 2030 Net Zero Commitment to respond to the impact of climate change		X
	Availability of sufficient water resources to meet current and future demand	X	X
	Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water	X	X
	Failure of operational wastewater treatment assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts. Including pollutions	X	X
	Non-delivery of customer service and environmental commitments	X	X
	Insufficient skills and resources to meet the current and future business needs and deliver the Company's strategic priorities		X
Business systems and	Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes	X	X

Principal risks	Risk description	Physical Risks	Transition Risks
capital investments			
	Inadequate technological security results in a breach of the Company's assets, systems and data		

We recognise how climate-related risks are impacting our principal risks and/or how our response to these risks needs to consider climate resilience and Net Zero.

METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended disclosures

- Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
- Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
- Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

We are continuing to enhance the metrics we use to quantify key climate 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 which can be found in the Pennon Group annual report (SECR report on pages 67 to 69). We report on all Scope 3 categories which are relevant and material to our business (ESG databook). SASB reporting can be found on pages 64 to 68.

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

	Description of the metric	Metric for FY22/23 ¹	Trend ²	Related Targets
GHG emissions	Scope 1, 2, and 3 GHG emissions (in tCO ₂ e).	290,831		Operational Net Zero by 2030 (SWW & BW), Total Net Zero by 2045 (SWW).
	GHG Reduction from the baseline year 2021 (Scope 2 market-based) (tCO ₂ e).	65.7%		Commitment to set Science-Based targets (SBT) for near-term and long-term emissions.
	Carbon intensity of our water services in tonnes of CO ₂ e per megalitre of water supplied to customers.	180.9 SWW 179.1 BRW		Reduce operational emissions by 70% by 2025 (Scope 2 market-based) (tCO ₂ e).
	Carbon intensity of our business in tonnes of CO ₂ e per £100k of our revenue based on Scope 1 and 2 GHG emissions.	7.3		
Transition risks	Risk of increased energy costs: Proportion of our	c.28%		Purchase 100% renewable electricity by 2022 (SWW).

Selected metrics for some material risks	operational expenditure on electricity (%).			Generate up to 50% of the energy we use through our own renewable energy generation by 2030. (SWW).
	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)		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.
	Risk of customer affordability in achieving Net Zero and adapting to climate change: our customer affordability measure.	96.9% (SWW) 100% (BRW)		Zero water poverty by 2025 (SWW).
Physical risks	Proportion (%) of customers currently at risk of severe restrictions in a 1-in-200-year drought.	0	=	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	Costs related to managing the current drought and ensuring resilient water supply (£).	c.£19m		
	Proportion (%) of customers at risk of sewer flooding in 2050 in a 1-in-50-year storm.	9.83		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	=	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 storm overflow spills from each storm overflow (number per year).	28		Reduce spills to an average of 20 per year from each storm overflow by 2025. Zero harm to rivers and seas by 2030.
Climate-related opportunities	Enhancing our energy resilience and reducing our carbon emissions with	31,084.05		Generate more renewable energy every year to 2030.

Selected metric for a material opportunity	renewable energy: Amount of renewable energy we've generated in 2022 (kWh).			
	Proportion of our energy use which came from energy we generated ourselves (%) ⁴	6.89%		Generate up to 50% of the energy we use through our own renewable energy generation by 2030.
	Enhancing our resource efficiency to reduce GHG emissions and save water: leakage reduction from the baseline 2019/20 year.	9.1% (SWW) 9.3% (BRW)		Reduce leakage by 50% by 2050 (from 2019/20 baseline year).
	Per capita consumption (PCC) in litres per day per person.	In progress		6% reduction in per capita consumption by 2024-25 (SWW) based on 2019/20 baseline year.
	Reducing our financing costs through sustainable finance: proportion of new finance under our sustainable finance framework during the year.	100%		>75% of new finance to be through sustainable financing framework.
Capital deployment	Additional investment (£) in enhancing resilience and environmental performance announced within the year 2022 on top of our ongoing business plan investment.	£120m		Accelerate our generation of up to 50% of the electricity we use through our own renewable energy generation by 2030.
Selected metrics for material capital investments				
Remuneration	Portion of the majority of our management and employees' incentive schemes linked to ESG outcomes, including climate change.	20%	=	
Internal carbon value	Value of carbon used in business cases and investment planning for PR24 (£/tCO ₂ e) ⁵	£252/tCO ₂ e Sensitivity testing: Low: £126/tCO ₂ e High: £378/tCO ₂ e	=	

1. Some metrics relate only to South West Water (SWW) or Bristol Water (BW). 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 de-salination units to enhance water capacity, and WaterFit and Green Recovery initiatives.

In 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 34 to 35. The metrics and targets associated with this help to show the investment in the area and the planned future investment to meet this goal.

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.

Read more: Net Zero and Streamlined Energy and Carbon Report (SECR) can be found in the Pennon Group annual report – pages 67 to 69.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

	Climate and environment	People
Description	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.	Our people are at the heart of our Company. 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.
Read more	<ul style="list-style-type: none"> • Approach to Sustainability – page 63 • Our Task Force on Climate-related Financial Disclosures – pages 71 to 103 • Net Zero – page 34 	<ul style="list-style-type: none"> • People section – pages 23 to 30
Related policies	<ul style="list-style-type: none"> • Biodiversity policy • Water management policy • Environmental policy 	<ul style="list-style-type: none"> • Health, safety and security policy • Code of Conduct • Workplace policy • Diversity, respect and inclusion policy • Board diversity policy
Due diligence processes	<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"> • 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
Policy outcomes	<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"> • Reduced workspace accidents and improved employee wellness • Board diversity target achievements • Sustainability target • Code of Conduct compliance
Principal risks	<ul style="list-style-type: none"> • Failure to deliver the Company's 2030 Net Zero commitment in response to the impact of climate change • Availability of sufficient water resources to meet current and future demand • Failure of operational water treatment assets and processes resulting in an inability to produce and supply clean drinking water • Failure of operational wastewater assets and processes resulting in an inability to remove 	<ul style="list-style-type: none"> • Insufficient skills and resources to meet the current and future business needs and deliver the Company's strategic priorities • Non-compliance or occurrence of an avoidable health and safety incident

	<p>and treat wastewater and potential environmental impacts including pollutions</p> <ul style="list-style-type: none"> • Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes 	
Non-financial KPIs	<ul style="list-style-type: none"> • % energy usage from renewable energy generation • % reduction in GHG emissions • Tree planting 	<ul style="list-style-type: none"> • LTI number • GPTW accreditation • % REACH recruitment • % female employees • 5% club achievement

	Social matters	Human rights	Anti-corruption
Description	<p>We work closely with our customers, communities and partners on the things that matter most to them and have regular engagement with them.</p> <p>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 supported c.110,000 customers with their bills during 2022/23.</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. In 2022/23 we gave £100,000 to 79 community groups in the South West. Community groups can apply for up to £2,000 in funding.</p> <p>Through our corporate sponsorship and donations work we continue to fund a number of local charities, initiatives and events. We committed c.£134,000 in 2022/23. This funding see's us contribute to marine education initiatives with organisations like the Wildlife Trusts, through to funding events and awareness raising with charities such as the RNLI and Surf Life Saving GB. We also work with local community charities such as Devon and Cornwall Food Action.</p>	<p>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 etc. 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.</p>	<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 bribery and corruption and have effective systems in place to counter them.</p> <p>Anyone that works with or for the Company must comply with our anti-corruption policy and are encouraged to report any breaches.</p>
Read more	<ul style="list-style-type: none"> • Our customers – page 20 to 22 	<ul style="list-style-type: none"> • Modern Slavery Statement 	<ul style="list-style-type: none"> • Code of Conduct – page 132

	<ul style="list-style-type: none"> S172 – page 124 	<p>www.pennon-group.co.uk</p>	<ul style="list-style-type: none"> Anti-bribery and corruption – page 132
Related policies	<ul style="list-style-type: none"> Community relations and investment policy 	<ul style="list-style-type: none"> Anti-Modern Slavery and Human Rights 	<ul style="list-style-type: none"> Whistleblowing Policy Anti-Facilitation of Tax Evasion Conflicts of Interest Anti-Money Laundering Policy Gifts and Hospitality Policy Anti-Bribery and Corruption policy Regulatory and Compliance
Due diligence processes		<ul style="list-style-type: none"> Modern Slavery Statement www.pennon-group.co.uk 	<ul style="list-style-type: none"> New Ethics Management Committee Speak Up helpline Gifts and Hospitality and Conflicts of Interest procedures Company-wide Bribery and Corruption mandatory training Supplier due diligence process
Policy outcomes	<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"> An open dialogue with our stakeholders on human rights issues 	<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
Principal risks	<ul style="list-style-type: none"> Non-delivery of customer service and environmental commitments 	<ul style="list-style-type: none"> Non-compliance with laws and regulations 	<ul style="list-style-type: none"> Non-compliance with laws and regulations Inadequate technological security results in a breach of the Company's assets, systems and data
Non-financial KPIs	<ul style="list-style-type: none"> £ community investment C-MeX % priority services register – customer satisfaction 	<ul style="list-style-type: none"> % Supplier engagement with our Sustainable Procurement Framework 	<ul style="list-style-type: none"> Number of cases reported through Speak Up

			<ul style="list-style-type: none">• % of suppliers who support our Code of Conduct
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APPROVAL OF THE STRATEGIC REPORT

Our Strategic Report consisting of pages 4 to 107 has been reviewed and approved by the Board.



Andrew Garard
Group General Counsel and Company Secretary
14 July 2023

GOVERNANCE AND REMUNERATION

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GOVERNANCE AT A GLANCE

HIGHLIGHTS

BOARD CHANGES

On 31 August 2022 Louise Rowe took up an alternative role within South West Water and resigned her responsibilities as South West Water Finance Director. Paul Boote was appointed as Chief Financial Officer of South West Water from 1 September 2022, Paul already held the position of Chief Financial Officer of Pennon Group plc, having been appointed on 8 July 2020.

Read more on Paul's biography on page 114.

In December 2022, Dorothy Burwell and Loraine Woodhouse were appointed to the Board as Independent Non-Executive Directors. They both bring a wealth of experience from their roles in other companies.

Read more on their biographies on page 116.

On 30 November 2022, Simon Pugsley stepped down as Group General Counsel and Company Secretary. On 1 December 2022, Andrew Garard joined the Company as Group General Counsel and Company Secretary.

Read more on Andrew's experience in his biography on page 117.

Subject to Ofwat approval, John Halsall was appointed to the Board with effect from 10 July 2023 as Group Chief Operating Officer. John's biography is on page 117.

GOVERNANCE UPDATES

As part of our commitment to monitoring and improving purpose and culture, during the year we formed an Ethics Management Committee to assist the Executive and the main Board in overseeing our culture and commitment to ethical business and integrity, as well as our aspiration to be a great place to work and the best employer in the Great South West.

The core membership is made up of our Group Chief People Officer, Group General Counsel and Company Secretary, People & Culture Director and Head of Legal Compliance.

Their role is to:

- Oversee the Company's ethics and compliance programme including the Code of Conduct
- Identify general and specific ethics risks and facilitate an organisation and framework for the effective governance and assurance of ethics and compliance (including all associated policies, procedures and controls)
- Oversight of issues logged via the Speak Up line ensuring a consistent and transparent approach
- Horizon and Company wide scanning of potential ethics and compliance issues facing the Company
- Review the Company's progress in living our values and delivering on our purpose

KEY FOCUS AREAS FOR THE BOARD IN 2022/23

- Supporting customers on low income
- Drought management and resilience programme including WaterFit
- Strategic direction 2050
- Integration of Bristol Water into the Company
- Culture
- Environmental performance
- Operational performance
- Storm overflows
- Energy costs
- WaterShare+

MEETING ATTENDANCE DURING THE YEAR AND BOARD SKILLS MATRIX

Position Member	Chair Non-Executive Directors						Executive Directors ²		
	Gill Rider	Neil Cooper	Iain Evans	Claire Ighodaro	Jon Butterworth	Dorothy Burwell ¹	Lorraine Woodhouse ¹	Susan Davy	Paul Boote
Attendance	6/6	6/6	6/6	6/6	6/6	2/2	2/2	6/6	6/6
Skills									
Independence	X	X	X	X	X	X	X		
Water sector	X	X	X	X	X	X	X	X	X
Regulation	X	X	X	X	X	X	X	X	X
Finance and Accounting		X	X	X		X	X	X	X
Strategy	X	X	X	X	X	X	X	X	X
Transformation	X	X	X	X	X	X	X	X	X
Health, safety and wellbeing	X		X		X	X		X	
ESG including climate change			X		X	X		X	X
Data, technology and digital				X	X			X	
People	X			X		X	X	X	X
Governance	X	X	X	X	X	X	X	X	X
Remuneration	X			X			X		

1. Were appointed 1st December 2022.

2. Subject to Ofwat approval, John Halsall has been appointed to the Board with effect from 10 July 2023 and his biography can be found on page 117.

CHAIR'S INTRODUCTION TO GOVERNANCE

I am very pleased to introduce, on behalf of the Board, the Corporate Governance Report for 2023. We provide detail around our governance practices and processes, and how we apply the principles of best practice in corporate governance. It also covers our key focus areas and achievements during 2022/23 and explains how the Board continues to support the Company's strategy. The Board reaffirms its commitment to maintaining the effective corporate governance and integrity that enable us to deliver our sustainable strategy for the long-term benefit of all our stakeholders.

REVIEW OF THE YEAR

Our well-established governance arrangements and processes enabled the Board and its Committees to operate effectively and efficiently throughout the year. As well as physical Board meetings we also held several ad-hoc virtual meetings, enabling us to communicate, more frequently and to give management our advice and support more often.

Strong governance remains central to the successful management of the Company, providing the framework we collectively need to deliver our strategy, effectively fulfil our purpose, create value for all our stakeholders and continuous development of our sustainable business. We continue to operate to the highest standards of corporate governance. Our Board composition is substantially ahead of the diversity targets suggested by the Parker Review and the FTSE Women Leaders Review. And our ESG targets, which include our commitment to achieving Net Zero by 2030, remain well ahead of many companies in the FTSE 250.

Throughout 2022/23 we focused on achieving our strategic priorities while ensuring a robust response to the drought conditions that affected the environment as well as many of our customers and communities. Management kept us well-informed on progress against the Company's strategy and about the measures taken to mitigate the impact of the year's historically low levels of rainfall.

The table on page 113 will help you to navigate our reporting and evaluate our performance against the Principles of the UK Corporate Governance Code 2018 (the UK Code).

PROMOTING DIVERSITY

Diversity and inclusion (D&I) continues to be a top priority for the Board and the Company. As a whole it is encouraging to see our CEO recognised for her work in this area. Our gender and ethnic diversity representation on the Board exceeds the Hampton-Alexander and Parker targets. 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.

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. And we ensure through our stakeholder engagement programme that everyone has the opportunity to provide feedback to the Board.

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 new Employee Forum RISE.

You can read more on how we engage with our stakeholders in our Section 172(1) statement on page 124.

CULTURE

As a Board we pay particular attention to our Company'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 continuous improvement.

ROLE OF THE BOARD AND ITS EFFECTIVENESS

It is my view that the Board continues to be highly effective with a good understanding of the Company's opportunities and the threats facing the business. The results of this year's Board and Committee performance evaluations support this view; see page 131 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 43 to 59 for a description of the risks we identify and review.

BOARD INDEPENDENCE - SOUTH WEST WATER, BRISTOL WATER AND PENNON

In accordance with Ofwat's principles on board leadership, transparency and governance, the Company maintains separate and independent boards for South West Water and our parent Company, Pennon.

Our system of governance remains appropriate and effective, whilst continuing to support the delivery of our strategy.

Our Board and Committee framework also allows us to remain efficient in our decision-making process. 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 water interests in the Company.

CHANGES TO THE BOARD

We are delighted to welcome two new Non-Executive Directors, Loraine Woodhouse and Dorothy Burwell to the Board. Both Dorothy and Loraine bring a wealth of experience and I look forward to working with them to promote the success of the Company. You can find more details on our new appointees on pages 114 to 117.

In December 2022, we also welcomed Andrew Garard as Group General Counsel and Company Secretary to continue supporting the Board, succeeding Simon Pugsley. I'd like to thank Simon for his continued support of the Board and his valuable contribution to South West Water during his 24 years with the business.

A review of the composition of each Board Committee was conducted in December 2022, with changes becoming effective on 31 January 2023.

Subject to Ofwat approval, John Halsall was appointed to the Board with effect from 10 July 2023.

Neil Cooper will be standing down from the Board in September 2023 and we set out details on the process to recruit his successor in the report of the Nomination Committee on pages 145 to 150. I'd like to thank Neil for his contribution to the Board over the last 7 years and wish him well for the future.

LOOKING AHEAD

As part of our focus for 2023/24, we will continue to embed Bristol Water into the Company. We will 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.

I will be standing down as Chair, and from the Board in 2024 and the search for my successor has already started. As for all new Board appointments, these will be managed under a formal, rigorous and independently conducted process, in line with the UK Corporate Governance Code.

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. We 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.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE AND OTHER REQUIREMENTS

South West Water aims to comply with the UK Corporate Governance Code (the 'UK Code') as fully as possible, within the context of being a subsidiary of a listed company, Pennon Group plc, which itself fully complies with the UK Code. The UK Code is published on the Financial Reporting Council (FRC) website, www.frc.org.uk.

The Company complied fully with the provisions and spirit of the UK Code during the year, subject to the exceptions as described below. Most of the exceptions relate to the Group structure, where certain responsibilities rest with Pennon Group plc (South West Water's parent company) which is fully compliant with the UK Code.

Provision 25 of the UK Code state that the Audit Committee should make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor. Provision 25 also states that the Audit Committee should develop and implement policy on the engagement of the external auditor to supply non-audit services. As the auditor is appointed on a Group basis, the appointment, re-appointment and removal of South West Water's external auditor is (and has been throughout the year) a matter for the Pennon Group Audit Committee, as is the auditor's remuneration, terms of engagement and non-audit services.

Provision 26 of the UK Code states that a separate section of the annual report should describe the work of the Committee in discharging its responsibilities, in particular an assessment of the effectiveness of the external audit process. Due to the Group structure, the overall assessment as to whether the external audit function is effective (and has been throughout the year) the responsibility of the Pennon Group Audit Committee, which carries out its assessment in conjunction with the South West Water Audit Committee.

Provision 33 of the UK Code states that the Remuneration Committee should have delegated responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Chair, Executive Directors and senior management. However, the remuneration of the Chair, who is also the Chair of Pennon Group plc and the Pennon Group Chief Executive Officer, who is also a member of the Pennon Group plc Board is the responsibility of the Pennon Group Remuneration Committee.

In addition, South West Water has complied with Ofwat's revised 'Board leadership, transparency and governance' principles. Further details on our compliance with these principles will be provided in our Annual Performance Report and Regulatory Reporting.

TO READ MORE ON HOW WE HAVE APPLIED THE CODE

Board Leadership and company purpose Role of the Board – pages 119 Purpose, values and monitoring culture – pages 122 Stakeholder engagement – pages 123 Risk management – pages 132 Policies and practices – pages 119	Composition, Succession and Evaluation Appointment and succession planning – pages 145 Board composition – pages 130 Board evaluation – pages 131
Division of Responsibilities Role of the Chair and Non-Executive Directors – pages 128 Committee responsibilities – pages 119	Audit, Risk and Internal Controls Committee roles – pages 119 Our approach to risk management – pages 132
Remuneration Remuneration report – pages 156	

THE BOARD AND EXECUTIVE TEAM

WORKING RESPONSIBLY TOGETHER

Gill Rider CB Chair
<p>Appointment to the Board Gill was appointed to the South West Water Board on 1 April 2016, having been appointed to the Pennon Group plc board on 1 September 2012.</p> <p>She became Chair of South West Water on 31 July 2020 and is also Chair of Pennon Group plc.</p> <p>She is also Chair of the Nomination Committee and a member of the Remuneration Committee, the Environmental, Social and Governance Committee and the Health and Safety Committee.</p>
<p>Skills and experience Gill has a wealth of experience in leadership, governance and remuneration across a broad range of sectors including professional services, education, not for profit and government.</p> <p>Formerly, Gill was Head of the Civil Service Capability Group in the Cabinet Office, reporting to the Cabinet Secretary. Prior to that, she held a number of senior positions with Accenture LLP culminating in the post of Chief Leadership Officer for the global firm. She was previously President of the Chartered Institute of Personnel and Development (CIPD) and Chair of the Council of the University of Southampton.</p>
<p>Current external appointments Non-Executive Director and Chair of the Remuneration Committee of Intertek Group plc, President of the Marine Biological Association.</p>

Susan Davy Pennon Group and South West Water Chief Executive Officer
<p>Appointment to the Board Susan joined the Company in 2007 as Finance Director and joined the Pennon Board in February 2015 after she was appointed Chief Financial Officer. She was appointed to the South West Water Board on 31 July 2020, when she was appointed Chief Executive Officer.</p> <p>She is a member of the Environmental, Social and Governance Committee, Health and Safety Committee, Pennon Executive and the Pennon Board.</p>
<p>Skills and experience Susan's knowledge of the industry, coupled with her financial and regulatory expertise, has underpinned the development of Pennon's strategy to become a leader within the water industry. Under Susan's leadership, the Group has expanded and taken a more water focused approach, through the disposal of Viridor, acquisition of Bournemouth Water and the most recent acquisition of Bristol Water. In her 25+ years' experience in the utility sector, Susan has also held a number of other senior roles in the water sector, including at Yorkshire Water, giving her the knowledge to provide stability and thoughtful leadership to the Group.</p> <p>Under her guidance, South West Water has become the only water company to have achieved fast-track status for two consecutive business plans – the first in 2014, the second in 2019.</p>
<p>Current external appointments Non-Executive Director, Audit Committee Chair and member of the Nomination and Remuneration Committees of Restore Plc.. Board member of Water UK and member of the Energy & Utilities Skills Partnership Council.</p>

Paul Boote Pennon Group and South West Water Chief Financial Officer
<p>Appointment to the Board Paul was appointed to the Board as Group Finance Director on 1 September 2022 having joined the Pennon Board on 8 July 2020, having joined Pennon on 1 January 2010. Paul became Chief Financial Officer in December 2022.</p>
<p>Skills and experience Paul is a chartered accountant with over 20 years' experience. He has held several senior roles at Pennon, including Pennon's Director of Treasury, Tax and Group Finance. During this time, he was responsible for the development of Pennon's sector-leading sustainable debt portfolio, ensuring the Group maintained a responsible approach to tax, as well as leading on financial reporting matters.</p> <p>Paul has also held senior finance roles at companies operating in the sport, construction, and environmental infrastructure industries.</p>
<p>Current external appointments None</p>

Neil Cooper Senior Independent Director (Non-Executive Director)
Appointment to the Board Neil was appointed to the Board on 1 April 2016, having joined the Pennon Group plc Board on 1 September 2014. He is Chair of the Audit Committee and a member of the Remuneration, Nomination, Environmental, Social and Governance and Health and Safety Committees.
Skills and experience Neil brings to the Board extensive experience in a wide variety of corporate and financial matters. Previously, he was group finance director of Barratt Developments plc and before that, group finance director of William Hill plc and Bovis Homes plc. Neil also held senior finance positions at Whitbread plc, worked for PricewaterhouseCoopers as a management consultant and held a number of roles with Reckitt & Colman plc. As chair of the Audit Committee, Neil has been influential in directing South West Water's approach on a number of significant matters including internal control, governance and financial reporting.
Current external appointments Neil is currently the Chief Financial Officer of Currencies Direct, a foreign exchange broker and international payment provider.

Iain Evans CBE Independent Non-Executive Director
Appointment to the Board Iain was appointed to the Board on 31 July 2020, having served on the Pennon Board since 1 September 2018. He is Chair of the Environmental, Social and Governance Committee and a member of the Audit, Nomination, Remuneration and Health and Safety Committees.
Skills and experience Iain has 40 years of extensive 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 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. As chair of the ESG Committee, Iain is leading the development of a sustainability programme that underpins the delivery of Pennon's strategy.
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.

Claire Ighodaro CBE Independent Non-Executive Director
Appointment to the Board Claire was appointed to the Board on 31 July 2020 having served on the Pennon Board since 1 September 2019. She is chair of the Remuneration Committee and is also a member of the Audit, Environmental, Social and Governance, Nomination and Health and Safety Committees.
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 Audit, Remuneration and Governance committees. She is a past president of the CIMA (Chartered Institute of Management Accountants) and was the first female to lead this organisation. Claire has 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. As Chair of the Remuneration Committee, Claire continues to guide Pennon's approach to executive remuneration, ensuring that it is aligned with and supports the Company's strategy and reflects the wider economic market.
Current external appointments Chair of the Audit Board of KPMG LLP.

Dorothy Burwell Independent Non-Executive Director
Appointment to the Board Dorothy was appointed to the Board as Independent Non-Executive Director on 1 December 2022. She is a member of the Audit, Environmental, Social and Governance, Nomination and Remuneration Committees.
Skills and experience Dorothy has over 20 years of experience in Banking and Communications, specialising in natural resources and advising clients around issues on 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.
Current external appointments Non-Executive Director at Post Holdings, Inc, Trustee of the Consumers' Association charity, Which?.

Jon Butterworth MBE Independent Non-Executive Director
Appointment to the Board Jon was appointed to the Board on 28 September 2017. He chairs the Health and Safety Committee and is a member of the Audit, Remuneration, Nomination and Environmental, Social and Governance Committees.
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 the 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 CEO of National Grid Ventures, building (£3 billion) of growth in renewables across the USA and Europe. Jon's utility background makes him keenly aware of the importance of maintaining a balance between performance and safety. As Chair of Pennon's Health & Safety Committee, he constructively challenges the Board and management team, to continue to raise the bar in this area. He is an Ex-Chair of the CORGI Board, an Ex-Ambassador of the HM Young Offenders Programme and a trustee of the National Gas Museum Trust.
Current external appointments Jon is a director of E.Tapp & Co Limited, Shopfittings Manchester Limited and TMA Property Limited.

Loraine Woodhouse Independent Non-Executive Director
Appointment to the Board Loraine was appointed to the Board as Independent Non-Executive Director on 1 December 2022. She is a member of the Audit, Environmental, Social and Governance, Nomination and Health and Safety and Remuneration Committees.
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 for just under four years 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.
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.

Andrew Garard Group General Counsel and Company Secretary
Appointment to the Board Andrew was appointed to the Board as Group General Counsel and Company Secretary on 1 December 2022.
Skills and experience Andrew is a very experienced General Counsel having joined from Meggitt plc as Group General Counsel and Director, Corporate Affairs in September 2019 where he is a member of the Group Executive and 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 at Cable & wireless plc and Head of Legal at Reuters Group plc. Andrew founded the Legal Social Mobility Partnership in 2014 before creating the Social Mobility Business Partnership in 2017.
Current external appointments Andrew is a Non-Executive Director at Zinc Media Group plc where he is Chair of the Remuneration Committee

John Halsall Group Chief Operating Officer
Appointment to the Board John joined South West Water in February 2023 and subject to Ofwat approval, was appointed to the Board with effect from 10 July 2023
Skills and experience Before joining the Group, John was Regional Managing Director (Southern) for Network Rail for 14 years. Prior to that, he spent 17 years at Thames Water in various senior operational roles including Director of Water Services and Director of Operations
Current external appointments None

THE SOUTH WEST WATER EXECUTIVE TEAM

- **Susan Davy** – Group Chief Executive Officer – see biography on page 114
- **Paul Boote** – Group Chief Financial Officer – see biography on page 114
- **Adele Barker** – Group Chief People Officer - Adele joined the Group in 2017 and was appointed Group Chief People Officer on 31 July 2020. Adele supports the Remuneration, Nomination, and Health & Safety Committees. Her areas of accountability include the Human Resources function, Health and Safety and Corporate Communications. Her background includes senior roles in FTSE organisations including British Gas, Barclays and Marks and Spencer.
- **Andrew Garard** – Group General Counsel and Company Secretary – see biography on page 117
- **John Halsall** – Group Chief Operating Officer - see biography on page 117
- **Laura Flowerdew** – Chief Customer and Digital Officer - Laura was Chief Financial Officer of Bristol Water plc from 2018, before taking on her new role within the Company in September 2022 after the Bristol Water acquisition. Laura continues to be a director of Pelican Business Services (billing and customer services across both Bristol Water and Wessex Water), a role she has held since 2019.
- **Lisa Gahan** – Group Director of Regulation, Strategy and Asset Management - Joined South West Water in 2021 and became Group Director of Regulatory, Strategy and Asset Management in September 2022. Prior to joining the Group, Lisa was a founding partner of ICS Consulting, where she spent over 20 year helping utilities organisations with economic regulation, customer engagement, and investment and strategy planning.
- **Richard Price** – Chief Engineering Officer – Richard previously held the roles Operations Director and Chief Operating Officer in Bristol Water before becoming Chief Engineering Director for South West Water in September 2022, before joining Bristol Water, Richard held extensive roles at Southern Water and so has in depth knowledge about the water industry. Richard's role within South West Water is to lead safe, efficient and innovative engineering and construction across the South West and Bournemouth.
- **David Harris** – Group Drought and Resilience Director - He leads the organisation's drought planning activities as well the ongoing development of our longer term resilience. With over 25 years of executive experience, David has successfully led performance and growth of large infrastructure businesses, both in the regulated water market and the competitive energy market in Australia. David brings experience from his time leading one of Australia's largest water companies through the worst droughts in the country's history, ensuring the constant supply of drinking water and the building of additional water resources.
- **Louise Rowe** – Compliance and ESG Director – Louise is a chartered accountant and has been with South West Water for almost 15 years holding a range of managerial roles within Finance prior to her appointment as Finance Director. On 1 September 2022, Louise took on the role of Compliance and ESG Director. She is a member of several Executive sub Committees including the ESG Executive Committee. Prior to joining South West Water, Louise qualified with KPMG following completion of her physics degree.

