SOUTH WEST WATER LIMITED
ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2026

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COMPANY'S REGISTERED NUMBER 02366665

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EXECUTIVE CHAIR'S LETTER

With a renewed focus and leadership changes, we are well positioned to deliver for customers, communities, and the environment. South West Water is well positioned to meet rising expectations, strengthening leadership, sharpening operational delivery and maintaining the financial resilience required to deliver improvements for customers and the environment.

This has been a year of significant progress, evolution and continued delivery for South West Water amidst a changing landscape in the UK water sector.

During the year, the industry has been subject to the most significant review of its regulatory framework since privatisation. The work of the Independent Water Commission, led by Sir Jon Cunliffe, and the Government's subsequent White Paper, 'A New Vision for Water', signal a profound shift in expectations for the sector, with greater transparency, stronger environmental accountability and a renewed focus on long-term infrastructure resilience, all of which we support wholeheartedly.

These reforms come at a time when the underlying challenges facing water systems are intensifying. Climate change is placing increasing pressure on water resources and wastewater networks, while population growth and ageing infrastructure require sustained investment and long-term planning. Against this backdrop, companies must demonstrate strong operational performance coupled with the capability to deliver the significant investment required in the decades ahead.

We have undergone important changes to our leadership and governance whilst also entering the first year of a longer-term plan with AMP8 running from 2025-2030 and constituting the largest investment programme in the Company's history. Our focus as a Board has therefore required a balance between near-term delivery and ensuring we are best placed to achieve the goals of our five-year plan.

Reflecting these priorities, the Board has focused in the past 12 months on ensuring South West Water is well positioned to meet rising expectations by strengthening leadership, focusing on operational delivery plans and maintaining the financial resilience required to deliver improvements for customers and the environment.

LEADERSHIP AND BOARD CHANGES
This year has marked a significant transition in South West Water's leadership.

Susan Davy stepped down as Chief Executive in December 2025 after 18 years of dedicated service. Under Susan's leadership, South West Water navigated a period of considerable change, including the mobilisation of our plans for the new regulatory cycle and the development of our record investment programme. On behalf of the Board, I would like to thank Susan for her commitment and leadership.

Keith Haslett joined South West Water as Chief Executive on 19 May 2026. In previous roles Keith has delivered improvements in business performance and customer outcomes and brings deep operational experience across complex infrastructure businesses and a strong track record of both transformation and disciplined operational and capital delivery. The Board is working closely with Keith as we strengthen operational performance and deliver the ambitious programme of investment now underway with discipline and focus.

In support of our clear aims and ambitions, we also announced in February 2026 the creation of a new Chief Asset Officer role, with Ian Christie joining South West Water in May 2026. Asset health sits at the heart of reliable service delivery and environmental performance and strengthening our asset management capability is a deliberate step as we enter a period of record investment. Ian brings extensive experience in asset management, operational delivery and system planning, and will play a key role in ensuring that asset health and long-term resilience sit at the centre of decision-making across the Company.

Alongside this transition we have continued to evolve our Board and leadership structure to ensure the right capabilities are in place for the next phase of the business. Iain Evans stepped down from the Board on 31 March 2026 after nearly six years of service, including as Senior Independent Director. I would like to thank Iain for his thoughtful challenge, wise counsel and commitment to the Company over many years. Sir Andrew Haines, appointed as a Non-Executive Director in November 2025 and assuming the role of Senior Independent Director from 1 April 2026, brings extensive experience from across regulated infrastructure sectors, most recently as Chief Executive of Network Rail.

With these changes now in place, the work of the temporary Operating Committee that I supported as Executive Chair over the leadership transition period has concluded. I would like to thank Laura Flowerdew, Sarah Heald and Andrew Garard for their work and dedication serving on the Operating Committee during this period. I resumed my Non-Executive Chair role on 1 April 2026 when Keith joined Pennon Group plc as Chief Executive and I will continue to ensure continuity of governance and oversight as the Company enters the next phase of delivery.

OUR PERFORMANCE

The Company has returned to profitability during the year, with underlying EBITDA increasing by 55.7% compared with the prior year to £482.4 million. This reflects tariff increases in the first year of AMP8 as well as improving underlying performance across the business with the early benefit of operational efficiencies as well as the investment programmes now underway. Profit Before Tax was £124.9 million compared to a prior year loss of £61.2 million.

OPERATIONAL AND ENVIRONMENTAL PERFORMANCE

The year has once again demonstrated how rapidly the operating environment for water infrastructure is changing. Conditions during the year ranged from one of the driest springs on record to intense storms and exceptional rainfall later in the year. The South West of England experienced five named storms with around 150% of average rainfall during November and December 2025, rising to 190% in January and February 2026, placing significant pressure on both our water and wastewater networks and resulting in net operational penalties of £40.6 million[1]. These extremes, and the impact on our performance, highlight the increasing volatility created by climate change and reinforce the need for sustained investment in resilient infrastructure.

Despite these challenges and the disappointing outcome, we continue to make progress in improving environmental performance across the Company. We know we have further to go, but our Pollution Incident Reduction Plan is delivering measurable improvements with a c.34% reduction year-on-year in pollutions and normalised pollutions reduced by c.53%. Disappointingly, our provisional assessment for the 2025 EPA rating is 1* as pollution incidents, although improved, were still above target, and our WINEP programme did not achieve full delivery in the year, with four projects not finalised by March 2026.

Storm overflow use reflects a 17% reduction over the past year, with spill duration reducing c.25% as a result of continued investment in our infrastructure despite the higher than average rainfall, particularly in the last months of the year. During the 2025 bathing season, storm overflow usage at bathing water sites reduced by more than 25% year-on-year and 96.2% of bathing waters in the South West were classified as Excellent or Good. South West Water maintained 100% bathing water compliance for the fifth consecutive year.

We recognise the significant impact sewer flooding can have on customers when homes, businesses and properties are affected. Internal sewer flooding incidents remained low, although increased year-on-year to 1.20 per 10,000 connections; one-third of this increase is due to the exceptionally high rainfall and weather events, with underlying performance consistent with previous years and we are focused on ensuring we deliver at these levels going forward. This performance still delivers strong outperformance against the target of 1.34 and we expect it to remain a strong position compared with industry performance.

We are also strengthening our water quality and water resource resilience through upgrades to treatment works, enhanced monitoring and increased focus on asset health. Our targeted investment in AMP7 coupled with high rainfall across the winter months, meant that storage levels finished the year at c.97% - well ahead of anticipated needs in the summer months. Our water quality performance continues to strengthen - a testament to our Quality First approach, with South West Water having maintained a strong sector-wide position and Bristol Water saw year-on-year improvements.

Reducing leakage remains central to long-term supply resilience. The year presented significant challenges, particularly in the South West, due to extreme weather conditions increasing pressure on our network resilience and caused higher burst frequency across our networks. Whilst Bristol Water met leakage targets, South West Water's efforts were impacted by these weather conditions and fell slightly short of the reduction required to meet the year one target. Our teams remain focused on fixing leaks, as record activity in leak detection and repair was achieved with more fixes carried out than ever before.

[1] Net ODI penalty across water and wastewater (excluding customer measures of experience) for both in-period and end of AMP measures, reflecting adjustments for items under review with Ofwat and third-party impacts.

The impact that weather had on leakage also impacted on our supply interruption performance, as a result of an increase in burst pipes. Despite these challenges, our operational teams ensured that around 75% of bursts resulted in no impact to customer supply.

We continue to deliver environmental gains, having restored 254 hectares of peatland during the year, engaging 2,370 people in events, volunteer days and school excursions.

SUPPORTING CUSTOMERS AND COMMUNITIES
Supporting customers and communities remains central to South West Water's purpose.

The start of the new regulatory period saw bill increases across the sector reflecting record levels of investment in infrastructure and environmental improvements. Understandably this has heightened sensitivity around affordability for many households.

In response, we have continued to strengthen support for customers needing additional help, through our £200 million support package across this five-year period coupled with our affordability toolkit. Over the past year, we saw a 12% year-on-year increase in those benefitting from that toolkit and support available, and we continue to focus on proactively providing support to those who need it most.

We also remain focused on supporting customers with the tailored services they need through our Priority Services Register (PSR) and c.248,000 customers are now registered for additional help during an incident.

We have also listened to our customers and the feedback they have given us on our services and continuously feed this back into our business. Initiatives such as WaterShare+ also continue to give customers both a voice and a stake in how their water company is run. We know that we are a critical part of the communities we serve and are building in their feedback, particularly on how we can do more to communicate and engage, to our strategy going forward.

MOBILISING THE AMP8 INVESTMENT PROGRAMME AND DELIVERING ON OUR FOUR PRIORITIES
The challenging weather events in the year underline the importance of sustained investment in resilient infrastructure as climate extremes become more frequent and more severe. April 2025 marked the beginning of the new regulatory period and the start of the most ambitious investment programme in South West Water's history.

Our acceptance of the PR24 Final Determinations enabled us to accelerate mobilisation of our £3.0 billion[1] investment programme to 2030. This programme is focused on strengthening water resource resilience, improving environmental performance and upgrading critical infrastructure across the regions we serve.

Early progress has been made as we continue to work hard towards our longer-term goals in AMP8. We are securing efficiencies as projects move from design into delivery, and are increasing focus on asset health and base expenditure to ensure that networks remain resilient, while delivering the step-change in environmental performance expected during this regulatory period.

LEGAL AND REGULATORY PROCEEDINGS
Whilst we have made good progress in the past year, enforcement undertakings agreed with Ofwat around our wastewater business and the conclusion of the Drinking Water Inspectorate's (DWI) prosecution against South West Water for the 2024 Brixham water quality incident both underline that we must deliver with greater rigour and discipline. We recognise the impact on both customers and the environment from these incidents, and that we must do more to live up to the expectations of the customers and communities we serve. I also reiterate our unreserved apology for the impact that the Brixham incident had on customers, their families and the wider community. It is now vital that having reflected on the learnings from these situations, we embed improvements across our operational businesses and take from them a drive to improve our delivery for customers and better protect the environment as we move forward.

LOOKING AHEAD
The reforms proposed through the Cunliffe Review and the Government's White Paper signal a new era for the UK water industry, one that places greater emphasis on transparency, accountability and long-term investment. Delivering on these expectations requires sustained focus, disciplined execution and strong collaboration across government, regulators and companies.

[1] In forecast outturn prices

South West Water enters this new phase with a refreshed and strengthened leadership, a clear strategy and the largest investment programme in our history underway. Our £3.0 billion[1] programme that runs to 2030 will deliver improvements to water quality, environmental performance and infrastructure resilience across the regions we serve. In addition, we have made a submission to Ofwat for a further £240 million[2] of investment, under the new "cost change process", which will provide a further growth opportunity whilst supporting resilience.

This has been a year of progress - but also transition and challenge, that provides strong foundations for the future. On behalf of the Board, I would like to thank our colleagues across the Company for their dedication and professionalism in delivering essential services every day.

With a renewed purpose and a strengthened leadership team, South West Water is well positioned to deliver for customers, communities, and the environment in the years ahead.

[1] In forecast outturn prices
[2] In 2022/23 prices

CHIEF EXECUTIVE OFFICER'S INTRODUCTION

We have strong foundations to enter our next phase and transition to AMP8. My commitment is simple: South West Water will be a company that delivers - consistently, transparently and with pride in the service we provide.

I was delighted to join South West Water as Chief Executive in May 2026, at an important moment both for the Company and for the wider UK water sector.

During my short time with South West Water, I have prioritised meeting colleagues across the Company, visiting operational and capital delivery sites, and completing deep dive sessions on our performance. I have learned a great deal and been struck by the professionalism and commitment of our teams, who deliver essential services for customers and communities every day.

As South West Water enters a new era under my leadership and transitions into the AMP8 regulatory period, we do so from a solid base. The business has returned to profitability and has mobilised the largest investment programme in its history. This programme will deliver significant improvements in water quality, environmental performance and heightened resilience of the systems on which our customers depend.

My focus as Chief Executive is clear: to ensure South West Water consistently meets high standards of operational performance while delivering the ambitious programme of investment for improved outcomes we have set out with discipline and efficiency. Whilst we demonstrate industry leading performance in some areas, we clearly have work to do on some of our customer-led measures.

Improving environmental performance will be central to that effort, both through our leading catchment management and biodiversity work and our operational delivery. We are already seeing tangible progress through the implementation of our Pollution Incident Reduction Plan and through sustained investment in our wastewater infrastructure. Building on that progress with further focus on operational excellence and introducing industry best practice will be a key priority for the Company and me in the years ahead.

We will earn the trust of our customers, the communities we serve, by showing our commitment to innovate, transform and deliver on our promises.

I was also deeply saddened by the impact our business had on customers in the Brixham area during the 2024 cryptosporidium incident. Whilst I have only been Chief Executive Officer for a few weeks, it is very clear that we must learn lessons from this incident and work hard to rebuild trust with the customer and communities we serve, both in Brixham and beyond. My focus will be on ensuring we drive improvements in the way we operate, how we communicate and support our customers, and delivering a step change in our performance for our customers and the environment.

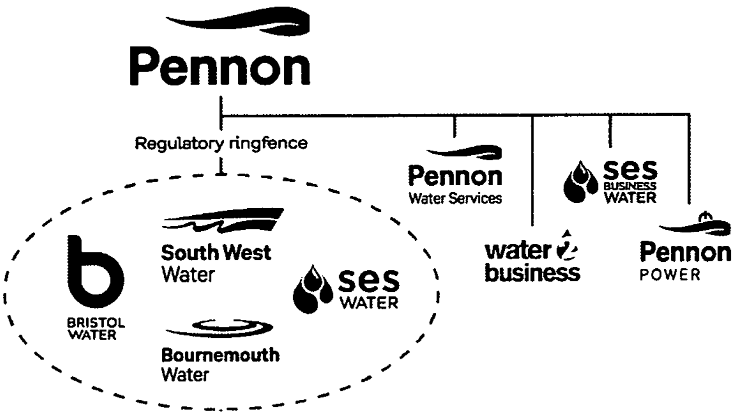
I am clear that asset health and long-term system resilience will also be fundamental to delivering reliable services for customers and improving the environment. The creation of the Chief Asset Officer role, with Ian Christie joining the Company in May 2026, reflects the importance placed on strengthening asset management capability as we deliver the investment plans and prepare for future business plans.

The UK water sector is entering a period of significant change as expectations of environmental performance, transparency and long-term resilience continue to rise and the regulatory landscape is reshaped. South West Water is well positioned to respond and deliver for our stakeholders in this new era, with a clear strategy, strong regional businesses and a committed workforce.

I am excited and privileged to lead South West Water and look forward to working with colleagues across the Company to transform our operational practices into industry leading performance and outcomes across all areas. This will allow us to build trust and deliver against the expectations of our customers, communities and stakeholders.

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 17 (page 207).

SOUTH WEST WATER (SOUTH WEST WATER LIMITED)
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), Bristol, and a small amount of non-appointed services. It is responsible for delivering the 2025-30 business plan, in the original South West Water area of operation, the Bournemouth Water and the Bristol Water areas of operation. South West Water provides retail services to residential (household) customers.

SES WATER (SUTTON AND EAST SURREY WATER PLC)
Sutton and East Surrey Water provides regulated water services across the parts of Surrey, Kent and South London. SES Water provides retail services to residential (household) customers. SES Water continues to be managed separately from South West Water and results do not form part of this Annual Report and Financial Statements.

PWS (PENNON WATER SERVICES LIMITED)
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. PWS continues to be managed separately from South West Water and is and results do not form part of this Annual Report and Financial Statements.

SES BUSINESS WATER (SUTTON AND EAST SURREY WATER SERVICES LIMITED)
Sutton and East Surrey Water Services Limited operates as under the trading name SES Business Water. SES Business Water provides water and wastewater retail services to non-residential customers across the UK. SES Business Water continues to be managed separately from South West Water and is and results do not form part of this Annual Report and Financial Statements.

WATER 2 BUSINESS (WATER 2 BUSINESS LIMITED)
The Company is a joint venture between Wessex Water Limited ("Wessex Water") and Bristol Water Holdings Limited ("Bristol Water"). The principal activities of the Company are retail services relating to the provision of water, sewerage and trade effluent services to non-household customers, together with advice on water efficiency services (i.e. leakage detection and repair, water audits and benchmarking). Water 2 Business continues to be managed separately from South West Water and is and results do not form part of this Annual Report and Financial Statements.

PENNON POWER (PENNON POWER LIMITED)
Pennon Power has been established to deliver Pennon Group's renewable energy ambitions and support its

wider Net Zero strategy. It plays a central role in driving investment in clean energy, strengthening energy resilience, and reducing exposure to energy market volatility. Pennon Power continues to be managed separately from South West Water and is and results do not form part of this Annual Report and Financial Statements.

SOUTH WEST WATER'S SUBSIDIARIES

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

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

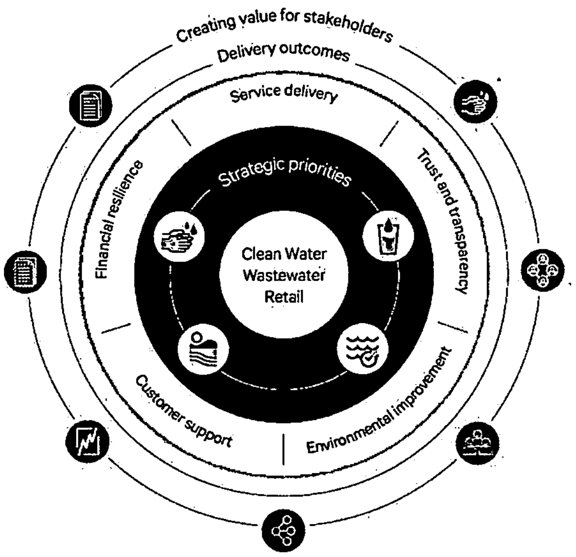
Bristol Water plc is the former operating company of Bristol Water. The company retains external debt and the defined benefit pension scheme.

OUR STRATEGY AND BUSINESS MODEL

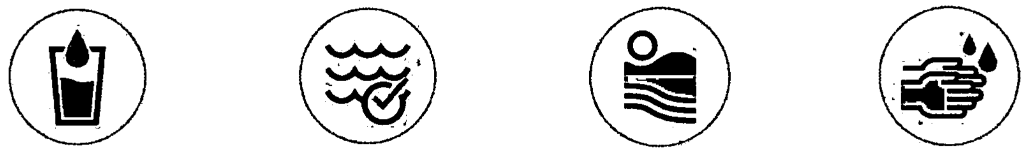
OUR BUSINESS MODEL

Our business model is designed to deliver reliable, regulated water and wastewater services today, while investing at scale to improve environmental performance, strengthen resilience and support long-term value creation.

AMP8 represents the primary delivery mechanism for our business model, translating these foundations into measurable improvements in performance, resilience and environmental outcomes, while supporting sustainable returns over the regulatory period and beyond.



Our four strategic priorities underpin and define everything we do.



Building water resources, improving water quality	**Tackling storm overflow and pollutions**	**Driving environmental gains and delivering Net Zero**	**Supporting affordability and delivering for customers**

VISION, PURPOSE AND VALUES

Our business model is shaped by our purpose: Bringing water to life - supporting the lives of people and the places they love for generations to come. As a purpose-led business, committed to the effective stewardship of the environment and our communities, we are shaped by our values and culture. We know that it's not only what we do, but how we do it that is really important for our customers, colleagues, communities and the environment - that's why we're focused on living our values, every day.

Underpinned by the values we live by:

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

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

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

We create value for our stakeholders:

Customers	• Delivering reliable services and resolving issues right first time to minimise complaints • Providing clear, timely and accessible communication across all customer interactions • Responding quickly and effectively to unplanned interruptions and service failures • Using customer insight and feedback to drive continuous service improvement • Supporting customers in vulnerable circumstances through proactive and tailored engagement
Suppliers	• Acting fairly and transparently, in line with the Prompt Payment Code • Working collaboratively with supply chain partners to deliver outcomes • Supporting SMEs, innovation and skills development • Maintaining high standards of safety, ethics and sustainability • Resilient and responsible supply chains • Innovation that improves outcomes for customers and the environment • Shared value creation throughout AMP delivery
Communities	• Supporting local jobs, skills and regional supply chains • Investing in community and educational programmes • Building partnerships with local authorities, charities and environmental groups • Enhancing access to land, nature and wellbeing benefits • Stronger local economies and communities • Long-term social value delivered alongside infrastructure investment • Trusted relationships across our regions
People	• Maintaining a strong focus on health, safety and wellbeing • Developing skills and capability for a future ready water industry • Promoting inclusive, diverse and high performing teams • Encouraging open dialogue, engagement and accountability • A safe, supportive working environment • High levels of colleague engagement and capability • A skilled workforce equipped to deliver long-term resilience

Regulators and policy makers	• Delivering against PR24 commitments and statutory obligations • Maintaining open, proactive and evidence-based regulatory engagement • Providing timely, accurate and transparent reporting • Supporting government objectives on affordability, resilience, public health and the environment • Informing policy development through operational insight and innovation and the environment

PROVIDING HIGH-QUALITY DRINKING WATER AND EFFECTIVE WASTEWATER SERVICES

WHAT WE DO

We manage the full water cycle - from raw water collection and treatment through to wastewater treatment and recycling - ensuring reliable services, environmental protection and long-term resilience.

Our activities are integrated across regions and services to maximise efficiency, protect the environment and deliver better outcomes for customers.

1. **Upstream Catchments -** We actively manage upstream catchments to protect water quality at source. This includes land stewardship, partnership working with landowners, and nature-based solutions that reduce pollution, improve biodiversity, and enhance long-term resilience of water resources and quality.
2. **Raw water reservoirs/water resources -** We ensure a resilient and sufficient supply of raw water through the operation of reservoirs, abstraction points, and water resource systems. Careful balancing of river flows, reservoir storage, and abstraction supports environmental protection while maintaining reliable supplies for customers and future growth.
3. **Water treatment works -** Raw water is treated at our water treatment works to meet stringent drinking water quality standards. Using advanced treatment processes and continuous monitoring, we ensure water is clean, safe, and reliable before entering the distribution network.
4. **Drinking water mains network to homes and businesses -** We operate and maintain extensive drinking water mains networks that deliver potable water to homes.
5. **Customer services -** billing and help provided from our call centres.
6. **Wastewater mains network and surface water catchment -** Our wastewater collection systems safely transport sewage and surface water away from customers' properties.
7. **Wastewater treatment works -** Wastewater from households is treated to high regulatory standards before being safely returned to the environment. Our treatment works play a critical role in protecting public health, environmental quality, and regulatory compliance.
8. **Recycling waste into bio-resources -** by recovering bio-resources such as sludge during wastewater treatment, we convert waste into valuable products. These processes support a circular economy through the production of biosolids for agriculture and feedstocks for renewable energy generation.

OUR PLANS TO 2030

Our strategic priorities ensure we remain focused on delivering on our plans to 2030.

AMP8: AMBITIOUS PLANS, DELIVERING AT SCALE

Our plans to 2030 represent the most ambitious in South West Water's history, focused on delivering for our customers and communities. These plans will allow us to deliver on our 2030 targets; and start delivering on our long-term strategy, supporting people and the places they love for generations to come through high-quality water and a thriving environment across our regions.

To support the delivery of our ambitions, we have reshaped the organisation around our four strategic priorities, strengthened governance and oversight through our review and reporting processes, and increased frontline capability. These changes will enable us to drive improvements in operational performance, whilst providing a robust platform for sustained delivery through the remainder of AMP8.

Whilst AMP8 represents our largest ever capital programme, capital deployment is critical, to deliver efficiently and to focus on those areas and issues that matter most to our customers and regulators: environmental improvement, resilient water supplies, affordability, service quality and long-term financial sustainability. Strong efficiency opportunities are emerging early with Totex outperformance being captured as we progress through design stages in our capital programme, reflecting disciplined execution, effective procurement and the benefits of our right-sized delivery model.

DELIVERING FOR THE ENVIRONMENT

We are passionate about protecting the environment on which we rely across all our regions. From our Upstream Thinking programme, which protects catchments and improves the quality of water in our rivers, to our Pollution Incident Reduction Plan, we constantly strive to do more and reduce both our own and others' impact on the natural environment.

Environmental performance is therefore a central pillar of our plans to 2030, with investment targeted to continue improving the bathing waters of Devon and Cornwall. Our storm overflow investment programme, coupled with wastewater upgrades and expanded monitoring and network control, will deliver improved outcomes for the environment, focused on those areas our customers have told us are their priority. With 291 storm overflow schemes underway through our WINEP programme, as well as additional interventions to reduce average spill numbers and ensure wider improvements for the environment, we are seeing the benefit through lower repeat pollutions and reductions in storm overflow spills, despite continued above average rainfall and the impact of climate change.

Alongside infrastructure investment, nature-based solutions and catchment management play an important role in reducing environmental risk and improving raw water quality. We continue with our programme to reduce the levels of nutrients in our final effluent when returned to the environment improving water quality. A nature-based scheme which reduces phosphorus through a non-chemical solution at Highampton is one of 34 planned in this regulatory period.

Catchment programmes now operate across 95% of our catchments, embedding cost-effective solutions that support biodiversity, climate resilience and regulatory compliance. This integrated approach strengthens environmental outcomes whilst improving the sustainability of operations over the long-term.

DELIVERING CLEAN, RELIABLE DRINKING WATER TO ALL

Customers consistently rate the provision of clean, safe drinking water as their number one priority. Our plans therefore focus on continuing to strengthen the resilience of water supplies and resources. Investment is underway to continue to strengthen drinking water quality across all parts of our regions as well as ensuring reliability through major upgrades at key treatment works, continued lead pipe replacement and enhanced water quality assurance processes. Lessons learned from operational incidents are being embedded across the Company, strengthening operational monitoring, risk management and customer communications.

Long-term water security is being reinforced through a balanced approach to supply and demand. Demand reduction initiatives are progressing; our smart metering programme is well underway, providing customers with more options around water tariffs, helping them understand how much water they use and how they can become more water efficient, whilst also helping identify leaks in their homes early - saving both water and money. We have also fixed more leaks than ever before and we are learning from the data and work we have done, to drive improved understanding and focus as we progress into the second year of delivery.

We are also looking beyond 2030, to ensure we are planning for long-term supply needs; we continue to progress our Strategic Resource Options in partnership with Wessex Water, considering options from new reservoir capacity to water reuse schemes, and progress through regulatory gateways to meet the scrutiny and challenge that such significant schemes require.

Together, these schemes will reduce the risk of exposure to climate change, population growth and extreme weather over the long term.

DELIVERING FOR OUR CUSTOMERS

Our plans were built on the priorities and feedback of our customers, whether in the Isles of Scilly, Plymouth or Bristol. We work hard to keep customers at the heart of our businesses, although recognise that with bill rises in 2025/26, this has been a difficult year for many. We increased bills after careful consideration, and having undertaken extensive customer research to ensure that the investment programme driving the increases was the one supported and prioritised by customers; we heard from them that they wanted improved services and did not want to defer the cost of these improvements for later generations to pay for.

We recognise that water is vital for life, and therefore for many, any bill increase is unaffordable. Our customer teams have worked tirelessly to support customers, and we have increased customer support by 12% year-on-year and continue to do so, with support for customers who need it, identified proactively through our data-led modelling.

Notwithstanding the relentless focus of our colleagues, we have seen increased customer contact following the industry-wide bill rises, and recognise there is more to do to improve our services. We are investing heavily to improve our customer technology platforms, with upgraded telephony implemented in the year, and an end-to-end customer services platform anticipated to be in use during 2026/27. This will enhance customer experience, enable improved communications whilst supporting efficient delivery by enabling improved self-service, allowing customers to engage when they want. As we implement and embed these technologies, we anticipate further opportunities to enhance and improve our service, as well as further benefit from AI and other technological developments.

DELIVERING THROUGH OUR PEOPLE AND OUR SUPPLY CHAIN

Our people are a critical enabler of our delivery and long-term performance. With c.2,700 colleagues across the Company, increased investment in frontline roles, and alignment of our organisation structure with our delivery priorities, we have been strengthening our operational capability and execution. We continue to focus on ensuring a strong executive team, effective delivery across all areas of our plans, and a focus on clear accountability and a refreshed leadership team.

Our capital programme requires careful capital allocation and a structured approach to delivery, to ensure that investment converts into effective, compliant assets and measurable outcomes. Our in-house Engineering team is working collaboratively with our amplify delivery alliance to progress delivery in line with a clear set of principles; sequencing for outcomes, mobilising at scale and efficient delivery.

We have rephased the five-year programme through a carefully governed approach to mobilisation, prioritising safety, design maturity and a focus on control of cost and schedule ahead of construction ramp-up. Ensuring we get design right up-front, will ensure our outcomes meet the needs and provide the best outcomes for customers and the environment.

Our approach also ensures standardisation across the programme, early contactor involvement and robust value management to maintain pace whilst meeting high standards of safety, environmental compliance and quality, reducing execution risk across the programme.

FINANCIAL DISCIPLINE AND DELIVERY CONFIDENCE

Financial discipline and delivery confidence for AMP8 is underpinned by a resilient financial position and disciplined capital management. We have strengthened liquidity and ensured capacity to fund record levels of investment while maintaining balance sheet strength and sustainable returns.