BOARD LEADERSHIP AND COMPANY PURPOSE

GOVERNANCE STRUCTURE AND FRAMEWORK

South West Water Board
 An independent, separate Board from the Pennon Group plc Board, responsible for decisions relating to the business and strategy of South West Water Limited.
 The business of the board with associated Audit, Remuneration, Nomination and Environment, Social and Governance (ESG) Committees covers a full range of corporate issues including strategy, performance, delivery, compliance and governance.
 The Board has a 'matters reserved' schedule setting out its responsibilities and each Committee has detailed terms of reference setting out its responsibilities and accountabilities.

Pennon Group plc Board
 The Board is responsible for providing leadership and oversight of the Group's business, strategy and associated activities including promoting its long-term success. The Board's responsibilities include setting the Group's values, policies and standards, approving Pennon's strategy and objectives, 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.

The Board Committees
 The terms of reference for each Committee are agreed by Board and can be found at <https://www.southwestwater.co.uk/about-us/governance/board-governance/>. The terms of reference, as well as the Board's schedule of matters reserved, were reviewed, and updated during the year to ensure that they remain appropriate and relevant.

Audit Committee
 Ensure the quality and integrity of the Company's reporting, assessing the application of accounting policies and judgements, and evaluating whether the presentation of the Company's activities is fair, balanced and understandable.
 Review and challenge the effectiveness of the internal control environment and risk management processes.

ESG Committee
 Ensure robust scrutiny of key aspects of environmental, social and governance (ESG) performance and to oversee performance against our ESG strategy and strategic sustainability objectives.

Nomination Committee
 Regular review of the structure, size and composition (including the skills, knowledge, independence, diversity and experience) required of the Board, compared to its current position and the skills and expertise needed in the future.

Health & Safety Committee
 Provide 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.

PR24 Committee
 Plan, prepare for, oversee and drive the PR24 Business Plan, sets and approves strategy for PR24, and appoint and oversee relevant executive committees and activities to ensure the delivery of the plan in line with the overall strategy.

Remuneration Committee
 Ensure remuneration is aligned strategy and reflects the values of South West Water. Advises the Board on the framework of executive remuneration and remuneration for the wider workforce.

Pennon Executive (PEX)
 Responsible for defining and driving the 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 Chief Executive Officer, the Executive meets regularly to receive reports from the management committees, operational Executive and business review meetings, to review and refine recommendations to be presented to the Board.

Operational Executive / Business Review Group
 Responsible for the day to day management of South West Water's operations and activities is undertaken as described in more detail, on page 120 by South West Water's Executive Management. From April 2023, this is Chaired by the Chief Operating Officer.

SUBCOMMITTEES AND STEERING GROUPS

There are a number of sub-committees and steering groups which support delivery of our strategic priorities and key delivery programmes as set out in the table below.

No	Title	Purpose
1	Health and Safety Committee	Established to oversee South West Water's approach to health and safety (including broader staff welfare)
2	Drinking Water Quality Committee	Established to ensure the high quality of our drinking water is maintained and prompt improvements are taken when necessary
3	Pollutions Committee	Established to ensure pollutions incidents are minimised and to oversee the pollution incident
4	Investment Planning Committee	Effective owner of procedures controlling and approving capital investment. Ensures principles of proper financial control
5	Compliance Committee	Established to oversee ensure South West Water's compliance with our obligations
6	Procurement Strategy Group	Oversees strategies and policies to promote effective working practices for strategic contracting relationships
7	Risk and Energy Committee	Reviews the principal and business risk assessments as well as the controls and mitigations in place and assurance activities, including in the area of Energy
8	PR24 Steering Group	Established to develop the Company's preparation and plans for PR24
9	Isles of Scilly Steering Group	Established to ensure we meet our obligations since being appointed the licensee on April 2020
10	Net Zero Steering group	Oversees our ongoing programme in line with our commitment to achieve net zero status by 2030
11	Green Recovery Steering Group	Reviews and challenges the progress of our 5 Green Recovery initiatives and develops the annual reporting in this area
12	Outcome Delivery Incentive (ODI) Committee	Oversees the Company's plans to deliver the performance commitments it has made to customers and stakeholders.

MANAGING THE WATER BUSINESS

BUSINESS REVIEW GROUP

The Chief Operating Officer has from April 2023 established the Business Review Group to manage the operations of the business, delivering our 2020-25 business plan and focusing on our key priorities. Prior to this, the Operational Executive performed this function and this group comprised the South West Water Executive team and other senior leaders of the water business.

Led by the Chief Operating Officer, the Business Review Group meets formally on a monthly basis to manage performance of the water business (across our 5 regions) and review, refine and recommend actions to the Executive. Operational performance is considered in each area to facilitate a shared understanding of performance and other emerging priorities across business with a focus on continuous improvement across our operations.

It brings together the senior leadership of the water business focusing on delivery with our operational areas as well as ensuring regulatory and compliance considerations are taken through attendance of the Compliance and ESG Director. The areas of reporting include:

- Water resources
- Water treatment and Network operations – including a focus on leakage
- Wastewater operations – including specific areas of Pollutions and Storm Overflows
- Customer service and experience
- Asset management & Capital Delivery
- Central support functions for finance, people, procurement, communications and digital

It also considers the delivery of our strategic programmes including:

- HomeSafe – our Health and Safety programme delivered across the Pennon Group
- Quality First – South West's transformation programme focused on improving water quality, which is now being rolled-out into Bristol to drive improvements in our water quality outcomes.
- WaterFit – our strategic programme for healthy rivers and seas focusing on delivery of our commitments and particularly investment into storm overflows and delivery of our Pollutions Incident Reduction Plan

Furthermore, deep-dives into key areas are also completed including; health and safety, risk and compliance, people and customer experience.

Area	Activity	Stakeholders affected
Strategic	<p>Strategic direction through to 2050 Reviewing and approving the strategic direction through to 2050. Agreeing eight priorities and the enablers for change required to achieve these priorities.</p> <p>Bristol Water integration Reviewing the progress of the integration into South West Water and the need for a merged licence. Authorising the final steps to be taken to affect the integration.</p> <p>Delivery of capital projects Reviewing and agreeing a new framework model for capital delivery. Implementing a new tender process to attract new partners into the delivery model.</p>	<p>Customers</p> <p>People</p> <p>Environment</p> <p>Regulators</p>
Financial	<p>Reviewing and authorising the 2021/22 Annual Report and Accounts</p> <p>Energy costs Reviewing the impact of higher power costs on operating costs. Identifying options to bring power and energy efficiencies across all assets.</p> <p>WaterShare+ Approval of the special Watershare+ resolution to shareholders at the 2022 AGM enabling the execution of the second issuance of the scheme. Approval of the c.£20 million to fund both the payment of the dividend and the share purchase, and the application of bill reductions for South West Water and Bristol Water customers.</p>	<p>Suppliers</p> <p>Customers</p>
Operational	<p>ODI improvements Meeting regulatory requirements, ongoing regulatory/innovation initiatives, monitoring via H&S reports and adapting plans where needed. Successful regulatory outcomes, safe customer, and employee experience, enhancing day to day operations..</p> <p>Water Resource Management Reviewing the Water Resource Management Plan which sets out how the Company will ensure it meets demand for water over the next 25 years in line with Department for Environment Food and Rural Affairs (DEFRA) and Environmental Agency (EA) requirements. Noting options for getting our specific strategic resource and demand plans onto the political agenda and for reducing per capita consumption to 110 l/day.</p>	<p>Customers</p> <p>People</p> <p>Environment</p> <p>Regulators</p> <p>Policy Makers</p>
Environmental	<p>Drought management Reviewing the response to the drought given the dry and hot weather. Accelerating all engineering options, increased customer and water saving communication and enhanced stakeholder engagement. Submission of Drought Order for Cornwall and instigation of a customer bill support initiative.</p> <p>Net Zero strategy, Pollution Incident Reduction Plan Green Recovery investment programme and Environmental Plan Implementation and monitoring of each of the plans and adapting each where needed. Alignment of plans with our strategic priorities. Committing to key pledges. Delivery to achieve ever more stringent targets as well as greater public/regulatory scrutiny. Reinvestment of funds previously identified as wastewater efficiencies.</p>	<p>Environment</p> <p>Customers</p> <p>People</p> <p>Regulators</p>
Social	<p>Purpose and culture Reviewing the results of the Great Place to Work survey. Agreeing the next steps to improving purpose and culture and considering why scores around integrity and values were lower than the previous year. Identifying the types of training and competencies needed to support the business in its future development.</p> <p>Supporting customers on low income Monitoring of customer service levels and plans to deliver improved diversity mix and</p>	<p>People</p> <p>Customers</p>

	adapting where needed. Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny.	
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 practice governance.	Environment Customers People Communities Suppliers Regulators Policy Makers
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.	Environment Customers People Communities Suppliers Regulators Policy Makers

MONITORING PURPOSE AND CULTURE

Monitoring and measuring the Company’s purpose and culture is a key focus area for the Board. Our organisation couldn’t deliver without our 2,500 colleagues. Our purpose, *Bringing water to life – supporting the lives of people and the places they love for generations to come* underpinned by our values that we live by – trusted, responsible, collaborative, progressive governs how we operate, behave and foster a diverse and inclusive culture. Everything we do, we do with our stakeholders in mind, be it offering our customers financial support when needed, providing help and funding for community initiatives, working with our regulators and the government on ensuring the future is sustainable, celebrating and rewarding our colleagues or finding innovative ways to protect our environment.

Underpinned by the values we live by



Trusted

Trusted – we do the right thing for our customers and stakeholders



Collaborative

Responsible – we keep our promises to our customers, communities and each other



Responsible

Collaborative – we forge strong relationships working together to make a positive impact



Progressive

Progressive – we are always looking for new ways to improve and make life better

NEW EMPLOYEE PANEL – RISE

In June 2022, we launched our new people panel, RISE which aims to be a two-way, open and honest communication forum to discuss business topics and ensure that the views and opinions of colleagues are shared with the company. The RISE forum now has 75 members stretching across all areas of the business.

Twice a year, RISE members meet with our CEO, Susan Davy and our Group Chief People Officer, Adele Barker to discuss feedback and ideas from across the business. The first one took place in January 2023 with seven RISE representatives.

This is a great opportunity for Susan and Adele to understand what is happening and what's important for our colleagues. Topics like wellbeing and mental health, cost of living, communication and hybrid working are just some of the topics covered with actions and responsibilities agreed to drive progress over the next quarter.

STAKEHOLDER ENGAGEMENT

The Board understands the part the Company can 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 improve on 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 124 to 127; you should read it alongside the sections on pages 19 to 30 to understand how the Board took stakeholder interests into consideration in all its decision-making during the year.

We actively engage with all our stakeholders, including our customers, our communities, our people and our suppliers. We are acutely aware that many of our stakeholders are struggling with the uncertainty challenges posed by the cost of living crisis, the political landscape and 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.

For engagement with the workforce, 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 management feedback sessions) and continuous employee feedback through our own in house forums. These comprise of our new RISE people panel, which has recently replaced our employee engagement forum, and the 'Big Chat', hosted 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 South West Water'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 23 to 30.

OUR APPROACH TO STAKEHOLDER ENGAGEMENT

- Identify key stakeholders (NGO's, household customers, visitors, retail customers)
- Engage to understand priorities and material issues (businesses, supply chain, Watershare+ panel, customer AGM, stakeholder engagement forums)
- Engage and develop strategies and plans to meet priorities (regulators, universities and researchers)
- Engage on delivery and partnership working (landowners, local government and MPs, NGOs)
- Review and communicate progress and performance (all stakeholders, employees and unions)

ENGAGING WITH OUR SUPPLIERS

We work in partnership with our suppliers to deliver mutually beneficial outcomes that benefit all our stakeholders. We engage through formal RFP processes for each AMP period and periodic supplier review meetings thereafter.

ENGAGING WITH OUR REGULATORS AND POLICY MAKERS

We have proactively engaged with our regulators and Government, both at a local level, including sharing platforms with local MPs at constituency meetings, and face to face discussions with DEFRA throughout the year.

CUSTOMER AGM

Customers were able to see first-hand how water is supplied to the City of Plymouth using the latest technology and provide direct feedback and inform our WaterShare+ Advisory Panel. Lord Taylor, Chair of the panel, was also on hand to provide an update for the Pennon AGM for progress in the next year and discussed where we are against our objectives.

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 regulatory obligations.

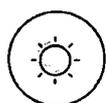
Our Board leads and sets the tone by carefully noting the priorities of our stakeholders during its discussions and when it makes decisions. We also know the importance of continually assessing the long-term impacts of our decisions. This helps us live our purpose and our values, as a responsible, trusted 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 South West Water.

Each Director has a duty under section 172 of the Companies Act 2006 (s.172), to act in a way that 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, when the Board makes a decision, we always take full account of the following:

- The long-term consequences of our decisions
- The interests of our employees
- The importance of having excellent business relationships with suppliers, customers and anyone else who we impact
- The impacts of our operations have on our communities and our environment
- Ensuring we maintain our reputation for the highest standards of business conduct
- We will always act fairly between our shareholders

As part of every decision we make, we look at how we will impact our stakeholders. To enable us to understand the points of view of our stakeholders and where our decisions could affect them, we have a stakeholder engagement programme. We see stakeholder engagement both as fundamental to development and delivery of our purpose and strategy and as critical for our long-term sustainable success. Although there are often competing interests and priorities involved, being clear on what matters to our stakeholders, allows our Board to weigh-up all relevant factors.

We have identified our stakeholders as:



Environment



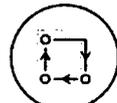
Customers



People



Communities



Suppliers



Regulators



Policy Makers

MATTERS CONSIDERED BY THE BOARD

Examples of 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 decisions are set out in the table below.

Matter	Section 172 Considerations	Our Engagement	The Board's Role
Drought Management	As a Company, we have recognised the challenges and impact of the unprecedented shortage of rainfall this year within the region, on our customers, communities, and wider stakeholders. We were quick to put in place	We reviewed the implications of proceeding with a non-essential use drought order and drought permit options noting that two thirds of the required savings would need to be met from supply-side interventions.	We approved the submission of a Drought Order to cover Cornwall and the investments required to improve water resilience.

Matter	Section 172 Considerations	Our Engagement	The Board's Role
	<p>measures to mitigate any adverse impacts</p> <p>We noted that next year's water resource position would start from a low base.</p>	<p>We considered the impact of financial incentives to customers who saved water.</p>	<p>We supported in principle the customer bill support initiative.</p> <p>We approved and implemented a recruitment strategy tailored and specialising in drought and water resource management to ensure future resilience.</p> <p>We approved £30 million of initiatives and investments that are already underway.</p> <p>We approved £45 million for desalination to build future resilience.</p> <p>We debated key risks of the various options and used a broad range of scenario modelling.</p>
Pollution and the environment	<p>We have a vital role to play in pollution reduction within our region which speaks to our commitment to operate in an environmentally sustainable and responsible manner. We further developed our Pollution Incident Reduction Plan. We strive to have a better relationship with our regulators.</p>	<p>We continued the measures implemented in 2021 which required working closely with customers, the Environment Agency and local communities.</p>	<p>We recognise the responsibility the Board has to the environment and implemented this view throughout the year.</p> <p>We noted the progress made on reducing our pollutions and reviewed the strategy together with our targets over the next two years.</p> <p>We noted the recent changes to penalise amenity-related pollutions within category 1 or 2 and progress against these.</p> <p>We reviewed strategies for preventing illegal connections.</p> <p>On WaterFit, we engaged with our key stakeholders including Ofwat and the EA.</p>
Integration of Bristol Water	<p>Following the clearance from the Competition and Mergers Authority on 7th March 2022, the Board was pleased to finalise the license</p>	<p>Following clearance for the merger we worked on the integration, licence merger and statutory transfer process.</p>	<p>We approved the submission of the required licence variation and the issue of the Section 8 notices.</p>

Matter	Section 172 Considerations	Our Engagement	The Board's Role
	merger with Bristol Water, on 1st February 2023, and welcome colleagues to South West Water.		<p>We endorsed the proposal to transfer the Bristol Water debt portfolio to South West Water.</p> <p>We delegated authority to the Group Chief Financial Officer and Group Treasurer to agree the final terms of documentation.</p>
Water Resource Management	The long-term sustainability of the company and its continued ability to supply water to its customers is critical but needs to be balanced against the impact on the environment and communities.	We investigated long term interventions to shore up our ability to provide services including looking at other sources.	We considered options including new water sources (including Blackpool Pit and Leswidden Lake), installing desalination and dewatering. We noted the potential extent of these works and the need for full environmental assessments. We debated the restrictions on abstraction that the company is subject to and requested further reports on long-term water resource management.
Delivery of the WINEP programme	High standards of business conduct are critical to the company's operations and reputation. This includes alignment with regulatory guidance. As a company, we are committed to delivering our WINEP programme to meet our environmental obligations.	<p>We considered the assurance activities undertaken in this respect noting the positive assessment provided by our external technical advisers.</p> <p>We considered the relationship between the cost of schemes and impacts into bills and affordability as well as resourcing challenges.</p>	<p>We considered the relationship between the cost of schemes and impact on bills.</p> <p>We considered the assurance activities undertaken in this respect, noting the positive assessment provided by our external advisers.</p> <p>We delegated authority to the Executive to approve the submission of the proposals, noting our statutory obligations, non-statutory requirements and the priority drivers of the EA and Natural England.</p>
Affordability	As a Company, we do not only recognise the needs of our wider stakeholders and investors but also the needs of our people and customers. This year,	We investigated means of providing incentives to our customers and reducing the cost of their water supplies	Building on the success of the first WaterShare+ scheme, we approved the second WaterShare+ initiative, with £20 million being given to South West Water, Bournemouth

Matter	Section 172 Considerations	Our Engagement	The Board's Role
	<p>the Board has had the cost-of-living crisis at the forefront of their minds when supporting our colleagues and customers.</p>		<p>Water, and, for the first time, Bristol Water customers, in the form of a Pennon share or £13 credit added to their bill.</p> <p>We approved the launch of the 'Stop the Drop' initiative, which asked all customers in Cornwall to come together to help 'Stop the Drop' in reservoir levels. The Board was happy to give support to customers and approve £30 credit to customers' bills, in Cornwall, if Colliford Reservoir rose to 30% storage capacity by 31st December 2022.</p>

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 the Directors are equally accountable for the proper stewardship of the Company's affairs and also have specific roles, which include those set out below:

Position	Director	Role
Chair	Gill Rider	<ul style="list-style-type: none"> Leading the Board and setting its agenda Promoting the highest standards of integrity and probity and ensuring good and effective governance Managing Board composition, performance and succession planning Providing advice, support and guidance to the Chief Executive Officer Representing the Company and being available to stakeholders Discussing separately with the Non-Executive Directors performance and strategic issues
Senior Independent Director	Neil Cooper	<ul style="list-style-type: none"> Assisting the Chair with stakeholder communications and being available as an additional point of contact for stakeholders Acting as sounding board for the Chair Being available to other Non-Executive Directors if they have any 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.
Non-Executive Directors	Claire Ighodaro Iain Evans Jon Butterworth Dorothy Burwell Lorraine Woodhouse	<ul style="list-style-type: none"> Critically reviewing the strategies proposed for the Company Critically examining the operational and financial performance of South West Water Evaluating proposals from management and constructively challenging management's recommendations Contributing to corporate accountability through being active members of the Committees of the Board
Chief Executive Officer	Susan Davy	<ul style="list-style-type: none"> Managing South West Water and providing executive leadership Developing and proposing Company strategy Leading the operation of the Company in accordance with the Board's decisions Co-ordinating with the Chair on important and strategic issues of the Company and providing input to the Board's agenda Contributing to succession planning and implementing the organisational structure Leading on acquisitions, disposals, business development and exploiting synergies Managing stakeholder relations
Chief Financial Officer	Paul Boote	<ul style="list-style-type: none"> Supporting the Group Chief Executive Officer in providing executive leadership and developing strategy Reporting to the Board on performance and developments across the business Implementing decisions of the Board Managing specific business responsibilities Managing stakeholder relations including financing and treasury activities

Position	Director	Role
Supported by the Group General Counsel and Company Secretary	Simon Pugsley (to 30 November 2022) Andrew Garard (from 1 December 2022)	<ul style="list-style-type: none"> As Group General Counsel, with remit covering compliance, statutory duties and governance, providing strategic legal and commercial advice to the Company and the Board in its deliberations. As Group Company Secretary, attending and supporting all Board and associated Committee meetings.

MANAGING SOUTH WEST WATER

The South West Water Board continues to operate as a separate independent Board – albeit with all Board members also serving on the Board of Pennon Group plc – in accordance with its schedule of matters reserved (see below) to ensure compliance with Ofwat's principles on Board leadership, transparency and governance.

The refocus on UK water means the interests of the non-regulated and regulated businesses are more closely aligned and provide for more effective leadership and governance. Because the Boards are run concurrently, the Directors are well-positioned to assess matters holistically and provide continuity to the Company as it moves to a water-only enterprise. Despite this concurrency, the Company's rigorous conflicts of interest process safeguards the South West Water Boards' ability to set and have accountability for all aspects of the regulated business' strategy thereby ensuring and strengthening South West Water's regulatory ringfence.

While certain matters may be delegated to the Board Committees and to the Executive Directors, as appropriate, the matters reserved for the Board include:

- All acquisitions and disposals
- Major items of capital expenditure
- Authority levels for other expenditure
- Risk management process and monitoring of risks
- Approval of the strategic plan and annual operating budgets
- Company policies, procedures and delegations
- Appointments to the Board and its Committees

The Pennon Group Board also endorses certain decisions taken by the South West Water Board's, including major capital projects and investments, long-term objectives and commercial strategy, the five-year regulatory plan, annual budgets and certain decisions relating to financing. This approach remains compatible with Ofwat's principles on board leadership, transparency and governance because such decisions are ultimately reviewed and approved by the South West Water Board. Approval of South West Water's dividend policy and the declaration of dividends to be paid by South West Water to Pennon also remain reserved for the South West Water Board, respectively.

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. This Board consider that 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 existing 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. Other potential conflicts of interest that were examined during the year included:

- The appointment of Claire Ighodaro to her role at KPMG
- Neil Cooper's disclosure of his interest in a holiday home potentially impacted by a South West Water commercial agreement.

COMPOSITION, SUCCESSION AND EVALUATION

BOARD SUPPORT AND TRAINING

Directors have access to the advice and services of the Company Secretary, and the Board has an established procedure whereby Directors, may seek independent professional advice at the Company's expense in order to fulfil their duties. 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, the Board and the Committees.

The training needs of Directors are reviewed as part of the Board's performance evaluation process each year. Training may include attendance at external courses organised by professional advisers and also 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:

- Proposed changes to the Corporate Governance Code noting the move towards an outcome-based approach backed up with specific reporting and assurance requirements
- The potential new Regulator to replace the FRC announced in May 2022 that will have new powers to tackle breaches of company directors' duties relating to corporate reporting and auditing
- The Data Protection and Information Bill introduced to Parliament on 18 July 2022 with the aim to "update and simplify" the UK's data protection framework.

INDUCTION PROGRAMME

Newly appointed Directors receive a formal, tailored induction. Supported by operational site visits and governance, legal and regulatory updates.

- **Introductions** – Introduction meetings with key stakeholders in the business and an outline of the Board and its Committees
- **Information** – Presentations from Directors to provide key information on Finance, Remuneration, Health and Safety, Legal, Regulatory, Risk, Environmental and other key Company matters
- **Engagement** - Newly appointed Directors are invited to visit different operating facilities across the Company and to meet with employees in order to better understand key processes and systems.

NON-EXECUTIVE DIRECTOR INDUCTION PROGRAMME

As part of Dorothy and Loraine's induction to the Company, they took the opportunity with Andrew to visit several sites across the region including a drinking water treatment site, a sewage treatment site and reservoir catchment project.

The two days of site visits were complimented by a full day briefing session on topics ranging from Governance and Finance to the Company's approach to Health and Safety and key risks and opportunities faced by South West Water and the wider water industry.

BOARD COMPOSITION, INDEPENDENCE AND EXPERIENCE

The Board comprises the Chair, six Non-Executive Directors, two Executive Directors and the Company Secretary. At year end, female representation on the Board was at 55%, exceeding the Board's target of 40%.

All of the Non-Executive Directors are considered by the Board to be independent. Noting their intentions of retiring as set out below and given their longer service a particularly rigorous review was undertaken in respect of their respective re-elections, the Board remains satisfied that, based on their participation at meetings and their contribution outside of the boardroom, both Gill Rider and Neil Cooper continue to demonstrate independence of character and judgment in the performance of their role. An explanation regarding the Board's recommendation that Gill Rider and Neil Cooper remained in office during 2022/23 notwithstanding their long service to the Board, is on page 131.

Neil Cooper will be retiring from the Board in September 2023 and Gill Rider will be stepping down as Chair in 2024. Details of the recruitment process for their successors is set out in the Nomination Committee Report at pages 145 to 150.

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 114 to 117 demonstrate collectively a broad range of business, financial and other relevant experience.

Neil Cooper 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 his biography on page 115). The Board is satisfied that the Audit Committee has competence relevant to the sector in which the Company operates.

SUCCESSION PLANNING

NEIL COOPER

Given the longer service of Neil Cooper, the Board agreeing that his term be extended last year. The Board recommends Neil's re-election at the 2023 AGM ahead of his stepping down in September 2023. Information on our succession planning for the Audit Committee Chair role is in the Nomination Committee Report on page 148.

GILL RIDER

Gill Rider, the Chair of the Company and also Chair of our parent Company Pennon Group plc. Gill was first appointed to the Pennon Board on 1 September 2012. In 2021, noting that Gill's tenure as a non-executive director was approaching nine years and following an independent review, the Board was satisfied that an extension of no more than three years from July 2021 as Chair was appropriate. The rationale for this was set out in the 2022 Annual Report. The Board believes that these factors remain relevant this year. Gill will retire from the Board no later than July 2024 and the Board believes that continuity of leadership and strategic leadership between now and then is important as the Company continues to re-position itself as a major operator in the UK water sector.

The Board considers that the extension of Gill's term as Chair both facilitates effective succession planning and the development and continuation of a diverse Board. For these reasons, and mindful of the recommendations of the UK Corporate Governance Code, the Board believes it to be in the best interests of the Company and its shareholders, for Gill to remain as Chair, and recommends her re-election at the 2023 AGM. It therefore recommends her re-appointment to the Board as Chair for one more year.

Further information on succession is provided in the Nomination Committee Report on page 145.

EXTERNAL APPOINTMENTS

SUSAN DAVY

Susan Davy continued as a Non-Executive Director of Restore plc throughout 2022/23. 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. She is also a Non-Executive Director of Water UK, the membership body representing the UK Water Industry.

CHAIR AND NON-EXECUTIVE DIRECTORS

Information on the other business commitments of the Chair and South West Water's Non-Executive Directors is on pages 114 to 117.

BOARD EFFECTIVENESS 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.

This year, the review was undertaken by a third party, Equity Culture, by means of online interviews with a number of the Board, in consultation with the Chair and respective Committee Chairs in January and February 2023. The outcome of the review concluded that the Board, and its Committees, and individual Directors continued to demonstrate a high degree of effectiveness and collaboration, and that the Board had a forward-thinking mindset and a good understanding of opportunities for growth and risks facing the business, with the following positives, negatives and/or actions suggested, The detailed areas of assessment, commentary/feedback and actions is included within the Nomination Committee report on pages 145 to 150.

In parallel with the Board effectiveness review, the Committee undertook a 360-degree evaluation of the executive committee members and ensured the feedback was shared with the Company's senior leadership.

AUDIT, RISK AND INTERNAL CONTROL

RISK MANAGEMENT AND THE COMPANY'S SYSTEM OF INTERNAL CONTROL

The Board is responsible for maintaining the Company's system of internal control to safeguard shareholder investment and the Company'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 Company has been in place throughout the year and up to the date of the approval of this Annual Report and Accounts and is regularly reviewed by the Board.

The Company's system of internal control is consistent with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (FRC Internal Control Guidance).

The Board confirms that it applies procedures in accordance with the UK Code and the FRC Internal Control Guidance which brings together elements of best practice for risk management and internal control by companies. The Group's internal audit function undertakes specific risk assessments to identify vulnerable risk areas in the Company. The Board's risk framework described on pages 43 to 45 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 Company, monitoring of such risks and ongoing and annual evaluation of the overall process. ESG risks identified and assessed by the Board cover areas such as health and safety, climate change and tax compliance. Details of the key risks affecting the Company are set out in the strategic report on pages 43 to 59.

Key Performance Indicators are in place to enable the Board to measure the Company's ESG performance, including agreed regulatory performance commitments in respect of ODIs, and a number of these are linked to remuneration incentives (see page 167). A full breakdown of performance during the year against these KPIs is provided in South West Water's Annual Performance Report, which is published in July (see www.southwestwater.co.uk/report2023).

As part of the review of the effectiveness of the system of risk management and internal control under the Company 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 Company procedures.

The processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout the Company and that the Company is in a position to react appropriately to new risks as they arise.

CODE OF CONDUCT AND POLICIES

South West Water has adopted the Pennon Group's Code of Conduct, which was reviewed and re-endorsed in November 2022. The Code of Conduct and related policies which set out the commitment to promoting and maintaining the highest level of ethical standards. Areas covered in the Code of Conduct 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 a number of policies that guide our workforce and suppliers, so that we may identify and deal with suspected wrongdoing, fraud or malpractice, maintain the highest standards of compliance, and to apply consistently high standards of ethics. We aim to maintain a culture that fosters the reporting of any concerns and trust that we will act on them.

ANTI-BRIBERY AND ANTI-CORRUPTION

The policy on anti-bribery and anti-corruption strictly prohibits employees from offering or accepting bribes, facilitation payments and kickbacks. The policy requires that due diligence checks third-party suppliers and contractors doing business with the Company, including a corruption risk assessment to examine the nature of the proposed work or transaction. The policy provides a framework that requires everyone who works with or for the Company to always act honestly and with integrity. The policy has been rolled out comprehensively into all parts of the Company, with online training arranged by the legal compliance team. The Company ensures compliance with the policy in line with our risk-based approach by conducting planned and ad hoc checks, providing both general and specific training, and carrying out detailed investigations into allegations of potential

wrongdoing (whistle blows) received from employees, customers and suppliers. The potential consequences on colleagues and the Company itself are clearly set out in the policy as are the processes for raising concerns.

To mitigate risk, targeted authorisation and oversight processes are applied to the areas that have been identified as being more vulnerable and additional training is provided.

The legal compliance team likewise actively assesses high risk areas based on information gained through their close working with the internal audit function. Assessments are undertaken using several entry points, including using the output of reviews with the executive teams, during and following face-to-face training, and analysing whistleblowing reports. Any foreign trading operations, procurement activities and business development and back-office functions continue to be specifically reviewed for compliance with anti-bribery and anti-corruption requirements. Comprehensive operating procedures are in place to address risks in those areas, with regular reviews taking place to ensure the assessment of risk remains up to date.

The anti-corruption and anti-bribery policy also sets out the employment consequences for its breach and potential legal sanctions under bribery laws. Any breaches or failure to adhere to the 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 read, understand and comply with the policy and report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Company's confidential whistleblowing service Speak Up. There were no confirmed cases of bribery, corruption, fraud or business ethics violations during the year.

Allegations of bribery or corruption are reported to the Audit Committee together with investigation outcomes and details of any action taken, which are disclosed to our external auditors.

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.

WHISTLEBLOWING POLICY – SPEAK UP

The Speak Up service encourages employees to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how any such concerns should be raised and ensures that employees are able to do so without fear of reprisals. The Company's whistleblowing policy specifically includes and encourages 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

The Speak Up service comprises telephone and web-based reporting channels operated for South West Water by independent provider NAVEX Global.

Following receipt of a report, the allegation will be assessed and an investigation started promptly. 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.

LEGAL COMPLIANCE POLICIES AND OUR CODE OF CONDUCT

The Company has policies in place covering the acceptance of gifts and hospitality, anti-facilitation of tax evasion and conflicts of interest, which require our people to disclose any situation which may conflict with their responsibilities as South West Water employees.

Our Code of Conduct and other key compliance policies can be found in the Governance and Remuneration section of our parent company website at <https://www.pennon-group.co.uk/about-us/governance-and-remuneration> under Internal Control.

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE IS FOCUSED ON ENSURING SOUND FINANCIAL AND RISK MANAGEMENT TO SUPPORT THE COMPANY'S STRATEGY

Membership	Position	Attendance
Neil Cooper	Chair	4
Iain Evans ¹	Non-Executive Director	3
Claire Ighodaro	Non-Executive Director	4
Jon Butterworth ¹	Non-Executive Director	3
Loraine Woodhouse	Non-Executive Director	1
Dorothy Burwell ¹	Non-Executive Director	0

1. Following a review of Board Committee composition Iain Evans, Jon Butterworth and Dorothy Burwell ceased to be members of the Audit Committee, effective 31st January 2023.

ROLE OF THE AUDIT COMMITTEE

- Ensure the quality and integrity of the Company's financial and regulatory reporting
- Monitor and review the effectiveness of the internal control environment
- Challenge the scope and adequacy of the Company's risk management processes

THE COMMITTEE'S FOCUS FOR 2022/23

- Ensure the 2023 Annual Report and Financial Statements are fair, balanced and understandable
- In depth review of the key financial reporting judgements
- Risk "deep-dives" in key focus areas
- Consideration of the FRC's review of the external auditor's 2022 audit of South West Water Limited, as part of the Pennon Group PLC group audit
- Scrutiny of our responses to address the risks posed by rising inflation and the resultant cost of living crisis

This report is intended to provide 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 2023 Annual Report and Financial Statements ('the 2023 Annual Report').

As in previous years, we have focused on the following key priorities areas:

- Ensuring the quality and integrity of the Company's financial reporting; this is done through the assessment of the application of accounting policies given underlying standards, challenging management through the review of the use of accounting judgements made in preparing financial reporting and the Committee's assessment of the quality of financial reporting of the Company in terms of whether its presentation is fair, balanced and understandable
- Ensuring the 2023 Annual Report is aligned with the requirements 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 internal control environment
- Challenging the scope and adequacy of risk management processes across the Company. In doing this, we monitor the expression of the Company's risk appetite and undertake "deep dive" reviews of higher risk areas.

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 2023 Annual Report is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company'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 137. 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 the 2023 Annual Report met these criteria. Details of our review process can be found on page 140.

The Committee discharges its responsibilities throughout the year in accordance with a schedule of business reflecting the annual external reporting cycle of the Company, 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.

In regard to risk, the process starts with the Executive Risk Committee formulating their risk appetite as well as their ongoing monitoring of key risks and their mitigation. The Committee then considers this formally, as well as homing in on key risk areas.

During the year, these key risk deep dives covered a wide range of topics including the risks posed by:

- cyber security breaches
- non-recovery of customer debt
- regulatory planning for PR24
- availability of financing for our accelerated investment programme.

More detail on our risk management processes, principal risks and their associated mitigations can be found on pages 43 to 59.

As well as this focus on our risk processes, we formally review the output of the Company's financial resilience and health assessments; for a 12-month 'look-forward' period through our assessment of the Company's going concern status and over a period to 2030 to assess the Company'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 indirect impact of the ongoing conflict in Ukraine. These are modelled through internal scenarios around the deployment of cash reserves and which now incorporate the integration of Bristol Water's operating licence into South West Water.

South West Water, now including the operating commitments of Bristol Water, has continued to use a longer assessment period to 2030, since we have a greater visibility of future cash flows, being a regulated business. Our viability statement is reported on page 60.

Throughout the year, the Company has remained focused on delivering a resilient performance in UK water, despite a difficult period of cost inflation. We are focused on delivering sustainable results for all stakeholders.

Key considerations for the Committee in the last year in delivering these commitments include:

- Consideration of the FRC's review of the external auditor's 2022 audit of South West Water Limited, as part of the Pennon Group PLC group audit
- The impact of unprecedented weather conditions and demand in Cornwall, with a combination of temperature and drought leading to a 1 in 200 year water resource shortfall and the appropriate disclosure of the financial impact of this
- Scrutiny of our responses to address the risks to the business posed by rising inflation and the resultant cost-of-living crisis
- Challenging our financial projections and scenario analysis to ensure we are well placed to deliver our environmental investment commitments.

Neil Cooper will be stepping down as Chair during 2023 and will be succeeded by Loraine Woodhouse.

SOUTH WEST WATER 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 Neil Cooper, Claire Ighodaro, Loraine Woodhouse, Iain Evans and Jon Butterworth, all of whom served on the Committee during the year under review have recent and relevant financial experience and also have competence in accounting or auditing. Following a review of the composition of Board committees, Iain Evans and Jon Butterworth stood down from the Audit Committee in March 2023.

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, 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 for concern.

MATTERS OF SIGNIFICANCE IN 2022/23

Financial reporting	<ul style="list-style-type: none"> Reviewed and discussed reports from management on the financial statements, considered managements significant accounting judgements and policies being applied, and assess 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 2023 Annual Report and advised the Board that the presentation of the 2023 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 give approval for publication
External auditor	<ul style="list-style-type: none"> Oversaw the 2022/23 statutory audit, including the key audit risks and level of materiality applied by the External Auditors Assessed the effectiveness of the External Auditor and made a recommendation to the Board on their reappointment Agreed the statutory audit fee for the year ending 31 March 2023 Reviewed and approved the non-audit services and related fees provided by the External Auditors for 2022/23 <p>Note, in line with the structure of the Group, certain activities such as recommending reappointment of the External Auditor and assessment of effectiveness of the External Auditor are performed by the Pennon Group Audit Committee. The responsibilities of the Pennon Group Audit Committee are described in the Pennon Group annual report (pages 120 to 125).</p>
Internal Controls and Risk management	<ul style="list-style-type: none"> Reviewed the effectiveness of the Company's risk management framework and its integration into Board and Committee Reporting Reviewed the Risk Appetite statement prior to making a recommendation to the Board Monitored fraud reporting and incidents of whistleblowing, including a review of the Company's whistleblowing processes and procedures and reporting to the Board on this Reviewed the Company risk register 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	<ul style="list-style-type: none"> Considered and approved Company accounting policies, including the impact of new accounting standards, 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 31 March 2023 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 during the year, together with the areas of particular audit focus, as reported on in the independent auditor's report on pages 181 to 190. In addition to the significant matters set out in the table below, the Committee considered presentational disclosure matters including the use on non-underlying performance metrics disclosures, and ensuring a fair presentation of statutory and non statutory performance and financial measures.

During the year, the Committee's areas of focus included:

Area of focus	How the matter was addressed by the Committee
Revenue recognition	Given the nature of the Company's revenue, the key areas of income statement judgement for South West Water and Bristol Water continue to be in respect of revenue recognition relating to income from water services. While the Committee relied on South West Water's and Bristol Water's processes for assessment of water into supply, it challenged the robustness and timeliness of the methodology used, resulting in management streamlining the calculation approach. The Committee welcomed this improvement and 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.
Bad and doubtful debts	Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly against historical standards and compared to the track records of other companies in the sector. 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 macro-economic 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 was reasonable.
Going concern basis for the preparation of the financial statements and viability statement	<p>A report from the Group Chief Finance Officer on the financial performance of both the Pennon Group and South West Water, including forward-looking estimates of covenant compliance and funding levels under different 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 scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Group Chief Finance Officer prepares for consideration by the Committee a report focusing on the Company'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 Finance Officer on the Company's financial viability over an appropriate period, which the Board considers to be up to 2030, in connection with the UK Corporate Governance Code and Ofwat's requirement for a viability statement to be given by the Board.</p> <p>Similarly, this report also considered the viability of the Company the potential manifestation of other adverse events modelled from the Company's principal risks and resultant sensitivity scenarios. South West Water (now incorporating the operating licence of Bristol Water) uses an 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 Company to continue to adopt the going concern basis of accounting in the</p>

	preparation of the financial statements and in addition advise the Board on providing the viability statement set out on page 60.
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EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to monitor carefully 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 current external auditor, Ernst & Young LLP (EY), was appointed following a comprehensive audit tender process and approval by shareholders at the Company's 2014 AGM. Its reappointment was approved at the 2021 Annual General Meeting. Christabel Cowling is the audit partner and has held the role since 2019.

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 Company's Annual Report and which was shared with, and discussed by, the Committee in advance.

The effectiveness review of the external auditor is undertaken 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 performance evaluation are provided below. 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 considered that it is appropriate that the external auditor be reappointed and has made this recommendation to the Board. 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 their independence during the year and again since the year end, confirming to the Committee that, based on their assessment, they were independent of the Company.

PROVISION OF NON-AUDIT SERVICES

The Committee continues to have 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 in relation to 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 and certain non-audit fees for services that are 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 14.5% of the three-year average audit fee, which is within the Company'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 210.

EXTERNAL AUDITOR REAPPOINTMENT AND STATEMENT OF COMPLIANCE WITH CMA ORDER

Pennon Group plc undertook a competitive audit tender process in 2014, which included the statutory audit engagement for South West Water. The Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Pennon Group last undertook a formal comprehensive audit tender process for statutory audit services in 2014. The current External Auditor, Ernst & Young LLP (EY), was 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 31 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 has been EY's ninth consecutive year in office as statutory auditor. As previously indicated, the Committee will be running a full tender for the Group's external audit services during the year ending March 2024, before the next rotation would become 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.

INTERNAL AUDIT

The internal audit activities of the Company are a key part of the internal control and risk management framework. There is a long-standing and effective centralised internal audit service at Pennon Group plc which makes a significant contribution to the ability of the Committee to deliver its responsibilities and has continued to operate effectively.

The current Company internal audit plan was approved in March 2022, following a thorough review to ensure it provided adequate coverage over the Company'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 Company'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 Company. Looking ahead, the intention of the Committee is to establish formal internal audit plans covering each six month period, given the volatility of the operating environment.

The Group Director of Risk and Assurance reported regularly through the year to the Committee on audit reviews undertaken and their 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 is fair, balanced and understandable (FBU) on page 137, the Committee has applied a detailed FBU review framework that takes account of the Company's well-documented verification process undertaken in conjunction with the preparation of the 2023 annual report. This is 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 181 to 190.

In preparing and finalising the 2023 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 & accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's 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, with a particular focus on the Company's principal risks, control environment and approach to financial reporting, noting the volatility in the global economy, and taking into account developments in reporting responsibilities including those recommended by the Task Force on Climate-related Financial Disclosure (TCFD), the consideration of climate risk in preparation of the financial statements and potential changes in the governance environment.

The Committee will further assist, with its usual diligence, the transition from the outgoing Committee Chair to the new Chair during the year.

INTEGRATED ASSURANCE FRAMEWORK

Throughout the year South West Water had in place an effective integrated assurance framework which identifies and monitors all types of assurance to enable a full evaluation of the conclusions drawn by all auditors, inspectors and reviewers from both internal and external providers.

The framework utilises a risk-based approach to ensure an appropriate balance of varied providers of assurance dependent on the assessed risk and complexity of assurance requirements.

(i) Group independent internal audit

South West Water utilises the Pennon Group's independent Internal Audit function, to provide effective risk-based coverage over the internal control environment. The Audit Committee's interactions and engagement into internal audit, including input into the annual plan is summarised above.

(ii) Annual assurance (financial and technical audit)

Alongside the statutory external auditor, South West Water also engages a technical auditor to provide assurance over key areas of regulatory performance reporting. This assurance considers our reported performance against key regulatory outputs and measures.

(iii) Quality assurance and ISO Internal Reviews

The South West Water Audit Committee also considers the resources for carrying out internal audits and reviews in key Company specific areas and endorses and acts on findings from these reviews carried out within the Company. There is a programme of internal audits coordinated by the Risk and Compliance Department as part of the Company's ISO certifications.

South West Water has the following accreditations/certifications:

- ISO 9001: 2015 (quality management)
- ISO 14001: 2015 (environmental management)
- ISO 27001: 2013 (information security)
- ISO 17025: 2005 (laboratories and sampling)
- ISO 50001: 2011 (energy management)
- BS 18477; 2010 (inclusive service provision)

These specific areas are also subject to periodic external reviews (such as ISO external reviews).

SOUTH WEST WATER'S 2022/23 BOARD ASSURANCE STATEMENT

In July 2023, South West Water will publish its annual performance report which will detail assurance work which has been performed in areas which it has identified following consultation as significant areas for assurance, which includes annual reporting. This report will be available as part of South West Waters' – available at www.southwestwater.co.uk/report2023.

THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT

THE ESG COMMITTEE SUPPORTS THE COMPANY'S ONGOING COMMITMENT TO ENVIRONMENTAL STEWARDSHIP.

Membership	Role	Attendance
Iain Evans	Chair	4
Gill Rider	Non-Executive Director	4
Susan Davy	Chief Executive Officer	4
Jon Butterworth	Non-Executive Director	4
Paul Boote	Chief Finance Officer	4
Claire Ighodaro ¹	Non-Executive Director	3
Neil Cooper ¹	Non-Executive Director	3
Dorothy Burwell	Non-Executive Director	1
Lorraine Woodhouse ¹	Non-Executive Director	0

1. Following a review of Board Committee composition, Gill Rider, Neil Cooper and Lorraine Woodhouse ceased to be members of the ESG Committee with effect from 31 January 2023.

ROLE OF THE ESG COMMITTEE

- Review the policies, management, initiatives and performance of the Company with respect to the environment, workplace policies, group governance and corporate policies relating to responsible and ethical business practice, the role of the Company in society and customer service and engagement
- Review the actions of the Company to determine the suitability of the workplace environmental policies and practices of key suppliers and contractors
- Review the extent and effectiveness of the Company'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 COMMITTEE'S FOCUS FOR 2022/23

- Reviewed the external 2022 ESG Assessment scores and approved the work being undertaken to improve these
- Successfully achieved majority of 2022/23 ESG targets
- Successful progress made against majority of environmental KPIs, including sewer flooding and biodiversity
- Approved an updated Sustainable Finance Allocation and Impact Report
- Reformulated the future ESG targets to align with executive remuneration targets
- Carried out deep dive reviews on storm overflow discharges and the Spillsure programme noting the enhanced level of community engagement being proposed
- Continued delivery of TCFD recommendations including detailed appraisal of transition risks and opportunities and scenario analysis
- Enhanced ESG reporting including our disclosures aligned to the Sustainability Accounting Standards Board (SASB) reporting framework and new ESG DataBook
- Integration of Bristol Water ESG activity into Group ESG reporting

The Committee is focused on governing our ESG activity and disclosure and ensure we continue to be a responsible business, creating a positive long-term impact on the environment and all our stakeholders.

Our approach to ESG ensures that everything we do supports our commitment to provide environmental stewardship and to support our customers and local communities. As a responsible employer, we remain focused on employee development alongside a robust health, safety and wellbeing programme. This is underpinned by a strong governance framework that upholds our core values within the organisation and throughout our supply chain. Sustainability is at the heart of our business and is part of everything that we do. During the year, the Committee considered a wide range of matters while fulfilling its duties in accordance with its terms of reference.

Our refreshed Group ESG targets through to 2025 reflect the priority issues identified by stakeholders in our materiality assessment that were not already addressed in existing regulatory commitments and plans. These targets support us in aligning our approach and priorities for PR24. You can read more on the outcomes of the materiality assessment in the Pennon Group Annual Report on page 66.

With effect from 6 April 2022, we are required to disclose climate-related financial information on a mandatory basis in line with requirements from the TCFD. These disclosures evidence our strategy to reduce emissions within our operations and through our supply chain to achieve Net Zero by 2030 driven by three pillars – sustainable living, championing renewals, and reversing carbon emissions.

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 Company, set as part of the business planning process. The Committee reviewed and approved 2025 targets noting that the metrics, ODIs, Operational Service assessments and ESG targets are aligned to the strategic themes identified in the Committee's materiality assessment. ESG targets were rebased and reformulated to align with executive remuneration targets. The Committee agreed that these targets for 2023/24 should be published in the Pennon Group Annual Report on page 66.

In addition, the ESG Committee provides oversight of performance against sustainability targets that are core to the successful delivery of our five year business plan. This is consistent with Ofwat's requirement for independent governance of the regulated business.

As at 31 March 2023, the Pennon Group achieved 14 of our 16 targets and are currently on track to meet our 2025 targets.

MATERIALITY ASSESSMENT

During the year, we embedded the results of our extensive materiality assessment into our 2025 targets. The outcome of this materiality assessment showed the following as of highest importance to all stakeholders:

- Net Zero
- Freshwater stewardship
- Water quality
- Climate resilience
- Drinking water quality
- Amenity and recreation
- Trust and transparency

ENHANCED REPORTING AND ASSURANCE

With a growing focus on ESG reporting, we are increasing our 2023 reporting suite and providing enhanced disclosure through our SASB disclosure which can be found on pages 64 to 68 and ESG databook which is available to view at www.pennon-group.co.uk/sustainability.

With a growing focus on ESG reporting, South West Water's ESG reporting is integrated throughout the strategic report and specifically in the following sections:

Section	Page
Chair's letter	4
Business model	5
Key performance indicators	12
Stakeholder overview	123
Our people strategy	23
Our operations	14

The sustainability performance of South West Water and Bournemouth Water have been subject to an independent audit of regulatory data conducted by Jacobs. Jacobs are engaged to independently audit South West Water 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 has conducted an independent audit of other non-financial also included in the APR. This includes all South West Water regulatory targets, including the suite of environmental performance indicators. Similarly, Turner and Townsend conduct an independent audit of Bristol Water's technical (non-financial) data also published in the combined 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 position to capitalise on the benefits of responsible business practice. The Pennon Group (including South West Water) is a constituent within the FTSE4Good Index, Sustainalytics, 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.

FOCUS AREAS FOR 2023/24

- Embed the assessment and identification of climate-related risks within our investment appraisal processes
- Integrate our climate risks within our existing risk management systems and risks registers across the Company
- Continue to explore options to develop quantitative metrics for our key climate risks and opportunities
- Further integration of ESG across the Company
- Expansion of community impact evaluation and reporting
- Review performance on how the company is fulfilling its purpose and its external ESG benchmarking
- Undertake matters of Committee governance such as its rolling calendar of agenda items, annual Committee evaluation and examination of Committee's terms of reference

THE NOMINATION COMMITTEE REPORT

THE ROLE OF THE NOMINATION COMMITTEE IS TO ENSURE THAT THE COMPANY HAS PRE-REQUISITE SKILLS, EXPERIENCE, BREDTH AND DEPTH OF TALENT TO MEET LONGER-TERM STRATEGIC OBJECTIVES.

Membership	Role	Attendance
Gill Rider	Chair	4
Neil Cooper	Non-Executive Director	4
Iain Evans	Non-Executive Director	4
Jon Butterworth	Non-Executive Director	4
Claire Ighodaro	Non-Executive Director	4
Loraine Woodhouse	Non-Executive Director	1
Dorothy Burwell	Non-Executive Director	1

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 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 Company, both executive and non-executive, with a view to ensuring the continued success of the Company.
- Review the Company's policy on diversity, including gender, and the progress against objectives
- Review membership of the Board Committees

THE COMMITTEE'S FOCUS FOR 2022/23

- Overseeing the effectiveness of the Board's internal succession plan, ensuring that the board has the appropriate mix of skills, experience and diversity
- Overseeing the annual review of Board Effectiveness and Board composition
- The annual review and approval of the Company 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 Leaders Survey and the Company's position on Gender Pay and Ethnicity Pay
- Ongoing review, development and evolution of the Executive Leadership team, including succession planning and the integration of Bristol Water
- Reviewing terms of reference for the Committee to ensure they continue to be appropriate

This year, the Committee has been pleased to welcome Loraine Woodhouse and Dorothy Burwell to the Board as independent non-executive directors, from 1 December 2022. The appointments are in line with our succession planning with relevant skills and diversity of perspective. Loraine will succeed the Audit Committee Chair when Neil Cooper steps down in the summer.

As noted in the 2022 Committee Report page 132, Russell Reynolds Associates were appointed as independent consultants, to conduct the search activity, providing the Committee with a number of suitable candidates, ensuring candidates were appraised of the expectations required as a member of the Board, the time commitment and professional conduct and values. The rigorous selection process included meetings with appropriate stakeholders as well as the interview process with Board members. The induction process for Dorothy and Loraine is detailed on page 130.

The Committee has also supported the ongoing evolution of the wider executive, with the ongoing evolution of the wider executive, with the integration of Bristol Water, and key external appointments including Andrew Garard as Group Counsel and John Halsall as Chief Operating Officer.

The Committee maintains its strong interest in the Company's progress in championing diversity, whether gender, ethnicity, or social mobility and regularly reviews the demographics of the workforce as well as the leadership and was pleased to see Pennon being shortlisted in the Balance in Business awards.

The Nomination Committee met four times during the year to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the Committee meetings, although other regular invitees to Committee meetings during the year included the Group Chief Executive Officer, the Group Chief People Officer and the General Counsel and Company Secretary. Committee members are also excluded from participating when their own positions are under discussion.

Further information on the Board biographies, can be found on pages 114 to 117.

BOARD DIVERSITY

At South West Water we believe that a diverse and inclusive culture is a strategic imperative, treating it in the same way as we do each strategic priority - setting the tone from the top, holding leaders accountable and delivering against a clear action plan.

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 well-being, and evidenced in achieving Great Place to Work status for two years running.

As at 31 March 2023, the Board's gender stood at 56% with more women on the Board than men, with Executive gender diversity at 44%. This focus on diversity throughout the company, resulted in our parent company, Pennon, being ranked 1st place in the FTSE Women Leaders Survey for utilities.

As advocates of Sir John Parker's review for ethnic board diversity, meeting the external targets required of a responsible and inclusive business ahead of the required dates. This year, in line with our commitment to the Change the Race Ratio campaign, we have voluntarily published our ethnicity pay gap, which stood at 10.3%. The Committee will continue to monitor pay gaps. Building our representation across the Company is a focus. The area which we serve has lower representation than the national average where ethnicity can be 2.2%. Nonetheless we are making good progress and our diversity across the Company which has improved to 3%.

BOARD DIVERSITY AND INCLUSION POLICY

The Board requires the Committee to review and monitor compliance with the Board's diversity policy and report on the targets, achievement against those targets and overall compliance in the Annual Report each year.

The Board's diversity and inclusion policy confirms that the Board is committed to:

- The search for Board candidates being conducted, and appointments made, on merit, against objective criteria whilst promoting the widest forms of diversity, including gender, social and ethnicity. In this context, the Board with endeavour to achieve and maintain:
 - A minimum of 40% female representation on the Board
 - A minimum of 40% female representation on the Company's senior management team
 - At least one member of diverse ethnicity on the Board
- Satisfying itself that plans are in place for orderly succession of appointments to the Board and to senior leadership
- maintain an appropriate balance of skills and experience within the Company and on 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 comprised of members of the Board, the Board's Diversity and Inclusion policy detailed above, similarly applies. We exceed the policy.

Colleagues are asked to provide personal information for the purposes of monitoring equality and for statutory reporting purposes, including Gender Pay Gap. This is collected during the recruitment and onboarding process

and colleagues are asked to periodically review and update as necessary. Information is stored on the Company's HR management system. Employees are encouraged to provide information on a voluntary basis.

THE ETHNIC REPRESENTATION OF OUR BOARD AND LEADERSHIP

	Number of Board Members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
White, British or other White (incl. minority white groups)	7	78	4	9	100
Mixed / multiple Ethnic Groups	-	-	-	-	-
Asian / Asian British	-	-	-	-	-
Black / African / Caribbean / Black British	2	22	-	-	-
Other ethnic group including Arab	-	-	-	-	-
Not specified / prefer not to disclose	-	-	-	-	-

THE GENDER REPRESENTATION OF OUR BOARD AND LEADERSHIP

	Number of Board Members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
Men	4	44	2	5	57
Women	5	56	2	4	43
Other categories	-	-	-	-	-
Not specified / prefer not to disclose	-	-	-	-	-

TALENT MANAGEMENT AND SUCCESSION PLANNING

During 2022/23 we have overseen the reshaping of the wider executive, ensuring that the Company has the requisite skills and experience and breadth of talent to meet the longer-term strategic objectives. As we worked to enact our integration blueprint, following the acquisition of Bristol Water, Paul Boote became Group Chief Financial Officer. At the same time we strengthened the overall executive with the external appointments of Andrew Garard as General Counsel and John Halsall as Chief Operating Officer. Mel Karam, Chief Executive Officer of Bristol Water, post the TUPE transfer of Bristol Water to South West Water, chose to step down. The Committee thanks him for his six years of service.

The Committee, supported by the Group Chief People Officer, also 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 by many characteristics are provided, noting this is also subject to employees' wish to disclose certain characteristics or sensitive information.

BOARD EFFECTIVENESS 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.

This year the review was undertaken by a third party, Equity Culture, by means of online interviews with a number of the Board, in consultation with the Chair and respective Committee Chairs, in January and February 2023.

The outcome of the review concluded that the Board, its Committees, and individual Directors continued to demonstrate a high degree of effectiveness and collaboration, and that the Board had a forward thinking mind and a good understanding of opportunities for growth and risks facing the business, with the following positives, negatives and/or actions suggested. In parallel with the Board effectiveness review the Committee undertook a 360 degree evaluation of the executive committee members and ensured the feedback was shared with the Company's senior leadership.