Tariff profiling and strong cost control support stable cash flows and allow for funding to be raised across the period. Investment in people, delivery capability and supply chain partnerships remains central to execution. Through structured mobilisation, disciplined sequencing and a continued focus on efficiency, we are maintaining a clear line of sight from investment to outcomes. This approach ensures AMP8 is delivered responsibly, at scale and at pace - strengthening resilience, improving environmental performance and creating long-term value for customers and communities.

Delivering on our promises to customers:

Customers said	We did
Protect rivers and beaches	Reduced spills and pollution through sustained investment in networks, treatment works and catchment solutions.
Safe and reliable water	Continued investment in treatment works and resilience to deliver high-quality, dependable drinking water.
Bill affordability	Record affordability support provided to over c.169,000[1] customers through targeted tariffs and debt support.
Easy to contact	More frontline colleagues and improved digital services, delivering faster responses and better outcomes.
Climate-ready future	Significant investment in resilience, leakage reduction, and low-carbon solutions to future-proof services.
Customer voice	Customer panels and WaterShare+ insights shaping investment priorities and service improvements.

[1] Customers have benefitted from one or more of our affordability initiatives since 2020

OUR 2030 PLAN: OUTCOMES THAT DRIVE VALUE

Our 2030 plan defines the long-term outcomes we expect AMP8 to deliver. These outcomes address the most material risks and opportunities facing the business and are closely aligned with regulatory expectations, ESG priorities and long-term financial sustainability. We have focused on delivery, building on our track record of efficiency and performance improvement.

These outcomes shape every element of our AMP8 programme and provide a clear framework for measuring progress alongside an extensive enhancement programme, focused on tackling the biggest issues head on, delivering for our customers, based on the priorities they have shared.

Strategic priorities	Building water resources, improving water quality	Tackling storm overflow and pollutions	Driving environmental gains and delivering Net Zero	Supporting affordability, delivering for customers
Planned investments over AMP8	We are investing in new treatment works and reservoirs, and addressing lead pipe issues to ensure a clean and reliable water for all • Upgrading one-third of the water treatment works • Reducing leakage to less than 10% on our networks - with a 19% reduction in the South West region, and 14% reduction in the Bristol region • Lead pipes replacement for 40,000 customers • Renewing or replacing c.400km of water mains • Creating a water grid to improve connectivity of our strategic reservoirs • Investing in large reservoirs, starting with Cheddar 2 in Bristol, a	We are investing to address storm overflows at bathing and shellfish waters by 2030 • 291 overflow improvements - 100% of storm overflows at bathing waters addressed • Removing rainwater draining into our sewerage network by a volume equivalent to over 350 hectares • Adding over 250,000m^3 of storage in the network and at treatment sites to reduce overflows by 62% from 2023/24 levels • Taking a 'Green First' principle for tackling storm overflows	We are committed to reaching Net Zero, investing in climate resilience and adaptation, and strengthening our environmental efforts • Planting a further 300,000 trees to boost nature recovery • Recycling more waste and generating energy to power 20,000 homes • Expand our award-winning Upstream Thinking catchment management programme to 145,000 hectares by 2030 • 10% reduction in the amount of phosphorous entering rivers - improving water quality	Despite doubling our investment programme in AMP8, we are committed to keeping bills as low as possible and supporting people with the cost of living • Extended our zero water poverty pledge to 2030 • Ensure fair charging for our customers • SMART metering installations for one-third of our customer base - helping them to use 5% less water • Largest ever package of support to help those struggling to pay - doubling to £200 million • Expanding WaterShare+

	significant project spanning several AMPs	• Reducing pollution levels and upgrading over 200km of our sewer network		through a third issuance • Improved digital and self-service offerings for customers - opening our data to communities
Our operational KPIs	• Water quality (CRI score) • Supply interruptions • Taste, smell and colour • Leakage • Unplanned outages • Mains repairs	• Pollution incidents • Numeric compliance • Internal sewer flooding • Sewer collapses • External sewer flooding • Sewer blockages • Average spills • Bathing waters • EPA	• Catchment management • Scope 1 and 2 GHG reduction • Biodiversity units	• PSR volumes • Number of customers on social tariffs • Customer measure of experience (C-MeX)
2030 outcomes	Strengthening resilience	Strengthening resilience	Protecting the environment	Delivering for customers
	Looking ahead to 2030, we are focused on addressing the most pressing challenges facing our regions, supported by a commitment to sustainable returns and building trust through transparency and responsible operations. These outcomes align with Ofwat's expectations, our ESG priorities and the long-term financial sustainability of the business.			

OUR PEOPLE AND CULTURE

Our people are at the heart of the value we create. In a year where public and regulatory scrutiny of the water sector has intensified, our colleagues have played a critical role in maintaining essential services and delivering improvements for the customers and communities who rely on us.

With c.2,700 colleagues across our Company, we understand the scale of our responsibility both as a major employer and as a provider of essential public services.

Our priority is to create a working environment that is safe, inclusive and future-focused - one that develops skills, supports wellbeing and reflects the values we expect of an organisation delivering essential services. This year we strengthened colleague engagement, built capability across our teams and reshaped the Company to ensure we are better aligned and prepared to deliver the outcomes our communities depend on, now and in the future.

PREPARED TO DELIVER

This year we have continued to shape the Company so we are set up to deliver with greater clarity, capability and operational focus. We have aligned our structures, strengthened frontline teams and made progress in ensuring we operate as one integrated organisation. These changes mean we are better positioned to meet the delivery challenges in AMP8 and beyond and respond confidently to heightened scrutiny across the water sector. We welcomed our new Chief Executive Officer on 19 May 2026, through a series of in-person meet and greets across the Company. Keith has held open forums in order to share the next phase of our transformation, and to encourage transparency with colleagues.

OUR VALUES AND CULTURE

Our culture remains the foundation of how we work and how we deliver for our customers and communities. This year we continued to embed our values 'Be You', 'Be Rock Solid' and 'Be the Future', ensuring they guide the decisions we make, the standards we set and the behaviours we expect every day. Our values are now firmly part of the colleague experience - from onboarding and training, to recognition and leadership development. In the spirit of 'Be You' we continued to reinforce our values through our engagement programmes - including colleague listening through our Employee Network Groups, and our 'You Rock' Awards, which celebrate those who live our values in action. These initiatives have helped colleagues feel more connected to our purpose and to each other, strengthening a sense of shared ownership and pride.

A key focus has been strengthening leadership at every level. We know that leaders have a defining influence on culture, and this year we have continued to develop the skills, confidence and capability our leaders need to set clear expectations, support their teams and role model our values. This includes equipping leaders to have open, constructive conversations, build trust, and create an environment where colleagues feel heard, respected and empowered to perform at their best.

We remain focused on building a workplace where people feel supported, safe and motivated, and where our values translate into high-quality service and responsible decision-making. This work will continue to evolve as we welcome new leadership and move into the next phase of our transformation.

LEARNING AND DEVELOPMENT

Building the capability of our people remains essential to delivering high-quality services and strengthening our long-term organisational resilience. From leadership to managers to colleagues, we invest in development at every level, ensuring they have the skills, confidence and support they need to succeed in a period of heightened expectations and operational focus.

LEADERSHIP DEVELOPMENT

A key part of this has been investing in our leaders through a bespoke leadership development programme designed for the needs of our Company - 'Leading for the Future'. This programme focuses on equipping leaders to role model our values, enable high performance, support colleague wellbeing and lead through change. By strengthening leadership capability, we are ensuring our people have the clarity, support and direction required to deliver for customers and communities.

EMPOWERED TO ACT

All of our managers attend an 'Empowered to Act' programme, designed to equip managers with the knowledge and practical tools to confidently manage employee relations decisions, actions and processes within their teams, supporting consistent, fair and effective people management across the Company.

H2GROW
We also recently launched our new Company wide Learning Experience Platform (LXP), H2Grow, giving colleagues access to a modern, personalised and comprehensive learning environment. The platform brings together technical training, professional development, compliance learning and skills content in one place, making learning more accessible and more aligned to the needs of our organisation.

EARLY CAREERS
Our commitment to developing future talent remains strong. Our parent Company, Pennon Group plc continues to be active members of the 5% Club, reinforcing our ambition to ensure that at least 5% of our workforce consists of apprentices, graduates and trainees. Since 2021, we have onboarded 105 graduates, and this financial year alone we have welcomed 58 apprentices into the business. Our graduate and apprenticeship programmes remain a key part of our talent pipeline, supporting skills development in priority areas.

Through these initiatives, we are building a learning-led, future focused organisation - one equipped with the right skills, leadership and talent to deliver consistently, adapt to changing expectations and support the long-term success of the Company.

RECRUITMENT AND ATTRACTING TALENT
This year we modernised and strengthened our recruitment capability by implementing Teamtailor, our new Company wide applicant tracking system. This marks a significant step forward in transforming recruitment and how we attract top talent from across the market.

Teamtailor is driving Company integration, replacing legacy systems and a range of localised practices, giving the Company one consistent way of managing our hiring activity. This consolidation has improved visibility, streamlined workflows, and created a more efficient and joined-up experience for candidates, hiring managers and our recruitment teams. It also allows us to make better use of data, enabling clearer insight into our workforce pipeline and supporting more informed and inclusive decision-making.

We have refreshed our careers site with a focus on improving clarity, accessibility and representation so that our opportunities appeal to a broad and diverse pool of talent that reflects the communities we serve.

We remain committed to partnerships and programmes that support fair access and broaden participation. This includes ongoing involvement in initiatives such as the Armed Forces Covenant and 10,000 Black Interns, as well as targeted support for early career talent joining us through our graduate and apprenticeship routes.

Our commitment to inclusive hiring continues to strengthen. We closely monitor application trends to identify areas for improvement and ensure our processes remain fair and accessible

With Teamtailor now embedded, we are well positioned to continue enhancing visibility of opportunities, reduce unnecessary barriers for applicants, and deliver a recruitment experience that is modern, efficient and aligned to our values. This transformation supports our ambition to attract and retain the skills and talent we need to serve our customers, protect the environment and deliver sustainable, long-term growth.

EQUITY, DIVERSITY AND INCLUSION
Creating a workplace where everyone feels valued, supported and able to contribute their best remains central to our culture and long-term success. This year we continued to strengthen our approach to Equity, Diversity and Inclusion (EDI), expanding colleague networks, improving governance and building the foundations for greater representation, inclusion and opportunity across the Company.

LAUNCHING OUR FAMILY FRIENDLY POLICY
As part of our focus on equity, diversity and inclusion, we have conducted a review across all our regions and business of our family friendly policies and relaunched a refreshed approach. Recognising that family life looks different for everyone, these policies are designed to support colleagues at important life moments, whether welcoming a child, growing a family through adoption or surrogacy, supporting a partner, or navigating fertility treatment or neonatal care.

Our updated Family Leave policy brings together Maternity Leave, Supporting Parent Leave, Adoption Leave, Shared Parental Leave, IVF and Assisted Conception Leave, and Neonatal Leave into a clear and consistent framework. It is designed to provide greater financial support, increase flexibility and choice for families, and ensure a fair and inclusive approach across the organisation.

We know that taking family leave is a significant moment, both personally and professionally. Our aim is to ensure that colleagues feel supported, informed and confident before, during and after their leave, reflecting our values and our commitment to supporting a modern, diverse workforce.

EXPANDING AND STRENGTHENING OUR EMPLOYEE RESOURCE GROUPS

Our Employee Resource Groups (ERGs) play an essential role in creating safe spaces, strengthening community and ensuring colleague voice shapes our policies and decision-making. Over the past year we have expanded our networks, increased membership and strengthened executive sponsorship to ensure each group has a visible platform and clear influence across the organisation.

Key progress included:

- Growth in membership and wider colleague engagement
- Executive sponsorship for every network
- Annual plans agreed with each ERG
- Increased collaboration between networks to share learning and insight
- Direct involvement in shaping policy

Our ERGs are becoming an increasingly integral part of how we listen to our people, helping ensure lived experience continues to inform organisational priorities.

ESTABLISHING THE INCLUSION COUNCIL

To strengthen alignment and accountability across the Company, this year we established the Inclusion Council. This brings together executive sponsors, ERG leads, inclusion specialists and representatives from across the Company.

The Council focuses on:

- Aligning EDI activity across the Company
- Reviewing representation and workforce insight data
- Monitoring progress against our EDI commitments
- Providing structured challenge and strengthening governance
- Ensuring inclusion is reflected in strategic workforce planning

The Inclusion Council ensures EDI is embedded into how we lead, plan and make decisions, not treated as a standalone activity.

BROADENING ACCESS TO OPPORTUNITIES

We continued our commitment to creating pathways for underrepresented groups. This includes our participation in the 10,000 Black Interns Programme, designed to broaden access to professional experience for Black undergraduates and postgraduates.

Our parent Company, Pennon Group plc also continued working with Change the Race Ratio, aligning our ambitions for diverse leadership with nationally recognised standards and strengthening transparency through annual benchmarking and data disclosure.

In addition, we introduced a flexible bank holiday policy, enabling colleagues to swap traditional bank holidays for days that better reflect their cultural, religious or personal significance - supporting greater inclusivity and wellbeing.

We are proud to support the registered charity, the Social Mobility Business Partnership both at a local and national level. We combine funding its national delivery programme which enables over 1,000 students across the UK to access over 3,500 days of work experience, to providing local work insight opportunities and lifetime career coaching to young people from low-income backgrounds across Exeter, Plymouth, Truro, Bristol, and Bournemouth.

LAUNCHING EXTRASHARE

During 2025/26, our parent Company, introduced ExtraShare, a refreshed Share Incentive Plan designed to support greater colleague participation in Pennon's long-term success. The plan enables colleagues to invest in the business through a flexible pre-tax salary deduction, with a one-for-three matching share benefit that enhances the value of their investment. ExtraShare provides a simple, tax efficient way for colleagues to build a stake in the Company, strengthening alignment between our people and the sustainable growth of the business.

OUR GENDER AND ETHNICITY PAY GAP

In the latest FTSE Women Leaders Report, our parent Company, have once again solidified our standing as a leader in female representation, securing the gold position for best performer in the Women on Boards category across the entire FTSE 250. This external recognition highlights the progress we've made and the impact of our efforts to improve gender balance at senior levels.

We have published our Gender Pay Gap report for the past seven years, and this year we are pleased to publish our Ethnicity Pay Gap report for the second consecutive year. The latest results show encouraging progress, with our median gender pay gap reducing from 8.3% to 4.9% and our median ethnicity pay gap improving from 11.3% to 9.4%. While these shifts are incremental, they reflect sustained focus on representation, progression and fair reward, underpinned by strengthened governance, clearer leadership accountability and deeper colleague engagement. Both reports are available on our parent Company's website: www.pennon-group.co.uk.

We continue to invest in diverse talent pipelines, including our long-standing graduate and apprenticeship programmes and our parent Company's ongoing participation in the 10,000 Black Interns initiative, which is enabling us to attract a broader range of ethnically diverse applicants. As more of these individuals join and develop within the business, we anticipate further positive impact on our ethnicity pay gap in the years ahead.

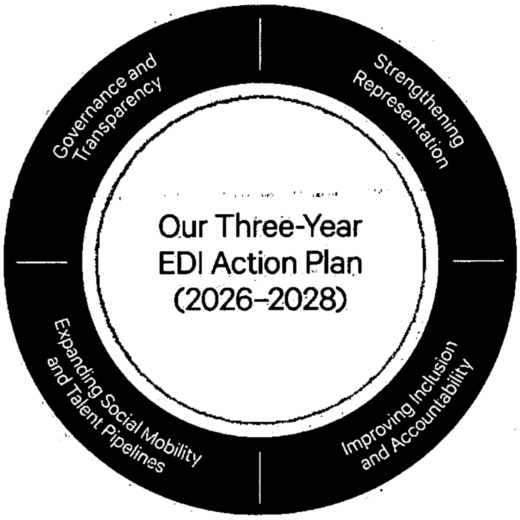
In 2025/26, the South West Water Board was 50% female, and women represented 31% of our senior management teams. Female representation is also maintained at Executive level, including the Chief Financial Officer. South West Water continues to focus on improving gender balance across all levels.

	Male		Female	
	Number	%	Number	%
Board	4	50%	4	50%
Senior management	36	69%	16	31%
Employees	2,015	75%	684	25%

Despite this progress, we recognise that sustainable change requires continued commitment. Our EDI Action plan outlines the targeted steps we will take over the next three years to strengthen representation, inclusion and accountability.

For detail on our Board and leadership ethnic and gender representation, please refer to pages 127 to 128.

OUR THREE-YEAR EDI ACTION PLAN (2026-2028)



We have set a focused three-year plan to accelerate progress on Equity, Diversity and Inclusion, centred on strengthening representation, improving inclusion and leadership accountability, and expanding social mobility and early career access.

STRENGTHENING REPRESENTATION
We will improve diversity across our workforce and leadership teams by embedding inclusive recruitment standards, widening senior talent pipelines and reviewing policies and practices through an EDI lens.

IMPROVING INCLUSION AND ACCOUNTABILITY
We will enhance workforce insight, increase voluntary disclosure rates and embed measurable EDI objectives into leadership performance to ensure inclusion remains a core leadership responsibility.

EXPANDING SOCIAL MOBILITY AND TALENT PIPELINES
We will grow work placements and early career routes, strengthen progression into apprenticeships and graduate roles, and increase socio-economic diversity across our entry level pathways.

GOVERNANCE AND TRANSPARENCY
Progress will be monitored through strengthened governance and leadership dashboards and reported annually through our ESG and EDI disclosures.

HOMESAFE, THE COMPANY'S FLAGSHIP HEALTH AND SAFETY PROGRAMME

Ensuring our people go home safe to their families every day remains at the heart of our HomeSafe programme. We have made progress on each of the four cornerstones of our strategy supporting our people and reducing risk. The four cornerstones - Process Safety, Occupational Safety, Occupational Health and Wellbeing, and Security - ensure HomeSafe manages risk in all areas of health, safety and wellbeing.

The four cornerstones are delivered through visible leadership, ownership and engagement. Combining these elements has seen improved risk management, collaboration and engagement.

CORNERSTONE ACTIVITY

PROCESS SAFETY: focusing on the high consequence processes within our water and wastewater treatment process.

We have placed a relentless focus on improving controls to assure mitigation of the risks of some of our higher hazard activities with a particular focus on eliminating high hazard chemicals, and upskilling teams who work with and near potentially explosive atmospheres. We have introduced the concept of Potentially Serious Incidents or Fatalities (PSIF) to increase near miss reporting and focus learning on those areas with higher impacts. This approach is in line with other water companies across the UK to collaborate on learning opportunities, reducing risk in the sector.

OCCUPATIONAL SAFETY: focusing on the individual.

We continued our engagement with teams through our HomeSafe Live events. We held interactive scenario-led sessions focused on situational awareness and the importance of making the safest choice.

Our Site Pride Initiative continues to drive the highest levels of standards at operational and office locations, and work vehicles.

We continued our established events including the annual HomeSafe advent calendar where teams use fun, engaging ways to deliver serious health and safety messages to the Company, with over 10,000 views of these materials on the website, providing high levels of penetration.

OCCUPATIONAL HEALTH AND WELLBEING: focusing on physical and mental health.

We joined water sector colleagues for the annual Movember Campaign, with the Company raising £6,000 for the research into men's health. We held several Cancer Survivor Video presentations to increase awareness. A new Women's Health Employee Network Group was launched, sitting alongside the 11 other Health and Wellbeing Groups, including Neurodiversity Representation, Mindfulness and Menopause Support. A specific Men's Health Group was launched in March, and we have expanded our Employee Assistance Platform (EAP) offering.

SECURITY: focusing on physical and personnel security.

This year's Security and Emergency Measures Direction (SEMD) return was developed with heavy engagement with the internal and external stakeholders and regulators, at all stages. We have driven security culture across the Company through numerous engagement campaigns. The Company is on track with its undertakings in line with agreed milestones and investment plans to improve security and emergency planning capability.

Our HomeSafe 2030 strategy continues to shift our focus towards leading measures, skills, competencies, assurance and positive actions, setting clear expectations across the Company to ensure everyone goes HomeSafe every day.

In the year we delivered a stable year in terms of total injuries, however over the winter period we had an increase in the number of short duration lost time incidents, almost exclusively as a result of a slip or trip. Consequently, our number of lost time incidents and our Lost Time Incident Frequency Rate (LTIFR) increased. We ended the year at 25 lost time incidents, with just under half of these happening between December and March. Our LTIFR increased from 0.24 to 0.43. We have developed re-energising plans for the new year to address this, reconnecting people to the emotional elements of why HomeSafe is so important to everyone at South West Water.

STAKEHOLDER ENGAGEMENT

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

CUSTOMERS

WHO THEY ARE

Our business provides water and wastewater services to 3.6 million residents across the South West regions. Each year, we also support around 10 million visitors to the South West, making our services vital not only to local communities but to the regional economy.

KEY HIGHLIGHTS

- Through the WaterShare+ scheme 80,000 of our customers are now shareholders in our parent Company, Pennon Group plc
- 260+ customers joined our parent Company Pennon's WaterShare+ meetings and spoke directly to our Executive.

WHY WE ENGAGE

We know that trust matters. It is built not only through the quality of the services we deliver, but also through how we communicate, how we listen, and how we respond when things change or when customers need extra support. Over the past year, those expectations have been tested.

Our plans to 2030 and our four strategic priorities are built on the priorities and feedback of our customers and communities. We know that our investment programme will take time to deliver, and customers have told us clearly that they want to be kept informed about the progress we are making, the impact of that investment, and the difference it will make locally. They have also told us that how we communicate matters, particularly during periods of change, such as bill increases, service disruption or major infrastructure works.

Customers across our regions have continued to face cost of living pressures. At the same time, water bills have risen across the sector to support a major, regulator-approved investment programme. We know this combination has been challenging, particularly in the South West, and we do not underestimate the impact it has had on household budgets and customer confidence.

HOW WE ENGAGE

Against this backdrop, affordability and customer experience have been central to our work. Our focus has been on responding in a way that is both compassionate and practical: keeping bills as low as possible through efficiency, expanding financial and practical support for those who need help, improving service where customers told us it was falling short, and learning quickly from feedback so that we can do better.

Customer insight underpins both our long-term strategy and our day-to-day decision-making. Our plans to 2030 are built on a deep understanding of what matters most to customers and communities, with our parent Company's sector-leading WaterShare+ panel at the heart of this approach. Through WaterShare+, customers provide structured challenge, shape key decisions and hold us to account. We also benefitted from the opportunity to participate in Consumer Council for Water's (CCW) WaterVoice accountability sessions, launched this year across the sector, to listen, feedback, and agree actions in respect of three issues raised by customers. The fresh perspective this brought highlighted the need for heightened communication and extensive engagement, and we welcome the opportunity to receive feedback through a different lens, on some familiar themes.

We draw on a wide range of evidence to understand customer needs and expectations. Building on our extensive PR24 research programme, we engage continuously through service surveys, post-interaction feedback, post-event reviews and targeted research, alongside ongoing dialogue with the WaterShare+ panel. This helps us understand not only how customers experience our services, but where expectations are changing and where we need to improve.

During 2025/26, we completed 15 post-event feedback surveys across South West Water, Bournemouth Water and Bristol Water. Customers shared their views on how incidents were handled, including the clarity and timeliness of communication, speed of resolution, overall satisfaction and the support provided to customers on the Priority Services Register. This feedback has directly informed improvements to incident communications, service recovery arrangements and the way we help customers who need extra support.

Insight from customers is complemented by independent and comparative evidence. We triangulate our own research with wider industry insight, including CCW's Water Matters survey, the UK Customer Satisfaction Index (UKCSI); business benchmarking and C-MeX results. This ensures our priorities are evidence-based, consistently benchmarked against peers, and aligned with what customers tell us matters most.

Taken together, this approach ensures that listening to customers is not a one-off exercise, but an integral part of how we plan, deliver and improve services - supporting better outcomes now and improving further as we deliver our investment programme over the coming years.

Our WaterShare+ model enables customers to hold shares in our parent Company, Pennon Group plc, giving them direct ownership in their local water company. It also gives all customers the ability to speak directly with and challenge us through our open WaterShare+ customer panel meetings. This unique model allows customers a greater say in their water company, providing customers with a vital platform to engage directly with us and play an active role in shaping our decisions.

Our independent advisory panel provides review, scrutiny and challenge of South West Water on behalf of customers. The panel is supported by expert advisers from CCW, the Environment Agency and Natural England. These advisers provide specialist insight into Company and wider industry performance. The panel also has unrestricted, independent access to the Company's technical auditors.

During 2025/26, the panel's focus has shifted from development of the business plan to scrutiny of implementation, challenging the Company on delivery against performance and investment commitments, alignment between delivery and customer priorities and the balance between environmental outcomes, service improvements and affordability.

WaterShare+ has significantly deepened our understanding of customer requirements and concerns, further helping us leverage these insights to inform and co-create our future plans.

YOUR BILL EXPLAINED

We have heard from customers that they want to know what their money is paying for. We have increased our communications, directly to customers with their bills, through social media and on our website - both to explain the bill and how it affects them as individuals, but also on what we are doing and the difference it will make.

We improved early engagement with more personalised information about financial support and launched a new 'Your Bill Explained' website, supported by simple visuals explaining how bills are calculated. Signposting to support tariffs, the Priority Services Register, metering options and water efficiency advice was also strengthened.

We have also supported colleagues, through targeted training, AI enabled tools and improved self-service to reduce wait time for customers and ensure they can choose how they engage.

COMMUNITIES

WHO THEY ARE

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

WHY WE ENGAGE

We are part of the communities we serve, with around 2,700 colleagues living and working locally. We care deeply about the places we call home and are passionate about sustaining and improving them, for our customers, our families and our friends. Through this strong local presence, we actively engage with communities to ensure people have a meaningful voice in shaping the services we provide and the environmental outcomes that matter most to them.

HOW WE ENGAGE

We work with schools, community groups and local organisations to build understanding of the water cycle, promote water efficiency and support wellbeing. Our education and outreach programmes inspire future generations while helping communities understand the challenges facing water resources and the role we all play in protecting them.

In the wider South West we reached 9,449 pupils in 151 schools. We also work closely with community partners to deliver nature-based solutions, restore peatlands, protect water quality and improve access to lakes and reservoirs for recreation and wellbeing. Our charitable giving and community funds support projects that deliver social, environmental and health benefits across our regions.

BETTER FUTURES FUND

We believe in supporting projects and charities in the places where we live and work, helping to build stronger communities. Our £5 million Better Futures Fund was launched in January 2025.

The fund includes £2.5 million for community groups involved with physical activity, education, health and wellbeing, and positive environmental impacts. Each brand was allocated a specific amount of funding based on customers served in that supply area.

The remaining £2.5 million will go towards alleviating hardship, in addition to the £200 million programme to help customers who need extra support or are struggling financially across the Company.

Better Futures will help to unlock opportunities and bring positive change to the communities we serve.

Better Futures to date April 2025 - March 2026:

	South West Water	Bristol Water	Bournemouth Water
Number of grants	27	16	12
Value awarded	£182,193	£111,627	£42,096
Number of beneficiaries	31,812	60,438	28,595

PEOPLE

WHO THEY ARE

Across the Company, c.2,700 colleagues contribute to our work in a wide range of operational and corporate roles. Their commitment underpins everything we do, from maintaining vital water and wastewater services to ensuring our customers receive clean, safe drinking water every hour of the day.

KEY HIGHLIGHTS

- **Focused on performance** - We rallied all colleagues across the Company to tackle our biggest challenge - reducing storm overflows and pollutions. We introduced a Company-wide 'challenge', so that wherever you work you could learn more about this strategic priority and demonstrate your commitment to improving our performance.
- **'You Rock' Awards evening** - celebrated colleagues across our Company who exemplify our values in action
- **Launching Teamtailor** - a faster, more intuitive and inclusive recruitment process, improving the experience for both candidates and hiring managers
- **c.2,300** colleagues now use Viva Engage, our internal communications platform

WHY WE ENGAGE

Our success depends on the talent, skills and shared values of our people. To deliver our strategy, we are focused on attracting, developing and retaining a diverse workforce that reflects the communities we serve. When colleagues are heard, supported and empowered, they thrive, and so does our business. Regular two-way engagement helps us understand what matters most to our people and make meaningful improvements that strengthen our culture and capability.

We use a range of tools to stay connected, including listening sessions, Employee Network Groups and trade union representation.

HOW WE ENGAGE

LISTENING AND ACTING ON EMPLOYEES' VIEWS

We take our responsibility to listen, to understand and support our employees seriously. Our s.172(1) statement on pages 122 to 124 outlines how employee interests are considered in our decision-making.

SPEAK UP

Our Speak Up whistleblowing policy continued to operate throughout the year, and remains a vital channel for open, safe and transparent communication, helping us build a culture of trust. Colleagues are able to speak up and are supported if they do so. Read more on Speak Up on page 138 in the Corporate Governance report.