SUMMARY OF EVALUATION

Area of assessment		Commentary/feedback	Actions
Board	Conduct of meetings	<ul style="list-style-type: none"> The Board is open, honest, respectful, engaged and committed 	
	Board meetings, papers and presentation	<ul style="list-style-type: none"> The volume of papers provides a challenge for the Board to manage but this reflects the open culture of the Company The annual cycle of Board meetings and topics is appropriate There is a reassuring balance between appropriate challenge and support between NEDs and Executive The meetings are well-managed Governance is a strength of the Company 	<ul style="list-style-type: none"> Review the structure of Board papers
	Board oversight	<ul style="list-style-type: none"> Maintain increased visibility around pollutions. 	<ul style="list-style-type: none"> Continue to ensure appropriate processes for monitoring,

Area of assessment	Commentary/feedback	Actions
		reporting and addressing pollution incidents.
Company strategy and Governance	<ul style="list-style-type: none"> The Board continues to provide helpful support to management. The Board offers good strategic direction and governance. 	<ul style="list-style-type: none"> Key themes are developing strategic lines of communication to drive climate delivery and growth.
Communications strategy	<ul style="list-style-type: none"> The Board is keen to help with advocacy Further Board appointments could consider broadening the expertise in regulatory and Government affairs 	<ul style="list-style-type: none"> Ensure the Company has the appropriate capacity to meet its challenges
Succession and talent planning	<ul style="list-style-type: none"> Recent Board and Executive appointments have been very positive The appointment of a new SID and Chair is high on the priority list of the Board The CEO is very highly regarded 	<ul style="list-style-type: none"> The bench strength of the Executive needs to be kept under review
Strategy	<ul style="list-style-type: none"> The annual strategy day is well received ESG matters are well-embedded Social initiatives are high on the Company's agenda 	<ul style="list-style-type: none"> The focus should remain on ensuring that the Company has the human resources to deliver its ambitions
Risk	<ul style="list-style-type: none"> The Company has good structures and processes in place Scrutiny of risk remains a priority for the Board agenda 	<ul style="list-style-type: none"> Top level risks should be regularly reviewed
Committees	<ul style="list-style-type: none"> The Committees work well and are well chaired The frequency of meetings of the Health and Safety Committee should be kept under review 	
Audit Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> The Audit Committee provides useful support to the Board and management. The Committee operates good governance, is up to date with changing legislation and has a strong relationship with financial management. Overall, it was felt that the Audit Committee functions well, with multiple members with deep finance experience.
ESG Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> Relationships and communication between the ESG Committee and key executives are open and constructive.

Area of assessment		Commentary/feedback	Actions
		<ul style="list-style-type: none"> The Committee makes effective use of KPIs and benchmarking to understand ESG performance, with external sustainability performance reported on regularly. Overall the Committee provides good direction in an ever-evolving area and has developed well over the last 18 months. Environmental issues particularly around CSOs have emerged more prominently this year. The Committee and the Board have work to do, to deal with the pollutions and CSO challenges, with the right executive support. 	<ul style="list-style-type: none"> Continue the vital focus on environmental issues and CSOs. Continue to review and assess processes in this area.
Remuneration Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> The Remuneration Committee has performed well, with well-honed processes and in noting the evolving external environment 	<ul style="list-style-type: none"> To continue to evolve the framework as required, and build on existing processes.
Nomination Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> The Nomination Committee has performed well and needs to continue its track of Board succession planning and Executive succession activities. 	<ul style="list-style-type: none"> Continue with existing processes, focused on succession.
Health and Safety Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> The H&S Committee provides effective support to both the Board and management. The Committee is now well established and focused on supporting the Board's aspirations with recent reports on investigations felt excellent. 	<ul style="list-style-type: none"> A developing Committee that should continue its deep dive into H&S performance and incidents.

A key area for focus in 2023/24 will be seeking a successor for the role of Chair. The current Board reflects South West Water's commitment and belief in the importance of diversity, and South West Water will be mindful of both the Company-wide and Board-specific diversity policies when selecting a replacement Chair. The succession planning process will consider candidates from diverse backgrounds, experiences, and perspectives and we will provide an update on the process followed in next year's report. As detailed on page 131 the Board recommended an extension of up to three years to the Chair's term from July 2021, as being appropriate, to provide continuity during the strategic business review and acquisition of Bristol Water. Shareholders voted in favour of this decision. The addition of Loraine and Dorothy to the Board means this is the right time to review the responsibilities of Board members ensuring we are maximising skills to best lead the Company for the future. The process of seeking a successor for the Chair will be led by the Senior Independent Director with no involvement from the current Chair.

HEALTH & SAFETY COMMITTEE REPORT

THE HEALTH AND SAFETY COMMITTEE PROMOTES A CULTURE OF SAFETY WITHIN THE COMPANY.

Membership	Role	Attendance
Jon Butterworth	Chair	4
Gill Rider	Non-Executive Director	4
Iain Evans	Non-Executive Director	4
Susan Davy	Group Chief Executive Officer	4
Paul Boote	Group Chief Financial Officer	4
Neil Cooper ¹	Non-Executive Director	3
Claire Ighodaro ¹	Non-Executive Director	3
Dorothy Burwell	Non-Executive Director	1
Loraine Woodhouse ¹	Non-Executive Director	0

1. Following a review of Board Committee composition, Neil Cooper, Claire Ighodaro and Loraine Woodhouse ceased to be members of the Health and Safety Committee with effect from 31 January 2023.

ROLE OF THE HEALTH & SAFETY COMMITTEE

- Review and challenge to support the Board and Executive on all matters connected to Health & Safety
- Review the extent and effectiveness of the Company'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 2022/23

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:

- Six monthly comprehensive reviews of the Company's Health & Safety performance
- A review of the next phase of the HomeSafe strategy through to 2025
- A deep dive into the wellbeing strategy with a focus on mental health
- A review and challenge of potential near-miss events to ensure lessons are learnt
- Visiting operational sites to engage with front-line colleagues and the wider Health and Safety teams

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.

Our dedicated Board Committee focused purely on H&S ensures the Board continue to support our HomeSafe strategy and the Company's vision to ensure that everyone goes home safe every day. We continue to strive to be a leader of Health and Safety by 2025 in our sector, and leadership from the top is critical. The Board now has dedicated time to discuss and review performance, offer support, encourage learning and meet leaders and employees from across the business.

Reviewing the Company'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.

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.

The first H&S conference held in Bristol in February. The conference was attended by representatives throughout the business from water treatment operational colleagues through to supply chain directors, with the aim of

empowering everyone to recognise “It could happen to you” and “Take 5” to ensure it doesn’t. This theme developed from an investigation into a High Potential Incident we reviewed at our Committee.

H&S COMMITTEE COMPOSITION

All Board members are attendees and served throughout the year, with support from the Chief People Officer and South West Water’s H&S Director.

REPORTING

In addition to the regular board report by the Group Chief Executive Officer, detailed performance is reviewed six monthly, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health and working environment. The corresponding improvements in outcome metrics has been noted, with the Lost Time Injury Frequency Rate (LTIFR) reducing consistently across the period, with a 16% reduction in the year.

The HomeSafe strategy continues to drive improvements and is regularly reviewed to ensure it drives us towards our 2025 aims. 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.

HOMESAFE STRATEGY

The Company’s flagship health and safety 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; Managing Risk, Sharing & Learning, Working Together, Protecting Health, Enabling Leaders and Being Resilient. Read more on pages 27 to 28.

REMUNERATION COMMITTEE REPORT

THE ROLE OF THE REMUNERATION COMMITTEE IS TO SET AND IMPLEMENT EXECUTIVE PAY IN A FAIR AND SOCIALLY RESPONSIBLE MANNER.

Membership	Role	Attendance
Claire Ighodaro	Chair	5
Gill Rider ¹	Non-Executive Director	4
Neil Cooper	Non-Executive Director	5
Iain Evans ²	Non-Executive Director	4
Jon Butterworth ³	Non-Executive Director	4
Lorraine Woodhouse	Non-Executive Director	1
Dorothy Burwell	Non-Executive Director	1

1. Following a review of Board Committee composition, Gill Rider, Iain Evans and Jon Butterworth ceased to be members of the Health and Safety Committee with effect from 31 January 2023.

ROLE OF THE REMUNERATION COMMITTEE

- Ensure remuneration is aligned with the Company's strategy and reflects the values of the Company.
- Set and, in every third year, review the remuneration policy to ensure it remains appropriate, considering shareholders' views and best practice.
- Advise the Board on the framework of executive remuneration for the Company.
- Setting the remuneration for the Chair, the Executive Directors and senior executives of the Company and reviewing 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 2022/23

- Consider the remuneration and terms of engagement of the Executive Directors, senior executives and Chair of the Company and the remuneration of the wider workforce.
- Determine targets that remain stretching, relevant to the Company's strategy and values and reflect best practice and wider stakeholders' views.
- Undertake the review of the remuneration policy, taking into consideration the Company's strategic goals, stakeholders views, regulatory commitments and evolving best practice.

We are a purpose-led business, shaped by our values and culture. Our approach to all matters, including pay, is informed by the perspective of our various stakeholders, including our customers, colleagues, communities and the environment.

The economic downturn over the past year has impacted the business, our colleagues and our customers. Climate-related issues have also dominated the landscape, and the driest, hottest summer on record for the region resulted in a record demand for water. With this challenging backdrop, we are mindful of the need to build and maintain trust on the sensitive topic of executive pay, by clearly demonstrating our commitment to socially responsible business.

Despite the external backdrop, this has been a year of progress. Our robust performance over the last financial year has created c.£198 million cumulative out-performance over K7 to date, enabling reinvestment that will improve service quality over the longer-term. We have reduced storm overflow use by 30% and have maintained 100% bathing water quality for the second year in a row. We also remain on track to deliver our ambitious Net Zero programme by 2030. However, it is recognised that there remains scope for improvement in certain areas as we work towards our stretching ambitions. Although our PBT results reflect the impact of exceptional levels of

UK inflation on our dent instruments, the underlying financial results remain robust as demonstrated by EBITDA of £256.7 million.

We were able to keep bills lower than inflationary increases. We have increased the number of customers benefitting from one or more of our social tariffs by 34% and 7% in South West Water and Bristol Water respectively. The second phase of our innovative WaterShare+ scheme was also launched in November 2022, and almost 90,000 customers have opted to become shareholders in our parent company Pennon, via the scheme, since its introduction in 2021.

SUPPORTING OUR COLLEAGUES

We are proud to be the largest employer in the region, with c.2,500 employees. The global financial pressures which face our customers, are also affecting our colleagues. Building on the support that was provided during the pandemic, the business has continued to support our colleagues during the well-documented cost-of-living crisis.

The 2023 pay settlement represented our largest-ever pay award, in recent times, with a focus on higher increases for lower-paid, customer-facing roles. The increase of 7% was backdated to 1 January 2023, which further enhanced the effective increase for the year to 9.2%. Increases for more senior roles were scaled down, with those earning in excess of £80,000 awarded an increase of 4.6%. The 2023/24 increases for Executive Directors were capped at 3.5%.

The business also implemented a rounded package of measures to support employees, including wellbeing support, access to financial information and guidance through an external provider, hardship support. An interim bonus payment for front-line teams.

Our HMRC approved share schemes continue to be popular with c.55% of colleagues in either the Sharesave or Share Incentive Plan. During the year, our 2017 five-year plan and 2019 three-year plan reached maturity with colleagues seeing growth of up to 45% on their investment. We have once again provided expanded disclosure on our approach for the wider workforce, and this is set out on page 162.

CEO INCENTIVES

The Chief Executive Officer's annual bonus for the 2022/23 financial year and the long-term share awards (LTIP) granted in 2020 subject to three-year performance to 31 March 2023, were each based on scorecards intended to capture a rounded assessment of overall performance. Based on the formulaic assessment of performance, the annual bonus delivered an outcome of 26% of maximum and the 2020 LTIP vested at 45% of maximum. Further detail on the targets and outcomes is set out in the main body of the report. There were clear areas of under and over performance and this is reflected in the scorecard results. The Committee was satisfied that these outcomes fairly captured overall Company performance over the relevant performance periods.

However, having reflected on the exceptional economic backdrop, the Chief Executive Officer recommended to the Committee that her bonus and 2020 LTIP awards were foregone in full. An equivalent value is to be diverted into a future issuance under the Company's WaterShare+ scheme. The WaterShare+ scheme directly benefits our customers by either providing money off their bill or via ownership of Pennon shares.

While recognising the performance delivered, the Committee reflected on the broader environment and approved the Chief Executive Officer's recommendation regarding her awards. Therefore, the Chief Executive Officer's single figure for 2022/23 does not include any variable incentives and is significantly lower than outcomes in prior years.

REMUNERATION POLICY REVIEW

Our current remuneration Policy was set in 2020. In accordance with the normal three-year renewal timetable, our parent company Pennon Group plc, will be seeking shareholder approval for a new Policy at our 2023 AGM.

We are not proposing any material changes to our remuneration policy and therefore the previous policy has been largely rolled-forward. For the current year, we have instead focused on refining the metrics applicable to incentive awards (see below).

Overall remuneration levels under the policy remain modestly positioned against our water sector peers, and no increased are being proposed as part of the policy renewal. We also continue to have a number of safeguard performance mechanisms to avoid payments for failure including use of clear performance measures,

stakeholder and other feedback, operation of a discretion framework before approving incentive outcomes and robust malus and clawback provisions.

However, the Committee is aware of the external environment, particularly in the context of our business plan submission for the next regulatory review cycle, due to Ofwat in October 2023. We intend to undertake a review of our pay structure taking account of our strategic priorities and continuing best practice guidance. This review will reflect on a range of approaches seen in the market, from alternative performance metrics through to structural changes such as the use of restricted shares. We will also consider any refinements that are needed to in-flight arrangements.

INCENTIVES FOR 2023/24 – CLEARER LINK TO CUSTOMERS, COMMUNITIES AND THE ENVIRONMENT

When considering the implementation of the policy for the coming year, the Committee was mindful of evolving Ofwat guidance on incentives for senior executives, in particular the desire for a substantial portion of awards to be linked to delivery for customers, communities and the environment.

For 2023/24, the annual bonus structure has been revised, and balances our focus on operational and strategic objectives related to customers, communities and the environment (60%) and maintains an appropriate weighting on financial results (40%). For South West Water executives this remains at 70% and 30% respectively.

For 2023 LTIP awards, the balance of measures has been refined to respond to both Ofwat guidance and recent feedback from our stakeholders. A significant portion of the awards will be based on a return on regulated equity (50% weighting, increased from 33%), as this is a key measure for our stakeholders and the regulator. As the performance period concludes during the next price review period, the targets have been expressed as returns above the allowed cost of equity, but require the same level of out-performance as the 2022 LTIP. Customer experience has also been maintained as a measure (20% weighting). A new measure linked to water quality and the environment (30% weighting), has been introduced, with long-term objectives relating to our EPA rating, reductions in pollution incidents and combined storm overflows. The targets are detailed in the main body of the report.

The Remuneration Committee is very aware of the need to clearly demonstrate a measured and responsible approach to executive pay. Over a number of years we have a track record of taking a fair and modest approach.

DIRECTORS' REMUNERATION REPORT

REMUNERATION ALIGNED TO DELIVERY FOR OUR CUSTOMERS

Significant portion of executive remuneration is linked to performance:

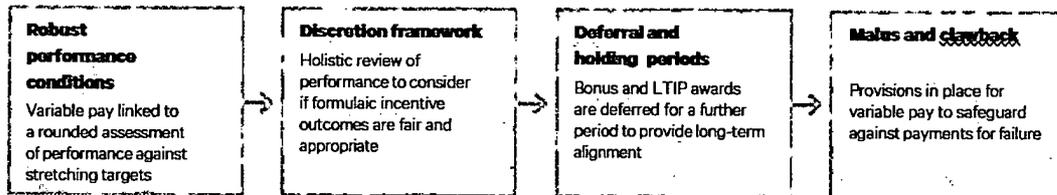
- Incentive linked to underlying performance
- Performance pay – appropriately aligned with customer interests with bonus and LTIs having a substantial link to stretching performance delivery for customers
- Focus on customer and operational metrics assessed by Ofwat, our customer, communities, and wider stakeholders
- Incentives designed to motivate delivery of sustainable performance
- Safeguard mechanisms in place to ensure outcomes reflect underlying performance.

Directors' remuneration report

At a glance

	Year 2	Year 3	Year 4	Year 5
What is the structure of executive pay?				
Year 1	----->			
Base salary	-->			
Benefits				
Retirement Benefits				
Bonus: 50% in cash	50% deferred into shares for three years ----->			
LTIP: subject to three-year performance	-----> Subject to a two-year holding ----->			
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?

	Customer measures	ESG	Water quality	Profit measures	Return on Regulated Equity
Performance measures	⊕ ⊕	⊕ ⊕ ⊕	⊕ ⊕ ⊕	⊕ ⊕	⊕ ⊕
2023/24 bonus	⊕	⊕	⊕	⊕	
2023 LTIP	⊕	⊕	⊕		⊕

Our Strategic pillars: ⊕ Growth in Environmental Infrastructure ⊕ Pioneering Solutions ⊕ Leadership in UK water

ANNUAL REPORT ON REMUNERATION

Susan Davy, Chief Executive Officer and Paul Boote, Chief Financial Officer, are both Executive Directors of Pennon Plc and South West Water Ltd. Their remuneration is set by the Pennon Group Remuneration Committee and is in accordance with the Pennon Group Remuneration Policy, approved by shareholders on 22 July 2020. Full disclosure of their remuneration can be found in the Pennon Group Plc Annual Report and Accounts 2023 and is available on the Pennon Group website at <https://annualreport.pennon-group.co.uk/index.html>.

Louise Rowe took up an alternative role within South West Water and resigned her responsibilities as South West Water Finance Director on 31 August 2022. The remuneration for Louise for the period 1 April 2022 until 31 August 2022 is detailed in the report.

In line with the normal three-year review process, the proposed remuneration policy for 2023 is detailed in the Pennon Group Annual Report and will be subject to shareholder vote at the annual AGM. Full details of the proposed policy and implementation for 2023/24 can also be found in the Pennon Group Plc Annual Report and Accounts 2023 as detailed above.

The remuneration of the Executive Directors reflects the focus of the Company and its strategy of Bringing Water to Life - supporting the lives of people and the places they love for generations to come, which means we are not only seeking to create value for our stakeholders today but to reinvest in our business in a carefully planned and sustainable way for the future. The performance we strive to deliver for all our stakeholders is reflected in the stretching targets set by the Remuneration Committee within our incentive arrangements. Outcomes for customers and the environment are paramount alongside the financial objectives which underpin our ability to invest in infrastructure, maintain affordability with lower bills and lift customers from water poverty.

SUMMARY OF THE SOUTH WEST WATER DIRECTORS' REMUNERATION POLICY AND IMPLEMENTATION IN 2022/23

Reflecting the nature of the Chief Executive Officer and Chief Financial Officer of the Pennon Group, all subsidiaries receive a cross-charge for fixed remuneration only for 2022/23. The figures rechargeable to South West Water through Group re-charges reflect 50% of fixed remuneration until 31 January 2023 (from 1 September 2022 for the Chief Financial Officer) and then 70% for the remainder of the financial year, following the statutory transfer of Bristol Water Plc to South West Water.

The current Directors' remuneration policy was set in 2020. The full policy is contained in the 2022 South West Water Annual Performance Report on the Company's website at <https://www.southwestwater.co.uk/report2022>. A summary of the policy is set out below alongside detail on how was implemented during the year.

Element	Operation	Implementation in 2022/23
Base Salary		
Set at a competitive level to attract and retain high calibre people to meet the Company's strategic objectives in an increasingly complex business environment.	Salaries are generally reviewed annually, and any changes are normally effective from 1 April each year. In normal circumstances, salary increases will not be materially different to general employee pay increases.	<p>The Group Chief Executive Officer was awarded an increase of 3% for 2022/23, which she respectfully declined. The South West Water Finance Director received an increase of 4.6%, effective from 1 April 2022 and the Group Chief Financial Officer, an award of 3%. Salaries are shown below reflecting the values cross-charged to South West Water for 2022/23:</p> <p>Finance Director – £180,269 Group Chief Executive Officer – £253,000 Group Chief Financial Officer - £100,000</p>

Benefits		
Benefits provided are consistent with the market and level of seniority to aid retention of key skills to assist in meeting strategic objectives.	Benefits currently include the provision of a Company vehicle, fuel, health insurance, income protection and life assurance. Other benefits may be provided if the Committee considers it appropriate.	Benefits remain unchanged for 2022.
Pension-related benefits		
Provides funding for retirement and aids retention of key skills to assist in meeting the Company's strategic objectives.	The maximum annual pension contribution or cash allowance is in line with the contribution available to the wider population.	The Pennon Group Executive Directors received benefit of 10% of salary, which is aligned with the maximum rate available to the wider workforce. The South West Water Finance Director received benefits of 15% of salary.
Annual bonus		
Incentivises the achievement of key performance objectives aligned to the strategy of the Company.	<p>The maximum bonus potential is 125% of salary.</p> <p>A portion of any bonus is deferred into shares in the Company which are normally released after three years. Normally 50% is deferred. Malus and clawback provisions apply.</p>	<p>Maximum opportunity of 125% of salary for the Group Executive Directors and 75% for the South West Water Finance Director. Deferral of 50% of any bonus into shares for three years.</p> <p>The annual bonus for 2022/23 was based on a combination of customer and operational measures, financial measures and environmental, social and governance measures (ESG).</p> <p>The details of the annual bonus measures and performance outturn for the Executive Directors can be found in the Pennon Group Annual Report on page 144.</p> <p>The details of the award for the South West Water Finance Director can be found on page 166.</p>
Long-Term Incentive Plan (LTIP)		
Provides alignment to the achievement of the Company's strategic objectives and the delivery of sustainable long-term value.	<p>Annual grant of conditional shares (or equivalent). Share awards vest subject to the achievement of specific performance conditions measured over no less than three years. In addition, a two-year holding period will apply in respect of any shares which vest at the end of the three-year performance period.</p> <p>An underpin applies which allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying operational and economic performance of the Company. Malus and clawback provisions apply.</p>	<p>Maximum award of 150% of salary for the Pennon Group Executive Directors and 75% for South West Water Finance Director.</p> <p>The performance targets for 2023 LTIP grants for the Executive Directors can be read in the Pennon Group Annual Report on page 136.</p> <p>The details of the vesting LTIP for the Finance Director can be found on page 166 to 167.</p>

<p>Discretion In line with the 2018 Corporate Governance Code, the Remuneration Committee has ensured that it will maintain the ability to override the formulaic outcomes for future awards under the annual bonus and LTIP where the outcomes are not considered by the Committee to be appropriate (e.g. unreflective of underlying performance). The Committee will disclose the use of any such discretion.</p>		
<p>Shareholding requirements</p>		
<p>Create alignment between executives and shareholder and promote long-term stewardship</p>	<p>During the course of their tenure, Executive Directors are expected to build up a shareholding equivalent to a percentage of salary.</p>	<p>Shareholding guideline of 200% of salary for the Executive Directors and 100% of salary for the Finance Director.</p>
<p>All-employees share plans</p>		
<p>Align the interests of all employees with Company share performance.</p>	<p>Executive Directors may participate in HMRC approved all-employee plans on the same basis as employees.</p> <p>The maximum is as prescribed under the relevant HMRC legislation governing the plans.</p>	<p>No changes.</p>
<p>Non-Executive Director fee policy</p>		
<p>Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Company's strategy.</p>	<p>Non-Executive Directors normally receive a basic fee and an additional fee for any specific Board responsibility such as chair of a Committee or occupying the role of Senior Independent Director.</p> <p>Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company (including any tax due on the expenses). The Chair's benefits include the provision of a driver and vehicle, when appropriate for the efficient carrying out of her duties.</p> <p>The Non-Executive Directors' fees are set by Pennon Group plc and 53% of these fees are recharged to South West Water through Group recharges. A further portion is cross-charged to other subsidiaries of the Group. The fee structure and policy for the Non-Executive Directors can be found in the Pennon Group Annual Report. The recharge level has increased from 50% to 53% following the transfer of</p>	<p>A 3% uplift to the fee policy was implemented in 2022/23 as shown below:</p> <p>Chair fee £115,875 Basic Non-Executive fee £31,183</p> <p>Additional fees Senior Independent Director £5,150 Chair of Audit Committee £7,725 Chair of Remuneration Committee £6,700 Chair of ESG Committee £6,700 Chair of Health and Safety Committee £2,575</p>

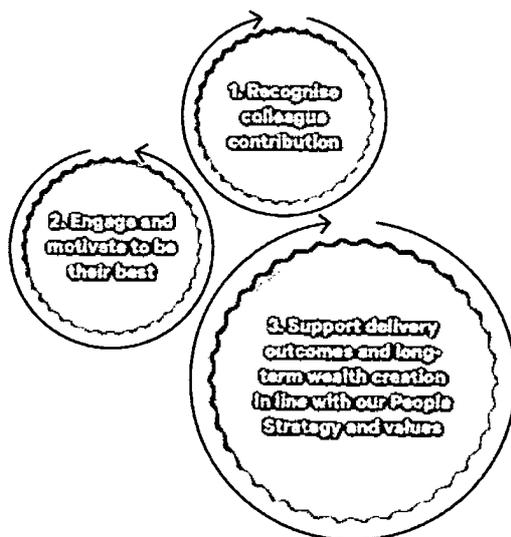
	Bristol Water Plc to South West Water Ltd 1 February 2022	
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REMUNERATION APPROACH FOR WIDER EMPLOYEES

The Remuneration Committee pays close attention to the approach taken to remuneration for the wider workforce and considers this when making decisions regarding remuneration for the Executive Directors. The Committee reviews a pay dashboard twice a year, which contains information on elements of financial and non-financial reward, the wider labour market, demographics and pay statistics across the organisation. This detail provides important context to ensure that a consistent approach is adopted across the Company, including the Executive Directors. Progress in delivering the reward strategy is also reviewed regularly and the Committee reflects on progress made in relation to our gender and ethnicity pay gaps. Alongside this, the Committee hears feedback from employees from the RISE engagement forum through the CEO on matters concerning remuneration arrangements.

Reward strategy

Our well-established People Strategy across the Company is centred around talented people doing great things for customers and each other and creating the best place to work. Our Reward Strategy has three aims:



Supporting our colleagues

Salary increases for wider workforce

We have supported colleagues during the cost-of-living crisis, prioritising increases for those who need it most. For 2023/24, colleagues with a base salary below £40,000 have been awarded a pay increase of 7%. This was also backdated resulting in an effective increase of 9.2% for this population. For those earning between £40,000 to £80,000 a tapered approach has been taken, with those earning above £80,000, receiving a pay increase of 4.6% from 1 April 2023.

Interim bonus

We paid an interim bonus payment to all employees below leadership, helping colleagues meet the additional costs of Christmas at a time when they need it most.

Financial wellbeing and wider benefits

We offer a comprehensive package of support, including the roll out of a financial wellbeing partner for colleagues and their families, as well as hardship loans. We have also lifted the limits on our cycle to work scheme, enabling colleagues to take advantage of electric bikes (subject to affordability) helping them reduce

their commuting costs and their own carbon footprint.

Saving for the future

Our Sharesave scheme was launched in 2022, enabling over 300 new participants to join, meaning that circa 55% of employees now enjoy one of the Company's share plans, having a stake and say in the business.

Living Wage Foundation

In 2021, we announced our Living Wage Foundation (LWF) Accreditation. Further investment has been made in our critical customer service roles to maintain pay at a level above the LWF rates for all colleagues.

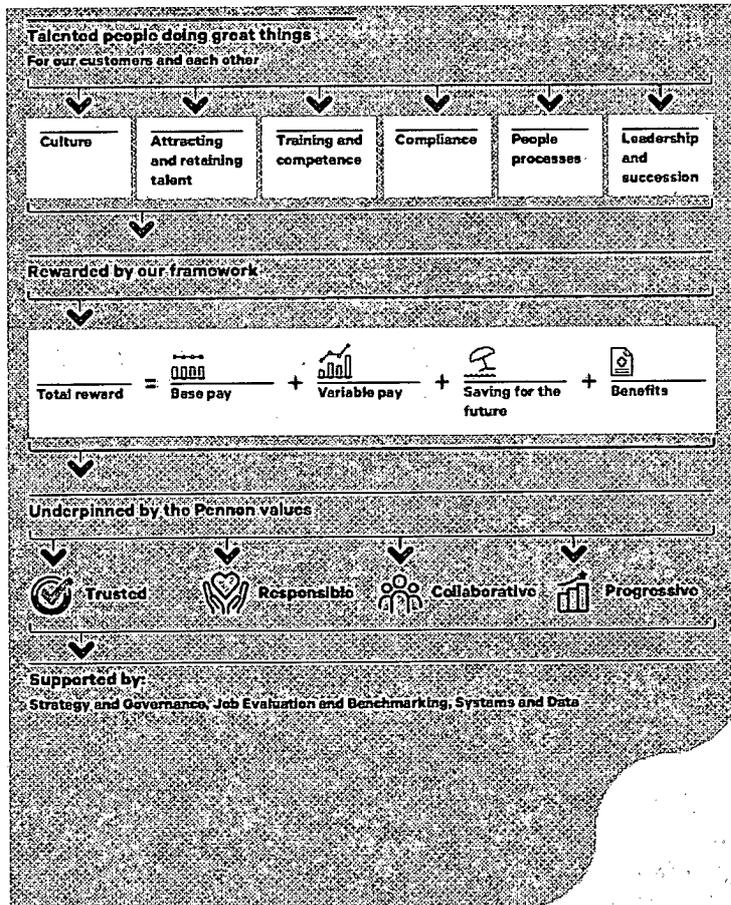
Wider workforce remuneration dashboard in accordance with the 2018 UK Corporate Governance Code, the Committee reviews the level of information provided on pay matters in the wider organisation. The Wider Workforce Remuneration Dashboard provides the Remuneration Committee with an overview of the approach to pay across the Company:

- 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
- In 2022/23 included the wider remuneration landscape to provide more external context, industry specifics and to inform on our developments on financial wellbeing
- Covers information on workforce demographics, employee engagement, 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

REWARD FRAMEWORK

Our reward framework supports our people strategy.