BUILDING CONSISTENT CONNECTION

Following the separation of Water, Wastewater and Customer into distinct operational units, each business now operates its own regular cadence of colleague communication and engagement. Shaped by feedback from teams within each unit, these approaches are tailored to their needs and preferences, resulting in a model built directly on colleague insight. This includes regular in-person breakfast briefings, leadership events, and interactive calls where colleagues hear key updates and ask questions, alongside tailored communications from the relevant leader.

CELEBRATING COLLEAGUES: THE 'YOU ROCK' AWARDS

This year, we introduced the 'You Rock' Awards, a new recognition scheme designed to celebrate colleagues who embody our values. These awards reflect the depth of dedication, professionalism and integrity that our people bring to serving customers and communities every day.

The inaugural event brought colleagues together from across the Company to recognise individuals and teams whose contribution has made a lasting impact. The Awards celebrated colleagues who bring our values to life, with honours presented across our three core values - 'Be You', 'Be Rock Solid' and 'Be the Future'. The evening also recognised individuals that contribute to a safe and well-run workplace with our HomeSafe Award, outstanding achievements through our Leader of the Year, Team of the Year and also Rising Star awards, shining a spotlight on those who have made a significant contribution to our culture, performance and future success.

This approach has now been embedded within individual business units, with teams running their own local recognition initiatives, including mini recognition events and monthly awards, ensuring that success is celebrated regularly and close to where it happens.

For generations, colleagues across the Company, have delivered essential services with pride. The 'You Rock' Awards honour that legacy and spotlight the exceptional people who are driving our transformation today. By celebrating those who go above and beyond, the awards help embed our values in everyday practice, strengthening a culture where commitment, service and community focus are recognised and championed.

Building on the success of the inaugural event, we are now planning our 2026 'You Rock' Awards night, with nominations open across a wide range of categories, ensuring colleagues at every stage of their career have the opportunity to be celebrated.

Investing in our people is central to achieving long-term success. The 'You Rock' Awards are an important part of how we celebrate achievements, reinforce behaviours that make a difference, and ensure that being Rock Solid remains at the heart of everything we do.

INTERNAL COMMUNICATION ACTIVITIES

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

- Big Chat video calls with the Chief Executive Officer and the Executive team are held regularly, and focus on our progress against our strategic priorities, topical business issues and colleague highlights. In response to colleague feedback, we have broadened the group of speakers, involving colleagues from all areas and levels across the Company.
- Senior leader events are held for each business area, bringing together our leaders in person for a range of communication and engagement activities to equip and inform them.
- We've introduced senior leader briefings to make sure our leaders are informed of key business updates ahead of their teams, allowing them to own the cascade of information and be fully prepared to answer any questions from their teams.
- We've strengthened the communications cadence across our Company, making sure we can reach the frontline colleagues in each business unit. This has been built based on the communication preferences and insight within each unit, allowing us to tailor the approach to colleague needs.
- Viva Engage, our internal communications platform, continues to grow in popularity, now used by over 2,300 employees.
- Breakfast briefings are now held every six months with our frontline teams; these sessions bring senior leaders on site to recognise the teams who work tirelessly around the clock and to create meaningful two-way dialogue, ensuring operational insight and colleague feedback directly shape our priorities.
- We 'Set the Record Straight' on media headlines, creating bespoke briefings for all teams so that they are fully aware of the facts behind the headlines, equipping all colleagues to answer queries from customers, friends and family - and also making sure our colleagues can maintain pride within a difficult external environment.
- WaterWorks, our monthly performance dashboard, continues to keep all colleagues informed on how we are delivering for our customers, communities and the environment, providing clear visibility of progress, priorities and key metrics across the Company.

EMPLOYEE RESOURCE GROUPS

Through our Inclusion Council, we give colleagues a platform to shape culture and influence policy. As part of this commitment, we are actively relaunching existing networks and introducing new groups to better reflect and support our diverse workforce. These include REACH, Women's Health, Professional Women's, Veterans, LGBTQ+, and Neurodivergent networks, all designed to foster inclusion, connection, and meaningful change.

REFRESHING OUR ENGAGEMENT SURVEY APPROACH

We recently launched our new employee engagement platform, Culture Amp, to strengthen real-time feedback, and colleague insight across our Company. The insights gathered will help us identify key themes, prioritise meaningful actions, and tailor initiatives that truly enhance colleague experience and engagement.

THE GREAT BIG SPARKLE CHALLENGE

Uniting our business to tackle our biggest wastewater challenges.

During summer 2025, we committed to tackling storm overflows and pollution through the power of the whole business working together as one team. That commitment became Operation Sparkle - our Company-wide programme aimed at improving environmental performance, strengthening our wastewater network, and contributing to the long-term health of our rivers and seas.

A key part of this effort was the Great Big Sparkle Challenge, which encouraged colleagues from every part of the organisation to get involved. Over just three months, colleagues delivered more than 1,000 entries from every corner of the organisation - wastewater, wider operations, corporate functions, customer and field teams, leaders, and many more. The level of engagement was exceptional and showed just how strongly people connected to the ambition of protecting and improving our environmental performance. The Sparkle Challenge didn't just spark ideas - it strengthened connections, built shared ownership, and helped embed a mindset of collective responsibility across the business.

How colleagues took part in the Great Big Sparkle Challenge:

- Visiting storm overflows to better understand local risks and opportunities for improvement.
- Joining Wastewater Afternoon Tea calls to listen, learn and share insights on pollution reduction.

- Submitting innovative ideas to help tackle sewer misuse and support long-term behavioural change.
- Making a Sparkle Pledge, committing personally or as teams to actions that improve environmental performance.
- Bringing Wastewater Services (WWS) performance into team meetings, creating space for open conversations about pollutions, learning, and how each team can contribute.

Together, these initiatives reflect the scale and momentum behind Operation Sparkle. The Great Big Sparkle Challenge brought colleagues together in a powerful way - and the wider programme continues to build the systems, behaviours and operational capability essential to achieving our performance objectives.

SUPPLIERS

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

KEY HIGHLIGHTS

- £3.0 billion[1] 2025-2030 infrastructure plan
- over 1,000 schemes already underway

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

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

Through working with our suppliers, we support skills development and investment throughout the supply chain. And through our ESG and Net Zero strategies we engage our supply chain to better understand and reduce our collective environmental impact.

HOW WE ENGAGE
More than 1,000 schemes have already been mobilised through the amplify supply chain partnership and 100% of the AMP8, Year 1 WINEP schemes were completed as of 31 March 2026. As projects move from design into construction these actions are supporting delivery of the £3.0 billion[1] investment to 2030.

To support delivery of these projects, amplify's principal construction partners, are working alongside a range of consultancy organisations. Integrated project management, design and cost consultancy capability is being deployed to optimise investment and provide efficiency through collaborative thinking and innovation, whilst building supply resilience.

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

The Code of Conduct for Supply Chain Partners has been long established, and all new suppliers are brought on board to work in alignment with it through our onboarding and tender processes.

Formal contracts and framework agreements underpin robust cost-effective procurement activity.

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

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

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[1] In forecast outturn prices

KEY CHALLENGES AND HOW WE ARE RESPONDING

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

To deliver this, we're securing the best talent and expertise from our partners, those who share our vision for a greener, more resilient future.

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

OUTCOMES, ACHIEVEMENTS AND ACTIONS

We have identified opportunities to collate and bring together spend across our regions and parts of our Company, to enable synergies, bringing spend under central management in order to improve value, enhance service quality and reduce risk.

Amplify is embedding a standardised, repeatable approach to asset design, delivery and procurement. By reintroducing standard designs, off-the-shelf products, Design & Build (D&B) principles and advancing procurement activity, we are strengthening programme pace and cost certainty, improving buildability, and supporting enhanced safety and lower carbon outcomes to support delivery of our regulatory date commitments.

Our data-driven approach to tendering ensures that procurement decisions are market-tested for both value and performance.

REGULATORS

WHO THEY ARE

We have a continuing dialogue and meet regularly with our regulators: Ofwat, the Environment Agency (EA), the Drinking Water Inspectorate (DWI), Natural England, the Consumer Council for Water (CCW) and the Health and Safety Executive (HSE).

WHY WE ENGAGE

Regulation shapes every aspect of what we do - from the quality of the water we supply to the resilience of our networks and the scale of our environmental ambition. Strong, transparent relationships with our regulators are critical to delivering the services our customers and communities expect.

By engaging early and openly with regulators, we help ensure our plans are credible, deliverable, and aligned with long-term regional needs. Constructive engagement supports decision-making and enables us to demonstrate progress. Above all, it ensures we remain accountable to our customers and the environment we are here to protect.

HOW WE ENGAGE

We engage with our regulators in a structured and transparent way. Our teams meet regularly with all our regulators using a mix of routine meetings, technical workshops and joint site visits. These are focused on our published plans, performance reports, delivery progress and compliance reviews, ensuring transparency across key metrics such as leakage, customer service and investment delivery. We also participate in industry consultations and working groups, helping to shape new and emerging regulations.

Our engagement is grounded in evidence. We use data-driven insight, independent assurance, and customer and stakeholder feedback to demonstrate that our plans and delivery are rooted in real need. Engagement is continuous rather than reactive: we brief early on emerging issues, work collaboratively on long-term challenges, and provide open access to information so regulators can clearly see the progress we are making.

KEY CHALLENGES AND HOW WE ARE RESPONDING

The water sector is entering a decisive phase of reform. Expectations on companies have never been higher, and climate driven shocks continue to test our networks. This underlines the importance of delivering our £3.0 billion[1] investment plan to strengthen networks, secure water resources, and improve rivers and seas.

[1] In forecast outturn prices

We are working closely with Defra and regulators as the White Paper reforms move into implementation. We have shared ideas and proposals widely with regulators and stakeholders and are frequent contributors to events and conferences.

The year saw an increase in focus on asset health and accelerating investment, particularly where it supports economic growth. We have worked with Ofwat to understand the evidence required to support this shift, providing material grounded in local stakeholder needs and compelling customer research. Our first PR24 cost change submission in 2026 reflects this new approach and will continue to inform future regulatory decisions.

We worked closely with the Consumer Council for Water (CCW) on new customer panels ahead of their first meetings in April 2026. We are also discussing with Ofwat and CCW the impact of our innovative tariff trials, which better reflect customer usage and affordability while supporting long-term resilience and sustainability.

We have engaged with Ofwat and the joint regulators' RAPID body on the Cheddar 2 reservoir scheme. Preparations remain continuous and transparent, with an open stage by stage approach. We held a joint market engagement event with Wessex Water in September 2025, attended by Ofwat and RAPID, to support this process.

Regulators play a critical role during periods of operational pressure. During Storm Goretti in January 2026, which was subject to a red weather warning, we provided daily updates to regulators on our preparations and recovery, ensuring they had full visibility of our actions to protect customers.

Looking ahead, development of PR29 is already underway. We are engaging on the next Water Resources Management Plan (WRMP), Drainage and Wastewater Management Plan (DWMP) and the future environmental programme to ensure long-term needs are clearly understood and supported. These future plans underpin our commitment to delivering sustainable, credible and customer-focused outcomes in partnership with our regulators.

OUTCOMES, ACHIEVEMENTS AND ACTIONS

Working with our regulators, we have strengthened our delivery plans, improved the transparency of our performance, and ensured a shared understanding of the resilience challenges we face. This has supported progress on key operational outcomes, including reductions in pollution incidents, enhanced real-time monitoring, and targeted improvements in drinking water quality and asset health.

Over the past year, we have moved quickly to turn our PR24 business plan into detailed delivery plans, reflecting the early start agreed with regulators. This is now driving clearer visibility of progress and stronger alignment between our commitments and regulatory expectations.

Engagement has shaped important governance outcomes. Working with Ofwat, we have aligned our remuneration framework with delivery for customers and the environment, and strengthened the independence of our assurance processes.

Our engagement is shaping the future regulatory framework for customers. Our business model is unique, with distinct customer brands and separate targets for Bristol Water and those for South West Water. Regulators continue to support us in ensuring customers benefit fully from this model. For example, we worked with the EA on the design of the revised Environmental Performance Assessment to ensure Bristol Water continues to be compared with their peers.

Alongside this, our contribution to the Government's White Paper reforms is helping inform the emerging regulatory framework, ensuring it supports long-term investment, clearer accountability and greater transparency.

POLICY MAKERS

WHO THEY ARE

We maintain open, transparent relationships with Defra, parliamentary committees, MPs and local authorities. Their roles in shaping the legislative and regulatory environment have become even more significant as the Government's White Paper on water reform moves into implementation.

KEY HIGHLIGHTS

- **Bournemouth Water - Alderney - Emma Hardy MP.** The Water Minister visited our Alderney water treatment works site and welcomed the £113 million modernisation investment, including future proof technology to deliver more sustainable and ecofriendly water supplies.
- **South West Water - South Milton sewage treatment works - Caroline Voaden MP.** We showcase our major investments through on-site tours, including upgraded South Milton Sewage Treatment Works.
- **Bristol Water - Chew Valley Lake - Defra.** Defra, the Rivers Trust and West Country Water Resources came together at Chew Valley Lake to discuss catchment partnerships and regional planning, supporting collaborative work on future schemes including the Cheddar 2 reservoir.

WHY WE ENGAGE

At the national level, we work closely with Defra and parliamentary committees, as the future priorities for water quality, resilience, customer protections, and environmental improvement are established. Our engagement has increased as the White Paper reforms progress, as we provide evidence, operational insight and regional context to help ensure policy is practical, outcomes focused and supportive of long-term investment. Our engagement remains cross-party, ensuring South West Water's values and priorities are understood across the political spectrum.

At the local level, MPs continue to advocate for their communities, ensuring local priorities are reflected in national debates and regulatory decisions. We work with local authorities to support their role in shaping outcomes for customers and communities.

In addition, as our parent Company, Pennon Group plc is a FTSE listed business, we also work with organisations such as the Confederation of British Industry, Chambers of Commerce and regional business groups to ensure the voice of business is represented in national policy debates, particularly on growth, infrastructure, skills, and the role of regulated utilities in supporting regional economies.

HOW WE ENGAGE

We maintain regular dialogue with Defra and respond to government consultations on resilience, affordability, environmental improvement and the investment needed to deliver the ambitions set out in the Government's White Paper. We continue to provide evidence to Select Committees, participate in cross-party roundtables and support All Party Parliamentary Groups to ensure the practical realities of delivering essential water and wastewater services are fully understood.

We work closely with local authorities and MPs across our regions. Our engagement includes regular meetings, site visits and constituency-based discussions, giving representatives direct insight into our operations, the challenges we face and the progress we are making. These interactions help ensure local priorities are clearly reflected in national debates and regulatory decisions.

As our parent Company, Pennon is a FTSE listed business, we also work with national and regional business organisations to ensure the voice of business is represented in wider debates on growth, skills and infrastructure.

KEY CHALLENGES AND HOW WE ARE RESPONDING

Policy makers continue to take a close interest in how we are improving performance, strengthening resilience and delivering major investment. There is sustained scrutiny of customer bills, environmental outcomes, the pace of infrastructure upgrades and how we are responding to extreme weather and ageing assets. Policy makers expect clear evidence of progress, transparent communication and visible improvements.

Locally, we continue to build strong, constructive relationships with MPs and councillors across our regions, helping them understand our operational challenges, long-term plans and the benefits of the investment we are delivering. We respond promptly to enquiries, providing clear information to support their casework and constituent communications. We facilitate site visits so representatives can see our work first hand, including upgrades to treatment works, storm overflow improvements and drinking water resilience schemes. Local policy makers are regularly invited to our customer roadshow events, where we explain the work underway in their area and listen to local priorities.

OUTCOMES, ACHIEVEMENTS AND ACTIONS

We have deepened our engagement with MPs and local leaders, supporting day-to-day enquiries and providing tailored briefings on the water cycle, environmental performance and our investment programme and delivery progress. We continue to hold one-to-one meetings with MPs both in Westminster and through hosted constituency-based site visits.

This engagement has strengthened relationships, improved understanding of the scale and purpose of our investment, and supported MPs in communicating clearly with their constituents. It has also helped build confidence in our long-term plans, reinforced the importance of resilience and environmental improvement, and contributed to a more informed narrative around South West Water's role in delivering essential services for the region.

OUR DELIVERY FRAMEWORK

Our four strategic priorities underpin and define everything we do.

Based on customer priorities, we have structured our delivery plans to 2030 to focus on what matters most, ensuring we are well positioned for long-term success. Our water business is now aligned to these priorities, enabling us to deliver for the environment, meet customer expectations, and fulfil our purpose and vision.

BUILDING WATER RESOURCES, IMPROVING WATER QUALITY

Our purpose is rooted in the sustainable stewardship of water, a resource vital to communities and ecosystems, now and for generations to come. We operate across the South of England and the Isles of Scilly, and in areas that range from densely populated cities to rural and coastal villages.

We know that customers rate the reliable provision of clean, safe drinking water as their number one priority. We continually strive to improve both our resilience and our water quality across all our areas; our plans aim to maintain our strong water quality record by upgrading water treatment works and replacing old lead pipes in customers' homes; we are strengthening resilience by renewing old water mains and targeting leakage; and we are supporting customers to be water efficient - using only the water they need - through smart meters and water efficiency measures.

The 2025/26 year has demonstrated the challenges that climate change will bring; a dry spring was followed by an intensely hot August, driving high demand for water, whilst freeze-thaw conditions followed by extensive and intense rainfall over the winter increased operational challenges later in the year. We are focused on delivering our capital investment programme to ensure we improve and enhance our water infrastructure, whilst taking action to drive continuous improvements in the ways we work and services we provide.

Actions taken early to ensure refill of our reservoirs from August to the end of year have resulted in a strong water resources position as we head into the new financial year, supported by above average rainfall in the latter months of the year.

DELIVERING RESILIENT, HIGH-QUALITY WATER SERVICES ACROSS OUR REGIONS
We supply around 3.6 million customers across all regions. With hot weather comes higher demand for water, and the investment we made following the 2022 drought has seen benefit in the current year, with all our regions, Devon, Cornwall, Isles of Scilly, Bristol and Bournemouth, operating without temporary use or 'hosepipe' bans despite the high demand in the hot summer period. This achievement underscores our commitment to resilience and reliability, doing the right thing for our assets to maintain their health and strengthen our performance.

2025/26 presented challenges across the South West in particular, as a result of the variable weather conditions and high number of named storms. Notwithstanding the challenges, we maintained resilient water supplies to our customers, with over 75% of operational incidents having no impact on customers and our water quality performance remaining industry-leading for South West Water.

However, there remains more to do in other areas, as we recognise the impact on customers of incidents when they do cause supply interruptions, and that we have not met our targets in a number of key measures. Targeted capital investment in water services totalling £316.1 million in 2025/26, alongside disciplined asset management and ongoing focus on continuous improvement and learning the lessons of any operational incidents, will enable us to meet these challenges head-on.

Our strategic investments, especially those made in response to the 2022 drought, have been instrumental in strengthening operational resilience and supporting sustainable service delivery. Where performance did not meet targets, we have a clear understanding of the underlying drivers and have initiated actions to restore long-term delivery.

WATER QUALITY AND RESILIENCE: PROACTIVE IMPROVEMENTS AND INNOVATION
Providing safe and reliable drinking water remains our highest priority, serving approximately 3.6 million customers across our region. Our water quality performance continues to improve year-on-year, as reflected in our water sampling results, which demonstrate improved outcomes year-on-year, a testament to our Quality First

approach which integrates preventative maintenance, proactive cleaning, and real-time monitoring, allowing for early detection and resolution of issues and reducing repeat failures.

The Drinking Water Inspectorate measures water quality through its Compliance Risk Index (CRI). South West Water (including Bournemouth Water, 'SWB') maintained a top-quartile CRI of 1.37, reflecting our long-term investments to improve water quality and ongoing operational improvements with respect to tank inspections and maintenance. Bristol Water (BRL) saw a deterioration with a CRI of 3.95, due to an isolated sample failure (equating to a score of 2.93) that were swiftly addressed through daily monitoring and thorough investigation. To further strengthen compliance, we launched a comprehensive treatment process risk review programme in Bristol, targeting sustainable improvements and reducing testing failures at our treatment works.

STRATEGIC INVESTMENT IN WATER TREATMENT WORKS
We continued to build and upgrade our water treatment infrastructure, ensuring future resilience and quality. Construction at Alderney water treatment works in Bournemouth was completed in the year and with commissioning imminent, our upgraded works are set to supply high-quality water to over 250,000 customers. We are also upgrading the Knapp Mill water treatment works, which is progressing as planned, with commissioning scheduled for the next financial year.

In Bristol, design work has commenced for upgrades at Stowey, Cheddar, and Littleton water treatment works, with delivery targeted by 2030. Notably, at Littleton, we are piloting innovative filtration technology, successfully used in Singapore and Japan, for the first time in the UK, reinforcing our commitment to operational excellence and innovation.

ENHANCING CUSTOMER CONFIDENCE: TASTE, SMELL AND APPEARANCE IMPROVEMENTS
Maintaining customer trust in water quality is essential. Building on our ongoing commitment to water quality and customer satisfaction, we continued to make progress across all regions, as reflected in our performance against Taste, Smell, and Appearance targets. Whilst we have more to do to reach the stretching targets set for AMP8, in the South West, customer contacts regarding taste, smell, and appearance have reduced year-on-year, with performance in 2025/26 reducing to 1.55 contacts per 1,000 customers. This improvement stems from our ongoing focus on process optimisation and proactive engagement across each region. Looking ahead, we remain dedicated to further enhancing water quality and customer experience, implementing region-specific initiatives and leveraging technology to drive continuous improvement. Bristol Water (BRL) recorded 0.97 contacts per 1,000 customers, compared to the target of 0.76, positioning the company within the top half of the industry.

Investment in manganese removal schemes across Cornwall, Devon, and Bournemouth, alongside upgrades at Alderney and Knapp Mill, are expected to further reduce discolouration-related contacts.

LEAD PIPES
Around 80,000 lead pipes remain in our South West and Bournemouth (SWB) regional network, with c.120,000 in Bristol (BRL).

Whilst we treat water to mitigate the health risk this would otherwise prevent, we are focused on progressively removing these pipes from water infrastructure in our regions. As a result, we have progressed on our plans to replace c.40,000 lead pipes across our regions by 2030, with c.4,000 replaced in the current year.

We are also working with CREWW, our innovation partnership with Exeter University, to utilise modelling and machine learning to inform our delivery programmes and target areas with high prevalence, supporting our long-term ambition to eliminate lead pipes.

WATER RESOURCES, SECURITY AND CLIMATE RESILIENCE
Water resources were under significant pressure during 2025 following the warmest spring in England since 1884. Reservoir storage in some areas fell to exceptionally low levels by late summer.

We activated our drought plans, but did not need to impose any customer supply restrictions or drought orders; by March 2026, the action we took to ensure operational resilience, coupled with rainfall across the winter months, meant that storage levels finished the year well ahead of anticipated needs across the coming summer, with storage recovered to c.97% and groundwater levels remaining above average in some areas.

LEAKAGE AND NETWORK EFFICIENCY
Reducing leakage remains central to long-term supply resilience. The year presented significant challenges, particularly in the South West, due to dry ground conditions leading to record soil moisture deficits during late spring and summer 2025. This was followed by several freeze-thaw events and severe storms across the winter

period. These conditions increase pressure on our networks and we experienced higher burst frequency across our networks.

Our teams remained focused on fixing leaks across our networks, notwithstanding the challenging weather conditions with which they were presented. Bristol Water and South West Water's efforts were impacted by these weather conditions.

Bristol Water continues to operate on the industry leakage 'frontier', making finding and fixing leaks more challenging and less cost-effective. Despite these challenges, Bristol Water reduced leakage by a further 11% in 2025/26, achieving 34.0 Ml/d, its lowest ever level and maintained its position among the lowest in the industry. Although slightly above the three-year rolling regulatory target, forward plans are in place to meet targets through the end of the regulatory period.

In South West and Bournemouth, the unusual weather conditions hindered significant leakage reduction over the summer, with high volumes of work required to maintain leakage levels across the hot weather period and during the freeze-thaw weather in November and December. Record activity in leak detection and repair was achieved, with more fixes carried out than ever before. Leakage levels of 113.5 Ml/d in 2025/26, returned to those of the previous year, but fell short of the in-year target to close the gap on the rolling average. This will impact on our ability to achieve the regulatory three-year average leakage measure, albeit plans are in place to return to target in the middle year of the current regulatory period.

SUPPLY INTERRUPTIONS AND NETWORK RELIABILITY

The impact of weather on leakage also had a consequential impact on our supply interruption performance, as a result of an increase in burst pipes. Despite these challenges, our operational teams ensured that around three-quarters of bursts resulted in no impact to customer supply.

Supply interruptions remained a challenging measure for South West and Bournemouth; interruptions to supply resulted in a total 1 hour, 9 minutes and 14 seconds of customer impact, compared with a long-term average of around 9 minutes 30 seconds and a target of 5 minutes. More than half of the time lost was attributable to two major incidents: an unplanned outage at Dousland water treatment works and storm damage at Wendron water treatment works during the red weather warning storm, Goretti, where much of Cornwall was without power for an extended period of time.

Bristol Water's performance saw interruptions increase to 33 minutes and 42 seconds, compared with a four-year average of 6 minutes 30 seconds. In response, supply interruptions delivery plans have been reviewed to drive improvement, leveraging AI-based burst prediction, smarter operational technology, and targeted pipe replacement.

ISLES OF SCILLY - RESILIENCE

In January 2026, Storm Goretti caused major destruction across our region, but the Isles of Scilly were the first and worst hit. Winds of up to 99mph hit the five islands, 28 miles off the coast of Cornwall, with hundreds of trees uprooted, severing water supplies to these remote communities. A red weather warning for wind was issued on the afternoon of 8 January, instructing everyone to stay indoors given danger to life associated with the storm.

Our 10-strong water operations team mobilised in the early hours of the following morning, working around the clock as part of a huge community response. With widespread loss of power and mobile signal across the Islands and significant transport disruption, the team, working with support from our supply chain and working in partnership with the Duchy of Cornwall, the Council of the Isles of Scilly, Tresco Estates and other utilities enabled temporary repairs to be made to the damaged water pipes, with all supplies restored by 9am on 11 January. During this time bottled water stations supplies were set up, with local people contributing to the recovery efforts and caring for those who needed extra support.

We were delighted that Isles of Scilly Operations Manager, Helen Richards, was recognised for the crucial role she and her team, all of whom also live on the Islands, played in the aftermath of the storm to restore vital services to homes and businesses, as well as the many years in which they have supported the Islands. Helen attended the King's Garden party at Buckingham Palace on 8 May 2026, alongside representatives from other organisations involved in the UK wide response to the storm.

We are proud of supplying water to such a unique place as the Isles of Scilly; South West Water became responsible for water and wastewater services on the Islands in April 2020, with Helen involved both shortly before and after the transfer. She has since built her team, most of whom were recruited locally and upskilled, and are all part of the Islands' community. The small team cover all aspects of the job from water resources to metering and from sewerage collection to treatment where mains drainage is in place. Around 2,500 people live on the five inhabited islands, with tourism doubling this in the summer months, putting pressure on the water resources and highlighting the importance of using water efficiently.

Our programme to 2030 includes significant investment to build new desalination plants on each of the Islands to provide resilience to drought as well as to upgrade the wastewater treatment on St Mary's and Tresco, providing benefit to customers and the environment.

MANAGING DEMAND AND ENSURING EFFICIENCY

HOUSEHOLD DEMAND
Reducing household demand remains a strategic objective, balancing affordability and environmental outcomes. The government target is to reduce per capita consumption to 110 litres per person per day by 2045.

Prolonged dry weather in spring and summer 2025 resulted in increased consumption, and targets remain challenging across the sector. We continued our 'Water is Precious' behavioural campaign, with notable engagement in Bristol where our free water efficiency devices, through our 'Get Water Fit' platform, which saw increased uptake, and household water audits commenced in January 2026.

Ofwat's nationwide behavioural programme launches this year, funded through a levy in customer bills, and we anticipate its positive impact on customer behaviour and consumption reduction.

Our smart metering programme is progressing, aiming to significantly expand coverage by 2030, supported by preparatory work during this regulatory year. Data from installed smart meters will facilitate customer engagement and help identify customer-side leakage. Additionally, tariff trials in the South West are ongoing, designed to incentivise reduced consumption and ensure fairer charging. Early results are promising, demonstrating reductions in household consumption and supporting our commitment to sustainable water management.

CHEDDAR 2 STRATEGIC RESOURCE OPTION (SRO)
With the South West facing the dual challenges of climate change and above-average population growth, we are working with Wessex Water to assess the Strategic Resource Options available to provide resilient supply for the entire South West region. One option being considered is the Cheddar 2 Reservoir and Transfer Project which could play a key role in meeting future water needs across the region. The project is investigating the option to build a second reservoir, adjacent to the existing Cheddar reservoir, and would be designed to reduce reliance on natural water sources, supporting environmental resilience by helping to protect these ecosystems - particularly during drought conditions.

The reservoir would be designed to mitigate drought risks in the South West, by enabling water to be stored and then transferred south - through Wessex Water's network and into South West Water's - to provide resilient supplies for customers in Devon.

If the project is approved, it is anticipated construction would commence during the next regulatory period. The scheme would form part of national and regional water resource management plans, to help balance supply and demand by enabling transfers from areas of relative surplus.