Highlights	
Base Pay	<p>The Company's overarching principles for basic pay are as follows:</p> <ul style="list-style-type: none"> • Be competitive to support attraction and retention • Be fair, meeting all legislative requirements • Reflect the market and region in which the role operates • Reviewed annually – we engage with employee forums and trades unions as appropriate. <p>The 2023 pay settlement represented our largest pay award in recent years, focusing on our lower-paid and customer-facing roles see page 154.</p> <p>South West Water is also proud to be one of the minority of UK companies to be an accredited Living Wage Employer</p>
Variable pay	<p>South West Water operates variable pay schemes, including annual bonus arrangements and all employees and temporary workers are eligible to participate. Throughout the main 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.</p> <p>Our front-line teams receive overtime, call-out and standby payments, ensuring that when workloads are high, employees benefit. We remain mindful of the need to balance working hours and available resource against the health, safety and wellbeing of our colleagues.</p>
Saving for the future	<p>Membership of the Group pension scheme remains strong with a 96% participation rate in our Defined Contribution (DC) scheme across the Group. 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. 10% of eligible employees chose to participate. We supported the 2022 Sharesave with a number of drop-in sessions and presentations, ensuring new colleagues fully understood the schemes. We saw over 1,000 colleagues enter into a savings plan, of which c.330 Group employees were new to employee share ownership. Not only do our share schemes provide a mechanism for sharing in the long-term success of the Group and mean that colleagues and customers have a say and stake in the business.</p>
Benefits	<p>Benefits are available to all colleagues. During 2023, the Company continued to build on the additional benefits to support employees' physical and mental wellbeing in line with our reward strategy.</p> <p>We have launched an online health programme providing self-assessment and guidance for a healthy life plan. Total Reward Statements are available through our Reward Hub platform and for Bristol through a flexible benefits platform. Our buy and sell holiday scheme launched in 2022, gives employees the opportunity to either have more holiday to suit their lifestyles or have more of their reward in cash to use for other benefits as they prefer. We have developed further the colleague support groups and Time to Talk sessions established in 2022. Financial wellbeing has grown in priority for colleagues this year and we have partnered with an external financial wellbeing service to deliver this much-needed support to colleagues and their families.</p>

Gender and Ethnicity pay reporting

During 2022/23, in line with our Change the Race Ratio commitments, we 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 gaps is 17.7% for South West Water and 3.83% for Bristol Water as at April 2022. 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.

The mean gender pay gap for South West Water is 5.36%. This was an improvement on the prior year of 1.36%. The mean bonus pay gap was -11.7% meaning the average bonus for female colleagues was higher than that awarded to men. As at the snapshot date, Bristol Water had not transferred to South West Water, and reported separately. The mean gender pay gap for Bristol Water is 15.9%. As we look to develop female representation at all levels, we continue to create an environment for women to thrive and develop their careers.

During the year we have been recognised for our progression in gender equality by external bodies. In Spring 2023, our parent company, Pennon was rated in the Bloomberg Gender Equality Index with an overall score of 69% up from 65% in 2022. This includes the leadership of South West Water. The index measures gender equality across five key areas. Our placement in the FTSE Women Leaders report revealed we were again first in the Utilities sector.

We are committed to deliver on our ambitions to build diversity and inclusion across the Company and the water Industry.

Colleague engagement

In early 2022, we launched RISE our people forum, 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 and other members of the senior leadership. RISE is now embedded as an established group provoking healthy debate and discussion on areas that matter to employees. Engagement survey results and action planning are a discussion area for this Company and as there is now a RISE member for every 30 employees, representation of all different departments and individuals is well catered for. 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.

As we prepared to transfer Bristol employees to South West Water as an outcome of the statutory transfer, we conducted a thorough communication and consultation process with colleagues, with regular Town Hall events, meetings with union and employee representatives and regular team meetings. The transfer concluded smoothly on 1 February 2023.

SINGLE TOTAL FIGURE OF REMUNERATION TABLES (AUDITED INFORMATION)

	Louise Rowe ⁽¹⁾ (£000)		Susan Davy ⁽²⁾ (£000)		Paul Boote ⁽³⁾	
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
Base salary	180	172	253	238	164	-
Benefits⁽⁴⁾ (including Sharesave)	4	18	11	14	8	-
Pension-related benefits⁽⁵⁾	27	26	24	28	16	-
Total fixed pay	211	216	288	280	188	-
Annual bonus (cash and deferred shares)^(6,7)	21	47	0	91	0	-
Long-Term Incentive Plan^(7,8,9)	53	169	0	393	0	-
Total variable pay	74	216	0	484	0	-
Total remuneration	285	432	288	764	188	-
Total variable Remuneration Forgone			233			

- (1) Louise Rowe took up an alternative role within South West Water and resigned her responsibilities as South West Water Finance Director and a member of the Board on 31 August 2022. For transparency the full year's remuneration has been disclosed.
- (2) Susan Davy was appointed as Chief Executive Officer of Pennon Group plc and South West Water as of 31 July 2020. The figures are those rechargeable to South West Water through Group re-charges and reflect 50% of her remuneration until 31 January 2023 and then 70% for the remainder of the financial year, following the statutory transfer of Bristol Water Plc to South West Water. Reflecting the nature of Susan's position as Chief Executive of the Group, all subsidiaries receive a cross-charge for fixed remuneration only for 2022/23, based on the percentage allocations noted above. The full single total figure of remuneration tables is shown on page 142 of the Pennon Group plc Annual Report and Accounts 2023.
- (3) Paul Boote was appointed as Chief Financial Officer of Pennon Group plc on 8 July 2020 and South West Water from 1 September 2022. A recharge is only applicable for the period in which Paul was director of the Company and reflects 50% of his remuneration until 31 January 2023, from his appointment to the Board of South West Water Ltd and then 70% for the remainder of the financial year, following the statutory transfer of Bristol Water Plc to South West Water. For transparency the full year's remuneration at the blended rate of 53% has been disclosed. Reflecting the nature of Paul's position as Chief Financial Officer of the Group, all subsidiaries receive a cross-charge for fixed remuneration only for 2022/23, based on the percentage allocations noted above. The annual bonus award and vesting 2020 LTIP are fully funded by Pennon. The full single total figure of remuneration tables is shown on page 142 of the Pennon Group Plc Annual Report and Accounts 2023.
- (4) Benefits comprise a car allowance, fuel allowance and medical insurance.
- (5) Retirement benefits for the Executive Directors of Pennon Plc and South West Water Ltd are shown on page 145 of the Pennon Group Plc Annual Report and Accounts 2023 and on page 167 for the Finance Director.
- (6) As detailed above, the Chief Executive Officer chose to forgo her annual bonus for 2022/23 and the vesting 2020 LTIP. A value equivalent to the annual bonus outturn will be diverted to a future issuance under the Group's WaterShare+ scheme.
- (7) Details of the annual bonus and LTIP awarded to the Chief Financial Officer are shown on page 145 of the Pennon Group Annual Report and Accounts.
- (8) For 2022/23 the 2020 South West Water LTIP for the Finance Director was valued based on the average share price during the three-month period to 31 March 2022 of 891.86 pence and a vesting outcome of 34%, as referred to on page 166, together with an estimate of the accrued dividends payable on the vesting shares. Of the vested amount, none of the amount relates to share price appreciation over the performance period.
- (9) For 2021/22, the 2019 LTIP value reflects the share price at the date of vesting of 970.5p and a vesting outcome of 88.2%. 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

Notes to the single figure table

The Remuneration Committee recognises the market positioning against FTSE peers and intends to keep salary levels for both Executive Directors under review in future years, to ensure that they suitably reflect both development and experience in the role and the evolving size and nature of the Company's operations.

The 2022/23 bonus and Long-Term Incentive award for the Pennon Chief Financial Officer are funded by the Pennon Group and are not re-charged to South West Water.

ANNUAL BONUS OUTTURN FOR 2022/23

Full details of the annual bonus and LTIP arrangements relating to Directors who are also Pennon Executive Directors can be found in the Pennon Annual Report and Accounts on pages 142-145. The Pennon Executive Directors' annual bonus for the 2022/23 financial year and the long-term share awards (LTIP) granted in 2020 subject to three-year performance to 31 March 2023, were each based on scorecards intended to capture a rounded assessment of overall performance.

Based on the formulaic assessment of performance, the annual bonus delivered an outcome of 26% of maximum and the 2020 LTIP vested at 45% of maximum. Further detail on the targets and outcomes is set out in the main body of the report. There were clear areas of under and over performance, and this is reflected in the scorecard results. The Committee was satisfied that these outcomes fairly captured overall Company performance over the relevant performance periods.

However, having reflected on the exceptional economic backdrop, the Chief Executive Officer recommended to the Committee that her bonus and 2020 LTIP awards were foregone in full. An equivalent value is to be diverted into a future issuance under the Company's WaterShare+ scheme. The WaterShare+ scheme directly benefits our customers by either providing money off their bill or via ownership of Pennon shares.

While recognising the performance delivered, the Committee reflected on the broader environment and approved the Chief Executive Officer's recommendation regarding her awards. Therefore, the Chief Executive Officer's single figure for 2022/23 does not include any variable incentives and is significantly lower than outcomes in prior years.

The 2022/23 bonus and vesting 2020 LTIP award for the Chief Financial Officer will be fully funded by Pennon and will not be subject to the re-charges to South West Water.

LOUISE ROWE

For 2022/23, the Finance Director participated in the annual bonus plan which was based on a combination of operational and ESG measures, which were weighted to 70% of the bonus. Financial targets accounted for the remaining 30%.

In line with the Committee's policy, 50% of any bonus is payable in shares, the release of which is deferred for a three-year restricted period. The performance targets set, and performance achieved have been set out below:

South West Water Annual bonus scheme measures

Financial	Target	Actual	Range	Bonus outturn (% of max)
PBT	£93.7	£20.7m	-2% - + 5%	0%

Service and Customer Service Metrics	Target	Actual	Achieved	Bonus outturn
Bathing water quality improvements	4 Cumulative	8 Cumulative	Yes	0%
Wastewater pollution incidents, per 10,000km sewer	23	62	No	
Internal Sewer Flooding no./10k connections	1.58	0.68	Yes	
Sewer Collapses per 1000km	15.54	8.01	Yes	

Leakage (3 year rolling average) Megalitres per day	113	113	Yes
Environment Agency EPA*	3 star	2 star	No
CRI (water quality score)*	2	2.4	No
Interruptions to supply per property	5 mins 45 seconds	8 mins 42 seconds	No
C-Mex	Median (9 th)	12 th	No

*Subject to Regulator confirmation in July

ESG metrics	Target	Actual	Achieved	Bonus outturn
Reduce carbon emissions in support of our strategy to meet net zero by 2030	65%	65%	Yes	77.8%
Increase renewable generation	7%	6.89%	No	
Reduce onsite water usage	5MI/d	6.13MI/d	Yes	
Great Place to Work Accreditation	Maintain	Maintained	Yes	
Reduce lost time injuries	22 LTIs (18% reduction)	28 (12% reduction)	No	
Achieve FTSE Women Leaders rating (previously Hampton Alexander survey)	20 th	14 th	Yes	
Achieve a Sustainalytics ESG	75	80	Yes	
New debt through Sustainable Financing Framework	60%	100%	Yes	
Fair Tax Accreditation	Maintain	Maintained	Yes	

SUMMARY OF BONUS OUTCOME

Each year, the Remuneration Committee undertakes a holistic review of performance to consider whether formulaic outcomes are appropriate in the context of overall performance. In line with best practice, the formal review process considers the following factors before approving outcomes for incentive arrangements.

	Weighting	Bonus outturn Finance Director
South West Water financial measure	30%	0.0%
South West Water Service measures	50%	0%
Group ESG measures	20%	15.6%
Total outturn		15.6%
Bonus as a % of salary		11.7%

LONG-TERM INCENTIVE OUTTURN FOR 2022/23

The Long Term Incentive Plan arrangements and vesting outcome for the Executive Directors of Pennon and South West Water are detailed in the Pennon Group Annual Report and Accounts on page 145. The awards in the single figure table relate to the awards granted on 2 August 2020, which are due to vest on 1 August 2023. The performance measures applicable to these awards reflect the nature of their Group roles and are based on, Sustainable Dividends (40%), Earnings Per Share (40%) and ROCE (20%). As previously disclosed the Group Chief Executive Officer chose to waive any award which might have vested. The vesting level for the Chief Financial Officer is 45%. The cost of this is not re-charged to South West Water customers and is met in full by Pennon.

For the South West Water Finance Director, LTIP awards were subject to the following performance targets of RORE (33%), a sustainable dividend measure (33%) and C-Mex (33%), the sector's customer experience measure.

	Threshold (25% of maximum vests)	Maximum (100% of maximum vests)	Achievement	Vesting outcome (% of max)
RORE (33% of award)	6%	8%	7.8%	30.8%
Sustainable dividend measure (dividend growth and dividend cover) (33% of award)	2.6x	3.6x	3.4%	3.6% ⁽¹⁾
C-Mex (33% of award)	Median (9 th)	UQ (4 th)	12 th	0%
				34.4%

⁽¹⁾ Downward adjustment has been made to reflect the restricted £12 million dividend paid v £90.37 million budgeted.

Vesting of the award is subject to an 'underpin' relating to overall Company performance including environmental, social and governance factors and safety performance, as well as financial performance. The Committee has determined, to the date of this report, that this underpin has been satisfied. Given a reduced dividend payment was made to Pennon Group plc in 2021, this was reflected in the outturn for this measure.

RETIREMENT BENEFITS AND ENTITLEMENTS (AUDITED INFORMATION)

Details of the retirement benefits for the Executive Directors are shown on page 145 of the Pennon Group Annual Report and Accounts 2023. Both receive a maximum of 10% of salary, in line with the level available for the wider workforce.

Details of the South West Water Finance Director's pension entitlements and pension related benefits during the year are as follows. Effective 1 August 2021, the maximum pension contribution made by the Company to newly appointed Directors is 10% of salary:

	Value of defined benefit pension	Contributions to defined contribution arrangements (£000)	Cash allowances in lieu of pension (£000)	Total value for the year	Normal retirement age and date (for pension purposes)
Louise Rowe ⁽¹⁾	-	2	25	27	65 (15 January 2047)

(1) Louise Rowe is a member of Pennon Group's defined contribution arrangement and received an overall pension benefit from the Company equivalent to 15% of her salary. Louise is entitled to access her retirement fund in the Master Trust from age 55.

NON-EXECUTIVE DIRECTORS' REMUNERATION
SINGLE FIGURE OF REMUNERATION (AUDITED)

	2022/23			2021/22		
	Fees ⁽¹⁾ (£000)	Taxable benefits (£000)	Total fees (£000)	Fees (£000)	Taxable benefits (£000)	Total fees (£000)
Gill Rider	123	-	123	113	-	113
Neil Cooper	47	-	47	43	-	43
Iain Evans	40	-	40	37	-	37
Claire Ighodaro	40	-	40	37	-	37
Jon Butterworth	36	-	36	33	-	33
Lorraine Woodhouse	12	-	12	-	-	-
Dorothy Burwell	11	-	11	-	-	-

(1) 53% of fees are recharged through Pennon Group plc

NON-EXECUTIVE DIRECTORS' FEES AND BENEFITS

The fee for the Chair and Non-Executive Directors were increased by 3.5% from 1 April 2023. 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.

The fee structure is set out in full in the Pennon Group Annual Report on page 146.

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 ⁽¹⁾	31 July 2020	12 months
Louise Rowe ⁽²⁾	1 February 2015	n/a
Paul Boote ⁽³⁾	8 July 2020	12 months
Non-Executive Directors	Date of Appointment	Expiry date of Appointment
Gill Rider ⁽⁴⁾	1 April 2016	31 August 2024 ⁽¹⁾
Neil Cooper	1 April 2016	31 August 2023
Iain Evans	31 July 2020	31 August 2024
Claire Ighodaro	31 July 2020	31 August 2025
Jon Butterworth	28 September 2017	31 July 2023
Lorraine Woodhouse	1 December 2022	30 November 2025
Dorothy Burwell	1 December 2022	30 November 2025

- (1) Susan Davy held a previous service contract dated 1 February 2015 in respect of her appointment as Chief Financial Officer, Pennon.
- (2) Louise Rowe took up an alternative role within South West Water and resigned her responsibilities as South West Water Finance Director and a member of the Board on 31 August 2022.
- (3) Paul Boote was appointed to the Board of Pennon Group Plc 8 July 2020 and South West Water from 1 September 2022.
- (4) Gill Rider was appointed as Chair of the Board as of 31 July 2020 and as such is providing ongoing strategic support and continuity of the Board for up to three years.

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side.

The policy is for Non-Executive Directors' letters of appointment to contain a three-month notice period from either side.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

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 2022/23. 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 CHIEF EXECUTIVE REMUNERATION

As the Company did not have a Chief Executive Officer until 1 January 2016, the table below provides historical single figure information in the form of the average remuneration of the Executive Directors for years up to and including 2014/15. Their remuneration was considered to be the most appropriate to use as they were the most senior executives in the Company. From 2015/16 onwards, the Chief Executive Officer's remuneration for the year is shown.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21 ⁽¹⁾	2021/22	2022/23	
	Average Executive Director	Chris Loughlin	Susan Davy	Susan Davy	Susan Davy					
Chief Executive Officer single figure remuneration (£000)	378	461	553	493	663	1,068	669 ⁽¹⁾	966 ⁽¹⁾	764	543
Annual Bonus payout (% of maximum)	89.6%	78.3%	65.8%	85%	90%	78%	79.2%	78.1%	30.7%	0%
LTIP (PCP) vesting (% of maximum)	0%	34.5%	43.7%	0%	44%	86.6%	89.9%	89.9%	88.2%	0%

- (1) Chris Loughlin stepped down as Chief Executive Officer on 31 July 2020 and was succeeded by Susan Davy. Consistent with the single figure, the figures for Susan Davy relate to the whole of 2020/21, including the portion of the year when she was Chief Financial Officer.

PERCENTAGE CHANGE IN DIRECTORS' REMUNERATION

Comparison of Directors' remuneration to employee remuneration

The table below shows the percentage change between 2020/21, 2021/22 and 2022/23 in base salary, benefits and annual bonus of the South West Water Finance Director. Percentage changes in remuneration for the Pennon Executive Directors and Non-Executive Directors are disclosed in full in the Pennon Group Annual Report on page 148.

	Percentage change in salary/fees			Percentage change in benefits			Percentage change in bonus		
	2022/23	2021/22	2020/21	2022/23	2021/22	2020/21	2022/23	2021/22	2020/21
	Executive Directors								
Louise Rowe ⁽¹⁾	4.6%	1.8%	1.5%	-72%	-	-	-15%	-7.0%	-40.4%
South West Water	3.8%	2.2%	4.28%	-18.7%	-10.1%	4.38%	-18.1	2.8%	-0.08%
UK employees	3.9%	2.0%	1.22%	-20.3%	-19.5%	5.7%	-45.4	-14.3%	-17.8%

(1) The changes in benefits reflect reduced P11d value of car benefit and medical insurance costs.

RELATIVE IMPORTANCE OF SPEND ON PAY

	2022/23 £m	2021/22 £m	Percentage change (%)
Overall expenditure on pay ⁽¹⁾	79	69	14.5%
Distributions to Parent Company (excluding special dividend) ⁽²⁾	12	88	-86.4%
Net interest charges	111	76.8	-44.5%
Purchase of property, plant and equipment (cash flow)	285.5	197.3	44.7%

(1) Excludes employer's social security costs and non-underlying items.

(2) 2021/22 includes payment of the outperformance dividend based on the cumulative outperformance for 2020/21 of £43.0 million that has been deferred to August 2022 (2020/21 includes payment of the outperformance dividend based on the cumulative outperformance for 2019/20 of £58.1 million that was deferred to August 2021).

The above table illustrates the relative importance of spend on pay compared with distributions to shareholders and other Company outgoings. The distributions to Parent Company, interest charges and the purchase of property, plant and equipment (cash flow) have been included as these were the most significant outgoings for the Company in the last financial year.

CHIEF EXECUTIVE OFFICER PAY RATIO

Our CEO pay ratio stands at 14:1 for the median employee. This is considerably lower than the ratio in preceding years reflecting that the Chief Executive Officer has not accepted her variable pay elements, having chosen to forgo these awards.

Year	Method	25th percentile (P25) pay ratio	50th percentile (P50) pay ratio	75th percentile (P75) pay ratio
2022/23	Option A	19:1	14:1	11:1
2021/22	Option A	56:1	43:1	36:1
2020/21	Option A	93:1	69:1	55:1
2019/20	Option A	91:1	64:1	53:1

Option A has been used for the calculations as per the disclosure regulations. The employees at the lower quartile, median and upper quartile (P25, P50, and P75, respectively) have been determined based on a calculation of total remuneration for the financial year 1 April 2022 to 31 March 2023.

- Basic salary for part-time employees and new joiners within the applicable period have been converted to full-time equivalents for the purpose of the calculations.
- Estimated values for employee P11d data have been used in the calculation to establish the ordering of employees, given the timing of publication. This will be validated and amended in due course to account for any variances.

The total remuneration of 2022/23 for the employees identified at P25, P50 and P75 is £28,942, £37,643, and £47,260, respectively. The base salary of 2022/23 for the employees identified at P25, P50 and P75 is £26,017, £34,730, and £28,125, respectively. The individual at P75 received a large amount of variable pay during the year.

The CEO pay ratio calculation, on the same compensation elements as the wider workforce, is unchanged from the total single figure ratio above, due to the decision made by the Chief Executive Officer to forgo her annual bonus and long term incentive award:

P25	19:1
P50	14:1
P75	11:1

SHARE AWARD AND SHAREHOLDING DISCLOSURES (AUDITED INFORMATION)

Share awards granted during 2022/23

The table below sets out details of share awards made in the year. Details of the share awards for the Chief Executive Officer and Chief Financial Officer are detailed in the Pennon Annual Report and Accounts 2022 on pages 149 to 151.

Executive Director	Type of interest	Basis of Award	Face value £000	Percentage vesting at threshold performance	Performance / restricted period end date
Louise Rowe	LTIP	80% of salary	144	25% of maximum	12 June 2025
Louise Rowe	Deferred bonus	50% of bonus awarded	23	N/A	18 July 2025

LTIP awards were calculated using the Pennon Group plc share price of £10.376 (being the average closing price over the five dealing days preceding the date of grant, which was 13 June 2022). LTIP awards are subject to an additional two-year holding period. Deferred bonus awards were calculated using the average Pennon Group share price at which shares were purchased on the market on 19 July 2022 in order to satisfy the award, which was £9.879.

The proposed targets for the Pennon 2023 LTIP award are summarised below in full detail in the Pennon Annual Report and Accounts on page 137.

- 50% RORE
- 30% Water Quality and Environment (EPA 10%, Wastewater Pollution Reduction 10%, Storm Overflow reduction)
- 20% Customer Service. (C-Mex, D-Mex, R-Mex, MPS, Trustpilot Score)

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 Pennon Group plc shareholders.

To support this, the Committee operates shareholding guidelines. For 2022/23, this guideline was 100% of salary for the Finance Director and 200% for the Chief Executive Officer and Chief Financial Officer. In line with best practice guidelines, deferred bonuses and LTIP awards subject to a holding period may only count towards the guidelines on a net tax basis.

The Executive Directors are expected to build up a shareholding in the Company within the first five years of joining the Company, or appointment to a new role.

The beneficial interests of the Pennon Group Executive Directors in the ordinary shares (61.05p each) of Pennon Group plc as at 31 March 2023 and 31 March 2022, together with their shareholding guideline obligation and interest

are shown in the Pennon Group Annual Report and Accounts on pages 149 to 151. The Shareholding of the South West Water Finance Director until 31 August 2022 is shown below:

	Share interests (including connected parties) at 31 August	Share interests (including connected parties) at 31 March	Vested LTIP awards in holding period ⁽¹⁾	Deferred Bonus shares	SAYE	Performance shares (subject to performance conditions)	Shareholding guideline	Shareholding guideline met?
Louise Rowe	32,820	18,396	34,464	6,638	2,047	41,470	100%	Yes

⁽¹⁾These share awards are not subject to further performance criteria and may therefore count towards the guideline on a net-of-tax basis.

Non-Executive Directors' shareholding

The beneficial interests of the Non-Executive Directors, including the beneficial interests of their spouses, civil partners, children and step-children, in the ordinary shares of the Pennon Group, are shown in the Pennon Group Annual Report and Accounts on page 149.

Details of share awards

(a) Long-term incentive plan

In addition to the above beneficial interests, the Finance Director of South West Water has or had a contingent interest in the number of ordinary shares (61.05p each) of Pennon Group plc 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:

Director and date of award	Vested awards held at 1 April 2022 ⁽¹⁾	Conditional awards held at 1 April 2022	Conditional awards made in year	Market price of each share upon award in year	Vesting in year ⁽²⁾	Value of shares upon vesting (before tax) £000	Vested awards held at 31 August 2022 ⁽³⁾	Vesting awards released in year ⁽⁴⁾	Conditional awards held at 31 August 2022	Date of end of restricted period	Expected date of release
Louise Rowe											
25/08/17	15,961	-	-	802.7p	-	161		16,874	-	24/08/20	24/08/22
02/07/18	17,003	-	-	790.1p	-	200	17,003	-	-	01/07/21	01/07/23
04/07/19	-	17,692	-	752.7p	17,461	169	17,461	-	-	03/07/22	03/07/24
03/08/20	-	15,705	-	1075.5p	-	-	-	-	15,705	13/07/23	13/07/25
01/07/21	-	11,967	-	1140.8p	-	-	-	-	11,967	30/06/24	30/06/26
13/06/22			13,898	1037.6p					13,898	12/06/25	12/06/27

- (1) 86.6% of the awards granted on 25 August 2017 vested on 24 August 2020 at a market price of £10.085 per share. 89.9% of the awards shares granted on 2 July 2018 vested on 1 July 2021 at a market price of £11.7698 per share.
- (2) 88.2% of the awards granted on 4 July 2019 vested on 3 July 2022 at a market price of £9.705 per share. In respect of (1) and (2), 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.
- (3) Vested award; no longer subject to performance conditions.
- (4) 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.

(b) Annual incentive bonus plan – deferred bonus shares (long-term incentive element)

The following Director has or had a contingent interest in the number of ordinary shares (60.5p each) of Pennon Group plc 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 2022	Restricted awards made in year	Market price of each share upon award in year	Restricted awards post-share consolidation (restated) ⁽²⁾	Released in year ⁽¹⁾	Value of shares upon vesting (before tax) £000	Restricted awards held at 31 August 2022	Date of end of restricted period
Louise Rowe								
24/07/19	7,317	-	755.54p	4,877	4,877	37	-	23/07/22
14/07/20	4,102	-	1,079.47p	2,734	-	-	2,734	13/07/23
30/06/21	2,325	-	1,150.45p	1,549	-	-	1,549	29/06/24
19/07/22		2,355	987.94p	2,355	-		2,355	18/07/25

⁽¹⁾ These shares were released on 24 July 2022 at 755.55p per share

⁽²⁾ All shares under the AIBP were adjusted on 5 July 2021 to reflect the share consolidation activity at a ratio of 3:2 into shares of 61.05 pence each.

For the period 1 April 2022 to 31 August 2022 Louise Rowe received dividends on the above shares in accordance with the conditions of the bonus plan of £1,071.

(c) Sharesave scheme

Details of options to subscribe for ordinary shares (61.05p each) of Pennon Group plc under the all-employee Sharesave scheme were:

Date of award	Options held at 1 April 2022	Granted in year	Exercised in year	Exercise price per share	Market price of each share on exercising	Market value of each share at 31 March 2023	Options held at 31 March 2023	Exercise period/ maturity date
Louise Rowe								
06/07/21	-	2,047	-	879.00p	-	874.0p	2,047	01/09/24-28/02/2025

THE REMUNERATION COMMITTEE AND ITS ADVISERS

Claire Ighodaro and Neil Cooper were members of the Remuneration Committee throughout the year. Loraine Woodhouse and Dorothy Burwell joined the Committee on their appointment to the Board on 1 December 2022. Gill Rider, Iain Evans, and Jon Butterworth stepped down from the Committee on the 31 January 2023, and now 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 retendering process. 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.

BOARD OF DIRECTORS AND COMPANY INFORMATION

CHAIR	G Rider CB
CHIEF EXECUTIVE OFFICER	S Davy
CHIEF FINANCIAL OFFICER	P Boote
CHIEF OPERATING OFFICER	J Halsall
SENIOR INDEPENDENT DIRECTOR	N Cooper (Non-Executive)
NON-EXECUTIVE DIRECTORS	C Ighodaro CBE D Burwell I Evans CBE J Butterworth MBE L Woodhouse
COMPANY SECRETARIES	A Garard
REGISTERED OFFICE	Peninsula House Rydon Lane Exeter Devon EX2 7HR
INDEPENDENT AUDITOR	Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR
COMPANY'S REGISTERED NUMBER	02366665
PRINCIPAL ACTIVITIES	The principal activities of the Company are the provision of water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and Dorset and water only services in parts of Dorset, Hampshire, Wiltshire and Bristol. Following on from the statutory licence transfer from Bristol Water plc to South West Water Limited on 1 February 2023, the regulated water business of Bristol Water plc transferred to South West Water Limited.