Engagement with local stakeholders has started, and our teams are working to ensure we maximise the opportunity to protect local biodiversity and enhance the natural environment.

OPERATIONAL KPIs
More information can be found in Pennon Group plc Annual Report and Accounts 2026 pages 34 to 35.

WATER QUALITY (CRI SCORE)
The Compliance Risk Index (CRI) is the Drinking Water Inspectorate's (DWI) measure of water quality. For the SWB region (consisting of South West Water and Bournemouth Water), 2025 saw a CRI outturn of 1.37, well within the regulatory deadband and maintaining our top quartile industry performance.

Bristol Water performance was recorded at 3.95, above target but reflecting the ongoing improvement compared to recent years (2022-24).

TASTE, SMELL AND COLOUR (CONTACT PER 1,000 POPULATION)
For SWB, customer contacts relating to taste, smell and appearance improved from 1.87 in 2024 to 1.55 contacts per 1,000 population in 2025. Performance remains above the target of 1.33 but continues to improve as a result of our enhanced network maintenance programme.

For Bristol Water, contacts were 0.97 per 1,000 customers, compared with a target of 0.76, positioning performance in the top half of the industry.

UNPLANNED OUTAGES (%)
In respect of unplanned outage, Bristol Water comfortably outperformed with a rate of 1.93% against a target of 2.78%. SWB was marginally above its performance target of 2.14% with a rate of 2.39%. 58% of this impact was caused by an unplanned outage of a slow sand filter (SSF) at Bournemouth's Knapp Mill water treatment works. That SSF will be returned to service in 2026/27 and we expect SWB performance to return to underlying levels this year, on or ahead of target.

SUPPLY INTERRUPTIONS (DURATION PER PROPERTY PER YEAR)
Supply interruptions is a critical measure to ensure we are providing resilient water supplies to our customers. Whilst c.75% of operational incidents have no impact to our customers, supply interruptions performance is impacted by extreme weather conditions as well as other events such as asset impacts or third-party events.

Weather impacted supply interruptions in the year, particularly during the named storms, resulting in significant interruptions to supply. In addition, a single incident in South West Water in April 2025 resulted in a material impact on the measure. This year's performance is against a trend of clear improvement in SWB over AMP7, with performance in three of the five years above the average performance for the sector of 10 minutes.

LEAKAGE (3-YEAR AVERAGE - MEGALITRES PER DAY)
Reducing leakage from both our own and customers' pipes is a critical component of ensuring a sustainable water supply. A dry spring, hot summer and several freeze-thaw events (rapid and extreme changes in temperature) coupled with storm events over the winter made 2025/26 a challenging year to drive down leakage across the water sector. Increased mains bursts increased leakage whilst also impacting supply interruptions and mains repairs measures across the period.

Notwithstanding the challenges, Bristol Water remains on the industry leakage 'frontier' despite not meeting the three-year rolling target, whilst there remains more to do in South West Water to ensure leakage reduction targets are achieved.

The early months of 2026 were challenging, with five named storms, including Storm Goretti. Following freeze thaw conditions in late 2025, this had a significant impact on our water networks in the South West, with a significant increase in mains bursts, and consequential impacts on both leakage and supply interruptions. Our teams mobilised in challenging conditions, focusing on supporting our customers - also suffering with widespread power outages and impacts to roads and transport links from the weather - and ensuring we restored supplies whilst also supporting our vulnerable customers during this time.

MAINS REPAIRS (NUMBER OF REPAIRS PER 1,000KM)
Mains repairs for SWB is 169.3 and for BRL is 150.3. Asset health is essential for ensuring a robust supply of water to our customers. As with leakage, unusual weather conditions impacted on our operational performance with increased numbers of mains repairs required, as we focused on fixing the impact of storm conditions or hot weather on our network, as well as on driving down leakage across all our regions.

TACKLING STORM OVERFLOWS AND POLLUTIONS

Reducing storm overflow spills and pollution incidents is a priority, focusing on the places that matter most to customers and local communities.

Our plans to 2030 put reducing environmental impact at their heart, with ambitious targets to improve performance on pollution incidents and reduce the need to operate storm overflows, starting with investment at bathing waters and other sensitive catchments.

We maintain and operate more than 25,000km of sewers across the South West, removing wastewater from homes and businesses. Tackling storm overflows and reducing spills is of critical importance to us, helping to protect the environment and meet the expectations of our customers and communities.

During the year we enhanced our strategy for wastewater performance and compliance, targeting improvements across the region. Our four-phase approach - Identify, Investigate, Remediate and Validate - supplements existing processes and ensures a holistic approach to operational improvement and investment decision-making.

STORM OVERFLOWS

We are focused on fewer spills, of shorter duration with targeted investment where it will have the greatest impact. This year's 17% reduction in spills, with 25% reduction in spill duration, was delivered despite continued weather challenges, including above-average rainfall and increased rainfall intensity, reinforcing the challenges presented by climate change.

In 2025 the South West experienced 15% higher rainfall than normal and 62% more rainfall than the national average. Where across the UK, rainfall was below seasonal normals. Even with these conditions, storm overflow spills reduced by 17% and overall spill duration was 25% lower than the previous year.

The final quarter of 2025 was particularly wet, with 46% of annual storm overflow spills occurring in the last three months of the year, during periods of sustained heavy rainfall of up to 150% of the long-term average.

Alongside our AMP8 programme - targeting investment at all bathing beaches by 2030 - we also focused on targeted interventions at our highest spilling sites. During the 2025 bathing season, storm overflow operation at bathing water sites reduced by more than 25% compared with 2024. Across the full year we reduced spills by 50% at our top five spilling sites following targeted interventions, and our analysis indicates that more than 8,300 spills have been prevented as a direct result of investment and operational improvements.

INVESTMENT AND OPERATIONAL IMPROVEMENTS DELIVERED DURING THE YEAR INCLUDED:

- Targeted interventions at the highest spilling sites to reduce non-sewage flows, increase treatment capacity, optimise pumping, install additional storage and improve sewer condition.
- Operational changes to improve performance during periods of intense rainfall.
- Enhanced monitoring and data-led decision-making to prioritise investigation and remediation activity.

MONITORING AND TRANSPARENCY

We recognise the importance to customers of improving transparency and performance in this highly sensitive area. 100% of our overflows - storm and emergency - have enhanced Event Duration Monitoring (EDM) in place. Despite the challenging locations in which many assets operate, EDM operability was 96.7%, the second highest in the industry and significantly above the industry average of 92.7%.

Our EDMs capture data to a high standard, scanning every 10 seconds and recording at two-minute intervals across all sites, exceeding the minimum 15-minute standard. We also continue to support transparency through real-time reporting to the national database and our WaterFit Live website, which provides up-to-date information on storm overflow activity at bathing beaches. During the year we also agreed to extended direct reporting of real-time data to Surfers Against Sewage (SAS) to improve accessibility of information for communities.

BATHING WATERS

Bathing waters across the South West remain among the cleanest in England. In the 2025 annual bathing water assessments, 96.2% of bathing waters were classified as Excellent or Good. South West Water maintained 100% bathing water compliance for the fifth consecutive year[1].

[1] Excludes newly designated bathing waters in 2024.

Water quality can be influenced by a range of factors beyond our control, including agriculture, wildlife and climate-related weather patterns. We are prioritising investment at bathing waters and using enhanced monitoring and operational insight to identify where changes can deliver the greatest positive impact. For bathing waters designated in 2024, two out of six met the minimum standards; we have investment plans in place for all of these sites, alongside wider catchment activity with partners.

POLLUTION INCIDENTS

We remain focused on improving performance on pollution incidents to watercourses, as measured by the Environment Agency. In April 2025 we published our Pollution Incident Reduction Plan (PIRP) to drive a step-change in performance. We updated and republished the plan in March 2026 to reflect learning from incidents and operational events, and to incorporate our latest priorities and areas of focus.

Our PIRP in 2025 was underpinned by five pillars:

- **People and culture** - approximately 50 managers completed dedicated training and over 200 colleagues completed mandatory training covering chemicals and site drainage. A business-wide campaign 'The Great Big Sparkle Challenge', received over 1,000 entries to drive improvements across wastewater operations.
- **Customer and community engagement** - delivery of our sewer misuse campaign, 'Bin It Don't Block It', alongside approximately 5,500 visits to misuse hotspots.
- **Smarter operations** - development of an enhanced catchment-based sewer cleansing programme, with 114km of sewers cleansed, alongside enhanced pumping station maintenance.
- **Asset health and investment** - targeted investment to address known risks and improve resilience, informed by incident learning and performance data; for example, replacement of a high-risk rising main at Dunkeswell.
- **Data, insight and assurance** - improved monitoring, investigation and reporting to support faster interventions and sustained performance improvement. We have seen a 76% success rate using AI driven alerts from 12,000 sewer level monitors, to drive positive and timely interventions in our network.

Delivery of PIRP initiatives contributed to a 34% reduction in Category 1-3 incidents, alongside a 60% reduction in repeat pollution incidents. Root cause analysis has helped us target interventions more effectively - through asset upgrades, smarter monitoring and operational improvements, and behavioural campaigns to reduce misuse of the network.

During the year, disappointingly, one event in Menagwins resulted in a Category 1 incident - our first since 2018 - following a chemical spillage caused by a structural defect in a third-party tanker hose and the failure of a bung within the site drainage system. There were two Category 2 incidents, a reduction from four in the prior year.

The positive improvement in the number of pollution incidents means we have the lowest number of absolute incidents in the sector, and following the recognition of our increased sewer length by the Environment Agency, our normalised pollution incidents reduced by 53% year-on-year. When considered against draft industry performance, South West Water is no longer an outlier in this measure for the first time.

SPILL REDUCTION

50% spill reduction at the top five spillers. Among our most important interventions in 2025 to reduce spills were actions taken at our top five spilling sites. We achieved a 50% reduction in spills from these sites through a combination of removing sources of non-sewage flows entering the network, increasing treatment capacity, optimising pumping, installing additional storm storage and improving sewer condition through lining.

There is more to do at these sites to reduce spills further and to ensure they meet the long-term future targets of not spilling on average more than 10 times per year; however, this progress demonstrates that our approach is delivering results.

2024 rank	Spilling overflows	2025 spills
1	Salcombe Regis STW	Down 36%
2	Abbotsham STW	Down 40%
3	Roborough STW	Down 56%

4	Dulford SPST	Down 53%
5	Payhembury STW	Down 57%

OPERATIONAL COMPLIANCE
In August 2025, we agreed enforcement undertakings with Ofwat in relation to our historical wastewater operations. Alongside the rest of the sector, we recognise the need for an increased focus on compliance with relevant permits and obligations. In parallel with investment to reduce pollution incidents and minimise storm overflow operation, we are strengthening the systems, processes and controls that support compliance across our wastewater activities.

Our numeric compliance performance for the period was 98.1%, with six of our wastewater treatment works experiencing failures. We have continued to enhance our action plans, working closely with the Environment Agency through regular performance and compliance reviews. We continue to support the Agency's inspections and compliance visits. We have seen a four-fold increase in the number of site visits over the past two years, providing additional scrutiny of our operations. We are pleased that three out of every four inspections resulted in a fully compliant assessment, with the remaining inspections identifying minor issues for remediation. All actions are tracked, monitored and remediated as part of our ongoing drive for 100% compliance.

SEWER FLOODING AND NETWORK PERFORMANCE
The South West experienced exceptionally high rainfall between November 2025 and February 2026 - nearly double the usual average for these winter months. Cornwall experienced the wettest winter on record, and there were named storms in early 2026, including Storm Goretti, with winds recording 99 miles per hour and causing significant power outages, also impacting performance.

Internal sewer flooding incidents increased to 1.20 per 10,000 connections, with almost double the number of incidents in January 2026 and February 2026. While this is an increase year-on-year, it remained below the target of 1.34 and we expect it to remain a strong position compared with industry performance. External sewer flooding incidents reduced to 1,442 (2024/25: 1,465) and were ahead of target. Sewer collapses reduced by 33% year-on-year, reflecting targeted network activity to reduce blockages and improve performance.

We recognise the significant impact sewer flooding can have on customers when homes, businesses and properties are affected. We have prioritised activity to reduce sewer flooding incidents, while continuing to target resilient network performance and reduce blockages and collapses.

During the year we enhanced the compensation we provide when internal flooding occurs by:

- doubling the minimum payment available,
- uplifting allowances for repeat incidents in addition to standard payments, and
- ensuring compensation is paid automatically, and within 20 days.

ENVIRONMENT PERFORMANCE ASSESSMENT (EPA) AND WINEP DELIVERY
The Environment Performance Assessment (EPA) is the Environment Agency's annual assessment of environmental performance across the water sector. Companies are rated against a range of measures, with an overall rating of up to four stars.

Whilst we have made progress in a number of measures monitored by the EPA, disappointingly, our provisional assessment for the provisional 2025 EPA rating is 1*. This reduction year-on-year results from improving performance against operational measures such as pollutions, although with more to do to achieve amber and/or green status. However, progress against our WINEP capital programme has resulted in a deterioration in the EPA score year-on-year; we achieved 18 out of 19 of our Year 1 deliverables, and delivered 30 wastewater investigations earlier than required. However, to achieve amber status or better, 98% of projects must be delivered, including any outstanding AMP7 programmes. Nine AMP7 projects had dates due for completion by March 2026; we delivered six of these, with one completed since 31 March and two deliverables under discussion with the Environment Agency. Any single failure would have resulted in a red metric for the EPA given the relatively low level of projects due for completion and we remain focused on delivering all elements of the programme on time as we progress through the delivery period.

Our operational measures showed improvement year-on-year including:

- Pollution incidents - total pollution incidents per 10,000km of sewer main reduced to 51, a 53% improvement compared with 2024, reflecting both the reduction in the number of incidents and recognition by the Environment agency of a revised sewer length. Given our topography and proximity to watercourses, despite this material reduction, this measure remains challenging to achieve the targets set by the EPA.
- Serious pollution incidents - Category 1-2 pollution incidents reduced from four to three but remain adverse to the EPA target.
- Sludge compliance - maintained at 100%
- Numeric compliance - maintained at 98.1%, achieving 'amber' status.

We remain focused on reducing both pollutions and storm overflow spills and achieving our goal of an EPA 4* rating; we note that from 2026, the EPA assessments are changing, with measures added and removed, definitions broadened and targets made even more stretching. Introduction of these changes are phased through to 2028, and we are working closely with the Environment Agency to ensure we understand and respond to the revised scorecard.

DAWLISH - INVESTING TO REDUCE STORM OVERFLOW SPILLS
As a result of early start funding for our AMP8 storm overflow programme, we have been able to complete delivery of a major improvement project in Dawlish during 2025/26. We recognise the importance of reducing storm overflow spills for customers, and in Devon and Cornwall, we know that customers want this investment to be prioritised at beaches and bathing waters around our coastline. As a result, our investment in Dawlish was driven by the need to reduce spills from storm overflows, strengthen operational resilience and meet evolving stakeholder expectations. It will also help us ensure greater resilience to climate change and respond to community concerns regarding environmental performance.

INVESTING FOR THE FUTURE
From inception, the team adopted a whole-life, sustainability-led approach - integrating operational insight, environmental stewardship, and constructability to optimise long-term value. The solution provides a repeatable model for delivering measurable storm overflow improvements in sensitive coastal locations.

The project was delivered through the amplify alliance, bringing together national and local partners. The integrated delivery model embedded operational, environmental and constructability expertise from the outset, enabling aligned, outcome-focused decision-making.

South West Water set clear strategic direction and outcome-based objectives, with operational teams shaping solutions to ensure resilience, maintainability, and effective performance in a constrained coastal catchment. Strong governance and transparent collaboration across designers, constructors and operators enabled early risk identification and effective mitigation, maintaining alignment throughout delivery.

Reduced storm overflow activity supports bathing water quality and coastal amenity, benefiting residents, visitors, and local businesses. Stakeholder engagement with residents, businesses and the Parish Council informed delivery planning and helped minimise disruption, supporting continued public confidence during works in the town centre.

Councillor James, Mayor of Dawlish, welcomed the investment, recognising the increasing pressures on water services and the importance of protecting Dawlish's community and environment. He also noted that, while disruption was unavoidable, the working relationship with South West Water and its contractors was positive, transparent, and collaborative.

POLLUTION INCIDENT REDUCTION PLAN
Our Pollution Incident Reduction Plan (PIRP) sets out the decisive actions we are taking to reduce pollution incidents across our water and wastewater network and protect the environment. The plan is shaped by feedback from customers, stakeholders and local communities, and is supported by our largest-ever commitment to environmental improvement.

Thanks to targeted investment and operational improvements, our teams are preventing many incidents before they escalate, safeguarding local communities and nature. However, we recognise we need to do more and remain committed to making the changes needed to reduce pollution and improve the environment.

LOOKING AHEAD
We're taking practical steps to protect the environment and reduce pollution across our region. Our plan has developed and is now built around six key pillars, designed to tackle pollution from every angle and ensure sustainable improvement.

Read more at: www.southwestwater.co.uk/siteassets/documents/environment/riversand-bathing-waters/swb_pirp-customersummary-200326.pdf

OUR PLAN TO REDUCE POLLUTION - AT A GLANCE
Our plan has developed and is now built around six key pillars, designed to tackle pollution from every angle and ensure sustainable improvement.

The key initiatives of our PIRP strategic pillars:

Culture and human resources initiatives	Customers and community engagement	Specific asset upgrades	Introduction of new systems and technology	Programmes of asset maintenance	Operational response
Right people, right skills - building teams and specialist knowledge	Customer roadshows	Targeted asset renewals and upgrades	Improved pump performance monitoring	Enhanced proactive inspections	Rationalisation of alarms
Increased training and use of our new training centre	Education programme	Sewer capacity enhancement schemes	Enhanced burst detection analytics	Enhanced condition-based maintenance dashboards	Chemical management protocol
Enhanced induction programme	Public campaigns to tackle unflushables, fats, oils, and greases	Increase network and sewage treatment capacity	Optimise sewer level monitoring	Optimised air blower maintenance	Rapid deployment teams for pollution incidents
Effective staff engagement	Collaboration to prevent sewer misconnections	Improved power resilience	Emergency storage availability assessments	Proactive catchment cleansing	Optimisation of incident management procedures
Cross-company collaboration and knowledge sharing	Funding community groups that support the local environment	Enhanced investment to reduce storm overflow discharges	Rollout of digital site manuals	AI-driven predictive maintenance	Mark up of the site drains

OPERATIONAL KPIs
More information can be found in Pennon Group plc Annual Report and Accounts 2026 page 41.

DRIVING ENVIRONMENTAL GAINS AND DELIVERING NET ZERO

South West Water is proud to be at the forefront of environmental infrastructure, with environmental stewardship central to our success. Guided by our connection to the water cycle, we are investing for the long-term and taking measurable action to improve water quality, enhance biodiversity and accelerate progress towards Net Zero.

DRIVING ENVIRONMENTAL GAINS
Since the Water Industry Strategic Environmental Requirements (WISER) were set in 2022 by the Environment Agency and Natural England, as part of the UK Government's 25-Year Plan, all water companies have taken measures to focus more resource and investment into environmental resilience.

South West Water's PR24 business plan launched early to begin delivery ahead of schedule and now following the water industry's Cunliffe Review (2025) and White Paper (2026) teams are working to review, adopt and progress the recommendations.

In 2025/26 South West Water took several steps to advance the Company's environmental governance including the first appointment of a Chief Sustainability and Natural Resources Officer (CSNRO). The ESG Committee has also gained closer oversight of Net Zero and Climate Resilience objectives with ongoing active participation in the Water UK Environment Committee and local partnerships.

Key Metrics	
UST active management (ha)	5,138
Peatland restored (ha)	254
Number of BPC units nominated	379
Ofwat Innovation projects	Water Net Gain
Number of trees planted	31,893
Number of stakeholder workshops	4 (c.250 people)

WORKING IN PARTNERSHIP
Working with local communities, groups and organisations is key to strengthening networks and partnerships for environmental gains between the public, private and third sectors. In 2025/26 we contributed to the launch of important regional initiatives such as Plymouth's Plan for Nature, the Wild Summit hosted in Bristol, the UK Government's Land Use Strategy and Local Nature Recovery Strategies for Cornwall and Isles of Scilly, Devon and Bristol. Alongside ongoing engagement in Catchment Partnerships, we host the Let's Talk water stakeholder forum to engage our environmental partners.

BIODIVERISTY STRATEGY
South West Water's Biodiversity Strategy (2023) has been informed by Defra's Plan for Water (2023) and Environmental Improvement Plan (2025) as a clear commitment to the protection, enhancement and sensitive management of our landholdings and assets summarised in our approach to "protect the best, restore the rest and to work in collaboration beyond our landholdings".

The Water Special Measures Act (2024) updated the list of statutory duties that water companies are responsible for under the Water Industry Act (1991) to establish greater accountability for sustainability outcomes including climate resilience and biodiversity. South West Water has made measurable progress to meet our Biodiversity Duty, strengthened under the Environment Act (2021), which we plan to build on over AMP8-AMP9, as detailed in our Growing Nature to 2035 Progress Update report (2026) available of the South West Water website: https://www.southwestwater.co.uk/environment.

OFWAT'S AMP8 BIODIVERSITY PERFORMANCE COMMITMENT
In 2025/26 each water company began delivery, and enhancement works progressed at scale and pace over the winter, using Defra's metric to baseline and nominate habitat parcels as approved by our Biodiversity Panel. In total South West Water's is forecast to deliver a combined target of 353 biodiversity units of positive biodiversity net gain by 2030 across 18 sites between SWB and BRL.

SOUTH WEST WATER'S £2 MILLION NATURE RECOVERY FUND
We are committed to supporting the natural environment. From restoring habitats to investing in clean energy, we are helping to build climate resilience and protect the places people love. In early 2026 we launched the application process to fund community led projects which deliver measurable benefits to nature, water and people. Funded as part of our redress package for customers announced in September 2025, the fund has welcomed significant interest with successful projects awarded in May 2026.

PROTECTED SITES AND SPECIES

PARK PIT AND STANNON LAKE
Throughout the year, work has continued to advance Higher Tier Countryside Stewardship applications for Park Pit and Stannon Lake, both designated County Wildlife Sites. Ongoing engagement with partners and stakeholders has helped strengthen the proposals, which will continue to be refined to secure long-term biodiversity and ecological resilience.

SOUTH WEST WATER
South West Water, in partnership with South West Lakes Trust, has restored multiple County Wildlife Sites within the South West Water estate and is safeguarding several SSSIs, including Crowdy Marsh and Lopwell Dam. In 2025/26, the South West Lakes Trust actively managed eight of South West Water's SSSIs, delivering agreed habitat management, ecological monitoring and stakeholder engagement to protect designated features and maintain favourable condition and, where applicable, support recovery towards favourable condition.

BRISTOL WATER
Many designated sites are influenced by pressures beyond our land. Where only part of a site or its contributing catchment is within our ownership, site condition is shaped by a complex interaction of land use, diffuse pollution and climate change. Blagdon Lake SSSI was reclassified by Natural England in 2025 as Unfavourable (declining), reflecting elevated nutrient levels from the wider catchment alongside the effects of climate change. While this presents a challenge, it has also created an opportunity to accelerate a coordinated recovery plan for the site. Working with Natural England, the Environment Agency, local landowners and delivery partners, Bristol Water is developing a catchment-wide programme to reduce nutrient inputs.

Alongside this collaborative approach are plans to explore and implement nature-based solutions, such as floating wetlands, and to improve the management of our land to support long-term ecological recovery.

FISH AND EELS
South West Water has continued to improve fish and eel passage and intake screening across South West Water assets, supporting the recovery of native species and enhancing river connectivity. The programme is on track to deliver eight eel passes, seven eel screens, and the removal of a barrier within the Dendles Wood SSSI, enabling fish and eels to move more freely between feeding and breeding grounds. The recently completed Lopwell Dam eel screen was shortlisted in 2025 for the Institute of Civil Engineers (ICE) People's Choice Award, recognising the successful delivery of a complex project with strong environmental benefits. At the Colliford Hatchery we raised 40,000 salmon (a total of 400,000 since 2016) which were stocked at 20 sites along the St Neot, the main tributary of the River Fowey, rising above Colliford Lake. This supports survival of salmon species and supporting the broader health of the river's ecosystem.

INVASIVE NON-NATIVE SPECIES (INNS)
In 2025/26 South West Water INNS awareness, education and training activity increased, with over 7,000 people engaged through outreach and events. Our biosecurity programme is on track to install three new boat washdown facilities, 10 new dip tanks and signage across multiple sites by the end of AMP8.

For our biosecurity programme we appointed specialist contractors to test new methods of removal at Christchurch Harbour and continued large-scale control programmes for American signal crayfish at key reservoirs including Burrator and Roadford. We have also captured and removed over 2,300 invasive fish called ruffe because they displace native fish species and disrupt the food web, preventing them from entering the St

Neot and the wider River Fowey system. This is the highest number since the screens were installed three years ago, suggesting a population boom last year.

NATURESAFE

Launched in early 2024, NatureSafe is an internal communication campaign to raise awareness of nature-related risks across South West Water's operational sites. It equips ground teams with resources and support for ecology enquiries and to mitigate any potential incidents. In 2025/26, the campaign expanded to deliver training sessions to Bournemouth Drinking Water teams; incentivise behaviour change through South West Water's Site Pride and 'You Rock' reward schemes and set up an internal SharePoint Hub. At South West Water, our operational teams are learning to co-exist with and adapt to the presence of beavers on, adjacent to or nearby our assets as we continue to identify and mitigate any potential impacts.

CENTRE FOR RESILIENCE IN THE ENVIRONMENT, WATER AND WASTE (CREWW)

South West Water's partnership with the University of Exeter is now taking strides in pioneering research to address challenges facing the UK water industry and overseas. In 2025/26, several projects were launched to:

- Map and predict high-risk groundwater infiltration areas;
- Improve safety and quality of bathing waters in a new expert-led Safe to Swim Forum;
- Investigate restoration of seagrass and temperate rainforest habitats in the South West via Water Industry National Environment Programme (WINEP); and
- Tackle prediction of algal blooms in lakes.

We continue to address the longer-term challenges facing the water sector driven by climate change and population growth through our joint venture research partnership with University of Exeter, the Centre for Resilience in Environment, Water and Waste (CREWW).

We have committed £21 million of capital and research investment which will fund multiple academic schools across the University of Exeter, working alongside our subject matter experts to meet these challenges.

Ranging from harnessing the power of AI to reduce the risk of groundwater infiltration into our sewer network system to reduce the use of storm overflows, to investigating the prevalence of polyfluoroalkyl substances (PFAs) and microplastics in our drinking water and wastewater, we are using science to drive value for money for our customers and protect our environment.

This year, we have extended the reach of the partnership with the University of Exeter, building on the foundational work of academics focused on catchment management, natural processes, and nature-based solutions which dates back to 2006 through our pioneering partnership with the farming community (Upstream Thinking) to bring better water quality to the South West through a systems based approach.

We have introduced a research theme lead framework which partners academics in the schools of computer science, engineering, bioscience and social science with our subject matter experts to promote a holistic solutions-based approach. This framework is now integral to CREWW's ways of working and has already contributed to the initiation of new multi-disciplinary research projects which also draw upon expertise and input from outside the CREWW partnership.

The CREWW Safe to Swim (S2S) Forums, held in September 2025 and March 2026, convened local water quality interest groups, water companies, internationally respected water industry-focused academics from Newcastle University and the University of Exeter, representatives from local government, national regulators, UKHSA and technology consultants responsible for advising the Paris Olympics Organising Committee on use of the Seine for events.

The S2S Forums facilitated discussion regarding improved methods for informing customers and visitors, empowering them to make well-informed decisions and helping to prevent unnecessary 'not safe to swim' alerts that negatively impact coastal communities economically. We will be launching research projects and discussions with regulators on the research themes identified in the forums, namely:

1. Improving the current approach

To identify and develop methods for improving existing modelling systems which underpin water quality alerts. The focus will be tailoring alerts for specific bathing waters (local tides/marine topography) rather than the current global models.

2. Influencing behaviours
Working with local stakeholders to ensure the improved alert information is understood by bathing water users in terms of risk of illness and causes of risk. A risk-based approach will balance the safeguarding of bathing water user health with protecting coastal economies from blunt 'yes/no' unsafe to swim alerts.

3. Better science, better understanding of risk of illness
With the advances in science since the 1980's (where the current bathing water regulation regime draws its scientific basis) this theme will review the current scientific approaches to identifying risk of illness to bathing water users.

We look forward to sharing the S2S initiative and the wider research programme with the International Water Industry at the 2026 IWA World Water Congress & Exhibition in October 2026 where multiple research projects have been selected by the IWA academic panel to be showcased.

WATER INDUSTRY NATIONAL ENVIRONMENT PROGRAMME (WINEP)

IMPROVEMENTS
Across South West Water, we have been working closely with regulators, including the Environment Agency and Natural England, to develop and deliver environmental programmes through the WINEP, focusing on key themes such as drinking water protected areas, fish and eels, Invasive Non-Native Species, and protected sites.

INVESTIGATIONS
Through targeted WINEP investigations, South West Water is advancing nature-based solutions across marine and terrestrial habitats. Our seagrass investigation project is assessing the impacts of treatment works and upstream catchment improvements on seagrass health across the South West, alongside an Ocean Conservation Trust trial examining how nutrient pollution from sewage and agricultural runoff affects seagrass survival, helping to identify opportunities for active restoration. In parallel, our Temperate Rainforest investigation is exploring the creation and restoration of celtic rainforest on South West Water land and across wider catchments, supported by partnership projects including a Plantlife-led project on Dartmoor to build evidence and share best practice for scalable restoration.

CONSERVATION, ACCESS AND RECREATION

BRISTOL WATER
At Bristol Water's Blagdon Lake, a highlight of the biodiversity works underway in 2025/26 includes a large hedgerow project where 1,890 metres have been laid by a local champion hedge layer, inspiring training sessions for local apprentices. At Chew Stoke Pumping Station, the countryside charity CPRE planted 660 metres of hedgerow to improve safety and livestock barriers while creating a wildlife corridor between existing woodland and wildflower meadows. Community engagement has continued for conservation and recreation across the Bristol estate, including school woodland visits, reservoir runs, charity and NHS events.

SOUTH WEST LAKES TRUST
In 2025/26, teams in South West Water and South West Lakes Trust worked closely to continue delivery of environmental, access, education and recreation benefits across our reservoirs and lakes. Over 2.1 million visitors explored the trails, play areas and nature surrounding our lakes across the South West, supported by more than 4,000 volunteer days and 5,500 education sessions. Provision includes habitat enhancement, species monitoring, outdoor learning and wellbeing activities, access to the water for recreation, and the maintenance and improvement of paths and visitor facilities to ensure they remain safe and well cared for, delivering value for people and nature.

INNOVATION
South West Water is partnered with Westcountry Rivers Trust on our Water Net Gain project for the Ofwat Innovation Fund which in 2025/26 put forward a Willingness to Accept Study to prepare a funding case through the PR29 business plan. Also, the sector's first land-based carbon baseline was completed via the UK Water Industry Research (UKWIR) research programme.

UPSTREAM THINKING
South West Water celebrated the 15-year anniversary of our Upstream Thinking catchment management programme has become a cornerstone in the Company's environmental leadership to deliver impactful and lasting improvements to water quality, biodiversity and catchment resilience across each region.

In 2025/26, Upstream Thinking delivered 5,138 hectares of active management and the programme expanded to now cover 95% of our drinking water catchments to include Chew Magna, Egford, Blagdon, Forum Springs, Axe, Cheddar and Avon in the Bristol area. This year our highlights include reaching a total of 421,199 trees planted since 2019 and receiving further recognitions, winning the CIRIA Biodiversity Challenge Award and a water industry award for Natural Capital Initiative of the Year.

This award is for going above and beyond normal practice and continued and ongoing commitment to sustainability and environmental improvement. This relates not just to the natural environment an organisation holds in trust but also in its own practices and operations.

SOUTH WEST PEATLAND PARTNERSHIP
In early 2026, the partnership premiered a short film called The Living Layer to raise awareness of the importance of peatland restoration and to give insight into the team's work across Exmoor, Dartmoor and Bodmin. In 2025/26, over 2,370 people in total engaged with events, volunteer days and school excursions including a visit from Prince William, Duke of Cornwall, launching a 20-year plan for the Duchy's Dartmoor Estate which includes areas of the peatland programme.

In 2025/26, the programme delivered 254 hectares of peatland restoration with the support of 120 registered volunteers and more than 20 local partners, farmers, landowners, and funders.

OUR NET ZERO TRANSITION
Our commitment to Net Zero goes hand in hand with climate adaptation.

Read more about our progress on our Net Zero transition on pages 78 to 82 in the Pennon Group plc Annual Report and Accounts 2026.

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

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

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

OPERATIONAL KPIs
More information can be found in the Pennon Group plc Annual Report and Accounts 2026 page 46.

SUPPORTING AFFORDABILITY, DELIVERING FOR CUSTOMERS

As providers of essential services we play a vital role in the health and economic wellbeing of our communities; we are committed to delivering on the priorities of our customers, whilst keeping bills affordable.

KEEPING BILLS AFFORDABLE WHILE DELIVERING ESSENTIAL INVESTMENT

Affordability starts with delivering high-quality services at the lowest sustainable cost. Over the past decade, we have focused on operational efficiency, productivity and strong customer service, helping to keep bill increases below headline inflation. The water sector is now entering a period of unprecedented, regulator-approved investment to 2030, designed to secure safe and clean drinking water, reduce storm overflow spills, protect and enhance the environment, strengthen network resilience and prepare for climate change.

In the South West, the challenge is particularly pronounced. Our network serves more than 157 designated bathing waters across a large and geographically diverse region, supported by a comparatively small customer base. Customers rightly care deeply about protecting the rivers, beaches and coastal waters that are central to local communities, health, wellbeing and the regional economy. Delivering that protection requires higher infrastructure and operating costs than many other regions, and this contributed to a step-change in bills in 2025/26, and a further increase in 2026/27. While the increase in the second year was lower, with inflation remaining high, we know affordability pressures remain a concern for many households.

UNDERSTANDING THE IMPACT ON CUSTOMERS

Bills across the UK water sector have increased by around 25% for the 2025/26 year, and whilst this was supported by customers in terms of the need for greater investment, the impact on bills has been challenging at an individual level. We have seen a significant step up in the past year in the volume of contact received from customers - both who need support with the affordability of their bill, or for more information and understanding on what their bill is paying for. In the South West region, the removal of the GC50 government contribution has further increased the year-on-year impact for customers of their water bills.

Our customer service teams have been working tirelessly to support customers through this period, and, in particular, to provide tariff and other support measures to those who need it most. Alongside this, we have also been working hard to understand how we can learn from the challenges this year has brought, to provide greater levels of communication, support and engagement with customers as we move forward.

Customers told us they were concerned about affordability, worried about future costs, and at times unsure why their bill had increased by a particular amount or by more than expected. For many, higher water bills came alongside wider cost of living pressures. For customers in vulnerable circumstances, these pressures may be compounded by health conditions, disabilities, caring responsibilities, language barriers, digital exclusion or major life events.

'WATER GREAT SUMMER' CAMPAIGN

We were able to flex our communications across the summer to reflect the regional variations and also the changing impact of weather conditions. To support Bristol Water during Drought Level 2, we targeted both household customers and also visitors to the region, reflecting the additional demand on supplies presented in the summer months. We used out of home media to target visitors at the Gordano M5 service station and Weston Super Mare rail station with a reach of 1.3 million.

Household customers were targeted with a combination of press and digital advertising together with paid social media - with increases in activity during the heatwave periods. The objectives were to drive awareness of water saving advice, including free devices and also of the impact of the dry summer on water resources. We saw a positive result for all key objectives across the period.

2026/27 ANNUAL BILLING CYCLE

In preparing for the 2026/27 annual billing cycle, we have taken into account this feedback and tried to reflect in our approach what customers have told us matters most:

- knowing about changes early
- receiving clear and simple explanations

- trusting that changes are applied fairly and consistently
- being able to access help easily
- speaking to someone who understands their situation

Communication has been a key theme across all areas, both in terms of the bill itself, as well as what customers are paying for. We know customers care deeply about our region and the impact our services can have on the environment; and that they want to understand how we are making a difference in their local area. We are taking a hyper-local focus to our communications and engagement, and will be sharing progress on our investment programme as we deliver projects across the five-year cycle.

IMPROVING CUSTOMER SERVICE

Our household contact centre focus on providing seamless, end-to-end support, with particular emphasis on helping customers understand their bill, identify the right tariff and access affordability support quickly. During the year we strengthened how we communicate bill changes and the reasons for them, improved the consistency of our explanations across channels, and enhanced the way we identify and support customers in vulnerable circumstances, including those who may be digitally excluded or who need additional assistance to engage with us. These changes are designed to make it easier for customers to get the help they need, first time, and to build trust through fair, clear and consistent outcomes.

TARGETED SUPPORT AND ERADICATING WATER POVERTY

In 2025, we met our pledge to eliminate water poverty in the South West and Bristol, using the definition of affordability as spending no more than 5% of household disposable income on water. This was an important milestone and reflected sustained focus over a number of years. We recognise that the bill increases in 2025/26 and 2026/27 mean we must continue strengthening support to prevent customers falling into difficulty.

Over the past year, we significantly expanded affordability support:

- More than c.116,000 customers across the Company are now benefiting from our financial support framework; and
- At South West Water and Bournemouth Water, we set a target to support 75,000 customers through social tariffs by the end of 2025/26. That target was exceeded ahead of schedule, with 79,666 customers benefitting.

INNOVATIVE TARIFF TRIALS

We are currently trialling three progressive tariffs designed to reward efficient water use:

- Smart Saver, where charges rise with usage
- Seasonal tariffs, with higher rates in summer and lower rates in winter
- Summer peak tariffs, where customers using water above an upper limit pay a higher rate during peak summer periods

One year analysis of the Smart Saver trial showed a 5.3% reduction in water use, which is encouraging. However, customer feedback also highlighted areas of concern, including anxiety about unfamiliar tariff designs and worries about higher charges.

We are using this feedback to refine tariff design, improve how we explain these options to customers, and ensure safeguards are in place, particularly for customers who need extra support.

BUILDING A PLATFORM FOR THE FUTURE

We know from the extensive engagement we have with customers, that as we move into an ever more digital and AI world, it is important that we have the tools and technology to support customers through the channels they choose. With this in mind, we have been working hard to implement a cutting edge customer platform, which will provide the foundations for an enhanced digital service offering for customers, and allow for improved customer service, self-service and communication. We anticipate the technology will 'go-live' in 2026/27 and have been working hard to engage and train customer colleagues in the new system, and ensure customer journeys will benefit from improved digital functionality and simplification and automation of our existing processes. Providing improved customer service, coupled with both efficiency improvement and strengthened cyber resilience, project 'Fusion' provides significant opportunity to modernise and improve delivery for our customers.

CUSTOMER AFFORDABILITY AND VULNERABILITY EVENTS

ENGAGEMENT CASE STUDY: AFFORDABILITY AND VULNERABILITY COMMUNITY DROP-INS

During the year, rising living costs meant more residents needed help with bills, budgeting, benefits and debt. These pressures are often made worse by vulnerability factors such as poor health, disability, caring responsibilities, language barriers, digital exclusion or recent life events. Many customers told us they needed face-to-face support to talk through their options with someone they trusted.

What we aimed to do:

- Provide accessible, in-person support on affordability issues, including arrears, budgeting and water use
- Identify vulnerability early and make reasonable adjustments where needed
- Increase take-up of financial support and independent advice through community-based engagement
- Prevent problems escalating by agreeing sustainable payment plans and support schemes
- Build trust with customers less likely to use digital or formal channels

What we delivered:

- We ran 569 community drop-in sessions to reach customers who might otherwise struggle to access support. Sessions were promoted locally and held in familiar, trusted venues, removing the need for appointments or online forms.
- Held in libraries, foodbanks, community centres and partner venues
- Delivered thorough confidential one-to-one conversations
- Offered practical support including budgeting advice, benefits guidance, debt signposting, payment plans, affordability tariffs and referral to the Priority Services Register
- Delivered in partnership with local advice agencies to enable warm handovers into longer-term support
- The drop-ins improved access for customers who were anxious about formal processes or struggled with digital channels. Customers benefitted from clear options, fewer repeat contacts, and quicker routes into the right support at the right time.

SUPPORTING OUR CUSTOMERS THROUGH OPERATIONAL CHALLENGES

Our approach to incident management is rooted in putting customers at the centre of every decision, particularly during periods of disruption. We prioritise clear, timely and accessible communication, ensuring customers are kept informed through multiple channels and can easily understand what is happening, what action is being taken, and what support is available.

We place a strong emphasis on identifying and proactively supporting customers in vulnerable circumstances, ensuring they receive tailored assistance at pace. Alongside this, we focus on maintaining service transparency, acting quickly to resolve issues where possible, and providing practical support such as alternative water supplies, when service interruptions occur.

Importantly, we treat every incident as an opportunity to learn. Customer feedback is actively gathered and embedded into our continuous improvement processes, helping us refine both our operational response and the way we communicate. This ensures that, even in challenging and prolonged events, we continue to strengthen the experience we deliver and build trust with the communities we serve.

This informs our customer strategy for delivering a trusted, simple and human service. It is how we run the business, grounded in five principles: first-time resolution, moments of truth, proactive communication, simple self-service, and clear accountability. As part of this, we have aligned clear customer promises across the Company to ensure a consistent and transparent experience, supported by actively sharing best practice between our regions to drive continuous improvement.

CUSTOMER AFFORDABILITY

We achieved our target to eliminate water poverty by 2025 in the South West, Bournemouth and Bristol regions, and we have recommitted to 100% affordability by 2030. Our £200 million support package will help us achieve this goal and ensure no customer cannot afford their water bill.

STORM GORETTI

On 9 January, Storm Goretti caused significant disruption across Cornwall, including a power outage at Wendron treatment works that lasted until 12 January. As a result, up to 15,960 properties experienced water supply interruptions, including a number needing additional support or who relied on water for critical medical needs. During the incident, all customers with critical needs successfully received deliveries and communication was maintained throughout via text messages, voice messages to landlines, InYourArea, the website, social media and regional media coverage, alongside the establishment of three bottled water stations in Helston, Mullion and Marazion. Following the event, customers were invited to provide feedback via SMS, with 940 responses received, including 230 Priority Service Register (PSR) customers, representing a 12.8% response rate among those contacted and 5.9% of all affected properties.

CUSTOMER FEEDBACK

Overall, feedback from customers affected by Storm Goretti reflects a broadly positive view of the response, particularly given the exceptional circumstances. Many customers recognised the severity of the storm and felt the situation was handled effectively, with strong appreciation for the efforts of frontline teams, especially those supporting bottled water distribution and vulnerable customers. Communications were seen as helpful and reassuring, supported by a range of channels and supplementary information such as video updates.

This positive sentiment is reflected in satisfaction metrics, with the highest scores relating to the frequency of updates, followed by satisfaction with the speed and clarity of communications, and accuracy. Customers placed particular value on being kept informed, although there remains opportunity to strengthen clarity and precision. Satisfaction with time to resolution was lower, reflecting the prolonged impact of the incident.

Together, this indicates that while customers valued the efforts, communication and support provided during a complex event, the length of disruption remained a key driver of overall experience. This feedback was fed directly back into our incident management process for future service and communication improvements.

OPERATIONAL KPIs

More information can be found in Pennon Group plc Annual Report and Accounts 2026 page 50.

NUMBER OF CUSTOMERS ON SOCIAL TARIFFS

We achieved our target of eliminating water poverty by 2025 across the South West, Bournemouth and Bristol regions, and have recommitted to achieving 100% affordability by 2030. Our £200 million support package will help us achieve this goal and ensure no customer cannot afford their water bill.

CUSTOMER MEASURE OF EXPERIENCE (C-MeX) [1]

C-MeX is Ofwat's measure of customer experience, capturing feedback from customers who contact us and broader perception surveys. We triangulate this with operational data to focus on what matters most to customers. This informs our customer strategy for delivering a trusted, simple and human service. It is how we run the business, grounded in five principles: first time resolution, moments of truth, proactive communication, simple self service, and clear accountability. As part of this, we have aligned clear customer promises across the Company to ensure a consistent and transparent experience, supported by actively sharing best practice between our regions to drive continuous improvement.

We have clear C-MeX improvement plans in place, with regular team and Board review, focused on right first time delivery and clearer, more effective communication. This is supported by ongoing reviews of key customer journeys to identify areas we can improve. To improve performance, we are prioritising a number of critical processes where failure is most visible and repeatable: billing effectiveness, leak management, blockages and operational jobs. We are already seeing service improvements in these areas. C-MeX performance varies across regions. Bristol Water is a leading performer in the sector at 5th, whilst South West Water remains a key focus for improvement, ranked at 15th.

Across our household contact centre, our aim is to provide clear, joined up, end-to-end support. Whether customers contact us about a bill, affordability concerns, service issues or additional support needs, our objective is to make it easier to get the right help first time, in a way that works for them.

DEVELOPER MEASURE OF EXPERIENCE (D-MeX) [1]

D-MeX is Ofwat's measure of service experience for developers which directly compares us with our peers. South West Water and Bristol Water have seen broadly improving trends in performance in this metric.

[1] C-MeX and D-MeX positions reflect final Q4 performance but remain subject to industry review and validation

CHIEF FINANCIAL OFFICER'S REVIEW

This financial year has marked a return to profitability in the first year of our five-year regulatory cycle.

The Company has delivered a return to profitability in 2025/26. This is in line with expectations and reflects the step up in revenue from the first year of AMP8 coupled with a firm focus on operational costs, despite inflationary and operational pressures.

Underlying EBITDA has increased by 55.7% year-on-year to £482.4 million (2024/25: £309.8 million) driven by higher revenue and a focus on cost control. Whilst the first year of the five-year cycle results in a step up in the underlying cost base, due to inflationary pressures and regulatory charges, our integration and efficiency programmes have provided benefit and the restructuring of the Company, aligned with our strategic priorities, has allowed increased focus on cost control and driving further efficiencies throughout the business.

Underlying operating profit more than doubled year-on-year to £310.4 million (2024/25: £141.5 million), with EBITDA benefits moderated by modestly increased depreciation charges reflecting the Company's expanding asset base from the ongoing capital investment programme.

Non-underlying costs of £15.4 million were incurred (2024/25: £32.4 million) as a result of ongoing restructuring charges, investment in new technology and costs associated with environmental and legal provisions.

Interest costs also increased, reflecting higher borrowing to support the regulated capital programme. This was partially offset by higher year-on-year interest capitalisation, again stemming from the ongoing capital programme.

As a result, underlying profit before tax was £140.3 million (2024/25: loss of £28.8 million), whilst statutory profit before tax was £124.9 million (2024/25: loss of £61.2 million). Statutory profit after tax was £91.4 million (2024/25: loss of £48.6 million).

Our £3.0 billion[1] investment programme over the five-year AMP8 period is a core focus across the business, to deliver improvements for customers and to ensure we improve the resilience and performance of our assets. We remain focused on delivery, with clear priorities and tight control. This means delivering outcomes effectively, executing the capital programme efficiently and building on the momentum we have created this year. We remain on track to deliver on our Performance Commitment Deliverables (PCDs) over the five-year period, with a net neutral position at the end of year one in terms of delivery incentives.

In the first year of AMP8, we have continued to focus on delivering on our four strategic priorities through our business units, and to focus on efficiency opportunities across our integrated structures and operations. As we continue to challenge ourselves to focus our expenditure to deliver improved outcomes, we are also looking at how we learn from our different legacy businesses to deliver as efficiently and effectively as we can.

We invested record levels of capital to deliver network resilience and enhancements and benefits for the environment and our customers. Our Company-wide capital investment was £563.3 million as we focus on delivering on our AMP8 commitments.

Our expenditure was slightly lower than anticipated as a result of reprofiling of spend, to ensure robust modelling and clear design across our major projects, prior to commencing on-site delivery. Across the business we have delivered key investments in storm overflow reductions, wastewater treatment and infrastructure, clean water treatment works, network resilience, leakage and metering.

Our current rate of investment for the Company aligns with that required to deliver our five-year programme of £3.0 billion[1] and which will deliver 34% growth in our regulatory asset base to 2030. To support this growth, we are focused on ensuring we have a strong and resilient balance sheet and we end the first year of the AMP8 period with a gearing of 63.0%[2], within our gearing policy of 55-65% and within our anticipated range of 60-65% to 2030 for our Company. The continued strong performance reflects the benefit of significantly improved operating cash flows in 2025/26, supporting investment in our capital programme.

[1] In forecast outturn prices
[2] Based on net debt to RCV

Debt funding is also critical for our growth; South West Water continues to maintain investment-grade credit ratings, enabling access to competitive financing. During the year the Company has raised £490 million in additional funds to support the AMP8 capital programme and expects to continue to raise this quantum of debt each year through the AMP8 period.

FINANCIAL PERFORMANCE
South West Water's revenue for 2025/26 was £939.2 million (2024/25: £739.2 million) driven by regulated tariff increases. Underlying operating costs of £456.8 million (2024/25: £429.4 million) have increased year-on-year by £27.4 million. This 6.4% increase reflects inflationary cost pressures, plus the impact of increased regulatory charges, higher bad debt charges linked to our step up in revenue, increased operational costs resultant from adverse weather and operational incidents, including £5.7 million in customer compensation.

Our efficiency programme has delivered benefits, helping to mitigate these pressures whilst reduction in commodity costs through our hedging strategy has resulted in lower year-on-year power prices.

South West Water's underlying EBITDA increased by 55.7% to £482.4 million. Underlying operating profit has more than doubled, reflecting the strong EBITDA performance, offset by an increase in depreciation charges of £3.7 million compared to last year and in line with our ongoing capital investment programme.

Net finance costs of £170.1 million (2024/25: £170.3 million) reflect an effective interest rate of 5.5%[1] (2024/25: 5.2%) The year-on-year decrease of £0.2 million was a result of higher capitalised interest partially offset by higher debt to fund the ongoing capital programme.

South West Water's statutory profit before tax was £124.9 million (2024/25: loss of £61.2 million) after non-underlying costs of £15.4 million (2024/25: £32.4 million).

South West Water's capital expenditure was £563.3 million (2024/25: £588.7 million), reflecting early benefits being delivered to customers and communities across our regions. We have already invested heavily this year in storm overflow reductions, our wastewater treatment and infrastructure, new water treatment works, leakage detection and repair, smart metering, and replacing lead pipes.

EXPECTED CREDIT LOSSES
Our ongoing commitment to affordability and support schemes for those in need will be critical going forward, both to support our customers and to ensure we maintain a strong collections profile. Despite the step up in revenues, cash collection remained strong across the year. Expected credit loss charges were £14.0 million (1.5% of revenue), slightly higher than the prior year (1.1% of revenue) but remaining strong within the sector. Our teams continued to focus on both managing older debt profiles and ensuring effective collection of more recent billings, despite the increase in tariffs.

NET FINANCE COSTS
The £0.2 million decrease in finance costs (net) was primarily driven by new and renewed debt facilities (£26.1 million) as we continue to invest record levels of capital in our water businesses, offset by lower interest rates (£4.0 million), increased interest received (£9.2 million) and higher levels of capitalised interest (£10.9 million), given ongoing investment and other movements amounting to £2.2 million.

The Company continues to efficiently secure funding through its Sustainable Financing Framework and to ensure interest rate risk is mitigated in line with the Group Treasury Policy, this is achieved both through issuing fixed rate debt issuances and effective interest rate hedging, whilst a further component of the debt portfolio is being index-linked.

NON-UNDERLYING ITEMS
Non-underlying items for 2025/26 were a net charge before tax of £15.4 million (2024/25: net charge of £32.4 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 these items is considered to provide additional useful information on the performance and the position of the Company as well as enhancing the comparability of information between reporting periods.

The non-underlying charge includes:

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[1] A measure of the mean average interest rate payable on net debt, which excludes interest costs not directly associated with net debt

- £8.7 million of technological enhancement costs in connection with implementation of new customer technology platforms
- £6.7 million includes costs of settlement of both the DWI's prosecution in respect of the May 2024 Brixham water quality incident, and the enforcement undertakings agreed with Ofwat in August 2025 in respect of the wastewater investigations, together with associated legal fees

The non-underlying charges in the year give rise to a net tax credit of £3.0 million in relation to the above items.

TAX

The overall 2025/26 tax charge for the Company was £33.5 million (2024/25: credit of £12.6 million). On an underlying basis, the tax charge for 2025/26 for the Company of £36.5 million (2024/25: credit of £4.5 million) consisted of:

- Deferred tax charge of £33.3 million (2024/25: credit of £3.0 million). This charge primarily arises in relation to capital allowances in excess of depreciation charged across the Company, largely due to full expensing. This is partially offset by a current year deferred tax credit in relation to tax losses carried forward for utilisation in later periods.
- Current tax charge of £3.2 million (2024/25: credit of £1.5 million) predominantly relating to prior year items.

There was also a non-underlying deferred tax credit in the year of £3.0 million (2024/25: £8.1 million) relating to the non-underlying items.

The Company continues to generate tax losses, all of which are carried forward for future relief. These tax losses arise as a result of the enhanced capital allowances available because of full expensing and first year allowances, and capitalised interest, which for tax purposes is deductible in the year incurred.

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

The UK Finance (No.2) Act 2023 introduced the Pillar Two global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax in line with OECD BEPS Pillar Two principles. The UK is the only jurisdiction in which the Company operates therefore an assessment of any potential Pillar Two tax exposure has been performed focusing solely on the application of the UK domestic top-up tax rules. The assessment performed by the Company, based on country-by-country reporting principles and financial statements has determined that no top-up tax is expected to arise.

MOVEMENT IN NET DEBT

The Company's cash flow from operations for 2025/26 was £503.8 million (2024/25: £218.8 million). Our improved operating cash flows reflect the higher levels of underlying profitability, benefitting from higher tariffs and operational efficiencies, added to by improved working capital management, partially offset by cost pressures from inflation and delivering on our operational performance commitments.

Net interest payments were £128.9 million (2024/25: £112.3 million) with the higher payment in 2025/26 driven by increased debt consequent on our ongoing record levels of capital investment.

Capital investment has resulted in slightly lower cash outflows of £39.8 million to £564.3 million (2024/25: £604.1 million).

Other significant movements in net debt in 2025/26 include payment of a dividend totalling £75.0 million (2024/25: £nil). In addition, there was non-cash indexation on our loan instruments totalling £32.3 million (2024/25: £26.5 million).

NET DEBT AND LIQUIDITY

As at 31 March 2026, the Company had £740.9 million of liquidity through a combination of cash and committed facilities (31 March 2025: £696.7 million). This consists of cash and cash equivalents and restricted funds of £295.9 million (31 March 2025: £326.7 million), and £445.0 million (31 March 2025: £370.0 million) of undrawn committed facilities.

During the year the Company has secured £490 million of new debt, consisting of:

- £190 million of new term loans and leasing with an average maturity of seven years

- £300 million through our public bond issuances under our EMTN[1] programme

In addition to this, a further Private placement of £49 million has been completed post year end.

The Company has secured an additional £175 million in new and renewed Revolving credit facilities and since March 2026.

Resulting from the changes above and drawing of new debt during the year, South West Water gross debt at 31 March 2026 was £4,152.3 million (31 March 2025: £3,884.3 million). The debt has a maturity of up to 31 years with a weighted average maturity of 12 years.

South West Water net debt at 31 March 2026 was £3,856.4 million (31 March 2025: £3,557.6 million) and is a mix of fixed/swapped (£2,788.5 million, 72%), floating (£259.8 million, 7%) and index-linked borrowings (£808.1 million, 21%), which reflects our diverse debt. Where appropriate, derivatives are used to fix the rate on floating rate debt.

At 31 March 2026, South West Water's net debt to RCV ratio stood at 63.0% (31 March 2025: 63.3%). This remains broadly neutral year-on-year as a result of increasing RCV offsetting in year debt funding of our investment programme.

South West Water's cost of finance, with an effective interest rate in 2025/26 of 5.5%[2] (2024/25: 5.2%), reflects higher interest rates and the impact of full year interest charges on new issuances in 2024/25.

INVESTMENT GRADE RATINGS
South West Water, maintains two investment grade credit ratings with Moody's and Fitch, which was a new licence requirement from April 2025. The Moody's rating remains on negative watch and the Company remains committed to supporting an investment grade credit rating.

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.

TAXATION STRATEGY
Transparency remains a critical component of our approach, recognising that openness and honesty with our customers is essential. There has been a dramatic shift in how tax transparency is viewed over the last decade and the Company is proud to stand as a leader in ethical and transparent business practices across the UK utilities sector.

We are proud that our parent Company has been awarded the Fair Tax Mark for the eighth year in a row in October 2025. The Fair Tax Mark accreditation scheme is the gold standard of responsible tax conduct. It recognises organisations that are leaders in corporate tax transparency.

Like any successful business, we continue to work hard to be efficient and effective in delivering the best possible results for customers, communities and stakeholders. 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.

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 throughout the Company.
- Comply with our legal requirements, file all appropriate returns on time and make all tax payments by the due date.
- Consider all taxes as part of ongoing decisions.

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[1] Euro Medium Term Note

[2] A measure of the mean average interest rate payable on net debt, which excludes interest costs not directly associated with net debt

- 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.

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

TAX CONTRIBUTION 2025/26 - BORNE/COLLECTED

The Company's total tax contribution (TTC) for 2025/26 amounted to £103 million (excluding £125 million of VAT receipts) (2024/25: £92 million excluding £134 million of VAT receipts). TTC is a standardised measure of a Company'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 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 £43 million (2024/25: £39 million) including employees' Pay As You Earn (PAYE) and total NICs. A net amount of £26 million (2024/25: £25 million) was collected on behalf of the authorities for employee payroll taxes.

Business rates of £33 million (2024/25: £32 million) were paid to local authorities. This is a direct cost to the Company and reduces profit before tax.

UK Corporation Tax receipts from HMRC in the year were £1 million (2024/25: £3 million receipts) in relation to over-payments made in prior years. There were no payments due in respect of 2025/26 or 2024/25 as the Company has generated tax losses in both years.