DIRECTORS' REPORT

INTRODUCTION

The Directors present their Annual Report and Accounts for the year ending 31 March 2023. 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's Rules, the information to be included in the 2023 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
Risk management systems	43 to 59
Certain employee and employee engagement matters as well as the disclosures below	23 to 30, 111 to 112
Business relationships/engagement with suppliers, customers and others	5 to 6, 19, 20 to 22
Financial risk management	note 3 of the notes to the financial statements
Financial instruments	36 to 42, notes 2(n) and 16 of the notes to the financial statements

This Directors' report (including pages 109 to 113, 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 Company 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

AUDITORS

The external auditor for the 2023 financial year was Ernst & Young LLP. The Independent Auditors' Report starting on page 181 sets out the information contained in the Annual Report which has been audited by the external auditor. The Audit Committee considered the performance and audit fees of the external auditors and the level of non-audit work undertaken.

CHANGE OF CONTROL

No person holds securities in the Company carrying special rights with regard to control of the Company. All of the Company's share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions pro-rata for time where appropriate.

FINAL DIVIDEND

A total dividend for the year of £12.3 million was paid during the year (2021/22: £103.1 million). The Report of the

Chief Financial Officer on pages 36 to 42 analyses the Company'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 (2021/22: nil)

OTHER CONTRIBUTIONS

During the year, the Company provided a total of £15,000 in charitable donations (2021/22: £87,000) and £118,000 in sponsorships (2021/22: £166,000).

DIRECTORS

APPOINTMENTS

A table showing Directors who served in the year and to the date of this Report can be found on page 110. Biographies for Directors currently in office can be found on pages 114 to 117 and on our website.

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.

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

FINANCIAL RISK MANAGEMENT

The Directors have carried out a robust assessment of the principal and emerging risks facing the Company, including in relation to its business model, future performance, solvency and liquidity. Details of our principal risks and association mitigations are set out on pages 43 to 59. Note 3 to the Financial Statements gives details of the Company's financial risk management policies and related exposures. This note is incorporated by reference and deemed to form part of this Report.

GOING CONCERN

The going concern basis has been adopted in preparing these financial statements. At 31 March 2023 the Company had access to undrawn committed funds and cash and cash deposits totalling £196 million, including cash and other short-term deposits of £46 million and £150 million of undrawn facilities. Cash and other short-term deposits include £22 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's going concern status, to do this the Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 43 to 59, 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 Company's annual budget for FY 2023/24 and longer-term strategic business plan for the remainder of the going concern period to 31 July 2024. The forecast includes our new syndicated £300 million private placement. During the year we also agreed updated covenant terms on the majority of our facilities. For facilities where changes to covenant terms are not finalised at the date of approval of the financial statements, we have modelled the impact on the Company's solvency, using existing terms, under a stress-tested scenario, and concluded this does not compromise the going concern of the Company over the assessment period. The risks and sensitivities include consideration of; legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic impacts such as inflation and interest rate increases, and operational impacts such as ensuring adequate water resources and failure of

operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Company collectively. The combined weighted impact of the risks occurring is c.£120m, this value is considered equivalent to an extreme one-off event that could occur within a year, the probability of such an event happening is deemed unlikely. 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 Company 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. While mitigations were not required in the combined scenario to ensure that the Company was able to continue as a going concern, 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, and raising additional funding.

In addition, a reverse engineered scenario that could possibly compromise the Company's solvency over the going concern assessment period has been modelled. This scenario builds on the factors above and additionally assumes all the Company'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 Company's solvency over the going concern period, as remote, concluding the Company could remain solvent. Mitigations, as noted above, could also be deployed over the period if deemed necessary.

Having considered the Company's funding position and financial projections, which take into account a range of possible impacts, as described in this report, the Directors have a reasonable expectation that the Company 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 July 2024, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

DATA

As part of our business activity, the Company processes large amounts of personal data. The Company 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

South West Water has a culture of continuous improvement through investment in people at all levels within the Company. It 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 in order to maintain their employment within the Company.

POLICIES

The Company 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 146. Also, information regarding the employee diversity is provided on pages 28 to 29. The Board's activities in relation to assessing and monitoring culture can be found in the Corporate Governance Statement on page 122. A summary of the Board's Diversity and Inclusion policy can be found in the Corporate Governance Statement on page 146.

FREEDOM OF ASSOCIATION

South West Water 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, through 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 Company as a whole. South West Water also cascades information monthly 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 information about workforce engagement and employment matters relating to the Company are set out on pages 23 to 30 of the Strategic Report.

SHARE OWNERSHIP

South West Water and the Pennon Group as a whole encourages share ownership among its employees in Pennon Group plc by operating an HM Revenue & Customs approved ShareSave scheme and Share Incentive Plan. Following Pennon shareholder approval at the 2014 AGM, these were amended to provide for the increased savings limits approved by Government. At 31 March 2023, approximately 55% (2022: 51.1%) of the Company'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.

Our focus this year has been 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, which is completed at a Group level, can be found here: <https://www.pennon-group.co.uk/sites/default/files/attachments/pdf/modern-slavery-statement-final-board-approved-2022.pdf>

ENERGY USAGE

Details of our Energy usage can be found in the Pennon Group Annual report on page 69.

RESEARCH AND DEVELOPMENT

Research and development within the Company involving water and wastewater treatment processes amounted to £0.8 million during the year (2021/22: £0.1 million).

OVERSEAS BRANCHES

The Company has no overseas branches.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the 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 prepared the 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 Company and of the profit or loss of the Company 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 judgements 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 Company's financial position and financial performance;
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of 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 114 to 117, confirms that, to the best of his or her knowledge:

- i) The financial statements, which have been 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 Company.
- ii) The Annual Report, including the Strategic Report (pages 1 to 107), includes a fair review of the development and performance of the business during the year and the position of the Company, together with a description of the principal risks and uncertainties it faces.
- iii) 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.

Directors are responsible for the maintenance and integrity of the Company's website www.southwestwater.co.uk. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE COMPANY'S AUDITOR

- i. So far as each of the Directors in office at the date of 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 that each Director ought to have taken as a Director in order to make himself or herself 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 175 to 179, was approved by the Board on 14 July 2023.

By Order of the Board

A handwritten signature in black ink, appearing to be 'AG', with a long horizontal stroke extending to the right.

ANDREW GARARD
Group General Counsel and Company Secretary
14 July 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER LIMITED

OPINION

We have audited the financial statements of South West Water Limited for the year ended 31 March 2023 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 40, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted International Accounting Standards; and
- have been prepared in accordance with the requirements 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 are independent of the company 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 public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 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 forecast, liquidity requirements and forecast covenant calculations for the going concern period which covers the period from approval of the 2023 financial statements through to 31 July 2024, and have tested this for arithmetical accuracy. Management has modelled a downside scenario in their cash forecast and covenant calculations in order to incorporate unexpected changes to the forecasted liquidity of the company.
- We have reviewed 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. 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 company has an agreed business plan with Ofwat for the five year price period from 1 April 2020 to 31 March 2025, setting out the basis of allowed tariff changes. We have compared the key assumptions in the company's forecasts to the business plans and pricing determinations agreed with Ofwat, for consistency.
- We have evaluated management's downside scenario and specific risk register probability weighted scenarios, to understand the impact on the company's liquidity and covenant ratios. We have compared the risks identified and modelled in the cash flow forecasts of management's downside scenario to the company's 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.

- 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 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 compared facilities assumed in the forecasts to supporting loan documentation and to covenant terms. For a portion of the facilities, where changes to terms are not finalised 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 reviewed the company'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 2023, the company had access to undrawn committed facilities of £150 million and cash and short-term and other deposits totalling £46 million (£24 million excluding restricted funds). The company generated positive net cash flows from operating activities of £132.7 million. Subsequent to the year end date, the company has secured a £300 million private placement and agreed amended covenant terms on the majority of its facilities. Management's forecasts indicate there is headroom in the base case and in the downside scenario after controllable mitigations. Management consider 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 company's ability to continue as a going concern for a period up to 31 July 2024.

In relation to the company's reporting on how they have voluntarily 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 company's ability to continue as a going concern.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	<ul style="list-style-type: none"> • Revenue recognition in relation to accrued income relating to measured supplies • Valuation of the expected credit loss provision for customer balances • Capitalisation of costs relating to the capital programme
Materiality	<ul style="list-style-type: none"> • Overall materiality of £8.0 million which represents 6.1% of the companies' earnings before interest, taxes and non-underlying items.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

TAILORING THE SCOPE

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the engagement team.

CHANGES FROM THE PRIOR YEAR

There were no changes to the scope of the audit from the prior year.

CLIMATE CHANGE

Stakeholders are increasingly interested in how climate change will impact the company. The Company has determined that the most significant future impacts from climate change on their operations will be from physical and transitional climate-related risks. These are explained on pages 71 to 103 in the required Task Force on Climate related Financial Disclosures and on pages 43 to 59 in the principal risks and uncertainties. They have also explained their climate commitments on pages 34 to 35. 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 company's business and any consequential material impact on its financial statements.

The Company has explained in their basis of preparation note to the financial statements how they have reflected the impact of climate change in their financial statements and how this aligns with their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050 which form part of their disclosures within the Task Force on Climate related Financial Disclosures which form part of the "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*. The disclosures within "Other information" 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 the sensitivity of depreciation charge to amendments in the useful economic lives of these assets has been provided, concluding there is no specific impact on useful economic lives of long life assets as at 31 March 2023.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment, which was prepared with support from external consultants. We evaluated management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 71 to 103 and the significant judgements and estimates disclosed in Note 4, including whether these have been appropriately reflected in asset values where these are determined through modelling future cash flows and associated 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. We have described our considerations of climate change, relevant to our assessment of going concern in the 'Conclusions relating to going concern' section of our report.

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 in relation to accrued income relating to measured supplies (2023: £87.01 million, 2022: £90.3 million)</p> <p><i>Refer to the Audit Committee Report (pages 138); Accounting policies (page 197); and Note 5 of the Financial Statements (page 209)</i></p> <p>The company's revenue stream relates to the provision of water and sewerage services.</p> <p>ISAs (UK & Ireland) presume there is a risk of fraud relating to revenue recognition. For the company, given the targets associated with financial performance and potential pressures to meet market expectations, there is an incentive to overstate revenue.</p> <p>This risk over revenue recognition specifically arises in the following areas of estimation, where there is an opportunity to overstate the 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, together with management adjustments for a number of different factors not included in the system-generated accrual, such as seasonality and operational data trends.</p> <p>The risk remained consistent in the current year.</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>We tested key controls linked to system generated information and around the estimation process for measured revenue;</p> <p>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>We obtained a system report of invoices raised post year end based on actual meter readings taken since the year end. 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;</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>We performed analytical procedures by comparing revenue balances for the year against expectations and obtained support for significant variances; and</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>
<p>Valuation of the expected credit loss provision for customer balances (2023: £87.6 million, 2022: £84.5 million)</p> <p><i>Refer to the Audit Committee Report (page 138); Accounting</i></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 debt relating to household customers, we tested operating effectiveness of key controls over billing systems and integrity of data and the</p>	<p>We concluded that the expected credit loss provision is within an acceptable range and appropriately reflects the recent history of collection of outstanding debts and considerations of the impact on future collections from the</p>

<p><i>policies (page 201); Note 20 of the Financial Statements (page 219)</i></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 not be appropriate 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"> o that the historic level of collections is indicative of the ability to collect at the same levels in the future; and o 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>The risk has remained consistent in the current year.</p>	<p>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>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 the amounts provided against the 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>We considered whether the historic collection performance evidenced the behaviour patterns assumed by management depending on categorisation of household customer and business sector for non-household customers;</p> <p>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 debt relating to non-household customers, we tested management's segmentation by business sector and the 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;</p>	<p>macro-economic environment.</p>
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	<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>Capitalisation of costs relating to the capital programme (2023: £317.2 million, 2022: £202.5 million) <i>Accounting policies (page 199); and Note 14 of the Financial Statements (page 216)</i></p> <p>The company has a substantial capital programme which has been agreed with the Water Services Regulation Authority (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 allocating 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 balance sheet.</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>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 made inquiries of project managers to gain an understanding of the on-going capital projects of the company and how costs are reviewed and determined as capital expenditures that meet the company'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>

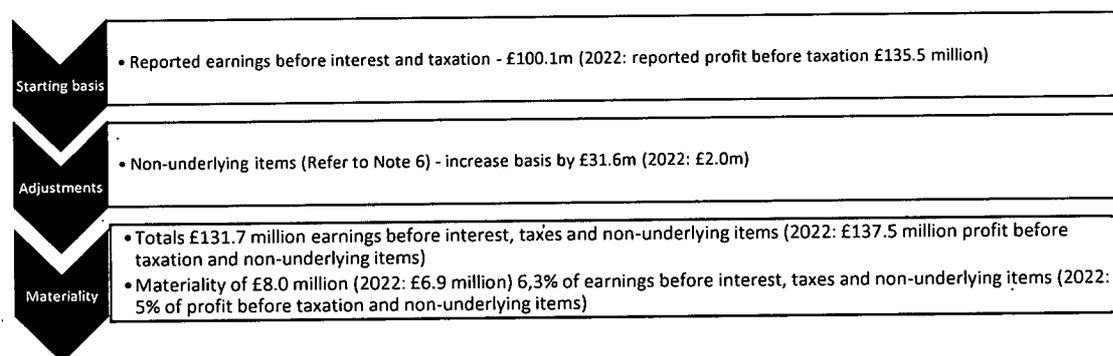
OUR APPLICATION OF MATERIALITY

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 company to be £8.0 million (2022: £6.9 million), which is 6.1% of earnings before interest, taxes (EBIT) and non-underlying items. In the prior year, we used 5% of profit before taxation and non-underlying items as our materiality basis. In the current year, we have changed the basis to earnings before interest, taxes and non-underlying items which provides us with an appropriate measure of the underlying performance of the company, as this excludes the impact of higher interest costs on the company's index-linked debt, driven by the significantly higher levels of inflation and is a measure of focus for users of the financial statements.



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 Company's overall control environment, our judgement was that performance materiality was 50% (2022: 75%) of our planning materiality, namely £4.0m (2022: £5.2m). We have set performance materiality at this percentage based on our assessment of the company's internal control environment and the extent and nature of audit findings identified in the prior period.

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 £0.4m (2022: £0.35m), 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, 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 there is a material misstatement in the financial statements

themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of 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 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 company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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

VOLUNTARY REPORTING MATTERS

Directors' remuneration report

The Company voluntarily prepares a Report of the directors on remuneration in accordance with the basis of preparation set out in the Directors' Remuneration Report. The directors have requested that we audit the part of the Report of the directors on remuneration specified by the Companies Act 2006 to be audited as if the Company were a quoted company.

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the basis of preparation set out in the Directors' Remuneration Report.

CORPORATE GOVERNANCE STATEMENT

ISAs (UK) require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's voluntary compliance with the provisions of the UK Corporate Governance Code specified for our review.

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 176;
- 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 60;
- Directors' statement on fair, balanced and understandable set out on page 179;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 43;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 44 and 45; and;

- The section describing the work of the audit committee set out on pages 135 to 140.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 179, 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 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 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 company 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
- We understood how South West Water Limited 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 company'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 company'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 and legal counsel,

reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. 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 company's voluntary compliance with the UK Corporate Governance Code.

- We attended key meetings with management and legal counsel in order to identify and communicate any instances of non-compliance with laws and regulations.
- The company 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 an expert 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 Pennon Group plc audit committee, we were appointed by the company on 31 March 2014 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 9 years, covering the years ending 31 March 2015 to 31 March 2023.

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.

DocuSigned by:

Ernst & Young LLP

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Christabel Cowling (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
14 July 2023

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	Before non- underlying items 2023 £m	Non- underlying items (note 6) 2023 £m	Total 2023 £m	Before non- underlying items 2022 £m	Non- underlying items (note 6) 2022 £m	Total 2022 £m
Revenue	5	587.6	(21.2)	566.4	584.6	-	584.6
Operating costs	7						
Employment costs		(63.2)	-	(63.2)	(56.9)	(1.7)	(58.6)
Raw materials and consumables		(29.1)	-	(29.1)	(20.5)	-	(20.5)
Other operating expenses		(235.0)	(10.4)	(245.4)	(172.8)	(0.3)	(173.1)
Trade receivables impairment		(3.6)	-	(3.6)	(3.1)	-	(3.1)
Earnings before interest, tax, depreciation and amortisation		256.7	(31.6)	225.1	331.3	(2.0)	329.3
Depreciation and amortisation	7	(125.0)	-	(125.0)	(117.0)	-	(117.0)
Operating profit/(loss)		131.7	(31.6)	100.1	214.3	(2.0)	212.3
Finance income	8	2.5	-	2.5	1.2	-	1.2
Finance costs	8	(113.5)	-	(113.5)	(78.0)	-	(78.0)
Net finance costs		(111.0)	-	(111.0)	(76.8)	-	(76.8)
Profit/(loss) before tax		20.7	(31.6)	(10.9)	137.5	(2.0)	135.5
Taxation credit/(charge)	9	1.7	6.9	8.6	(12.7)	(98.3)	(111.0)
Profit/(loss) for the year		22.4	(24.7)	(2.3)	124.8	(100.3)	24.5

The above results were derived from continuing operations.

The notes on pages 196 to 238 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	Before non- underlying items 2023 £m	Non- underlying items (note 6) 2023 £m	Total 2023 £m	Before non- underlying items 2022 £m	Non- underlying items (note 6) 2022 £m	Total 2022 £m
Profit/(loss) for the year		22.4	(24.7)	(2.3)	124.8	(100.3)	24.5
Other comprehensive (loss)/income							
Items which will not be reclassified to profit or loss							
Net re-measurement of defined benefit obligations	26	(31.4)	-	(31.4)	31.5	-	31.5
Deferred tax on items that will not be reclassified	9, 28	7.9	-	7.9	(0.7)	-	(0.7)
Total items that will not be reclassified to profit or loss		(23.5)	-	(23.5)	30.8	-	30.8
Items that may be reclassified subsequently to profit or loss							
Cash flow hedges		29.1	-	29.1	40.6	-	40.6
Deferred tax credit on items that may be reclassified	9, 28	(7.3)	-	(7.3)	(6.4)	-	(6.4)
Total items that may be reclassified subsequently to profit or loss		21.8	-	21.8	34.2	-	34.2
Other comprehensive (loss)/income for the year net of tax		(1.7)	-	(1.7)	65.0	-	65.0
Total comprehensive income/(loss) for the year		20.7	(24.7)	(4.0)	189.8	(100.3)	89.5

The notes on pages 196 to 238 form part of these financial statements.

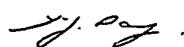
BALANCE SHEET

AS AT 31 MARCH 2023

	Notes	2023 £m	2022 £m
Assets			
Non-current assets			
Goodwill	15	299.6	51.3
Other intangible assets	13	13.7	-
Property, plant and equipment	14	4,144.4	3,228.0
Other non-current assets	17	13.9	-
Derivative financial instruments	21	32.6	13.9
Investment in subsidiary undertakings	18	168.0	3.3
Retirement benefit asset	26	17.5	47.1
		4,689.7	3,343.6
Current assets			
Inventories	19	10.0	5.8
Derivative financial instruments	21	20.1	5.0
Trade and other receivables	20	193.7	198.9
Current tax asset	27	11.5	5.9
Cash and cash deposits	22	46.1	189.3
		281.4	404.9
Liabilities			
Current liabilities			
Borrowings	24	(345.4)	(213.1)
Derivative financial instruments	21	(2.4)	-
Trade and other payables	23	(210.2)	(161.2)
Provisions	29	(0.4)	(1.0)
		(558.4)	(375.3)
Net current (liabilities)/assets		(277.0)	29.6
Non-current liabilities			
Borrowings	24	(2,792.0)	(2,281.4)
Other non-current liabilities	25	(174.9)	(137.2)
Derivative financial instruments	21	(2.4)	-
Deferred tax liabilities	28	(471.5)	(380.1)
		(3,440.8)	(2,798.7)
Net assets		971.9	574.5
Equity			
Called up share capital	30	295.9	295.9
Share premium account	32	413.0	-
Retained earnings and other reserves	33	263.0	278.6
Total Equity		971.9	574.5

The notes on pages 196 to 238 form part of these financial statements.

The financial statements on pages 191 to 195 were approved and authorised for issue by the Board of Directors on 14 July 2023 and were signed on its behalf by:



S Davy
Chief Executive Officer

Registered office: Peninsula House, Rydon Lane, Exeter, Devon, England EX2 7HR
Registered Number: 02366665

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	Called up share capital (note 30) £m	Share Premium account (note 32) £m	Retained earnings and other reserves (note 33) £m	Total Equity £m
At 31 March 2021		250.9	-	276.2	527.1
Profit for the year		-	-	24.5	24.5
Other comprehensive income for the year		-	-	65.0	65.0
Total comprehensive income for the year		-	-	89.5	89.5
<i>Transactions with owners</i>					
Share capital issue		45.0	-	-	45.0
Dividends paid	10	-	-	(45.0)	(45.0)
Dividends deferred	10	-	-	(43.0)	(43.0)
Share based payments (net of tax)		-	-	0.9	0.9
Total transactions with owners		45.0	-	(87.1)	(42.1)
At 31 March 2022		295.9	-	278.6	574.5
Loss for the year		-	-	(2.3)	(2.3)
Other comprehensive loss for the year		-	-	(1.7)	(1.7)
Total comprehensive loss for the year		-	-	(4.0)	(4.0)
<i>Transactions with owners</i>					
Share capital issue	32	-	413.0	-	413.0
Dividends paid	10	-	-	(12.3)	(12.3)
Watershare+ reserves adjustment		-	-	0.3	0.3
Share based payments (net of tax)		-	-	0.4	0.4
Total transactions with owners		-	413.0	(11.6)	401.4
At 31 March 2023		295.9	413.0	263.0	971.9

The notes on pages 196 to 238 form part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £m	2022 £m
Cash flows from operating activities			
Cash generated from operations	34	271.5	307.7
Interest paid		(138.6)	(62.8)
Tax paid		(0.2)	(11.2)
Net cash generated from operating activities		132.7	233.7
Cash flows used in investing activities			
Interest received		0.5	0.3
Acquisition of subsidiary		5.1	-
Purchase of property, plant and equipment		(285.5)	(197.3)
Purchase of intangible fixed assets	13	(0.6)	-
Receipt of grants and contributions		5.8	3.2
Proceeds from sale of property, plant and equipment		0.7	1.4
Net cash used in investing activities		(274.0)	(192.4)
Cash flows from/(used in) financing activities			
Proceeds from issue of ordinary share capital	30	-	45.0
Net deposit of restricted funds	22	140.8	89.6
Proceeds from new borrowing		225.0	50.0
Repayment of borrowings		(90.4)	(40.4)
Repayments of intercompany borrowings		(2.8)	(2.5)
Finance lease sale and lease back		40.2	15.0
Finance lease principal repayments		(119.3)	(231.4)
Dividends paid	10	(55.3)	(103.1)
Net cash from/(used in) financing activities		138.2	(177.8)
Net (decrease) in cash and cash equivalents		(3.1)	(136.5)
Cash and cash equivalents at beginning of the year		27.6	164.1
Cash and cash equivalents at end of the year	22	24.5	27.6

The notes on pages 196 to 238 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

South West Water Limited is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office, the nature of the Company's operations and its principal activities are set out on page 174.

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 transfers of assets from customers and certain financial instruments as described in accounting policy note (u) and (n) respectively and in accordance with UK adopted international accounting standards in accordance with the provisions the Companies Act 2006. 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 the financial statements as stated by the Directors on page 138. At 31 March 2023, the Company had access to undrawn committed funds and cash and cash deposits totalling £196 million, including cash and other short-term deposits of £46 million and £150 million of undrawn facilities. Cash and other short-term deposits include £22 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent security.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's going concern status, to do this the Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 43 to 59, 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 Company's annual budget for FY 2023/24 and longer-term strategic business plan for the remainder of the going concern period to 31 July 2024. The forecast includes our new syndicated £300 million private placement. During the year, we also agreed updated covenant terms on the majority of our facilities and the Directors are confident that the covenant process for the remaining small number of lenders will be concluded satisfactorily in the very near term. For facilities where changes to covenant terms are not finalised at the date of approval of the financial statements, we have modelled the impact of the Company's solvency, using existing terms, under a stress-tested scenario, and concluded this does not compromise the going concern of the Company over the assessment period.

The risks and sensitivities include consideration of; legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic impacts such as inflation and interest rate increases, and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Company collectively. The combined weighted impact of the risks occurring is c.£120 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 Company over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as the debt and interest covenants. In the combined scenario to ensure that the Company was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include; reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable and raising additional funding.

In addition, we have modelled a reverse engineered scenario that could possibly compromise the Company's solvency over the going concern assessment period. This scenario builds on the factors above and additionally assumes all the Company's principal risks are incurred within the going concern period, with no probability weightings attached. The Board considered the likelihood of the scenario on the Company's solvency over the going concern period, as remote, given this would require all of the principal risks to be incurred at maximum

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation

impact within the same time frame, without implementing controllable mitigations, as noted above, or raising additional funding.

Having considered the Company's strong funding position and financial projections, which take into account a range of possible impacts, as described in this report, the Directors have a reasonable expectation that the Company 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 its going concern assessment period to 31 July 2024 and that there are no material uncertainties to disclose. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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 Company 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 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 2022 did not have a material impact on the net assets or results of the Company.

New standards or interpretations due to be adopted from 1 April 2023 are not expected to have a material impact on the Company's net assets or results. Existing borrowing covenants are not impacted by changes in accounting standards.

(b) Exemption from consolidation

The Company is exempt under the provisions of section 400 of the Companies Act 2006 from the requirement to produce group financial statements as it is a wholly-owned subsidiary of Pennon Group plc which is registered within the United Kingdom and which itself produces consolidated financial statements. Accordingly consolidated financial statements have not been prepared and the financial information presented is for the Company as an individual undertaking. Group financial statements are included in the Annual Report of Pennon Group plc which is available from Peninsula House, Rydon Lane, Exeter, EX2 7HR.

(c) Revenue recognition

Revenue is recognised following delivery of performance obligation 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 Company 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 Company 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 and trade discounts.

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 has a duty under legislation to provide

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition (continued)

domestic customers with services regardless of payment and is 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 IFRS15 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 have obtained control
- ii. Where assets are constructed or provided by the Company or assets transferred to the Company, 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 time no longer than the economic life of assets provided by or transferred to the Company.

Contract assets and liabilities

A trade receivable is recognised when the Company has an unconditional right to receive consideration in exchange for performance obligations already fulfilled. A contract asset is recognised when the Company has fulfilled some of its performance obligations but has not yet obtained an unconditional right to receive consideration. The amounts of contract assets, when applicable, are disclosed within note 20 (Trade and other receivables - current) as appropriate. A contract liability is recognised when consideration is received in advance of the Company 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 23 (Trade and other payables - current) and note 25 (Other non-current liabilities) as appropriate.

(d) Segmental reporting

The Directors believe that the whole of the Company's activities constitute one single segment. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Board of Directors.

The Company's country of domicile is the United Kingdom and is the country in which it generates all of its revenue. The Company's non-current assets are all located within the United Kingdom.

In accordance with IFRS 15, revenue has been disaggregated based on the services of supplying clean water, removal and treatment of wastewater and retail and other services. Further details are contained in note 5.

(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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill (continued)

CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (i).

When a subsidiary undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of goodwill.

(f) Other intangible assets

Other intangible assets include assets acquired in a business combination and are capitalised at fair value at the date of acquisition. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful lives, with the expense charged to the income statement through operating costs.

(g) Property, plant and equipment

i) Infrastructure assets (being water mains, sewers, impounding and pumped raw 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 Company. 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 estimated useful economic lives and are principally:

Dams and impounding reservoirs	100 - 200 years
Water mains	60 - 180 years
Sewers	75 - 150 years

Assets in the course of construction are not depreciated until commissioned.

ii) Other assets (being property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated useful economic lives to their residual value and are principally:

Land and buildings - freehold buildings	10 - 80 years
Land and buildings - leasehold buildings	Over the estimated useful life or the lease period, whichever is shorter
Operational properties	15 - 100 years
Fixed plant	10 - 30 years
Vehicles, mobile plant and computers	4 - 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 Company. 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 value and useful lives are reviewed annually.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognised within 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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Leased assets (continued)

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 Company's incremental borrowing rate on commencement of the lease is used. After initial measurement, lease payments are allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The interest element of cash payments in respect of these leases is included within interest payments in determining net cash generated from operating activities. The capital element of the cash payment is included within cash flows from financing activities. Right-of-use assets are amortised on a straight line basis over the remaining term of the lease or the remaining economic life of the asset if shorter. When the Company 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 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 Company regularly uses sale and lease back transactions to finance its capital programme. A sale and leaseback transaction is where the Company 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) 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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) 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.

(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 Company classifies its financial instruments in the following categories:

i) Debt instruments at amortised cost

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the 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 Company 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 IFRS 9, the Company performs an impairment analysis at each reporting date to measure the ECLs. The Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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) Receivables due from fellow subsidiary undertakings

Amounts owed by fellow 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.

v) Derivative financial instruments and hedging activities

The Company 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 Company 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).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Financial instruments (continued)

The gain or loss on re-measurement is taken to 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 Company is required to document in advance the relationship between the item being hedged and the hedging instrument. The Company 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 or liabilities based on the remaining maturity of the hedging derivative.

Derivative financial instruments deemed held for trading which do not qualify for hedge accounting are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

(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 Company is part of the Pennon Group for tax purposes and accordingly may use the tax group relief provisions whereby current tax liabilities can be offset by current tax losses arising 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.