Payments to the Environment Agency and other regulatory bodies totalled £27 million (2024/25: £20 million). This reduces profit before tax. Fuel excise duty of £1 million (2024/25: £1 million) related to transport costs. This reduces profit before tax. VAT repayments of £125 million (2024/25: £134 million) have been received by the Company from HMRC. VAT has no material impact on profit and is excluded from the TTC figure to avoid distortions in this.

CONTINGENCIES

Ofwat and the Environment Agency (EA) announced an industry-wide investigation into sewage treatment works on 18 November 2021. On 10 July 2025, Ofwat announced its findings for South West Water and its decision to accept South West Water's enforcement package, in lieu of a financial penalty. The agreed undertakings consist of investing £20 million between 2025-2030 to reduce spills from specific outflows, establishing a £2 million local fund to tackle sewer misconnections and providing £2 million of funding through a Nature Recovery Fund to support environmental groups. The costs in relation to the £20 million investment will be accounted for as capital when incurred.

On 2 February 2024, a summons was received by South West Water from the EA in relation to water discharge activity at seven locations with a total of 30 charges. The EA have since withdrawn six of these charges relating to one site. Sentencing was held on 12 and 13 March 2026, although the value of any fine will not be known until the judgement is handed down on 30 July 2026.

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 continues to work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation.

The Company has undertaken its own internal investigation into the data and third-party experts have concluded the calculations are within a tolerance as reported; as a result there were no detrimental impacts to customers through ODIs. The Company recognises opportunities to enhance data quality to improve the estimation process and these have been shared with Ofwat. Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply, from closing the investigation with no further action, agreeing to formal S.19 undertakings, through to fining the Company up to 10% of its revenue, in relation to the regulated drinking water business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty.

Following the Brixham cryptosporidium outbreak in May 2024, legal proceedings were brought by the Drinking Water Inspectorate (DWI). South West Water pleaded guilty to the charge of supplying water unfit for human consumption on 4 March 2026, with sentence received on 2 June 2026. The Court levied a fine of £1.9 million, reflecting the serious impact this incident had on customers in the area, whilst also recognising the extensive customer support and remedial actions taken by South West Water.

An amount of £6.7 million has been included within the non-underlying costs for the matters set out above.

PENSIONS

At 31 March 2026, the overall Company surplus on retirement obligations was £13.3 million (31 March 2025: £14.7 million).

The decrease in the surplus in 2025/26 of £1.4 million is largely from the Pennon Group Pension Scheme (PGPS), recognised in other comprehensive expense. Total liabilities have reduced by £7.9 million, largely due to changes in the financial assumptions driven by the increase in the discount rate. Total assets have reduced by £9.3 million, driven by the reduction in the value of assets from the prior year. The triennial valuation of PGPS as at 31 March 2025 has been completed and no deficit recovery contributions are required. The ongoing funding requirements for the Company to the scheme were limited to the continuing administration expenses.

DIVIDENDS

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 states 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 made taking into account the ability of the Appointee to finance its Appointed Business.

A dividend of £125.0 million in respect of 2024/25 was declared and approved by the Board on 4 July 2025. Additionally, a dividend of £75.0 million in respect of 2025/26 was declared and approved by the Board on 27 March 2026.

A dividend of £75.0 million was paid in August 2025. As at 31 March 2026, dividends declared but not yet paid amounted to £170.0 million (31 March 2025: £45.0 million). Payment of declared dividends will be considered in 2026/27, taking into account the financial resilience of the Company.

COST CHANGE PROCESS

In the PR24 Final Determination, Ofwat highlighted a number of areas of potential cost uncertainty where they would consider 're-opening' the Final Determination to adjust for the impact of these issues on water company cost allowances. As a result, in the 2025/26 financial year, Ofwat introduced a 'cost change process' that allows companies to provide submissions to Ofwat for additional funding in the current regulatory five-year period for specific areas of investment. These areas include asset health and economic growth considerations, which will be of relevance in the regions in which the Company operates.

The first submission was completed for South West Water in May 2026, with detailed cases and supporting evidence with Ofwat for review. Whilst the Company's submissions amounted to c.£240 million[1] of additional allowances, in-AMP funding was requested as part of that submission. The submissions will be subject to review and scrutiny from Ofwat, and given the nature of certain claims, which are specific to the Company's coastal region, may require ongoing engagement and discussion before agreement. We continue to engage positively with Ofwat in this regard and ensure any additional expenditure is fully supported by our customer research and engagement through our WaterShare+ customer panels.

OUR FINANCIAL KPIs

REGULATORY CAPITAL VALUE (RCV) (£M)
Regulatory Capital Value (RCV) has been developed for regulatory purposes and is primarily used in setting price limits. RCV is widely used by the investment community as a proxy for the market value of the regulated business and forms part of covenant debt limits. Commentary on performance is set out in the Chief Financial Officer's report on pages 55 to 61.

GEARING (%)
The regulated gearing is calculated as year end net debt as a proportion of RCV (based on RCV including the adjustment for the IFRS16 leases). Commentary on performance is set out in the Chief Financial Officer's report on pages 55 to 61.

PROFIT/ (LOSS) BEFORE TAX (£M)
Profit/(loss) before tax is a key measure of the Company's financial performance after deducting all operating and finance costs. Underlying profit/(loss) before tax is measured to exclude any distorting non-underlying items. Commentary on performance is set out in the Chief Financial Officer's report on pages 55 to 61.

[1] In 2022/23 prices

OUR RISK MANAGEMENT

The Company operates within a complex and evolving risk environment which includes responding to changing Government policy, multiple regulatory frameworks and increasing expectations.

The long-term success of the Company is dependent on the effective management of risks and opportunities and remains a key focus for the South West Water Board and Executive.

The Company's risk management framework considers risk from both a strategic (top-down) and tactical (bottom-up) perspective. This enables a common understanding of risks and opportunities and their interdependencies, allows risks and opportunities to be cascaded and escalated effectively and provides a multi-layered approach to the review and challenge of risk.

SOUTH WEST WATER'S RISK MANAGEMENT FRAMEWORK

The Company operates a consistent risk management framework across regulated and non-regulated activities, as well as support and other enabling functions.

Principal and emerging risks are reviewed by both the South West Water Board and the South West Water Executive throughout the year and are considered in the context of the Company's strategic priorities and the external environment within which the Company operates.

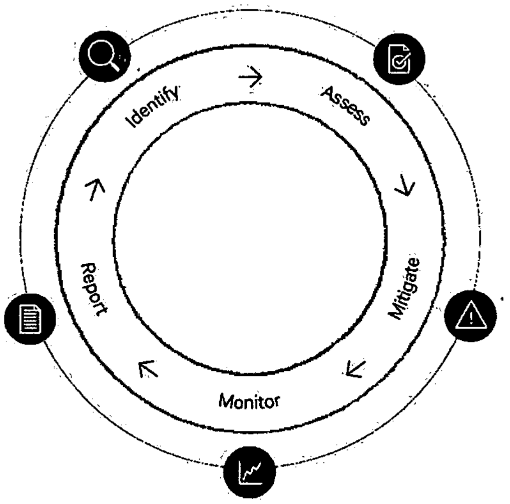
The consideration of these risks and the effectiveness of their management against the desired risk appetite is informed by, and reviewed against other data points, including; key performance metrics, operational insights, the outcome of assurance activities and broader geopolitical, regulatory and economic developments.

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

		Risk management responsibilities	Key assurance activities
OVERSIGHT	Board	• Sets the Company's strategic objectives • Establishes the Company's risk appetite • Determines the Company's principal risks • Ensures an effective internal control framework	• Quarterly reviews of the Company's principal risks against the determined risk appetite • Quarterly reviews of emerging risks and horizon scanning
	Audit Committee	• Reviews the effectiveness of the Company's risk management framework and internal controls framework	• Perform regular deep-dive reviews on principal risks • Ensures an appropriate level of assurance coverage over the Company's principal risks • Approves the risk-based South West Water Internal Audit Plan • Receives reports on the outcomes of key assurance activities
FIRST LINE OF DEFENCE	Operational Risk Management - within the business units	• The identification, evaluation and monitoring of strategic and tactical risks • Maintaining robust internal controls to mitigate key risks • Monitoring compliance with internal control framework	• Ensure robust first line assurance across key business processes • Annual self-assessment and certification of compliance

		Risk management responsibilities	Key assurance activities
SECOND LINE OF DEFENCE	Executive Committee	• Ensuring the operation of the Company's risk management and internal control frameworks • Quarterly review of the Company's principal risks and mitigation strategies • Review of significant bottom-up tactical risks • Provides challenge to individual functional areas over the management of their risks • Horizon scanning to identify emerging risks and opportunities	
	Business units Committees and steering groups	• Managing Directors have established committees and steering groups that assess, monitor and review risks to feed into the overall Executive reviews.	
	Compliance Committee	• Performs deep-dive reviews on risk areas relating to data and substantive submissions	• Reviewing, scrutinising and approving data submissions • Escalating identified material issues and risks to the Executive Committee • Ensuring the completion of actions to mitigate any risks identified
THIRD LINE OF DEFENCE	Internal Audit	• Provides independent, risk-based assurance on the effectiveness of the internal control framework • Coordination of independent assurance activities	• Quarterly reporting to Audit Committee and Executive on the effectiveness of internal controls and the outcomes of key assurance activities

RISK MANAGEMENT PROCESS DIAGRAM



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

Risk impact is assessed across various financial and non-financial categories including: financial, safety, environmental, stakeholder and customer impact, reputation, sustainability, and quality. Likelihood is defined as the probability of a risk event occurring over the next five years under four categories (probable, possible, unlikely or rare) with defined probability thresholds.

Risks are assessed on both a gross before considering existing control measures, and a net basis, after taking account of the effectiveness of those controls. The overall Red, Amber, Green (RAG) rating reflects the combined assessment of impact and likelihood. The resulting net risk position is then compared with the relevant risk appetite to determine whether further action is required and to prioritise the appropriate management response. Actions to manage risks cover four response types:

- Tolerate: where decisions are taken to tolerate a risk, subject to ongoing monitoring.
- Treat: where actions are taken to manage and reduce risks.
- 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.
- Terminate: where decisions are taken to stop activities so that we are not exposed to particular risks.

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

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, 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 pages 140 to 143.

Being a water and wastewater Company, we acknowledge 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 influences, where relevant, and the mitigating actions being taken.

Further detail on the specific physical and transitional climate change risks and opportunities relevant to the Company, along with mitigating actions being taken, are detailed further within TCFD on pages 79 to 92.

REGULATED WATER AND WASTEWATER TECHNICAL (NON- FINANCIAL) DATA

In addition to the risk management framework detailed above which applies across the Company, recognising the importance of the regulatory ODI framework, South West Water engage independent, third-party auditors to audit the accuracy of the technical (non-financial) data reported within the various annual performance reports and regulatory publications and submissions, including its performance commitments and environmental data. Furthermore, a third-party provider, Jacobs, has also performed additional assurance work over selected sustainability measures.

CONTINUOUS IMPROVEMENTS TO RISK MANAGEMENT AND INTERNAL CONTROL

The Company is committed to continuously improving its ability to identify and respond to current and emerging risks.

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 Company-wide principal risks and application of the Company's risk management framework across the Company are provided in the Pennon Group plc Annual Report and Accounts 2026 (pages 62 to 69).

HORIZON SCANNING AND NOTABLE EMERGING RISKS

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 management process.

Emerging risks are reviewed by the 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
Geopolitical Tensions	Increased escalation of conflict in the Middle East combined with the ongoing war in Ukraine could further impact the global economy, heighten energy resilience risks and disrupt key supply chains such as chemicals.	Market and economic conditions	Short to medium 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.	Operating performance	Medium term
Quality of water resources	Changes in regulatory requirements over the treatment of micro-plastics, micro-pollutants and 'forever chemicals' (e.g. PFAS) as a result of ongoing research may require significant changes in operational processes in the water treatment process	Operating performance Business systems and capital investment	Medium term
Changes to the demographics within the areas that we serve	Increases in population migration to the South West due to climate change and an increasingly ageing population could place further demand on our resources and assets.	Operating performance	Medium term
Water sector reform	Reviews of the water industry commissioned by the Government, the Cunliffe Review and the Corry review, could result in significant changes to approach, regulation, and to institutional arrangements	Law, regulation and finance	Short to medium term

RISK APPETITE

There are inherent risks that exist within the water sector and all risk cannot be completely eliminated in the delivery of the Company's activities. The Company therefore seeks to strike an appropriate balance between risk and reward which aligns not only with the Company's strategic priorities but also its purpose and values. This allows the business to pursue value-enhancing opportunities, while maintaining an overall level of risk exposure that the Board considers to be appropriate.

PRINCIPAL RISKS AND UNCERTAINTIES

There continues to be a challenging context for the Company, with continued public and media focus on the water industry, providing a critical environment for the UK Government to progress the recommendations in the Cunliffe Review through the 'transition plan'. Negative public sentiment around the sector remains heightened, with continuing media coverage. In turn, increased regulatory scrutiny on compliance and performance coupled with rising expectations of resilience, challenge existing operations and have the potential to create unfunded obligations for investment.

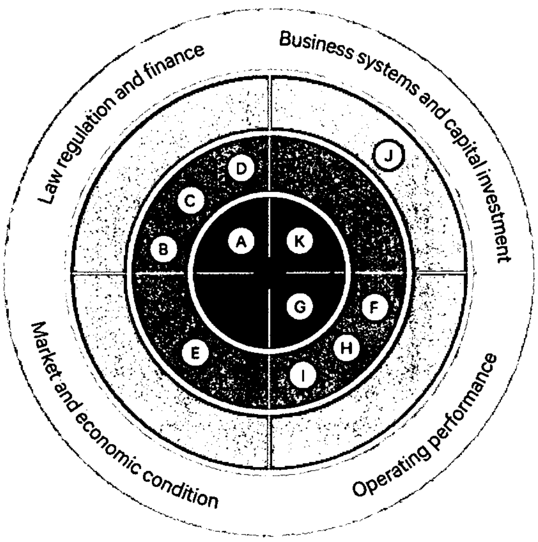
Whilst 2025 saw a less volatile macroeconomic position, with falling interest rates and inflation, the current situation, including developments in the Middle East, are likely to create at least short-term pressures and uncertainty. Whilst it is unclear for how long these matters will continue, the impact on supply chains, commodity and chemical costs, as well as wider interest and inflation rates, is likely to create uncertainty over the near-term, increasing risk and pressure on financial performance. The widespread need for investment across the UK's infrastructure also increasingly puts pressure on delivery partners in terms of both availability and efficiency and will need careful management. Availability of funding and maintaining credit ratings will also be key, in the face of the above challenges and pressures, as well as on continued concern in the wider market.

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

- Confirming that the Company's risk appetite statements remain appropriate
- Receiving and reviewing updates on the Company's principal risks, including movements in the risk exposure
- Undertaking horizon scanning of emerging risks and trends
- Performing deep-dive reviews into key risk areas
- Through the Audit Committee, confirmed the effectiveness of the risk management and internal control framework.

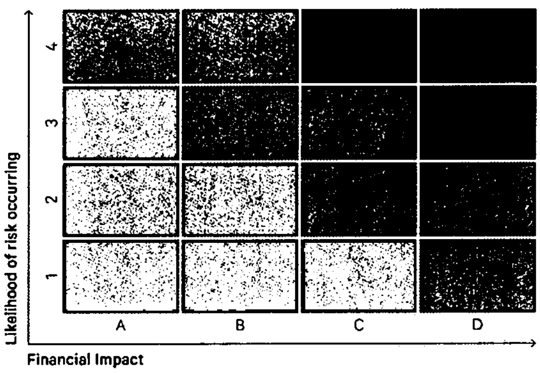
This has resulted in the following material changes to the Company's principal risks compared with those previously reported:

- The risk of failure to pay all pension obligations as they fall due and increased costs to the Company should the defined benefit pension scheme deficit increase has been assessed as not materially impacting the Company's strategic priorities due to mitigating actions implemented, and is no longer considered to be a principal risk.
- The changes in government policy and changes to regulatory frameworks principal risks have been combined into a single risk, policy and regulatory change, reflecting the extent to which policy and regulation in the UK water sector are interconnected.



Net risk level
- High
- Medium
- Low

Risk matrix



Likelihood of risk occurring (over five-year period)

1. Rare – Only in extreme circumstances
2. Unlikely – Less than even chance
3. Possible – Even chance
4. Probable – Above average

Financial Impact (over five years)

A. Minor, <2% Profit after tax
B. Moderate, 2-5% Profit after tax
C. Major, 5-7.5% Profit after tax
D. Severe, >7.5% Profit after tax

The chart below summarises the net risk assessment of the Company's principal risks relevant to the risk categories:

Trend	
Increasing	⬆
Stable	⬌
Decreasing	⬇

Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
Law, regulation and finance pages 70 to 71	**A**	**Water quality and resilience** **Storm overflows and pollutions** **Net Zero and environmental gains** **Addressing affordability and delivering for our**	Policy and regulation change	HIGH	⬌

Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
		customers			
	B	**Water quality and resilience** **Storm overflows and pollutions** **Net Zero and environmental gains** **Addressing affordability and delivering for our customers**	Non-compliance with laws and regulations	MEDIUM	↔
	C	**Water quality and resilience** **Storm overflows and pollutions** **Net Zero and environmental gains** **Addressing affordability and delivering for our customers**	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	MEDIUM	↔
	D	**Water quality and resilience** **Storm overflows and pollutions**	Non-compliance or occurrence of avoidable health and safety incidents	MEDIUM	↔
Market and economic conditions pages 71 to 72	E	**Net Zero and environmental gains** **Addressing affordability and delivering for our customers**	Macro-economic near-term risks impacting inflation, interest rates and power prices	MEDIUM	↔
Operating performance pages 72 to 73	F	**Water quality and resilience**	Failure to secure, treat and supply clean drinking water	MEDIUM	↔
	G	**Storm overflows and pollutions** **Net Zero and environmental gains**	Failure to improve wastewater performance resulting in environmental commitments not being delivered	HIGH	↔
	H	**Addressing affordability and delivering for our customers**	Failure to provide excellent service or meet the needs and expectations of our customers and communities	MEDIUM	↔
	I	**Water quality and**	Inability to attract and	MEDIUM	↔

Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
		resilience **Storm overflows and pollutions** **Net Zero and environmental gains** **Addressing affordability and delivering for our customers**	retain staff with the skills required to deliver the Company's strategy		
Business systems and capital investments page 74	J	**Water quality and resilience** **Storm overflows and pollutions** **Net Zero and environmental gains** **Addressing affordability and delivering for our customers**	Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes which more than doubles during AMP8	LOW	⟷
	K	**Water quality and resilience** **Storm overflows and pollutions** **Addressing affordability and delivering for our customers**	Inadequate technological control or cyber attack results in a breach of the Company's assets, systems and data	HIGH	⟷

For information on climate-related and nature-related risks impact see pages 79 to 92.

LAW REGULATION AND FINANCE

Principal Risk A: Policy and regulation change	
2026 Net risk and direction:	**2025 Net risk and direction:**
HIGH, STABLE	HIGH, STABLE
Strategic priorities: **Water quality and resilience** **Storm overflows and pollutions** **Net Zero and environmental gains** **Addressing affordability and delivering for our customers**	**Strategic impact:** Changes in Government policy and direction may fundamentally impact our ability to deliver the Company's strategic priorities, impacting investment of £3.0 billion[1] in the next regulatory period. **Mitigation:** The Company actively monitors and responds to emerging policy and regulatory developments through regular engagement with government, regulators and industry bodies, both directly and via Water UK. This is supported by our experienced strategy and regulatory function, regular meetings with key stakeholders, robust consultation response processes, and ongoing horizon scanning, including climate change-related policy developments. Climate change influence: **Transitional** Nature change influence: **Transitional**

Principal Risk B: Non-compliance with laws and regulations	
2026 Net risk and direction:	**2025 Net risk and direction:**
MEDIUM, STABLE	HIGH, STABLE
Strategic priorities: **Water quality and resilience** **Storm overflows and pollutions** **Net Zero and environmental gains** **Addressing affordability and delivering for our customers**	**Strategic impact:** The Company is required to comply with a range of regulated and non-regulated laws and regulations across our business. Non-compliance with one or a number of these may result in financial penalties, negative impact on our ability to operate effectively and reputational damage to the Company. **Mitigation:** The Company mitigates the risk of non-compliance through established legal and regulatory compliance frameworks supported by second line oversight, regular review and assurance, and targeted control enhancements such as the Environmental Permit Assurance Team and its site inspection programme. Compliance with corporate legal obligations is reinforced through Board-approved policies, oversight by the Legal Compliance function, mandatory staff training, and the Company-wide Code of Conduct. Additionally, a confidential whistleblowing process overseen by the Ethics Management Committee enables timely escalation and investigation of potential breaches. Climate change influence: **Transitional / Physical** Nature change influence: **Transitional / Physical**

[1] In forecast outturn prices

<table>
<tr><td colspan="2">Principal Risk C: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments.</td></tr>
<tr><td>2026 Net risk and direction:</td><td>2025 Net risk and direction:</td></tr>
<tr><td>MEDIUM, STABLE</td><td>MEDIUM, INCREASING</td></tr>
<tr><td>Strategic priorities:

Water quality and resilience

Storm overflows and pollutions

Net Zero and environmental gains

Addressing affordability and delivering for our customers</td><td>Strategic impact:
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.

Mitigation:
The Company has well established treasury, funding and cash flow arrangements in place, underpinned by a Treasury Management Policy endorsed by the Board.

The Company's financing commitments and cash flow, funding and covenant compliance are regularly reviewed by the Executive and Board.

Climate change influence: Transitional / Physical

Nature change influence: Transitional / Physical</td></tr>
<tr><td colspan="2">Principal Risk D: Non-compliance or occurrence of an avoidable health and safety incidents</td></tr>
<tr><td>2026 Net risk and direction:</td><td>2025 Net risk and direction:</td></tr>
<tr><td>MEDIUM, STABLE</td><td>MEDIUM, STABLE</td></tr>
<tr><td>Strategic priorities:

Water quality and resilience

Storm overflows and pollutions</td><td>Strategic impact:
A significant health and safety event could result in financial penalties, significant legal costs and damage to the Company's reputation.

Mitigation:
The Company has developed HomeSafe 2030 to ensure our plans and strategy are fit for the future and deliver continued improvements throughout AMP8.

Established health and safety training, procedures and reporting systems are complemented by site based investment, regular site visits by senior staff, initiatives such as Site Pride and HomeSafe Live as well a regular programme of wellbeing events.

Health and safety performance is monitored by the Executive and the respective Board and Executive Health and Safety Committees.

Climate change influence: Physical

Nature change influence: Physical</td></tr>
</table>

MARKET AND ECONOMIC CONDITIONS

<table>
<tr><td colspan="2">Principal Risk E: Macroeconomic near-term risks impacting inflation, interest rates and power prices</td></tr>
<tr><td>2026 Net risk and direction:</td><td>2025 Net risk and direction:</td></tr>
<tr><td>MEDIUM, STABLE</td><td>HIGH, INCREASING</td></tr>
<tr><td>Strategic priorities:

Net Zero and environmental gains

Addressing affordability and delivering for our customers</td><td>Strategic impact:
Significant changes in inflation, interest rates and power prices could increase the Company's near-term cost base.

Mitigation:
The Company maintains a manageable debt maturity profile and diverse funding mix with c.20% index-linked which is continuously monitored.</td></tr>
</table>

	Additionally, a significant proportion of the Company's power prices have been hedged for the next 24 months in line with defined levels. The Company's in-house procurement function drives value within strategic contracts and consumables through competitive sourcing and tendering processes. Long-term protection from an increasing inflationary environment is provided through regulatory mechanisms with inflation-linked revenues and RCV growth, along with regulatory true-ups. Climate change influence: **Transitional** Nature change influence: **Transitional**

OPERATING PERFORMANCE

Principal Risk F: Failure to secure, treat and supply clean drinking water	
2026 Net risk and direction: **MEDIUM, STABLE**	**2025 Net risk and direction:** **MEDIUM, INCREASING**
Strategic priorities: **Water quality and resilience**	**Strategic impact:** An inability to secure, produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Company's reputation. **Mitigation:** The Company strengthens the reliability and quality of drinking water supplies through diversified water resource planning, routine planned and preventative maintenance works, and continuous asset and network monitoring via the 24/7 Control Centre. Established incident response procedures and root cause analysis support recovery where such events occur, while investment in treatment works, catchment management, mains interventions, lead pipe replacement and monitoring of emerging contaminants helps protect water quality. Resilience is further supported through leakage reduction, demand management, smart metering, water efficiency initiatives, and the development of additional storage and network transfer capability to maintain supplies during periods of stress. Climate change influence: **Transitional / Physical** Nature change influence: **Transitional / Physical**
Principal Risk G: Failure to improve wastewater performance resulting in environmental commitments not being delivered	
2026 Net risk and direction: **HIGH, STABLE**	**2025 Net risk and direction:** **HIGH, STABLE**
Strategic priorities: **Storm overflows and pollutions** **Net Zero and environmental gains**	**Strategic impact:** An inability to improve wastewater could result in adverse environment impacts, financial penalties, regulatory enforcement and damage to the Company's reputation. **Mitigation:** The Company is focused on improving wastewater performance through clear operational accountability, regular performance oversight and delivery of its Pollution Incident Reduction Plan. This includes targeted storm overflow improvements, proactive asset health checks at key sites and the implementation of a wastewater compliance management system. These actions are supported by the delivery of WINEP and AMP8 investment

	programmes, wider initiatives to reduce pollution incidents, and continued engagement with the Environment Agency. Climate change influence: **Transitional / Physical** Nature change influence: **Transitional / Physical**
Principal Risk H: Failure to provide excellent service or meet the needs and expectations of our customers and communities	
2026 Net risk and direction:	**2025 Net risk and direction:**
MEDIUM, STABLE	**MEDIUM, INCREASING**
Strategic priorities: **Addressing affordability and delivering for our customers**	**Strategic impact:** Failure to meet the needs of both customers and wider stakeholders may result in reputational damage to the Company and lower performance resulting in financial penalties impacting on stakeholder value. **Mitigation:** The Company continues to enhance and invest in its customer services teams, expanding the channels by which it can interact with and support household customers. The Company offers a range of schemes and tariffs to support customers with affordability challenges with a £200 million support package to 2030. During the year both South West and Bristol Water successfully achieved kitemark certification to the vulnerable customer ISO 22458 standard. The Company also undertakes a range of initiatives to engage with the wider communities it serves including community road-show events, Neighbourhood Fund and funding to support water retention and leakage reduction. Climate change influence: **Transitional / Physical** Nature change influence: **Transitional / Physical**
Principal Risk I: Inability to attract and retain staff with the skills to deliver the Company's strategy	
2026 Net risk and direction:	**2025 Net risk and direction:**
MEDIUM, STABLE	**MEDIUM, INCREASING**
Strategic priorities: **Water quality and resilience** **Storm overflows and pollutions** **Net Zero and environmental gains** **Addressing affordability and delivering for our customers**	**Strategic impact:** Failure to maintain a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Company forward. **Mitigation:** The Company supports attraction and retention through its People strategy, aligned to the Company's Values, with a focus on building capability, developing talent and aligning resources to customer and business priorities. Regular employee engagement, including pulse surveys, Big Chats for all employees to hear from our Executive, engagement forums, and newsletters, helps identify concerns and respond to feedback. This is reinforced by continued investment in graduate and apprentice recruitment, a strong focus on diversity and inclusion, and leadership development programmes designed to strengthen capability at current and future senior levels. Climate change influence: **Transitional** Nature change influence: **Transitional**

BUSINESS SYSTEMS AND CAPITAL INVESTMENT

<table>
<tr><td colspan="2">Principal Risk J: Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes which more than doubles in AMP8</td></tr>
<tr><td>2026 Net risk and direction:</td><td>2025 Net risk and direction:</td></tr>
<tr><td>LOW, STABLE</td><td>LOW, STABLE</td></tr>
<tr><td>Strategic priorities:

Water quality and resilience

Storm overflows and pollutions

Net Zero and environmental gains

Addressing affordability and delivering for our customers</td><td>Strategic impact:
The inability of our supply chain to support in the delivery of our operational and capital programmes may result in increased costs and delays, detrimentally impacting our ability to achieve our change and growth agenda.

Mitigation:
The integrated delivery model for AMP8 enables greater flexibility and broadens the number of supply chain partners providing enhanced resilience for the Company. The procurement framework for professional services, and Tier 1 and Tier 2 contractors is in place.

The Company also regularly monitors the financial health of key partners, and we work in partnership with our supply chain to identify and manage potential issues and challenges. Where action is required, there are established plans and alternative arrangements which provide mitigation and early intervention.

Climate change influence: Transitional / Physical

Nature change influence: Transitional / Physical</td></tr>
<tr><td colspan="2">Principal Risk K: Inadequate technological control or cyber attack results in a breach of the Company's assets, systems and data</td></tr>
<tr><td>2026 Net risk and direction:</td><td>2025 Net risk and direction:</td></tr>
<tr><td>HIGH, STABLE</td><td>HIGH, INCREASING</td></tr>
<tr><td>Strategic priorities:

Water quality and resilience

Storm overflows and pollutions

Addressing affordability and delivering for our customers</td><td>Strategic impact:
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.

Mitigation:
The Company maintains a dedicated Information Security team with a strong preventive and detective information security framework, aligned to guidance issued by the National Cyber Security Centre (NCSC), supported by regular training and communications, to raise awareness amongst staff. South West Water continues to hold the ISO 27001 accreditation.

Enhanced technical controls introduced during the year across the Company's corporate and operational technology sector are informed by best practice and learnings from across sectors. Furthermore, the regulated water business continues to progress actions as part of the roadmap to meet the requirements of the Network and Information Systems Directive (NIS), with activities aligned to the priorities identified by the Drinking Water Inspectorate. The Company also maintains established disaster recovery plans which are subject to regular review and testing.

Climate change influence: n/a

Nature change influence: n/a</td></tr>
</table>

VIABILITY STATEMENT

The Directors are responsible for ensuring the long-term viability of South West Water. In doing so, they consider the Company's current position, principal risks, financial resilience and the effectiveness of controls and mitigations in place to manage those risks.

The Board's assessment is embedded in South West Water's strategic planning process and supported by regular long-term modelling of liquidity, covenant headroom and key financial ratios. The Audit Committee supports this review, which is also informed by the Company's risk management framework, sensitivity analysis and stress testing.

South West Water operates in a regulated market characterised by five-year price control periods, defined expenditure allowances and associated revenue mechanisms. This provides a clear framework for assessing longer-term viability, while requiring the Company to consider the impact of operational performance, financing conditions, regulatory developments and other principal risks over the assessment period.

The assessment has been prepared by reference to the Company's long-term strategy, current regulatory framework and principal risks, including macroeconomic, operational and climate-related risks. Climate-related risks are considered within the broader assessment of resilience and are described further in the relevant climate-related disclosures on pages 79 to 92. The strategic plan includes the investment currently expected to support operational resilience and climate adaptation over the assessment period.

PERIOD OF ASSESSMENT

The Board regularly reviews the period over which viability should be assessed in line with the UK Corporate Governance Code. It considers a seven-year period to be appropriate because it reflects the long-term nature of the regulated water sector, extends beyond the current regulatory settlement to March 2030 and is consistent with the Company's longer-term planning horizon. The Board also assumes that significant capital investment across the sector will continue beyond 2030 and remain an important feature of the regulatory framework.

RISKS

The Board and management review South West Water's principal and emerging risks throughout the year, assessing both likelihood and impact in the context of the controls and mitigating actions in place. That assessment, and the related financial implications, informs the stress testing used in the viability assessment.

CURRENT POSITION

As set out in the Chief Financial Officer's review on pages 55 to 61, South West Water has a strong liquidity and funding position, with £740.9 million of cash and cash equivalents, restricted funds and committed facilities at 31 March 2026 with a mixture of fixed, floating and index-linked debt and an average maturity of non-current borrowings of 12 years. Forecast financial performance is based on the 2026/27 budget and the strategic plan thereafter to March 2033, reflecting the final determination through to March 2030 and taking into account the impact of revenue adjustments for operational performance through the Outcome Delivery Incentive (ODI) mechanism where there is a high degree of certainty.

STRESS TESTING

The approach taken to stress test the strategic plan has been to use both individual sensitivities and combined scenarios linked to the Company's principal risks and the impact on covenants and key metrics.

COVENANTS AND KEY METRICS

South West Water assesses financial viability by considering the effect of stress testing on debt covenants and key financial metrics. In particular, covenant compliance is assessed by reference to debt capacity and interest cover requirements within its financing arrangements. South West Water's debt capacity is calculated as 75% of Regulatory Capital Value plus 6x non-regulated EBITDA less net debt, and interest cover requirements are assessed against a minimum interest cover ratio of 1.75x.

The Board also considers credit metrics and other key financial ratios as secondary indicators of financeability and rating resilience. The principal ratios considered are gearing, measured as net debt to Regulatory Capital Value, Adjusted Interest Cover Ratio and Funds from Operations to net debt.

The Company's financing and credit profile are monitored against relevant rating methodologies and broader financeability considerations. South West Water maintains strong investment grade credit ratings, and where stress testing indicates pressure on financial metrics, the Board considers the mitigating actions available to protect resilience over the assessment period.

Stress test	Principal risks	Level of stretch	Covenants maintained	Impact on key metrics		
				Gearing	AICR	FFO/Net Debt
Interest rates	C: Inability to secure sufficient finance and funding within our debt covenants, to meet ongoing commitments	2% increase on any new and floating rate debt	Yes	↑	↓	↓
Bad debt	E: Macro-economic near-term risks	1% of Revenue	Yes	↑	↓	↓
Inflation - increase		1% increase	Yes	↓	↓	↓
Inflation - decrease		1% decrease	Yes	↑	↓	↓
Fines and ODI Penalties	B: Non-compliance with laws and regulations F: Failure to secure, treat and supply drinking water G: Failure to improve wastewater performance results in environmental commitments not being delivered H: Failure to provide excellent service or meet the needs and expectations of our customers and communities	1% of regulated equity		↑	↓	↓
Totex underperformance		5-8% of Totex per annum	Yes	↑	↓	↓
Combined Scenario: Totex underperformance, fines and ODI penalties	As referenced above	As above	Yes	↑	↓	↓

STRESS-TESTING EVALUATION AND MITIGATIONS

The stress testing performed indicates that the individual sensitivities and combined scenarios modelled, including those linked to principal risks, do not compromise South West Water's viability over the seven-year assessment period.

Mitigations were not required to support the viability conclusion in the individual or combined scenario modelled. However, the Company has further actions available to protect liquidity, preserve covenant headroom and maintain financial resilience, including:

- Reduction in discretionary operational expenditure;
- Deferral of capital expenditure and /or cancellation of non-essential works;

- Working capital management e.g. re-negotiating credit terms;
- Parent Company support e.g. equity injection
- Restriction of dividends.

The Board also considers South West Water's funding options and its ability to secure additional financing if required to support solvency and liquidity over the assessment period.

More extreme scenarios were also considered, including an absolute worst case in which all principal risks were assumed to occur. These would place significant pressure on the Company's viability measures over the assessment period. The Board judged the likelihood of such scenarios to be remote and noted that further mitigations could be deployed if required.

In reaching its assessment, the Directors considered South West Water's solvency, liquidity, covenant compliance and wider funding resilience. They also recognise that, as a regulated business subject to potential non-market influences, longer-term assessments are inherently uncertain and future outcomes cannot be predicted with certainty.

As set out in the Audit Committee's report on pages 130 to 139, the Directors reviewed management's assessment and the results of the stress testing performed. PwC, in its capacity as audit provider, reviewed the documentation prepared for the Directors to support their disclosure.

VIABILITY ASSESSMENT CONCLUSION
Based on this assessment, the Directors have a reasonable expectation that South West Water will be able to continue in operation and meet its liabilities as they fall due over the seven-year assessment period.

OUR ESG APPROACH

We are proud of the progress we have made in our approach to ESG, embedded in all that we do. We continue to deliver lasting benefits for our customers, communities and the environment, now and for generations to come. This progress is delivered against our key strategic priorities, as we work to build a resilient, future-focused organisation for all those we serve.

Last year, we conducted a Double Materiality Assessment (DMA) to refresh our understanding of the most important ESG topics to our stakeholders, both in terms of their impact on our business and on our influence on the wider world. This assessment was reviewed during the year and remains current. This process sets the foundation for ambitious targets relevant to our stakeholders, to take us to 2030 and beyond.

Throughout this period, our commitment to environmental stewardship, social responsibility, and strong governance remains unwavering. We continue to drive progress across climate action, resilience, and nature, while supporting our colleagues, customers, and communities.

With a strong governance framework and our core values guiding us, we are building our approach to keep the Company at the forefront of sustainability leadership in our industry.

ESG performance, targets and approach can be seen in the Pennon Group plc Annual report and Accounts 2026 on pages 72 to 77.

SUSTAINABILITY REPORTING
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).

Further details on SECR can be found in our parent Company Pennon Group plc's Annual Report and Accounts 2026 on page 81.

Further details on SASB disclosures can be found in the ESG data book on our parent Company's website www.pennon-group.co.uk.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) AND TASK FORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD)

We are driven by our purpose of bringing water to life and remain focused on our strategic priorities, delivering for our customers, communities, and the environment.

We operate in a changing environment where the impacts of climate change and biodiversity loss are increasingly evident. To remain resilient, we monitor climate risks, assess their implications, and embed these insights into our strategic planning and investment decisions. Our disclosures under the TCFD and TNFD frameworks reflect our commitment to transparency, accountability, and continuous improvement.

TCFD RECOMMENDATIONS

Created by the Financial Stability Board (FSB), the TCFD published its recommendations in June 2017. This is our seventh year of TCFD reporting.

In alignment with the FCA Listing Rule 6.6.6(8) we have taken into account available knowledge and guidance concerning the Listing Rule and climate-related risks to develop our TCFD disclosure, which is consistent with the TCFD framework. We have addressed the 11 recommended disclosures and have considered the best practice guidance from the TCFD.

TNFD RECOMMENDATIONS

The TNFD published their final framework in September 2023 and published sector guidance for water utilities in June 2025. This is our fifth year of voluntarily reporting against the TNFD framework and we have now embedded our long-term commitment to managing nature-related risks and opportunities across the Company, through becoming an official TNFD adopter. We continue to integrate TNFD into our TCFD disclosures, recognising the substantial overlap and synergies between action on climate change and the nature emergency. At the same time, we also recognise some trade-offs in meeting our goals around resilience, Net Zero, and nature. There is further work to do on the recommended TNFD disclosures, and we are continuing to monitor the inclusion of nature risks in the UK sustainability disclosure requirements.

OUR APPROACH TO MANAGING CLIMATE AND NATURE RISKS

As weather extremes intensify, greater risks are posed to our water and wastewater services which our customers rely on. We are making adaptation progress in key areas, detailed in our Climate Adaptation Report published in 2024.

The challenges posed by climate hazards, combined with heightened customer and regulatory expectations, mean we need to go further to manage the impacts of extreme weather. A key area of focus for us is to reduce the impacts from storm overflows and sewer flooding.

We are investing £3.0 billion[1] into our services and infrastructure across 2025-2030, focusing on four strategic priorities: water quality and resilience, storm overflows and pollution, Net Zero and environmental gains, and addressing customer affordability. These investments will strengthen our management of climate and nature risks, and enable us to deliver opportunities which benefit our customers and the regions we operate in.

We are focused on delivering for our customers and stakeholders. We are continuing to embed climate change resilience, sustainability, and nature-positive practices into decision-making within our business, as well as managing near-term inflationary pressures, including energy prices. We also continue to manage changes to our investments to explore new technology, materials, and nature-based solutions, within global capacity and supply chain constraints, to deliver both affordability and fairness for our customers.

We've demonstrated our commitment to action on climate change and nature through our transparency in voluntary reporting to CDP since 2013. We have been recognised on CDP's A List for Climate in 2025, lacing us at the leadership level and in the top 4% of disclosers globally. You can read more about our work to enhance resilience and about our Net Zero performance in the Pennon Group plc Annual Report and Accounts on pages 78 to 82.

[1] In forecast outturn prices

As a UN Global Compact signatory, we embed its principles on human rights, labour, environment, and anti-corruption into our ESG approach and report progress annually. We recognise that climate change, the nature emergency, and the transition to Net Zero influence several of the Company's principal risks (see our Principal Risks report on pages (62 to 74). Principal risks are reviewed as part of our audit governance processes.

South West Water has its own Board, which reports to the Pennon Group plc Board. The boards oversee climate- and nature-related risks within their operations. New board members are briefed on key climate-related and nature-related risks, for example through site visits and strategic discussions. For more information see our Corporate Governance report on pages 97 to 167. Further information on Board Committees and ESG skills can be found on page 99 and pages 125 to 149.

MANAGEMENT'S ROLE

Our C-suite Executives play a key role in identifying, assessing, and managing climate-related and nature-related risks and opportunities, including through relevant Executive committees. We have also appointed a Chief Sustainability and Natural Resources Officer (CSNRO), who is accountable for climate and nature policies and targets. Our business is divided into business units: Clean Water, Wastewater and Retail; all supported by our Corporate Functions. Management within each business unit are responsible for identifying, assessing, and managing climate-related and nature-related risks in their business units - including risks related to water resources, wastewater, regulation, procurement, engineering, natural resources/biodiversity, and finance.

Risk is identified and categorised within each business unit prior to being formally passed on to senior management responsible for those business units. Each business function and department maintains a risk register, and management escalates risks to the Executive teams through meetings as appropriate. We are continuing to raise awareness and the capacity of teams and executive management to identify, assess, and manage climate-related and nature-related risks and opportunities. The Executive Directors' Remuneration Policy is set to incentivise the achievement of key performance objectives. This includes ESG objectives and broader environmental performance including our Company's programme of ESG targets, that align with our ESG approach. You can read more about our ESG approach in the Pennon Group plc Annual Report and Accounts on pages 72 to 73.

CLIMATE-RELATED AND NATURE-RELATED GOVERNANCE

TCFD/TNFD recommendations: Disclose the organisation's governance around climate-related risks and opportunities.

BOARD OVERSIGHT

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 and nature-related risks and opportunities. Overall ownership and responsibility for risks, opportunities, and mitigation actions rests with the South West Water Board, which regularly reviews principal risks as part of its risk management processes.

The Board considers climate-related and nature-related risks and opportunities throughout its duties - including when considering the 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. Several Board Committees support this oversight.

ESG Committee	**Audit Committee**
The ESG Committee provides the platform for discussion of the Company's ESG agenda, environmental performance and related climate and nature risks and opportunities, as well as setting and reviewing key metrics relating to ESG targets and goals. ESG Committee report pages 140 to 143.	The Audit Committee oversees risk management and internal controls and monitors the Company's financial reporting, including how the impacts of climate and nature 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. Audit Committee report pages 130 to 139.

Remuneration Committee	Nomination Committee
The Remuneration Committee 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. Remuneration Committee report pages 145 to 149.	The Nomination Committee supports Board composition and succession planning, including consideration of ESG and climate-related expertise. It considers competencies related to climate-related risks and opportunities when reviewing the structure, size, and composition of the Board and senior executives across the Company. Nomination Committee report pages 125 to 129.
Health and Safety Committee The Health and Safety Committee monitors risk across all areas of health and safety - including areas impacted by climate-related risks such as extreme weather events. The Committee also reviews the effectiveness of the Company's procedures for Health and Safety reporting and performance. Health and Safety Committee report page 144.	

Executive Board headed by Chief Executive Officer - The Committee monitors, approves and reviews business objectives and plans, and provides challenge and feedback to investment decisions. Throughout these processes, climate-related and nature-related risks and opportunities are considered and actions to manage risks are embedded in business planning and investment decision-making. The CSNRO reports to the Executive Board monthly, providing updates on sustainability and nature-related issues. There are several Executive committees which report to the Executive Board, including business unit senior leadership teams.

CLIMATE-RELATED STRATEGY

TCFD/TNFD Recommendation: Disclose the impacts of climate-related and nature-related risks and opportunities on the organisation's business, strategy, and financial planning where such information is material.

CLIMATE SCENARIO ANALYSIS

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 were also used as the basis for planning by Ofwat as part of the PR24 methodology and align with Ofwat's climate change principles published in February 2026.

Our **transition risk scenarios** align with scenarios developed by the Network for Greening the Financial System (NGFS), which are widely adopted in the UK. The two NGFS transition scenarios used are: (1) Orderly transition, aligned to the NGFS Net Zero 2050 and (2) Hot House World aligned to the NGFS Current Policies. The NGFS Net Zero 2050 aligns closely with the IEA Net Zero 2050 scenario. We have selected these contrasting scenarios as they span a range of possible futures, and present different challenges and opportunities for our business. The NGFS Disorderly Transition Scenario has also been considered, but our view is that negative impacts for our

Company are more significant under the NGFS Current Policies Scenario, so it has been the focus of our scenario analysis to provide a stress test of our resilience.

For our scenario analysis, the following assumptions were made:

- Scenarios focus on the UK policy and regulatory context and are semi-independent of global action and temperature pathways.
- It is assumed energy prices remain high throughout the next 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 increases across the regions we serve; however 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).

SHORT- MEDIUM- AND LONG-TERM HORIZONS

In determining our strategy, we consider short, medium, and long-term horizons for climate risks and opportunities.

Short-term - 1 to 10 years

Over this horizon we define key targets (operational, financial, sustainability) and we consider changing regulatory frameworks and emerging policies. We develop business plans every five years, defining our actions and investments over this period. Operational risks are planned and budgeted for over this time frame, and planning begins during this period for the next regulatory period. Transition risks and opportunities are likely to have the largest impacts to our business across this period, with physical risks projected to increase over time.

Medium-term - 10 to 25 years

Our WRMP and DWMP strategic plans consider requirements up to 25 years. Major projects and operational plans will be renewed and managed over this time frame to ensure projects meet the correct regulatory period plans. Our Net Zero targets fall within this horizon, as well as the UK's 2050 Net Zero target, which will continue to present emerging policy and market changes. Transition risks and physical risks will both impact our business across this period to varying levels, depending on global GHG emissions and the Net Zero pathway taken by the UK and globally.

Long-term - 25 years and beyond

Typically for longer-term strategic direction, risk, and resilience planning. Investment requirements for our long-life assets are considered, such as mains pipes and reservoirs. Physical risks become very significant over this period. Current projections are that by 2100 the planet will have warmed by up to 3°C, however there is much uncertainty.

Physical climate risk scenarios

- **RCP2.6: Lower Physical Impacts** - less than 2°C warming scenario by the year 2100 - corresponding to a low emissions 'optimistic' scenario.
- **RCP8.5: High Physical Impacts** - Up to 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 climate risk scenarios

- **Net Zero 2050**: The UK puts in place strong policies and actions to mitigate climate change and keep warming to under 2°C by 2100, aligned with the Paris Agreement. Supportive policies are introduced quickly and smoothly, enabling rapid technology and system change.
- **Current Policies**: The UK makes incremental progress to mitigate climate change, but no major policies change, resulting in limited action to keep warming below 4°C by 2100, and missing the targets of the Paris Agreement. Technology and system change is slow and stalls.

SCENARIO ANALYSIS - PHYSICAL CLIMATE RISKS

Our key physical climate risks:

Principal Risk	Time horizon	Current risk rating and trend	Key impacts of physical climate risks
Chronic: Increasing frequency and intensity of droughts	Short, medium and long-term	MEDIUM, STABLE	**Climate impacts will affect our ability to provide reliable services to customers.** Climate change will impact water resources and pose greater risks of supply shortages, as well as to our water and wastewater treatment and networks. Without adaptation, this would result in increased service disruptions and reduced outcomes for customers and the environment. For example, climate change is driving increases to rainfall which could contribute to greater storm overflows if left unmanaged and pose risks of flooding and damaging our assets. **Investment required is high, but the cost of inaction is much higher.** Our risk assessment clearly shows long-term significant risks if the impacts of climate change are not mitigated. For example, we have 36 major sites/assets at high-risk of coastal flooding and erosion. We operate over £7 billion of assets, which relate to water and wastewater and will be impacted by climate change in some way. Drought in the South West in 2022 cost the Company around £20 million, and following this we have continued to invest to enhance resilience. **Unmitigated risks would have material impacts on our business.** This would include additional expenditure (Opex and Capex) to recover from service interruptions and repair or replace deteriorated assets, and would result in more frequent and greater ODI penalties. **Impacts are worse with every bit of additional warming.** Impacts would increase over each time horizon as extreme weather events increase in frequency and magnitude and are compounded by chronic climate change. Additionally, the natural environment which we are dependent on would also decline over time, creating greater costs and impacts for us (e.g. reducing water quality and quantity).
Chronic: Increasing average and high temperatures	Short, medium and long-term	MEDIUM, STABLE	
Chronic: Increasing frequency of heavy rainfall and floods	Short, medium and long-term	HIGH, DECREASING	
Chronic: Rising sea levels and coastal erosion	Short, medium and long-term	MEDIUM, STABLE	
Acute: Increasing frequency of extreme weather events, heatwaves and storms	Short, medium and long-term	MEDIUM, STABLE	

OUR STRATEGIC RESPONSES TO PHYSICAL CLIMATE RISKS

Our strategy for managing physical climate risks and financial impacts is underpinned by the following principles in order to maintain and improve our Company's performance to the year 2050:

- Adapt to climate change
- Enhance resilience
- Innovate
- Become more efficient

- Collaborate
- Balance investment over time

This will require significant action and investment by our Company, as well as action by our supply chain partners and wider actors (e.g. Government agencies, local authorities, and major landowners in our regions).

Longer-term investment, as outlined in our strategic plans, will be needed to manage future risks to acceptable/tolerable levels. To achieve this, regulatory and Government support within their policy frameworks will be needed.

In the South West of England, the combined characteristics of low population density, high coastline to land area ratio, and tourism-based seasonal flux on water demand present a unique set of challenges. Through the years, by innovating, investing, and adapting, we have achieved industry-leading results in many areas of the business. Our extensive programme of environmental improvement with Upstream and Downstream Thinking catchment management has resulted in some of the finest bathing waters in Europe.

This has been instrumental for us to tackle these challenges and meet the expectations of our customers. Having seen record visitors to our region following the COVID-19 pandemic, it is expected that further investment will be required to continue building on the progress made by South West Water to protect the environment and our bathing waters. Our strategic responses within our WRMP24 and DWMP23 for delivering reliable, efficient, and high-quality drinking water and wastewater services are driven by best-value adaptive planning.

We have 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; and 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 to medium-term, however, additional options will be required under the high emissions scenario, or options may need to be implemented earlier than the low emissions scenario over the long term.

Investments in natural capital will be central to our climate adaptation. Healthy and functioning ecosystems are critical for resilient water and wastewater operations. Therefore, we are investing in natural capital schemes, catchment management, partnerships, and research and development in this area, as well as implementing our comprehensive Biodiversity Strategy and Environment Plan 2050. Our 'Green First' Framework prioritises nature-based solutions to improve climate adaptation and resilience.

Climate change adaptation is a continual, evolving and iterative process. We regularly review our adaptation progress, and as we did during the 2022 drought, we learn from the challenges we have faced to inform our future adaptation actions. As part of our adaptive planning approach, we have predefined trigger points to implement strategies of the appropriate pathway sufficiently early, so that we can have a proactive and more resilient response to climate change, including greater opportunity to implement nature-based solutions - rather than more costly reactive approaches which may have higher operational and embodied carbon.

IMPACTS ON FINANCIAL PLANNING

Impacts from not mitigating risks: Compared to today, overall our revenue is unlikely to be impacted significantly by climate change as we operate in a regulated environment funded through Price Reviews, although impacts could be felt on annual revenue recovery. However, there is a higher risk of reduced regulatory rewards and increased penalties (ODIs) due to climate change. Our operating costs are likely to increase compared to today due to climate change (e.g. Opex and Capex to recover from service disruptions and repair assets).

The value of our assets and our cost of capital could decrease if assets become degraded / impaired, and if we were perceived as high-risk by financiers.

Impacts from mitigating risks: Our revenue is unlikely to be impacted significantly due to the regulatory Price Review system as explained above, however by investing in climate adaptation we have greater ability to achieve regulatory rewards (ODIs). Our Capex would increase to build resilience to climate change, and this investment would aim to prevent our operating costs from changing significantly from today (as we would experience fewer service disruptions than in a scenario where risks are unmitigated). The value of our assets and our cost of capital would remain relatively unchanged compared to today if we continue to enhance our resilience.

SCENARIO ANALYSIS - CLIMATE TRANSITION RISKS

Our key climate transition risks:

Transition Risk	Time horizon	Current risk rating and trend	Key impacts of transition risks
Regulation and policy: Challenges balancing trade-offs in regulation in the water sector between agendas of infrastructure delivery, Net Zero, climate resilience, environmental enhancement, and other objectives, posing the risk of increasing costs and carbon	Short and medium-term	MEDIUM, INCREASING	**The cost to our business of achieving our Net Zero target rises, and there is less ability to recover costs through the regulatory pricing system.** Misalignment in policies and low incentives make reaching Net Zero more costly and impose greater investment risks to our business. Additionally, our supply chain could also lag in decarbonising, impacting our Scope 3 emissions. **Current UK policies are not sufficient to deliver the necessary carbon emission reductions**. Therefore, meeting our Net Zero targets would require greater use of carbon offsets or we would be at risk of missing targets. Low readiness and capacity could stall our progress to reduce emissions and realise opportunities. This could result in higher costs for access to low-carbon technologies and related skills (due to the UK's previous under-investment), and increased costs related to both our own renewable energy generation, and the purchasing of green electricity from external suppliers. **Environmental targets require additional energy use.** New guidance on targets for both nutrients and storm overflows will require a significant increase in energy use and associated capital and operational carbon. While nature-based solutions will form part of the solution (our Green First Principle), there will be significant reliance on engineered solutions due to potential inflexibility in regulation and deadlines to improve outcomes. The increased energy and carbon use compounds impacts above. **Reputational risks are significant and require careful management.** Some of our customers and stakeholders may have differing priorities and preferences for actions to meet our climate targets. Some may be highly sensitive to affordability and increasingly scrutinise our investment choices. **Current UK policies and markets are not sufficient to enable us to realise some of our climate-related opportunities.** Low incentives and low-maturity markets reduce opportunities for our business relating to resource efficiency, carbon sequestration, bioresources etc.
Regulation and policy: Regulatory funding risk for achieving South West Water's Net Zero ambitions and adapting to climate change	Short and medium-term	MEDIUM, INCREASING	
Technology: Capacity and readiness of technology, employees and supply chain to achieve Net Zero	Short and medium-term	MEDIUM, DECREASING	
Market: Increased costs of energy and materials due to the transition to Net Zero, impacts of climate change, and wider factors	Short and medium-term	MEDIUM, DECREASING	
Reputational: Negative public and stakeholder relations due to South West Water failing to be a seen as a leader in environmental sustainability	Short and medium-term	HIGH, INCREASING	

Reputational: Customer affordability and fairness concerns for achieving Net Zero and adapting to climate change	Short and medium-term	LOW, STABLE	

SCENARIO ANALYSIS - CLIMATE TRANSITION OPPORTUNITIES

Our key climate-related opportunities:

Climate-related opportunities	Time horizon	Current opportunity rating and trend	Key impacts of climate-related opportunities
Resilience: Enhancing resilience across South West Water's operations, asset base, and supply chain to avoid costs and enhance value	Short and medium-term	MEDIUM, INCREASING	**Costs to our business of achieving our Net Zero targets could be reduced.** With greater regulatory support towards the step-change in investment required, the cost and availability of technologies, skills, and resources could be reduced. We are already benefiting from reducing our energy costs through investment in renewable energy. **The regulatory environment may be more favourable for nature-based solutions (NBS) which can also sequester carbon.** More stringent carbon management requirements across the economy and more mature carbon/biodiversity markets would provide more incentives for NBS. **Our reputation could benefit from realising climate opportunities, provided we support customers in need**. 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. **We can increase our revenue and decrease our operating costs**. A more favourable enabling environment would mean that our climate-related opportunities are enhanced and easier to realise. Investing and innovating on energy and resource efficiency can reduce our operating costs, and delivering SROs and bioresources could enhance our revenues.
Energy source: Reducing carbon and enhancing energy resilience and revenue by using and generating renewable energy	Short and medium-term	MEDIUM, INCREASING	
Markets: Generating value and reducing our financing costs through sustainable financing	Short and medium-term	MEDIUM, INCREASING	
Resource efficiency: 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	Short and medium-term	MEDIUM, INCREASING	
Products and services:	Short, medium and long-term	MEDIUM, INCREASING	

Enhancing revenue through providing resilient water solutions, bioresources, and expertise to other water companies			

OUR STRATEGIC RESPONSES TO CLIMATE TRANSITION RISKS AND OPPORTUNITIES

Although there are important differences in the impacts between the different transition scenarios we've considered, 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 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

Significant carbon savings and performance improvements can be achieved by driving greater efficiency across our operations. This includes energy efficiency (for example, more efficient pumping to reduce water losses), as well as optimising processes, reducing waste, and deploying smart technologies to improve the performance of our water and wastewater systems and networks. Many of these opportunities will reduce costs. We are investing in programmes to streamline operations, enhance resource efficiency and reduce energy use and carbon across our operations. This will accelerate our progress toward Net Zero and help manage the cost of the transition.

ENHANCING OUR RESILIENCE

We will continue to invest in building resilience across our operations to address climate, physical and transition risks. This includes generating more of our own renewable energy to reduce exposure to energy price volatility and to enhance our options for energy supply. We are strengthening our ability to respond to physical climate impacts such as flooding and drought - by improving the robustness of our infrastructure, increasing water storage and supply flexibility, and integrating adaptive technologies and nature-based solutions.

ENHANCING OUR ACCESS TO GREEN ECONOMY RESOURCES

Skills and resources across key areas of the green economy will continue to be in high demand. To ensure our access, 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 WITH REGULATORS ON ENVIRONMENTAL TARGETS AND TRADE-OFFS

New ambitious targets on nutrients and storm overflows will require increased energy use and new infrastructure, and subsequently higher operational and capital carbon. There is a trade-off between action to meet these targets and action on decarbonisation, with implications for the balance between nature-based and engineering solutions. We will engage in ongoing regulatory 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 different climate 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 carbon 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.