(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) Contingent liabilities

The Company is subject to litigation from time to time as a result of its activities. The Company establishes provisions in connection with 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.

There are contingent liabilities that arise in the normal course of business which, if realised, are not expected to result in a material liability to the Company.

(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 shareholder. Interim dividends are recognised when paid; final dividends when approved by the shareholder at the Annual General Meeting.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits

i) Retirement benefit obligations

The Company operates defined benefit and defined contribution pension schemes through its parent company.

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 the plans assets exceeds the present value of its obligations, the resulting surplus is only realised if the Company 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 Company'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 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 to 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 Company has no further payment obligations once the contributions have been paid.

ii) Share-based payment

The Company participates in a number of equity-settled share-based payment plans for employees operated by its parent company Pennon Group plc. The fair value of the employee services acquired 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 in assumptions as to the number of shares which are expected to vest.

(t) Fair values

The fair value of the 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 Company 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 the 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.

(v) 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 Company's financial performance.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(w) 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.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Company'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 Company receives treasury services from the treasury function of Pennon Group plc, the parent company, which 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 Company 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 Company does not engage in speculative activity.

i) Liquidity risk

The Company actively maintains a mixture of long-term and short-term committed facilities which are designed to ensure the Company 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 uncommitted facilities are provided in note 24.

Refinancing risk is managed under a Company policy that requires that no more than 20% of Company net borrowings should mature in any financial year.

The Company has 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 EBITDA) and interest cover. Existing covenants are not impacted by subsequent changes to accounting standards.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

Contractual undiscounted cash flows including interest payments, at the balance sheet date were:

31 March 2023	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	313.0	57.3	222.6	1,479.1	2,072.0
Interest payments on borrowings	76.5	73.0	188.9	733.4	1,071.8
Lease liabilities including interest	70.9	88.6	282.1	1,243.7	1,685.3
Trade and other payables	202.9	-	-	-	202.9
Derivative financial liabilities					
Derivative contracts – net payments	(0.8)	(4.6)	(0.6)	0.3	(5.7)
31 March 2022	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	43.1	46.5	172.6	1,021.9	1,284.1
Interest payments on borrowings	35.3	36.0	32.1	390.7	494.1
Lease liabilities including interest	191.4	48.5	233.9	1,173.9	1,647.7
Trade and other payables	156.3	-	-	-	156.3
Derivative contracts					
Derivative contracts – net payments	(3.6)	(6.5)	(7.9)	(2.2)	(20.2)

ii) Market risk

The treasury policy states at least 60% of the Company'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 Company'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 Company has considered other borrowings linked to other indices, which are also used in determining the amount of revenue from customers. The Company 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 Company. These instruments are analysed in note 21.

The Company has no significant interest-bearing assets upon which the net return fluctuates from market risk. Deposit interest receivable is expected to fluctuate in line with interest payable on floating rate borrowings. Consequently the Company's income and cash generated from operations (note 34) are independent of changes in market interest rates.

For 2023 if interest rates on variable net borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £4.6 million (2022 £1.4 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 range of expected volatility is within the range of 0%-2%.

For 2023 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 £4.7 million (2022 £4.3 million). This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the range of expected volatility is within the range of 3%-7%.

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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

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 20.

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 Company has no other significant concentration of credit risk. The Company's surplus funds are managed by the Group Treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet a Board approved minimum criteria based on their short-term credit rating and therefore be of good credit quality.

iv) Inflation risk

Market inflation has caused inflationary pressures across the Company, the Company has index linked facilities which are predominately Retail Price Index (RPI) linked.

Inflation risk arises if the indexes increase meaning the Company 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 Company's objectives when managing capital are to safeguard the Company'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 Company's policy is to have a minimum of 12 months pre-funding of projected capital expenditure. At 31 March 2023 the Company had cash and facilities, including restricted funds, of £196 million, meeting this objective.

The Company 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 35 and is calculated as total borrowings less cash and cash deposits. Total capital is calculated as equity plus net borrowings. The Company currently manages a net debt position of £3,091.3 million.

The gearing ratios at the balance sheet date were:

	Note	2023 £m	2022 £m
Net borrowings	35	3,091.3	2,305.2
Total equity		971.9	574.5
Total capital		4,063.2	2,879.7
Gearing Ratio		76.1%	80.0%

Consistent with the industry peer group, the Company is also monitored on the basis of the ratio of its net borrowings to Regulated Capital Value (RCV). South West Water's net debt to RCV has decreased to 61.9% which is broadly in line with Ofwat's notional gearing target for the K7 (2020-25) regulatory period is set at 60.0%.

	Note	2023 £m	2022 £m
Shadow Regulatory Capital Value		4,715.9	3,668.4
Company net borrowings	35	3,091.3	2,305.2
Loan from Bristol Water plc	24	(171.1)	-
Net borrowings		2,920.2	2,305.2
Net borrowings / Regulatory Capital Value		61.9%	62.8%

The Company is now using Shadow RCV as it provides a more current view of the gearing position and has reanalysed 2022. The acquisition and statutory transfer of Bristol Water plc by the Company on 1st February

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Capital risk management (continued)

2023 created an intercompany loan, this has been excluded from the calculation to provide comparative performance

The Company has entered into covenants with lenders and, whilst terms vary, these typically provide for limits on gearing and interest cover. The Company has been in compliance with its covenants during the year.

When considering the South West Water sub-group, including the wholly owned subsidiaries of South West Water Finance plc and Bristol Water plc, the net borrowings are £2,865.3m, providing effective South West Water group gearing of 60.8%.

(c) Determination of fair values

The Company 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 Company's financial instruments are valued principally using level 2 measures as analysed in note 21.

The fair value of financial instruments that are 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 value, less expected credit losses, of trade receivables and payables are assumed to approximate their fair values

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company'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 Company has a material level of exposure to collection of trade receivables. Provisions in respect of these balances are calculated based on assumptions of 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 Company applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables and contract assets. Therefore, the Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. South West Water 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. The Company 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 2023 the Company's current trade receivables were £252.0 million (2022: £227.5 million), against which £104.0 million (2022: £84.5 million) had been provided for ECLs (note 20).

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Retirement benefit obligations

The Company operates defined benefit pension schemes, through its parent company, 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 26.

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 2019 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 26.

Judgements

Non-underlying items

In establishing which items are disclosed separately as non-underlying, to enable a full understanding of the Company'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 Bristol Water is allocated to the group of cash-generating units that are expected to benefit from the synergies of the combination, this being the complete operations of the Company. The Company's operations comprise the regions of South West Water, Bournemouth Water and Bristol Water. The Company operates under one management structure with functional integration across the operating segment generating the synergies of the combination. The recoverable amount is the higher of fair value, less costs to sell, and the value-in-use. Value-in-use represents the present value of projected future cash flows expected to be derived from the Company, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the Company. Impairments are charged to the income statement in the year which they arise.

Other estimates

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.

Bristol Water was acquired by the Pennon Group in June 2021. In early June 2022 the final review of tax balances was completed, with the identification of capital assets non-qualifying for tax purposes, at this point the acquisition balances were finalised. On 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. The balances transferred to the Company are as per note 18. The operations of Bristol Water are now part of South West Water Limited with all activities operating in the same industry, therefore identical or similar transactions within South West Water Limited do not require new significant judgements or estimates to be made by the Company.

The property, plant and equipment of the Company 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. 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. 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. REVENUE

Revenue has been disaggregated based on the services of supplying clean water, removal and treatment of wastewater and other services.

	2023 £m	2022 £m
Water	265.3	267.0
Wastewater	250.1	281.0
Other services	51.0	36.6
Total	566.4	584.6

6. NON-UNDERLYING ITEMS

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

	Note	2023 £m	2022 £m
Revenue			
Watershare+ ¹		13.6	-
Drought incentive ²		7.6	-
Operating Costs			
Watershare+ ¹		1.0	
Drought costs ²		9.4	-
Restructuring cost ³		-	2.0
Earnings before interest, tax, depreciation and amortisation		31.6	2.0
Current tax credit arising on non-underlying items ⁴	9	(2.7)	(0.4)
Deferred tax credit arising on non-underlying items ⁴	9	(3.2)	-
Deferred tax change in rate ⁵	9	(1.0)	98.7
Net non-underlying charge		24.7	100.3

- In September 2020, the Company offered its WaterShare+ scheme to its customers whereby customers could choose to accept a credit on their bill or take shares in Pennon Group plc. The scheme has operated again in the year ended 31 March 2023. The value of the rebate equates to £13 per customer and the total value of £13.6 million has been recognised in full as a non-underlying reduction to revenue in the year. £13.3 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 is non-underlying in nature given its individual size and its non-recurring nature. Additional costs of £1.0m 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 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 level of around 14%. In December 2022 the company announced that 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 £7.6m.

3. During the prior year a one-off charge of £2.0m was made to the restructuring provision reflecting announced reorganisation across the Company.
4. The tax credit arising on non-underlying items reflects a £2.7 million current tax credit in respect of losses which will be carried back against prior year taxable profits. The prior year credit of £0.4 million related to a current tax credit on strategic review costs.
5. Following the Chancellor's budget on 4 March 2021 and subsequent enactment of the Finance Act on 24 May 2021, the UK's main rate of corporation tax increased to 25% from 1 April 2023. All deferred tax assets and liabilities were therefore reviewed and where they will crystallise after 1 April 2023 recalculated to crystallise at 25%, hence giving a non-underlying deferred tax charge in the year ended 31 March 2022 of £98.7m. 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 £4.2 million deferred tax credit in respect of on losses carried forwards which will be relived at 25% (£3.2m) and rate change rises (£1.0m).

7. OPERATING COSTS BEFORE NON-UNDERLYING ITEMS

	Note	2023 £m	2022 £m
Employment costs before non-underlying items	11	63.2	56.9
Raw materials and consumables		29.1	20.5
<i>Other operating expenses include</i>			
Profit on disposal of property, plant and equipment		(0.5)	(1.1)
<i>Operating lease rentals payable:</i>			
Short term/low value asset lease expense		5.2	1.6
Government grant receivable		(18.6)	-
Research and development expenditure		0.8	-
Trade receivables impairment	20	3.6	3.1
<i>Depreciation of property, plant and equipment:</i>			
Owned assets		91.9	79.7
Under leases		32.6	37.3
<i>Amortisation of other intangible assets</i>		0.5	-
		125.0	117.0

During the year, the Company received financial support from the UK Government's Energy Relief Bill Scheme totalling £18.6 million (2022: nil). Operating costs include a charge of £10.4 million (2022: £2.0 million) relating to non-underlying items, as detailed in note 6.

Fees payable to the Company's auditor's in the year were:

	2023 £000	2022 £000
Fees payable to the Company's auditors and its associates for the audit of the financial statements	536	335
Fees payable to the Company's auditors and its associates for other services:		
Audit related assurance	64	40
All other services	57	33
Total fees	657	408

Expenses reimbursed to the auditors in relation to the audit of the Company were £nil (2021/22: £nil).

A description of the work of the Audit Committee is set out in its report on page 135 to 140 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

	Finance cost £m	2023 Finance income £m	Total £m	Finance cost £m	2022 Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	(23.6)	-	(23.6)	(22.4)	-	(22.4)
Interest element of finance lease rentals	(29.4)	-	(29.4)	(19.1)	-	(19.1)
Interest element of operating lease rentals	(1.4)	-	(1.4)	(1.1)	-	(1.1)
Other finance costs	(2.1)	-	(2.1)	(0.8)	-	(0.8)
Interest receivable	-	1.2	1.2	-	0.8	0.8
Intercompany interest to subsidiaries	(57.0)	-	(57.0)	(34.6)	-	(34.6)
Working capital adjustment	(113.5)	1.2	(112.3)	(78.0)	0.8	(77.2)
Notional interest						
Retirement benefit obligations (note 26)	-	1.3	1.3	-	0.4	0.4
Finance (costs)/income	(113.5)	2.5	(111.0)	(78.0)	1.2	(76.8)

In addition to the above, finance costs of £4.0 million (2021/22: £1.0 million) have been capitalised on qualifying assets included in property, plant and equipment at an average borrowing rate of 5.1% (2022: 3.8%).

9. TAXATION

	Before non-underlying items 2023 £m	Non-underlying items (note 6) 2023 £m	Total 2023 £m	Before non-underlying items 2022 £m	Non-underlying items (note 6) 2022 £m	Total 2022 £m
Analysis of (credit)/charge in year						
Current year tax charge/(credit)	(2.7)	(2.7)	(5.4)	9.6	(0.4)	9.2
Deferred tax charge/(credit)	2.1	(3.2)	(1.1)	3.1	-	3.1
Deferred tax arising on change of rate of corporation tax	(1.1)	(1.0)	(2.1)	-	98.7	98.7
Total deferred tax charge/(credit)	1.0	(4.2)	(3.2)	3.1	98.7	101.8
Tax charge/(credit) for year	(1.7)	(6.9)	(8.6)	12.7	98.3	111.0

UK Corporation tax is calculated at 19% (2021/22: 19%) of the estimated assessable profit for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £2.7 million (2021/22: £2.2m credit) and a prior year deferred tax charge of £2.4 million (2021/22: £9.7 million credit).

These items arise following the recording of the routine return to provision adjustments following the submission of the tax computations for the year ended 31 March 2022 to HMRC ahead of the 31 March 2023 filing deadline.

The tax for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2021/22: 19%). The differences are explained below:

9. TAXATION (CONTINUED)

Reconciliation of total tax (credit)/charge	2023	2022
	£m	£m
(Loss)/profit before tax	(10.9)	135.5
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2021/22: 19%)	(2.1)	25.7
<i>Effects of:</i>		
Expenses not deductible for tax purposes	0.3	0.2
Change in rate of corporation tax	(2.1)	98.7
Adjustments to tax charge in respect of prior years	(0.3)	(11.9)
Depreciation charged on non-qualifying assets	0.6	0.4
Other	(5.0)	(2.1)
Tax (credit)/charge for year	(8.6)	111.0

Reconciliation of current tax (credit)/charge	2023	2022
	£m	£m
(Loss)/profit before tax	(10.9)	135.5
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2020/21: 19%)	(2.1)	25.7
<i>Effects of:</i>		
Relief for capital allowances in place of depreciation	(34.4)	(32.1)
Disallowance of depreciation charged in the accounts	21.5	19.6
Expenses not deductible for tax purposes	0.3	0.2
Adjustments to tax charge in respect of prior years	(2.7)	(2.2)
Depreciation charged on non-qualifying assets	0.6	0.4
Relief for capitalised interest and foreign exchange gains/losses	(0.7)	(0.2)
Group relief received not paid	-	(1.8)
Losses carried forward	13.8	-
Other timing differences	(1.7)	(0.4)
Current Tax (credit)/charge for year	(5.4)	9.2

South West Water's current tax charge is higher than the UK headline rate of 19%, primarily due to the availability of capital allowances. Capital allowances provide tax relief when a business incurs expenditure on qualifying capital items such as plant and machinery used by the business. As an infrastructure business, these allowances help the Company to plan major investment and consequentially to maintain lower customer bills, as corporation tax relief is given against the investments made.

The Company benefits from the 130% super-deductions and 50% enhanced allowances in respect of qualifying spend relating to contract entered into after 3 March 2021. The Company 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 together with the increase in the rate of corporation tax to 25% from April 2023.

Other 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 on which tax relief arises in the 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 2022 in March 2023. This is a routine item with any adjustments reflected in the following years tax charge.

9. TAXATION (CONTINUED)

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 structures and premises.

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.

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 and credits were also recognised:

	2023 £m	2022 £m
Amounts recognised directly in other comprehensive income		
Deferred tax (credit)/charge on defined benefit pension schemes	(7.9)	0.7
Deferred tax charge on cash flow hedges	7.3	6.4
Amounts recognised directly in equity		
Deferred tax charge on share based payments	0.3	-

Factors affecting future tax charges

The UK main rate of corporation tax will increase to 25% from 1 April 2023. This change was substantively enacted on 24 May 2021, as such deferred tax liabilities and assets have been recalculated and recorded at the rate they are expected to unwind. This increased the tax charge in the income statement during the year ended 31 March 2022 by £98.7m, with a credit of £6.6m taken through the SOC/Equity in respect of retirement obligations, derivatives and share based payments.

The Chancellor announced in the March 2023 Budget, that super deductions, will be replaced by full expensing for the next three years in respect of plant and machinery assets. The 50% first year allowance in relation to special rate assets will also continue until 31 March 2026. The company therefore anticipates generating tax losses for the next few years.

10. DIVIDENDS

	2023 £m	2022 £m
Amounts recognised as distributions to equity holders in the year:		
Base dividend of 4.1p per ordinary share in respect of 2022/23 paid 31 March 2023	12.0	-
Base dividend of 15.2p per ordinary share in respect of 2021/22 paid 31 March 2022	-	45.0
Watershare+ dividend	0.3	-
Declared and approved:		
Outperformance dividend of 14.5p per ordinary share in respect of 2020/21	-	43.0
	12.3	88.0

Payment of the outperformance dividend based on cumulative outperformance for 2020/21 of £43.0m was to August 2022. The Company was obligated to pay the dividend therefore £43.0m was recognised as a transaction with owners during the year ended 31 March 2022.

11. EMPLOYMENT COSTS

The average number of persons (including Executive Directors) employed by the Company was 1,886 (2022: 1,700).

	Note	2023 £m	2022 £m
Wages and salaries		72.0	62.8
Social security costs		7.6	6.0
Pension costs	26	6.5	6.9
Share-based payments		0.6	1.0
Total employment costs		86.7	76.7
Charged as follows:			
Employee costs		63.2	56.9
Capital schemes		22.9	18.1
Non-underlying restructuring costs	6	-	1.7
Research and development		0.6	-
Total employment costs		86.7	76.7

Details of Directors' emoluments are set out in note 12. There are no personnel other than Directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the Company. Members of other executive committees assist the Directors in their duties but do not hold authority to control the activities of the Company.

12. DIRECTORS' EMOLUMENTS

	2023 £000	2022 £000
Executive Directors:		
Salary	429	408
Performance-related bonus paid or payable	4	121
Share-based payments	380	386
Other emoluments, including payments in lieu of pension provision	63	77
Non-Executive Directors (including Chair)	309	262
Total emoluments	1,185	1,254

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) and share interests is shown in the Annual Report on Remuneration on pages 156 to 173. This report also details arrangements with Pennon Group plc for the payment and recharging of emoluments relating to Directors who serve as Directors of both Pennon Group and South West Water. The cost of share-based payments represents the amount charged to the income statement, as described in note 31.

The aggregate gains on vesting of Directors' share-based awards amounted to a total of £98,000 (2022: £112,000).

At 31 March 2023 there were no Directors accruing retirement benefits under defined benefit pension schemes (2022: none). At 31 March 2023 there was no Directors (2022: one) accruing benefits under defined contribution pension schemes with contributions of £1,000 made during the year (2022: £2,000). At 31 March 2023 two Directors received payments in lieu of pension provision (2022: one).

13. OTHER INTANGIBLE ASSETS

	Total £m
Cost:	
At 31 March 2022	<u>2.0</u>
Arising on acquisitions	13.6
Additions	0.6
Disposals	-
At 31 March 2023	<u>16.2</u>
Accumulated amortisation:	
At 31 March 2022	<u>2.0</u>
Charge for year	0.5
Disposals	-
At 31 March 2023	<u>2.5</u>
Carrying amount:	
At 31 March 2022	<u>-</u>
At 31 March 2023	<u>13.7</u>

Other including computer software, is amortised over the useful life of the assets, which at acquisition was ten years. The average remaining life is one year (2022: two years).

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.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold 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 2021	85.9	1,983.0	784.9	2,072.2	117.8	5,043.8
Additions	-	25.9	1.8	65.1	109.7	202.5
Assets adopted at fair value	-	11.0	-	-	-	11.0
Grants & contributions	-	-	-	-	(3.2)	(3.2)
Disposals	(0.3)	(1.2)	-	(0.9)	-	(2.4)
Transfers/reclassifications	0.6	17.1	3.7	43.9	(65.3)	-
At 31 March 2022	86.2	2,035.8	790.4	2,180.3	159.0	5,251.7
Arising on acquisitions	30.1	473.9	160.4	17.1	31.7	713.2
Additions	1.6	41.3	6.8	83.7	183.9	317.3
Assets adopted at fair value	-	14.3	-	-	-	14.3
Grants & contributions	-	-	-	-	-	-
Disposals	-	(1.5)	(0.5)	(0.8)	-	(2.8)
Transfers/reclassifications	1.2	36.4	3.4	43.1	(84.1)	-
At 31 March 2023	119.1	2,600.2	960.5	2,323.4	290.5	6,293.7
Accumulated depreciation:						
At 31 March 2021	18.8	319.2	299.3	1,267.7	-	1,905.0
Charge for year	2.8	25.2	9.6	83.1	-	120.7
Disposals	-	(1.2)	-	(0.8)	-	(2.0)
At 31 March 2022	21.6	343.2	308.9	1,350.0	-	2,023.7
Charge for year	2.9	27.4	11.0	86.9	-	128.2
Disposals	-	(1.5)	(0.3)	(0.8)	-	(2.6)
At 31 March 2023	24.5	369.1	319.6	1,436.1	-	2,149.3
Net book value:						
At 31 March 2021	67.1	1,663.8	485.6	804.5	117.8	3,138.8
At 31 March 2022	64.6	1,692.6	481.5	830.3	159.0	3,228.0
At 31 March 2023	94.6	2,231.1	640.9	887.3	290.5	4,144.4

Out of the total depreciation charge for the Company of £128.2 million (2021/22: £120.7 million), the sum of £1.5 million (2021/22: £1.7 million) has been charged to capital projects, £2.2 million (2021/22: £2.0 million) has been offset by deferred income and £124.5 million (2021/22: £117.0 million) against profits. During the year borrowing costs of £4.0 million (2021/22: £1.0 million) have been capitalised on qualifying assets, at an average borrowing rate of 5.1% (2021/22: 3.8%).

Groups of assets forming cash generating units are reviewed for indicators of impairment. No indicators of impairment were identified during the year. Asset lives and residual values are reviewed annually. No significant changes were required in 2022/23.

The Company 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:

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold 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	35.3	399.4	375.6	379.7	-	1,190.0
Arising on acquisitions	-	-	-	1.0	-	1.0
Additions	0.1	19.5	0.5	20.9	-	41.0
Disposals	-	(35.0)	(41.0)	(14.0)	-	(90.0)
At 31 March 2023	35.4	383.9	335.1	387.6	-	1,142.0
Accumulated depreciation:						
At 31 March 2022	3.9	79.5	102.7	184.1	-	370.2
Charge for year	1.2	4.9	6.1	20.4	-	32.6
Disposals	-	(14.6)	(18.2)	(14.0)	-	(46.8)
At 31 March 2023	5.1	69.8	90.6	190.5	-	356.0
Net book value:						
At 31 March 2022	31.4	319.9	272.9	195.6	-	819.8
At 31 March 2023	30.3	314.1	244.5	197.1	-	786.0

When the Company 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 £786.0 million (2022: £793.7 million).

15. GOODWILL

	2023 £m	2022 £m
Cost		
At 1 April	51.3	51.3
Arising on acquisitions	248.3	-
At 31 March	299.6	51.3

In the year, goodwill of £248.3 million was recognised on acquisition of Bristol Water. It is attributable to synergies and outperformance arising from the merger of operating activities as well as the value of the workforce, which cannot be recognised as an intangible asset. Goodwill of £51.3 million was recognised on acquisition of Bournemouth Water in 2016/17.

Impairment testing of goodwill

The Company tests goodwill for impairment annually or more frequently if there are any indications that impairment may have arisen.

The recoverable amount, is assessed using level 2 fair value hierarchy techniques, with reference to the market value of the merged water business, using a market based observable premium to Regulated Capital Value as defined by Ofwat.

The results of tests performed during the year demonstrate significant headroom in the recoverable amount of goodwill, and it is judged that no reasonable change in the key assumptions would cause the carrying amount of the goodwill to exceed the recoverable amount.

16. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items as below:

	Note	Fair value Derivatives used for cash flow hedging £m	Amortised cost Loans and receivables £m	Trade receivables and trade payables £m	Total £m
31 March 2023					
Financial assets					
Trade and other receivables	20	-	15.6	148.0	163.6
Cash and cash deposits	22	-	46.1	-	46.1
Derivatives	21	52.7	-	-	52.7
		52.7	61.7	148.0	262.4
Financial liabilities					
Borrowings	24	-	(3,137.4)	-	(3,137.4)
Trade and other payables	23	-	(12.3)	(135.5)	(147.8)
Derivatives	21	(4.8)	-	-	(4.8)
		(4.8)	(3,149.7)	(135.5)	(3,290.0)

	Note	Fair value Derivatives used for cash flow hedging £m	Amortised cost Loans and receivables £m	Trade receivables and trade payables £m	Total £m
31 March 2022					
Financial assets					
Trade and other receivables	20	-	13.1	143.0	156.1
Cash and cash deposits	22	-	189.3	-	189.3
Derivative financial instruments	21	18.9	-	-	18.9
		18.9	202.4	143.0	364.3
Financial liabilities					
Borrowings	24	-	(2,494.5)	-	(2,494.5)
Trade and other payables	23	-	(54.5)	(70.2)	(124.7)
		-	(2,549.0)	(70.2)	(2,619.2)

17. OTHER NON-CURRENT ASSETS

Non-current receivables	2023 £m	2022 £m
Interest receivable	13.9	-

18. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2023 £m	2022 £m
At 31 March 2022		
Arising on acquisition	3.3	3.3
At 31 March 2023	164.7	-
	168.0	3.3

18. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (CONTINUED)

The Company has the following wholly-owned trading subsidiaries, South West Water Finance plc, South West Water Customer Services Limited, Peninsula Properties (Exeter) Limited and Bristol Water plc. The Company also has the following wholly-owned dormant subsidiaries, Bournemouth Water Investments Limited, BWH Enterprises Limited, Bournemouth Water Limited and Avon Valley Water Limited. All of these subsidiaries are registered at Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR, except Bristol Water plc which is registered at Bridgewater Road, Bristol, England, BS13 7AT and are also incorporated and operate in England. The Company has a 50% joint venture share holding in CREWW Executive Board Ltd and also has a minority shareholding in Landlord Tap Limited, both are incorporated, registered and operate in England.

Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. The Bristol Water brand will continue as a trading name of South West Water. A breakdown of the transferred assets and liabilities is below:

	Acquisition Value £m
Other intangible assets	13.6
Property, plant & equipment	713.2
Inventories	2.4
Receivables	29.1
Payables	(82.1)
Taxation – deferred	(94.9)
Cash and cash deposits	5.1
Loans	(414.1)
Leases	(1.2)
Net assets transferred	171.1
Loan payable to Bristol Water plc	(171.1)
Investment in Bristol Water plc residual net assets	164.7
Goodwill	248.3
Total consideration	413.0

Consolidated financial statements have not been prepared, as explained in note 2(b).

In the opinion of the Directors, the total value of the investments in subsidiaries is not less than the amount at which they are shown in the balance sheet.

19. INVENTORIES	2023	2022
	£m	£m
Raw materials and consumables	10.0	5.8

20. TRADE AND OTHER RECEIVABLES – CURRENT

	2023	2022
	£m	£m
Amounts receivable from customers	252.0	227.5
Less: provision for expected credit losses	(104.0)	(84.5)
Net trade receivables	148.0	143.0
Amounts owed by fellow subsidiary companies	15.6	13.1
Interest receivable	3.9	-
Other receivables	14.3	35.3
Prepayments and accrued income	11.9	7.5
Trade and other receivables – current	193.7	198.9

Trade receivables include accrued income relating to customers with water budget payment plans. Trade receivables have decreased year on year, largely due to the one-off bill reductions in the final quarter of the year in relation to Watershare+ and the drought incentive (see note 6), along with tariff reductions in the South West Water region.

20. TRADE AND OTHER RECEIVABLES – CURRENT (CONTINUED)

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 Company 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 Company 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 aging of gross trade receivables is as follows:

	2023	2022
	£m	£m
Not due	63.1	35.9
Past due 1 - 30 days	9.1	10.4
Past due 31 - 120 days	9.8	12.4
More than 120 days	170.0	168.8
Total trade receivables	252.0	227.5

The Company specifically reviews separate categories of debt to identify an appropriate allowance for expected credit losses as outlined in note 2 (n) ii. South West Water has a duty under legislation to continue to provide domestic customers with services regardless of payment. The provision matrix adopted for household customers in the most significant operating region of Devon and Cornwall 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 ECL's
	£m	£m
Devon and Cornwall (household customers)		
• Current occupier < 12 months: 1% - 30%	35.3	0.2
• Current occupier 12 – 24 months: 10% - 60%	14.6	2.8
• Current occupier 24 – 36 months: 15% - 80%	10.8	3.4
• Current occupier > 36 months: 20% - 100%	90.4	49.5
• Previous occupier: 55% - 100%	51.9	31.3
Bristol	42.0	16.4
Other	7.0	0.4
	252.0	104.0

No material expected credit loss provision has been recognised in respect of amounts owed by fellow subsidiary undertakings.

The movement in the allowance for expected credit losses in respect of trade receivables was:

	2023	2022
	£m	£m
At 1 April	84.5	88.4
Acquisition provision for expected credit losses	17.8	-
Provision for expected credit losses	3.6	3.1
Net Receivables written-off during the year as uncollectable	(1.9)	(7.0)
At 31 March	104.0	84.5

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2023 £m	2022 £m
Derivatives used for cash flow hedging:		
Assets		
Current assets	20.1	5.0
Non-current assets	32.6	13.9
Total assets	52.7	18.9
Liabilities		
Current liabilities	(2.4)	-
Non-current liabilities	(2.4)	-
Total liabilities	(4.8)	-

The Company'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 (2021/22: £nil).

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 Company net borrowings are at fixed rate.

At 31 March 2023 the company had interest rate swaps to swap from floating to fixed rate and hedge financial liabilities with a notional value of £853 million and a weighted average maturity of 3.4 years (2022: £718 million, with 3.5 years). The weighted average interest rate of the swaps for their nominal amount was 1.54% (2022: 1.14%).

At 31 March 2023 the Company had interest rate swaps to swap from RPI Linked to fixed rate and hedge financial liabilities with a notional value of £300 million and a weighted average maturity of 1.8 years (2022: £nil). The weighted average interest rate of the swaps for their nominal amount was 7.98% (2022: nil%).

The Company 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 Company 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 as at 31 March 2023 is £nil (2022: £nil).

	Notional Amount £m	Carrying Amount £m	Line item in the statement of financial position £m	Change in fair value used for measuring ineffectiveness for the period £m
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	-	-	Derivative financial instruments	-
31 March 2022				
Interest Rate Swaps	717.9	18.8	Derivative financial instruments	40.6
RPI Swaps	-	-	-	-
Cross Currency Swaps	-	-	-	-

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The periods for which cash flow hedges are expected to affect future profit or loss as follows:

	<1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
31 March 2023					
Assets	20.1	18.5	8.8	5.3	52.7
Liabilities	(2.4)	(2.0)	(0.2)	(0.2)	(4.8)
31 March 2022					
Assets	5.0	4.9	7.0	2.0	18.9
Liabilities	-	-	-	-	-

Valuation hierarchy

The Company 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 Company's financial instruments are valued using level 2 measures:

	2023 £m	2022 £m
Assets		
Derivatives used for cash flow hedging	52.7	18.9
Liabilities		
Derivatives used for cash flow hedging	(4.8)	-

22. CASH AND CASH DEPOSITS

	2023 £m	2022 £m
Cash at bank and in hand	24.5	27.6
Short-term bank deposits	-	-
Other deposits	21.6	161.7
Cash and cash deposits	46.1	189.3

Company short-term deposits have an average maturity of one working day (2022 one working day).

Company other deposits have an average maturity of 92 days (2022 92 days).

Company other deposits include restricted funds of £21.6 million (2022 £161.7 million) to settle long-term lease liabilities (note 24). The movement on restricted cash represents cash outflows of £140.8 million and accreted interest. Restricted funds are available for access, subject to being replaced by an equivalent valued security.

22. CASH AND CASH DEPOSITS (CONTINUED)

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

	2023	2022
	£m	£m
Cash and cash deposits as above	46.1	189.3
Less: deposits with a maturity of three months or more (restricted funds)	(21.6)	(161.7)
Cash and cash equivalents	24.5	27.6

23. TRADE AND OTHER PAYABLES – CURRENT

	2023	2022
	£m	£m
Trade payables	135.5	70.2
Amounts owed to subsidiary companies	10.4	9.0
Amounts owed to parent undertaking	1.9	45.5
Other tax and social security	3.0	2.3
Other payables	13.8	15.2
Accruals	41.3	17.0
Contract liabilities	4.3	2.0
	210.2	161.2

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Included in the prior year amounts owed to parent undertaking is £43.0m relating to payment of the outperformance dividend based on cumulative outperformance for 2020/21 that was deferred to August 2022.

The movement in the current and non-current contract liabilities was:

	2023	2022
	£m	£m
Contract liabilities		
At 1 April	139.2	130.2
Arising on acquisition	20.9	-
Revenue recognised in the year	(3.4)	(2.0)
Consideration received in advance of completion of performance obligations	22.5	11.0
At 31 March	179.2	139.2

The analysis of contract liabilities between current and non-current is:

	2023	2022
	£m	£m
Current	4.3	2.0
Non-current (note 25)	174.9	137.2
	179.2	139.2

Performance obligations related to the current contract liabilities closing balance above are expected to be satisfied, and revenue will be recognised, within the financial year ended 31 March 2024.

24. BORROWINGS

	2023 £m	2022 £m
Current		
Bank and other external loans	92.8	40.1
Loan from parent company (note 38)	73.1	-
Loan from subsidiary company (note 38)	147.5	3.0
	313.4	43.1
Leases	32.0	170.0
Total current borrowings	345.4	213.1
Non-current		
Bank and other external loans	934.6	567.9
Private Placements	184.9	159.8
Fixed Rate Bonds	60.2	-
Loan from subsidiary company (note 38)	579.3	512.6
	1,759.0	1,240.3
Leases	1,033.0	1,041.1
Total non-current borrowings	2,792.0	2,281.4
Total borrowings	3,137.4	2,494.5

The loan from subsidiary company represents a loan from South West Water Finance plc of £555.6 million (2022: £515.6 million), a UK company whose purpose is to raise borrowings for South West Water Limited, and a loan from Bristol Water plc of £171.1 million (2022: £nil).

The fair value of the non-current borrowings, valued using level 2 measures (set out in note 21) were:

	2023 Book value £m	2023 Fair value £m	2022 Book value £m	2022 Fair value £m
Current				
Bank and other external loans	92.8	92.8	40.1	40.1
Loan from parent company (note 38)	73.1	73.1	-	-
Loan from subsidiary company (note 38)	147.5	147.5	3.0	3.0
	313.4	313.4	43.1	43.1
Leases	32.0	-	170.0	-
Total current borrowings	345.4	313.4	213.1	43.1
Non-current				
Bank and other external loans	934.6	965.3	567.9	619.8
Private Placements	184.9	174.6	159.8	158.5
Fixed Rate Bonds	60.2	67.0	-	-
Loan from subsidiary company (note 38)	579.3	493.1	512.6	608.3
	1,759.0	1,700.0	1,240.3	1,386.6
Leases	1,033.0	-	1,041.1	-
Total non-current borrowings	2,792.0	1,700.0	2,281.4	1,386.6
Total borrowings	3,137.4	2,013.4	2,494.5	1,429.7

Under IFRS 16 the disclosure relating to 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.

24. BORROWINGS (CONTINUED)

The maturity of non-current borrowings, excluding leases, was:

	2023 £m	2022 £m
Between 1 and 2 years	57.3	43.2
Over 2 and less than 5 years	222.6	163.8
Over 5 years	1,479.1	1,033.3
	1,759.0	1,240.3

The 2022 comparative information has been amended to exclude leases in line with the current year disclosure.

The weighted average maturity of non-current borrowings, excluding leases, was 13.0 years (2022 14.7 years).

Undrawn committed borrowing facilities at the balance sheet date were:

	2023 £m	2022 £m
Floating rate:		
Expiring within one year:	39.8	25.0
Expiring after one year:	110.0	140.0
	149.8	165.0

In addition, the Company has undrawn uncommitted short-term bank facilities of £nil (31 March 2022: £nil).

The Company has leases for various assets as shown in note 14.

The maturity of lease liabilities was:

	2023 £m	2022 £m
Within 1 year	32.0	170.0
Over 1 year and less than 5 years	181.7	180.6
Over 5 years	851.3	860.5
	1,065.0	1,211.1

Analysed as:

	2023 £m	2022 £m
Current	32.0	170.0
Non-current	1,033.0	1,041.1
	1,065.0	1,211.1

For the purposes of calculating debt or borrowings under the Company'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 2023 the carrying value of leases previously categorised as IAS 17 operating leases was £37.3 million (2022: £36.9 million).

The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the treasury function.

The discount rate used to calculate the lease liabilities above involves estimation. Where the Company cannot readily determine the rate implicit in the lease the Company uses an estimated incremental borrowing rate (IBR). At 31 March 2023 the range of IBRs used was between 2.6% and 3.9% (2022: between 2.6% and 3.9%) and the weighted average IBR across all leases was 3.3% (2022: 3.8%). If the weighted average rate used increased or decreased by 10bps, this would result in a c. 1.1% increase or reduction in the present value of lease liabilities recognised at 31 March 2023 (2022: 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, £21.6 million at 31 March 2023 (2022: £161.7 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.

24. BORROWINGS (CONTINUED)

Cash outflows in respect of leasing relate to principal repayments of £120.3 million (2022: £231.4 million) and interest repayments of £100.5 million (2022: £17.2 million) of which £68.4 was accrued financial lease charges, in addition to inflows from lease financing arrangements of £40.2 million (2022: £15.0 million).

Other information required to be disclosed under IFRS 16 is included in note 14.

25. OTHER NON-CURRENT LIABILITIES

	2023 £m	2022 £m
Contract liabilities	174.9	137.2

Non-current contract liabilities relate to consideration received in advance of the Company performing its performance obligations to customers where performance obligations will not be completed within twelve months of the balance sheet date. The overall movement in total contract liabilities is disclosed in note 23. Contract liabilities reflect the fair value of assets transferred from customers. The majority of the contract liabilities included above are expected to unwind after five years.

26. RETIREMENT BENEFIT OBLIGATIONS

The Company's employees are eligible to participate in a defined contribution scheme, operated by the parent company, Pennon Group plc. The Company is also a member of the Pennon Group defined benefit scheme which was closed to new members on or before 1 April 2008. The principal plan within the Group is the Pennon Group Pensions Scheme (PGPS), which is a funded defined benefit, final salary pensions scheme in the UK.

The Pennon Group's pension schemes are established under trust law and comply with all relevant UK legislation. The assets of the scheme 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 the schemes' trustees is determined by the schemes' trust documentation. The Pennon 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. PGPS is closed to future accrual.

Defined contribution schemes

Pension costs for defined contribution schemes were £5.2 million (2021/22: £4.5 million).

Defined benefit schemes

The principal actuarial assumptions at 31 March were:

	2023 %	2022 %	2021 %
Rate of increase in pensionable pay	2.7	3.0	3.2
Rate of increase for current and future pensions	2.8	3.1	2.0
Rate used to discount schemes' liabilities and expected return on scheme assets	4.7	2.75	2.05
Inflation	3.3	3.6	3.2

Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2019 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 at:

	2023	2022	2021
Male	24.0	24.8	24.7
Female	26.6	27.1	27.0

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2023	2022	2021
Male	25.1	25.6	25.5
Female	27.9	27.1	27.9

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%	+/- 5.1%
Rate used to discount schemes' liabilities	+/- 0.5%	+/- 6.7%
Inflation	+/- 0.5%	+/- 5.0%
Life expectancy	+/- 1 year	+/- 3.6%

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:

	2023 £m	2022 £m
Present value of financial obligations	(466.8)	(645.2)
Fair value of plan assets	484.3	692.3
Net asset recognised in the balance sheet	17.5	47.1

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The movement in the net defined benefit obligation over the accounting period is as follows:

	2023			2022		
	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	(645.2)	692.3	47.1	(695.9)	710.2	14.3
Current service cost	(0.8)	-	(0.8)	(2.4)	-	(2.4)
Interest (expense)/income	(17.3)	18.6	1.3	(13.9)	14.3	0.4
Past service cost and gains and losses on settlements	-	-	-	(0.2)	-	(0.2)
	(663.3)	710.9	47.6	(712.4)	724.5	12.1
Remeasurements:						
(Loss)/return on plan assets excluding amounts included in interest expense	-	(199.7)	(199.7)	-	4.1	4.1
(Loss)/gain from change in demographic assumptions	5.8	-	5.8	(0.7)	-	(0.7)
Gain/(loss) from change in financial assumptions	172.8	-	172.8	41.1	-	41.1
Experience (loss)	(10.3)	-	(10.3)	(13.0)	-	(13.0)
	168.3	(199.7)	(31.4)	(27.4)	4.1	31.5
Contributions:						
Employers	-	1.3	1.3	-	3.5	3.5
Payments from plans:						
Benefit payments	27.3	(27.3)	-	38.4	(38.4)	-
Administration costs	0.9	(0.9)	-	1.4	(1.4)	-
	28.2	(26.9)	1.3	39.8	(36.3)	3.5
At 31 March	(466.8)	484.3	17.5	(645.2)	692.3	47.1

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 principal pension scheme, PGPS, the surplus has been recognised as the Company 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.

Employer contributions are made into the scheme by South West Water and other companies within the Pennon Group based upon pensionable pay of employees in each section of the scheme. Full details of the scheme are included within the Pennon Group plc financial statements (see note 30).

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The assets in the schemes and the expected long-term rates of return at year end were:

	2023		2022	
	Quoted prices in active market £m	Fund %	Quoted prices in active market £m	Fund %
Equities	95.8	20	169.3	24
Property	31.9	7	62.6	9
Bonds	286.2	59	344.5	50
Diversified Growth Fund	33.8	7	52.4	8
Insurance linked securities	31.7	6	60.5	9
Other	4.9	1	3.0	0
	484.3	100	692.3	100

Through the Pennon Group defined benefit pension plan, the Company 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 scheme holds a significant proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long-term but can give risk 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 aligned with the scheme's long-term objectives.

Changes in bond yields: A decrease in corporate bond yields will increase the value placed on the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.

Inflation risk: The majority of the scheme's 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 LDI's ('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 rate 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 LDI's 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 scheme's 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 advisors, the trustees have structured the scheme's investments with the objectives of balancing investment returns and levels of risk. The asset allocation has three principal elements:

- holding of cash funds and bonds which is expected to be less volatile than most other asset classes and reflects market movements in the scheme's liabilities
- A proportion of assets 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.

The future cash flows arising from the payment of the defined benefits are expected to be settled primarily in the period between 15 and 40 years from the balance sheet date.

26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The 2022 triennial actuarial valuation of the principal defined benefit scheme was agreed in 2023 with an actuarial valuation surplus of £8.0 million. No deficit recovery contributions are required as a result of the 2022 valuation. Additional contributions of £1.3 million were paid into the scheme in respect of scheme expenses (2022: £2.3 million). Pennon Group plc monitors funding levels on an annual basis, the Company expects to pay total contributions of around £1.3 million during the year ending 31 March 2024.

27. CURRENT TAX ASSET

	2023	2022
	£m	£m
Current year asset	3.5	1.4
Prior year tax items	8.0	4.5
At 31 March	11.5	5.9

28. DEFERRED TAX LIABILITIES

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates. Movements on deferred tax were:

	2023	2022
	£m	£m
Liabilities at 1 April	380.1	271.2
Arising on acquisition	94.9	-
Underlying charged to the income statement	1.0	3.1
Non underlying (credit)/charge to the income statement	(4.2)	98.7
(Credited)/charged to equity/other comprehensive income	(0.3)	7.1
Liabilities at 31 March	471.5	380.1

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The majority of the Company's deferred tax asset is expected to be recovered over more than one year. All deferred tax assets and liabilities within the same jurisdiction are offset.

The movements in deferred tax assets and liabilities were:

Deferred tax liabilities

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Derivatives £m	Total £m
At 31 March 2021	276.4	0.7	-	277.1
Charged to the income statement	1.4	1.5	-	2.9
Non-underlying charge to the income statement	88.1	8.1	-	96.2
Charged to other comprehensive income/equity	-	0.7	-	0.7
Reclassification from deferred tax asset	-	-	4.7	4.7
At 31 March 2022	365.9	11.0	4.7	381.6
Arising on acquisitions	95.2	-	-	95.2
Charged to the income statement	13.1	1.1	-	14.2
(Credited)/charged to other comprehensive income/equity	-	(7.9)	7.3	(0.6)
At 31 March 2023	474.2	4.2	12.0	490.4

28. DEFERRED TAX LIABILITIES (CONTINUED)**Deferred tax (assets)**

	Provisions £m	Tax Losses £m	Derivatives £m	Share based payments £m	Total £m
At 31 March 2021	(0.9)	-	(4.2)	(0.8)	(5.9)
Charged to the income statement	0.2	-	-	-	0.2
Non-underlying charge to the income statement	-	-	2.5	-	2.5
Charged to other comprehensive income/equity	-	-	6.4	-	6.4
Reclassification to deferred tax liability	-	-	(4.7)	-	(4.7)
At 31 March 2022	(0.7)	-	-	(0.8)	(1.5)
Arising on acquisitions	(0.3)	-	-	-	(0.3)
Charged/(credited) to the income statement	0.6	(14.0)	-	0.2	(13.2)
Non-underlying charge/(credit) to the income statement	-	(4.2)	-	-	(4.2)
Charged/(credited) to other comprehensive income/equity	-	-	-	0.3	0.3
At 31 March 2023	(0.4)	(18.2)	-	(0.3)	(18.9)

Deferred tax (charged)/credited to other comprehensive income/equity during the year was:

	2023 £m	2022 £m
Remeasurement of defined benefit obligations	7.9	(0.7)
Cash-flow hedges	(7.3)	(6.4)
Share-based payments	(0.3)	-
	0.3	(7.1)

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% in certain instances. In recent years enhanced allowances known as super deductions at 130% have been available on plant and machinery assets acquired after 3 March 2021 together with 50% first year allowances on special rate assets. From 1 April 2023, super deductions will be replaced by full expensing for three years whilst the 50% first year allowance will be maintained for the same period. Given the Company's continuing capital expenditure programme, it is unlikely that the deferred tax liability will crystallise in the near future.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Company 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 capital expenditure super-deduction allowance incentives for the two year period to April 2023 which increases the rate of capital allowances to up to 130% for expenditure on qualifying plant and machinery. This provides an increase in current tax relief for the Company with a consequently higher deferred tax liability and charge due to the additional capital allowance deductions and the increase in the rate of corporation tax to 25% from April 2023.

Short term temporary differences arise on items such as retirement benefit obligations, derivatives, fair value adjustments 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.

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.

28. DEFERRED TAX LIABILITIES (CONTINUED)

Derivatives reflect the fair value movements on treasury derivatives, these can fluctuate considerably each year. The balance will crystallise when derivative items are either terminated or mature, the life of these items can be up to ten years.

Tax losses relate to trading losses generated in the year and non-trade deficits carried forwards in relation to the UK's corporate interest restriction rules, these are anticipated to be utilised within the next five years.

29. PROVISIONS

	2023 £m	2022 £m
Restructuring		
At 1 April	1.0	0.3
Additions	-	1.0
Utilised during year	(0.6)	(0.3)
At 31 March	<u>0.4</u>	<u>1.0</u>

The restructuring provision principally relates to severance costs and will be utilised within one year.

30. CALLED UP SHARE CAPITAL

	2023 £m	2022 £m
Authorised		
500,000,000 Ordinary shares of £1 each	500.0	500.0
Allotted and fully paid		
295,923,000 Ordinary shares of £1 each	<u>295.9</u>	<u>295.9</u>

During the year the Company issued 1 share at a premium of £413.0 million. During the prior year the Company issued 45,000,000 shares at nominal value of £1 per share.

31. EMPLOYEE SHARE SCHEMES

The Company participates in a number of share plans for the benefit of employees operated by Pennon Group plc. Details of each plan are:

i) Sharesave Scheme

An all-employee savings related plan is operated that enables employees 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 either a 17% or 20% discount to the market value at the start of the savings period, at the third or fifth 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 Pennon Group before the option exercise period commences.

Outstanding options to subscribe for Pennon Group plc Ordinary shares of 61.05p each under the Sharesave scheme are:

Date granted	Subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March	
			2023	2022
28 June 2017	767p	2020 – 2022	-	27
03 July 2018	635p	2021 – 2023	96	105
09 July 2019	620p	2022 – 2024	77	393
16 July 2020	928p	2023 – 2025	171	206
06 July 2021	879p	2024 – 2026	516	418
06 July 2022	828p	2025 – 2027	463	-
			<u>1,323</u>	<u>1,149</u>

31. EMPLOYEE SHARE SCHEMES (CONTINUED)

The number and weighted average exercise price of Sharesave options are:

	2023		2022	
	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	1,149	774	1,317	686
Granted	467	828	448	879
Forfeited	(116)	867	(35)	695
Exercised	(337)	633	(510)	641
Expired	(31)	752	(71)	803
Transferred from Bristol Water Plc	191	869	-	-
At 31 March	1,323	835	1,149	774

The weighted average share price at the date of exercise of Sharesave options during the year was 919p (2021/22: 1,219p). The options outstanding at 31 March 2023 had a weighted average exercise price of 835p (31 March 2022: 774p) and a weighted average remaining contractual life of 1.85 years (31 March 2022: 1.76 years). The number of exercisable Sharesave options at 31 March 2023 was 1,000 (2022: 2,000) and the weighted average exercise price of exercisable Sharesave options was 620 pence (2022: 635 pence).

The aggregate fair value of Sharesave options granted during the year was £0.7 million (2021/22: £1.3 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model, at the date of issue of the options, were:

	2023	2022
Weighted average share price	957p	1,187p
Weighted average exercise price	828p	879p
Expected volatility	25.3%	26.5%
Expected life	3.3 years	3.4 years
Risk free rate	1.3%	0.1%
Expected dividend yield	4.0%	3.0%

Expected volatility was determined by calculating the historical volatility of the Pennon Group's share price over the previous three years.

ii) Long Term Incentive Plan

Executive Directors and Senior Management receive a conditional award of Ordinary shares in Pennon Group plc. Share awards vest subject to the achievement of specific performance conditions measured over a performance period of not less than three years.

The number and price of shares in the LTIP are:

	2023		2022	
	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	263	954	202	893
Granted	45	1,038	64	1,141
Lapsed	(107)	961	(3)	790
Released	(38)	803	-	-
At 31 March	163	1,007	263	954

31. EMPLOYEE SHARE SCHEMES (CONTINUED)

The awards outstanding at 31 March 2023 had a weighted average exercise price of 1,007p (31 March 2022: 954p) and a weighted average remaining contractual life of 2.5 years (31 March 2022: 2.6 years).

The aggregate fair value of awards granted during the year was £0.2 million (2022: £0.3 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depend on non-market performance vesting conditions.

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 Pennon Group Watershare+ scheme. The Watershare+ scheme directly benefits the Company'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 Pennon Group plc to participants. There is no performance condition since vesting is conditional upon continuous service with the Pennon Group for a period of three years from the award.

The number and weighted average price of shares in the Incentive Bonus Plan are:

	2023		2022
	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	58	944	112
Granted	21	988	18
Vested	(28)	756	(26)
Lapsed	(8)	1,021	(1)
Cancelled	-	-	(45)
At 31 March	43	1,056	58
			944

The awards outstanding at 31 March 2023 had a weighted average price of 1,056p (31 March 2022: 944p) and a weighted average remaining contractual life of 1.3 years (31 March 2022: 1.0 years). The Group's share price at the dates of the awards ranged from 988p to 1,141p (2022: 756p to 1,141p).

The aggregate fair value of awards granted during the year was £0.2 million (2020/22: £0.2 million), determined from market value. No option pricing methodology is applied since dividends declared 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.

32. SHARE PREMIUM ACCOUNT

	2023 £m
At 1 April	-
Share issue	413.0
At 31 March	413.0

During the year the Company issued 1 share at a premium of £413.0 million.

33. RETAINED EARNINGS AND OTHER RESERVES

	Note	Hedging reserve £m	Retained earnings £m	Total £m
At 31 March 2021		(17.5)	293.7	276.2
Profit for the year		-	24.5	24.5
Other comprehensive income for the year		34.2	30.8	65.0
Dividends paid/payable	10	-	(88.0)	(88.0)
Share-based payments (net of tax)		-	0.9	0.9
At 31 March 2022		16.7	261.9	278.6
(Loss) for the year		-	(2.3)	(2.3)
Other comprehensive income/(loss) for the year		21.8	(23.5)	(1.7)
Dividends paid/payable	10	-	(12.3)	(12.3)
Share-based payments (net of tax)		-	0.4	0.4
Watershare+ reserves adjustment		-	0.3	0.3
At 31 March 2023		38.5	224.5	263.0

The hedging reserve is used to record the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

The Watershare+ reserves adjustment relates to the shares in Pennon issued through Company's rebate scheme (see note 6).

34. ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

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

	2023 £m	2022 £m
(Loss)/profit for the year	(2.3)	24.5
Adjustments for:		
Share based payments	0.6	1.0
Profit on disposal of property, plant and equipment	(0.5)	(1.1)
Depreciation charge	124.5	117.0
Amortisation of intangible fixed assets	0.5	-
Finance income	(1.2)	(0.8)
Finance costs	112.2	77.6
Taxation	(8.6)	111.0
Non-underlying Watershare+ rebate retained earnings adjustment	0.3	-
Changes in working capital:		
Increase in inventories	(1.8)	(0.4)
Decrease/(Increase) in trade and other receivables	35.4	(34.5)
Increase in trade and other payables	13.5	13.5
Decrease in retirement benefit obligations	(0.5)	(0.8)
(Decrease)/Increase in provisions	(0.6)	0.7
Cash generated from operations	271.5	307.7

34. ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS (CONTINUED)

During the year, the Company completed a number of sale and leaseback transactions in respect of its infrastructure assets as part of its ongoing financing arrangements. Cash proceeds of £40.2 million (2022: £15.0 million) were received and a gain of nil (2022: nil) was recognised. These assets are primarily being leased back over an initial 10-year lease term at market rentals over varying lease terms from 7.5 to 9.5 years.

35. NET BORROWINGS

	2023 £m	2022 £m
Cash and cash deposits	46.1	189.3
Borrowings – current		
Other current borrowings	(168.9)	(43.1)
Lease obligations	(32.0)	(170.0)
Total current borrowings	(200.9)	(213.1)
Borrowings – non-current		
Other non-current borrowings	(1,903.5)	(1,240.3)
Lease obligations	(1,033.0)	(1,041.1)
Total non-current borrowings	(2,936.5)	(2,281.4)
Total net borrowings	(3,091.3)	(2,305.2)

The movement in net borrowings during the periods presented were as follows:

	Net borrowings at 1 April 2021 £m	Cash flows £m	Transfer between non-current and current £m	Other non- cash movements £m	Net borrowings at 31 March 2022 £m
Cash and cash deposits	414.9	(226.1)	-	0.5	189.3
Bank and other current borrowings	(43.3)	42.9	(42.7)	-	(43.1)
Current lease obligations	(48.2)	54.8	(176.5)	(0.1)	(170.0)
Bank and other non-current borrowings	(1,205.9)	(50.0)	42.7	(27.1)	(1,240.3)
Non-current lease obligations	(1,391.1)	190.4	176.5	(16.9)	(1,041.1)
Total net borrowings	(2,273.6)	12.0	-	(43.6)	(2,305.2)

	Net borrowings at 1 April 2022 £m	Bristol Water Acquisition £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	189.3	5.1	(149.0)	-	0.7	46.1
Bank and other current borrowings	(43.1)	(217.6)	(6.9)	(45.9)	0.1	(313.4)
Current lease obligations	(170.0)	(0.4)	197.6	(59.2)	-	(32.0)
Bank and other non-current borrowings	(1,240.3)	(367.6)	(125.0)	45.9	(72.0)	(1,759.0)
Non-current lease obligations	(1,041.1)	(0.8)	(16.9)	59.2	(33.4)	(1,033.0)
Total net borrowings	(2,305.2)	(581.3)	(100.2)	-	(104.6)	(3,091.3)

36. CONTINGENCIES

	2023 £m	2022 £m
Guarantee of borrowings of subsidiary undertaking	509.4	465.9

Guarantees in respect of performance bonds, the last of which expire in 2057 and which will be reduced in line with repayments of the borrowings of the subsidiary undertaking, are entered into in the normal course of business.

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 which received enforcement notices in March 2022. The Company continues to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The potential outcome of these investigations continues to be unknown.

On 23 May 2023, Ofwat announced an investigation into South West Water's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to assurance processes which include independent checks and balances carried out by an external technical auditor. The Company will work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation. The potential outcome of this investigation is currently unknown.

The Company establishes provisions in connection with 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.

37. CAPITAL COMMITMENTS

	2023 £m	2022 £m
Contracted but not provided	70.8	52.6

38. RELATED PARTY TRANSACTIONS

	2023 £m	2022 £m
Parent company		
Purchase of goods and services		
– Group expenses	4.8	6.6
Payment for provision of finance		
- Loan interest	0.9	-
Sale of goods and services		
– Administrative services	0.5	0.5
Dividends paid	55.3	103.1
Subsidiaries of the Company		
Purchase of goods and services		
– Property consultancy	0.2	0.2
– Billing and collection services	16.6	11.6
Payment for provision of finance		
– Loan interest	56.1	34.6
Sale of goods and services (administrative services)	1.6	1.5
Fellow subsidiaries of the Pennon Group		
Purchase of goods and services		
– Management charges	0.2	0.2
Sale of goods and services		
– Non-household services	93.8	90.4
Year end balances		
Borrowings		
– Current loan from parent	73.1	-
– Current loan from subsidiary	147.5	3.0
– Non-current loan from subsidiary	579.3	512.6
Receivables		
– Subsidiaries	1.4	0.8
– Fellow subsidiaries	14.2	12.3
Payables		
– Parent company	1.9	45.5
– Subsidiaries	10.4	9.0

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.

39. PARENT COMPANY

The parent company, and ultimate controlling party, is Pennon Group plc which is registered in England. Group financial statements are included in the Annual Report of Pennon Group plc which is available from Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR.

40. EVENTS AFTER THE REPORTING PERIOD

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

On 23 May 2023 Ofwat announced an investigation into South West Water's 2021/22 operational data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to rigorous assurance processes which include independent checks and balances carried out by an external technical auditor. The Company will work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation. The potential outcome of this investigation is currently unknown.