IMPACTS ON FINANCIAL PLANNING

Impacts from not mitigating risks and not delivering opportunities: Our revenue is unlikely to be impacted significantly due to the regulatory Price Review system, but our non-water revenue (e.g. sale of bioresources) is less able to grow. We may also miss out on regulatory rewards (ODIs) if we fell behind in our carbon and biodiversity targets. Our Capex and Opex to achieve Net Zero would increase relative to our current plans. The value of our assets and our cost of capital would remain relatively unchanged compared to today.

Impacts from mitigating risks and delivering opportunities: Our revenue is unlikely to be impacted significantly due to the regulatory Price Review system, but our non-water revenue has greater potential to grow. We have greater confidence in receiving regulatory rewards (ODIs) related to meeting our carbon and biodiversity targets. Our Capex and Opex to achieve Net Zero may remain largely unchanged compared to our current plans, and while Capex investment will be required to reduce risks and deliver opportunities, we expect to recover costs as opportunities reduce our Opex and our exposure to risks. 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 as financiers recognise us as low-risk and sustainable.

STATEMENT OF RESILIENCE

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

- Higher costs in the short and medium term to meet our Net Zero targets under the 'Current Policies' 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. We have confidence that our Company has a range of strategic options to manage the impacts and take advantage of opportunities, in order for us to remain resilient under the different climate scenarios considered.

We will need 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 and sustainability. 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, and other providers of infrastructure and services).

Early investment in decarbonising our business remains more cost-effective in the long-term, and reduces the risk to our Company and our customers from potential future measures such as carbon pricing, as well as safeguarding our reputation on environment and climate change.

NATURE-RELATED STRATEGY

OUR NATURE-RELATED IMPACTS AND DEPENDENCIES
Our most material nature-related impacts and dependencies for our direct operations are in the freshwater, land, and atmosphere realms. We rely on water supply from the environment, and we recycle water back to the environment from our wastewater treatment facilities. We also discharge treated biosolids to land, and emit gases to the atmosphere in our treatment processes.

We are currently developing a roadmap to strengthen our alignment with the TNFD recommendations. As part of this work, we are conducting the Locate (L) and Evaluate (E) stages of a LEAP assessment for South West Water's direct operations for water infrastructure, focusing on identifying our interfaces with nature and improving our understanding of our material dependencies and impacts. This is due to be completed in 2026. The LEAP process is advocated by TNFD and will support the development of nature-related targets and actions while also helping to understand how nature-related risks and opportunities could influence our business model and long-term resilience.

We are building an understanding of 'priority locations' (as defined by TNFD) within our operations and value chains. Key examples include:

- In early 2024, our Board approved a pilot programme of bespoke, evidence-based 'Natural Catchment Management Plans' (NCMPs) at selected catchments in Devon and Cornwall. These will create a

- blueprint for some bathing water catchments from this year onwards, primarily in relation to bathing water quality issues.
- We have used remote-sensing technology to determine a baseline condition assessment of habitats on our landholdings. This information will be used to help us target positive biodiversity interventions.

OUR NATURE-RELATED STRATEGIES
Our business planning and financial planning are underpinned by a series of nature-related strategies, plans and commitments that interlink up to 2050.

- **Key examples include: Growing nature to 2035:** Our strategy for nature recovery, sets out the key activities that we will take to support nature recovery and biodiversity on our land, in our everyday operations and beyond. There are three principles in the strategy: 1) Protect the best - take action to protect the valuable biodiversity that we have on our landholdings, 2) Restore and enhance the rest - take action across our landholdings and assets to enhance biodiversity in the everyday management of our sites, and 3) Beyond our landholdings - work in partnership with others across the region, taking a catchment approach to deliver biodiversity enhancement and nature recovery. These principles align with the LEAP process advocated by the TNFD, by taking a site approach (Locate), formulating plans to monitor those sites via undertaking biodiversity baselines and natural capital assessments (Evaluate), and creating management plans (Assess) with actions to work across the estate with our own staff (e.g. Nature Safe) and external partners, to improve the biodiversity condition. The outputs of these plans will enable us to prepare to respond to and report on material nature-related issues.
- **'Green First' Framework:** Published in 2023, the framework sets out our approach to using NBS and natural flood management wherever possible and practicable to do so. As such, our planning assumptions are based on achieving 50% reduction in surface water flow entering sewers, through nature-based solutions and a minimum removal of 10% of impermeable surfaces.
- **WRMP and DWMP:** These 25-year strategic plans identify key nature-related dependencies and impacts across Water Resource Zones, particularly those linked to leakage, water use, and water supply, and set out actions being implemented to address them.
- **Habitat Management Plans**: These have been developed for several South West Water sites, including species records and biodiversity enhancement recommendations which are available to operators.

KEY ACTIONS TO MANAGE NATURE IMPACTS AND RISKS
We are carrying out many actions to enhance nature recovery, manage our dependencies on nature sustainably, and limit our negative impacts. Key examples include:

- We are investing in research on new and emerging risks such as microplastics, invasive freshwater mussel species, and on the sustainable management of sludge applied to land.
- NatureSafe launched in 2024, is a cultural change initiative supporting our employees and contractors across operational sites to understand and protect nature - in alignment with our Biodiversity Strategy.
- In preparation for Asset Management Period AMP8, our Tier 1 suppliers were tested for their ability to deliver NBS for wastewater and drinking water. In March 2025, we became a partner of the Supply Chain Sustainability School (SCSS), reinforcing our commitment to upskilling our supply chain and colleagues across key sustainability topics, including climate and nature. This partnership provides access to industry-leading training and resources, enabling our teams and suppliers to deepen their understanding of key topics, and drive positive change across our operations. By working collaboratively with SCSS, we are empowering our supply chain to meet higher sustainability standards as we move into AMP8.
- South West Water has renewed its commitment to improving the management of natural assets and resources by re-signing the Catchment Management Declaration. The declaration promotes collaborative, cross- sector working in order to better manage water resources.
- We have published our Biodiversity Enhancement Case, a portfolio programme of investigations and actions to deliver environmental gains and biodiversity benefit across the South West. It aligns statutory WINEP requirements with our Biodiversity Strategy, Local Nature Recovery Strategies, and our commitments toward the Ofwat Biodiversity Performance Commitment to inform ongoing investment and planning.
- Our Biosecurity and Invasive Non-Native Species (INNS) Plan sets out how employees and contractors understand impacts linked to INNS, identify priority species, and implement controls on-site, embedding INNS risk management into operational decision-making.
- Our Natural Resources team provides internal advice on nature-related issues, helping teams resolve challenges and ensure alignment with our Biodiversity Strategy.

- Our catchment management initiative, Upstream Thinking, applies natural solutions to reduce agricultural impact on biodiversity and water quality. It does so whilst supporting farmers and the rural economy, by: installing waterside fencing, building ponds, improving farm tracks, increasing slurry storage and planting trees and buffer strips to catch and filter water.

GOING FORWARD
Over the coming years, we will continue to develop our approach to embedding nature-related risks, dependencies and opportunities across the Company. As a first step, we will integrate the findings from the South West Water LEAP assessment into our ongoing nature strategy development. Building on this pilot, we will progressively expand the scope of our LEAP assessments covering more of our operational footprint, additional value chain stages, and a wider set of ecosystems and interfaces with nature. This phased expansion will support more comprehensive, decision-useful disclosures and ensure our reporting keeps pace with the ambition of the TNFD framework.

CLIMATE AND NATURE-RELATED RISK MANAGEMENT

TCFD/TNFD Recommendation: Disclose how the organisation identifies, assesses, and manages climate-related and nature-related risks.

The Company's risk management framework is explained in detail on pages 62 to 65, including the methodology for assessing risks.

We are continuing to integrate climate-related and nature-related risk management within the Company's overall risk management process. Climate-related and nature-related risks and opportunities are assessed using the same methodology and materiality ratings as other business risks. In the past few years, we have undertaken specific work to identify and assess climate-related risks and opportunities, and we are moving towards this risk identification and assessment being integrated within business subsidiaries/functions. We have the processes in place to enable this integration, and a key area we are continuing to work on is raising awareness and competency so that the key people across our subsidiaries/business functions can effectively identify climate-related and nature-related risks, like they do with other risks (in many cases, climate and nature risks are an amplifier or additional driver to risks we have already identified, rather than presenting novel risks). For the past four years we have convened workshops with senior management from across business functions to re-visit and re-assess climate-related risks and actions, and management will take forward the responsibility to integrate climate risks into risk registers owned by each business subsidiary/function.

Furthering our progress, the Company has identified several principal risks which are impacted or influenced by physical and transitional climate and nature risks and opportunities, and as such we are increasingly cognisant that climate and nature risk management is integral to the performance and resilience of our business and strategy. The link between climate-related and nature-related risks and opportunities on our principal risks is shown on pages 67 to 74.

Risks have been assessed by senior managers across the Company using South West Water's risk assessment methodology (see risk management framework is explained in detail on pages 62 to 65).

Risk ratings are based on assessing likelihood and consequence on a 4 x 4 risk matrix. Materiality is determined based on the impact of risks across a range of criteria: financial, safety, environmental, stakeholders and customers, reputation, management effort, quality.

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. We seek to minimise risks on operational activities within the regulatory environment. Climate-related risks are approached with a minimal level of appetite, and this is subject to Board approval where all appetite levels are established. Environmental compliance requirements are high, so our risk appetite for environmental impacts is low. Where there is no risk to regulatory compliance, we are willing to take more risks to innovate (eg Nature Based Solutions).

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 AND NATURE-RELATED METRICS AND TARGETS

TCFD/TNFD Recommendation: Disclose the metrics and targets used to assess and manage relevant climate-related and nature-related risks and opportunities where such information is material.

We use a range of metrics to quantify key climate and nature risks, and to monitor progress towards managing risks and achieving our targeted objectives.

We continue to disclose comprehensive data relating to our GHG emissions and energy consumption which can be found in the Pennon Group plc annual report (SECR report on page 81). We report on all Scope 3 categories which are relevant and material to our business (ESG Databook). Our TNFD-aligned metrics and SASB disclosures are reported in the ESG Databook. We report on progress against our ODIs, performance commitments and WINEP delivery in our Annual Performance Report. All material data for TCFD compliance is in this TCFD report.

Across GHG metrics, performance continues to improve year-on-year, with reductions in scopes 1 and 2 and work ongoing to progress scope 3 reduction, which remains a key challenge for our Net Zero transition. Climate-related physical risk metrics are also trending positively, with improvements in storm overflow and pollution indicators reflecting the impact of targeted interventions, while further work is needed to meet long-term resilience goals.

For capital deployment, remuneration and internal carbon value, progress is being made in embedding climate considerations into business decision-making, including directing investment towards Net Zero and environmental outcomes, linking incentives to ESG performance, and applying an internal carbon price aligned with Ofwat performance commitments.

		2025/26	2024/25
Climate-related physical risks metrics	Number of major sites/assets at high-risk of coastal flooding and erosion.	36	36
	Pollution incidents (Number of wastewater incidents, calendar year).	124	189
	Annual average number of spills from each storm overflow (number per calendar year).	34.0	41.3
Climate-related transition risks metrics	Risk of customer affordability in achieving Net Zero and adapting to climate change: our customer affordability measure.	99% SWB 100% BW	100% SWB 100% BW
	Value (£) of finance raised through our	£490m	£800m

	sustainable financing framework		
Remuneration	Proportion of our management incentive schemes linked to ESG outcomes, including climate change	28.6%	27.4%
Internal carbon value	Value of carbon used in business cases and whole life carbon assessments (£/tCO_2e)	Ofwat Performance Commitment Price £188/ tCO_2e	£294/tCO_2e (Sensitivity testing: Low: £147/High: £442)

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

	Climate and environment	People
Time horizon	Our ambition is to achieve Net Zero across the Company, supported by the development of our Company's Climate Transition Plan that sets out a clear, credible pathway to decarbonisation. We are strengthening how we identify and manage climate-related risks and opportunities and are embedding a more structured approach to reducing emissions across our operations. This includes continued focus on innovation and the actions needed to decarbonise our activities, working collaboratively with partners and our supply chain.	As a purpose-led business, we recognise that the best way to deliver for customers is to focus on our people to enable them to deliver their best. We continue to foster a culture built on our purpose and one that reflects our values and business plans. We operate a safety-first mindset to working across the business with our HomeSafe health and safety approach which is embedded in the day-to-day working culture of our business. We encourage continuous learning and development, providing opportunities for all employees. We are building a diverse and inclusive workforce.
Read more	• Approach to ESG - page 78 • Our Task Force on Climate-related Financial Disclosures - pages 79 to 92 • Net Zero - see Pennon Group plc Annual report and Accounts pages 78 to 82	• Our people and culture - pages 19 to 25 • Stakeholder engagement - People pages 28 to 31
Related policies	• Biodiversity policy • Water management policy • Environmental policy	• Health, Safety and Security policy • Code of Conduct • Workplace policy • Diversity, Respect and Inclusion policy • Board Diversity Policy
Due diligence processes	• Governance framework in place led by the Board and its Committees • External assurance • External ESG benchmarking	• Regular all-colleague Culture Amp surveys • Health and Safety Steering Group overseeing targets, performance monitoring and interventions • Employee representative groups, including Employee Network Groups and trade unions relations • Change the Race Ratio
Policy outcomes	• Minimising our impact on the environment • Meeting our regulatory commitments • Net Zero	• Reduced workspace accidents and improved employee wellbeing • Board diversity target achievements • Sustainability target • Code of Conduct compliance
Principal risks	• Failure to secure, treat and supply clean drinking water • Failure to improve wastewater performance, resulting in environmental commitments not being delivered • Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes in AMP8	• Non-compliance or occurrence of an avoidable health and safety incident • Difficulty in recruiting and retaining staff with the skills required to deliver the Company's strategy
KPIs	• Renewable Electricity Generation (GWh/year)	• LTI number • % REACH recruitment • % female employees

	• % reduction in Scope 1 and 2 GHG emissions from a 2021/22 baseline (science-based target) • Tree planting • Catchment management (hectares)	• 5% club achievement

	Social matters	Human rights	Anti-corruption
Time horizon	We work closely with our customers, communities and partners on the things that matter most to them and have regular engagement with them. Supporting our customers is a priority. Not only providing safe, clean drinking water, but supporting them financially when it matters most. We are committed to keeping bills as low as possible. 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. Through our Better Futures Fund, we are supporting local projects that enhance wellbeing, protect the environment, and strengthen communities across the South West, Bournemouth and Bristol, regions.	We are committed to promoting and maintaining the highest level of ethical standards in relation to how we do business. We uphold internationally recognised human rights standards in all our operations consistently throughout the Company. Our policies help prevent and address any human rights impacts on our business activities and relationships. We obligate all of our partners and suppliers to comply with our policies, which include our Code of Conduct and Anti-Modern Slavery and Human Rights Policy through our supplier terms and conditions. Our Modern Slavery Statement identifies the activities we conduct annually and our Code of Conduct for Supply Chain Partners further aligns our supply chain to the standards we expect of ourselves and others.	We have a zero tolerance policy towards financial crime and we're committed to implementing and enforcing effective systems to counter them. We require everyone who works for us, to act honestly and with integrity at all times. We will not tolerate anyone employed by us, or associated with us, regardless of location or position to be involved in any level of financial crime. Anyone who works with or for the Company must comply with our consolidated Anti-Financial Crime Policy and is encouraged to report any breaches to Legal Compliance or through the South West Water whistleblowing reporting Speak Up portal which is provided by a third party to enable completely anonymous reporting of concerns.
Read more	• Stakeholder engagement - Customers pages 26 to 27 and Communities pages 27 to 28 • Supporting affordability, delivering for customers - pages 51 to 54 • s.172(1) - pages 122 to 124	• Modern Slavery Statement - foot of homepage at www.pennon-group.co.uk	• Code of Conduct - page 137 • Anti-financial crime and corruption - page 138
Related policies	• Community Relations and Investment Policy	• Anti-Modern Slavery and Human Rights Policy • Code of Conduct • Code of Conduct for Supply Chain Partners	• Whistleblowing Policy • Anti-Financial Crime Policy • Code of Conduct • Gifts and Hospitality Policy
Due diligence processes	• Community engagement plan in place led by the Regulatory and Customer teams	• Modern Slavery Statement www.pennon-group.co.uk	• Ethics Management Committee • Gifts, Hospitality and Conflicts of Interest procedures

			• Bribery and Fraud Risk Assessment Workshops • Company-wide anti-financial crime mandatory training contained in new interactive Code of Conduct module • Supplier due diligence process • Speak Up portal
Policy outcomes	• 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	• An open dialogue with our stakeholders on human rights issues	• 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	• Failure to provide an excellent service or meet the needs and expectations of our customers and communities	• Non-compliance with laws and regulations	• Non-compliance with laws and regulations
KPIs	• £ community investment • % priority services register (PSR) - customer satisfaction • C-MeX • D-MeX	• % of instances of modern slavery detected in South West Water supply chain.	• Number of cases reported through Speak Up portal

APPROVAL OF THE STRATEGIC REPORT

Our Strategic Report consisting of pages 1 to 95 has been reviewed and approved by the Board.

Laura Flowerdew
Chief Financial Officer
15 July 2026

GOVERNANCE AND REMUNERATION

GOVERNANCE

GOVERNANCE AT A GLANCE

HIGHLIGHTS

BOARD CHANGES

- Susan Davy retired from the Board and as Chief Executive Officer on 31 December 2025
- David Sproul, Chair of South West Water, assumed the role of Executive Chair on 1 January 2026 supported by an Operating Committee. The Operating Committee, comprising Laura Flowerdew, Sarah Heald and Andrew Garard, commenced on 1 January 2026 and ended 1 April 2026 following the appointment of Keith Haslett Chief Executive Officer of our parent Company, Pennon Group plc
- Keith Haslett joined the Board and was appointed as Chief Executive Officer on 19 May 2026
- Iain Evans stepped down from the Board on 31 March 2026
- Sir Andrew Haines was appointed to the Board as Non-Executive Director on 1 November 2025 and became Senior Independent Director on 1 April 2026
- Andrea Blance was appointed to the Board as Chair of the Remuneration Committee on 8 April 2025.

Read more on and Andrea, Andrew and Keith's experience in their biographies on pages 102 to 104.

KEY FOCUS AREAS FOR THE BOARD IN 2025/26

- Customer affordability
- Delivery of capital projects
- Delivery of AMP8
- Investment programmes
- Storm overflows and eliminating pollutions
- Water quality and resilience
- Incident management
- Cyber security

See pages 116 to 117 for more information.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2024 AND OTHER REQUIREMENTS

South West Water firmly believes that good corporate governance is essential to enable us to deliver our purpose for all of our stakeholders and remains a top priority for the Board.

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, except for the provisions which are outlined in the Pennon Group plc Annual Report and Accounts 2026 on page 97. 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 24 of the UK Code state that the Board should establish an Audit Committee of independent Non-Executive Directors, with a minimum membership of three. For the period between 1 April 2025 and the appointment of Andrea Blance on April 8 2025, the committee composition was not in compliance with Provision 24 of the UK Corporate Governance Code 2024. However, there were no committee meetings held, or decisions made during the relevant period.

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 auditors and to approve the remuneration and terms of engagement of the external auditors. Provision 25 also states that the Audit Committee should develop and implement policy on the engagement of the external auditors 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 auditors is (and has been throughout the year) a matter for the Pennon Group plc 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) is the responsibility of the Pennon Group plc 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 Chief Executive Officer and the Chief Financial Officer, who are also a members of the Pennon Group plc Board is the responsibility of the Pennon Group plc 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.

MEETING ATTENDANCE DURING THE YEAR AND BOARD SKILLS MATRIX

Position	Chair	Executive Directors			Non-Executive Directors					
Member	David Sproul	Keith Haslett[1]	Laura Flowerdew	Susan Davy[2]	Sir Andrew Haines[3]	Andrea Blance[4]	Dorothy Burwell	Jon Butterworth	Loraine Woodhouse	Iain Evans[5]
Attendance	6/6	0/0	6/6	4/4	3/3	6/6	6/6	6/6	6/6	6/6
Board skill										
Water sector		X	X	X						X
Regulation	X	X	X	X	X	X	X	X	X	X
Finance and accounting	X	X	X	X	X	X	X		X	
Strategy	X	X	X	X	X	X	X	X	X	X
Transformation	X	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	X	X	X	X	X
Enterprise risk management	X	X	X	X	X	X	X	X	X	X
Data, technology and digital		X	X	X	X		X	X		
People	X	X	X	X	X		X	X	X	
Governance	X	X	X	X	X	X	X	X	X	X
Remuneration	X	X	X	X	X	X			X	

1. Appointed 19 May 2026
2. Resigned 31 December 2025
3. Appointed 1 November 2025
4. Appointed 8 April 2025
5. Resigned 31 March 2026

CHAIR'S INTRODUCTION

The Board's primary focus in the year was ensuring strong governance arrangements were in place, underpinned by the right team and expertise to deliver effectively for our stakeholders.

I am very pleased to introduce, on behalf of the Board, the South West Water Corporate Governance Report for 2026, which sets out our governance practices and processes, and how we applied the principles of the UK Corporate Governance Code 2024 (the Code) throughout the year.

The Board is committed to being compliant with the new relevant provisions in the timeframes dictated within the Code. The report covers our key focus areas and achievements during 2025/26 and explains how the Board continues to operate effectively and efficiently and to support the Company's strategy.

REVIEW OF THE YEAR

We continue to operate to the highest standards of corporate governance. Strong governance remains central to the successful management of the Company, providing the framework we need to deliver our strategy, fulfil our purpose, create value for all our stakeholders and continuously develop our business.

The table on page 98 will help you to navigate our reporting and evaluate our performance against the principles of the Code. As we explain below, we also have processes and procedures in place to safeguard the independence of decision-making by the Board of South West Water.

More information on the Board's activities can be found on pages 116 to 117.

CHANGES TO THE BOARD

We are pleased to welcome two new Non-Executive Directors, Andrea Blance and Sir Andrew Haines to the Board during the year.

Since Andrea's appointment in April 2025, she has brought her extensive risk and commercial strategy expertise both to the Board and the Remuneration Committee, which she Chairs.

Sir Andrew Haines joined the Board in November 2025 and brings with him a wealth of experience from infrastructure and capital projects. He was appointed as Senior Independent Director on 1 April 2026.

Iain Evans stepped down effective 31 March 2026. I would like to thank him for his immense contribution to the Board over the last eight years and wish him well for the future.

In July 2025, we announced the retirement of Susan Davy as Chief Executive Officer. During her 11 years as a member of the Board, Susan successfully led the affairs of the Company through a period of substantial development and growth. I would like to thank Susan for her service to the Company and our stakeholders. Effective 19 May 2026, we welcomed Keith Haslett as the Chief Executive Officer, whom I look forward to working with.

The details of the process of his recruitment is in our Nomination Committee report on pages 125 to 129.

Biographies of Andrea Blance and Sir Andrew Haines can be found on pages 102 to 104.

PROMOTING DIVERSITY

Diversity and inclusion (D&I) continued to be a top priority for the Board and the Company during the year. Our Board composition is substantially ahead of the diversity targets suggested by the Parker Review and the FTSE Women Leaders Review. During the year, we were incredibly proud for our parent Company, Pennon, to have moved from third position to first position for best performer in Women on Boards within the entire FTSE 250.

Our commitment to diversity is also reflected right across the business; our widespread commitment and focused drive to recruit talent from all backgrounds has the heartfelt support of our strong and diverse leadership team.

More information on our D&I initiatives can be found on page 20 and is in the Nomination Report on page 126.

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.

As part of our engagement with regulators, we were delighted to welcome the Secretary of State for Water and Flooding at the Department for Environment, Food and Rural Affairs (Defra), Minister Emma Hardy to our Board meeting in May 2025. During this visit, we highlighted our focus and commitment to creating sustainable and resilient water resources, battling storm overflows and pollutions, delivering our outcomes and building trust.

The Board also welcomed Iain Coucher and David Black, the respective Chair and Chief Executive Officer of Ofwat, to its Board meeting during the year, where we had the opportunity to give comfort on our alignment with the PR24 Final Determinations, and how our strategic plans and investment projects are being delivered in line with regulatory expectations and customer needs.

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 employee surveys and Be the Future Forums.

You can read more on how we engage with our stakeholders on pages 118 to 119 and in our Section 172(1) statement on pages 122 to 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 their continuous improvement. During the year, the Board were delighted to see the development of the Company's new values which reflect the views of our wider stakeholders and culture.

ROLE OF THE BOARD AND ITS EFFECTIVENESS

It is my view that the Board continues to be highly effective with a deep understanding of the opportunities available to us and the threats facing the business. The results of this year's Board and Committee performance reviews support this view; see pages 128 to 129 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 62 to 74 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, while continuing to support the delivery of our strategy.

Our Board and Committee framework also allows us to remain efficient in our decision-making processes. The South West Water Board convenes on the same day as each Pennon Board meeting and considers all key relevant issues. This arrangement allows full operational oversight and governance by the boards over the Company's water interests, while the Pennon Board continues to focus on strategic forward-looking matters for the Company as a whole.

LOOKING AHEAD

I would like to take this opportunity to thank my Board colleagues, the management team and our wider workforce for their outstanding work over the year just gone.

The Board will continue to focus on delivering against our strategic priorities in the year ahead, ensuring the wellbeing of our workforce as we build on the work of the last year in creating a successful and sustainable business.

OUR BOARD AND EXECUTIVE TEAM

David Sproul Chair
Appointment to the Board David was appointed to the Board on 1 July 2024 and became the Chair of South West Water on 24 July 2024. He is Chair of the Nomination Committee.
Current external appointments Chair of Starling Bank Limited and Non-Executive Director on Safanad Limited and Director of Pension Protection Fund. David is also a senior adviser to Bridgepoint Europe, and he sits on the Board of Governors as chair designate of University of Hertfordshire.
Skills and experience David is a Chartered Accountant who has spent the majority of his career in professional services with Deloitte and prior to that, Andersen, serving a diverse range of UK and international clients. He concluded his Executive career at Deloitte in summer 2021 as Global Deputy CEO having previously been elected for two terms as Senior partner and Chief Executive of Deloitte UK and Northwest Europe from 2011 to 2019. During his leadership, the firm became the largest and most profitable professional services firm globally and, in the UK, driven in part by significant investments in technology services, as well as differentiating itself as the Audit quality leader with a strong inclusive culture.

Keith Haslett Chief Executive Officer of South West Water and Pennon Group plc
Appointment to the Board Keith was appointed to the Board as Chief Executive Officer on 19 May 2026. He is a member of the Environmental, Social and Governance Committee, Health and Safety Committee and is Chair of the Pennon Executive Board.
Current external appointments None.
Skills and experience Keith brings more than 25 years of experience in the UK water sector, with a strong track record of leading complex and regulated utilities. Prior to joining South West Water, he served as Chief Executive Officer of Affinity Water, where he delivered improvements in business performance and customer outcomes. Earlier in his career, Keith held senior leadership roles at Northumbrian Water Group and United Utilities, overseeing large-scale water and wastewater operations and multi-billion pound capital investment programmes. His experience spans engineering, operational delivery, environmental performance, and the transformation of asset management and organisational structures. Keith is a Chartered Civil Engineer and holds an MBA from Queen's University Belfast.

Laura Flowerdew Chief Financial Officer of South West Water and Pennon Group plc
Appointment to the Board Laura was appointed to the Board as Chief Financial Officer on 10 July 2024. Laura is a member of the Environmental, Social and Governance Committee, Health and Safety Committee and Pennon Executive Board.
Current external appointments None.
Skills and experience Laura was appointed Chief Financial Officer of South West Water in July 2024. Laura held previous positions as Chief Customer and Digital Officer of Pennon Group plc and Chief Financial Officer of Bristol Water plc from October 2018. Laura previously worked in a number of senior executive positions in UK utilities and international natural resources business including Anglo American plc, De Beers, Tribal Group and Bristol Energy. Prior to that she worked with Deloitte and trained with Arthur Andersen. She is a Fellow of the Institute of Chartered Accountants for England and Wales.

Sir Andrew Haines OBE Senior Independent Director
Appointment to the Board Sir Andrew was appointed to the Board on 1 November 2025. Effective 1 April 2026, Sir Andrew took over as Senior Independent Director and became a member of the Health and Safety Committee, Audit Committee, Nomination Committee and the Remuneration Committee.
Current external appointments He is Chair of DfT Operator Limited, Chair and Pro Chancellor, Cranfield University.
Skills and experience Sir Andrew retired from his role as Chief Executive and Board Member of Network Rail in October 2025 after 7 years. During this time, he successfully led a regulated utility business of £9 billion annual turnover with a capital programme of c.£4-5 billion per annum and achieved an outperformance of the regulatory efficiency targets in the control period as well as best ever safety performance. Prior to this, Andrew was Chief Executive of the Civil Aviation Authority, the UK's aviation regulator, which he joined following nine years as a Managing Director in private sector train companies. He was awarded the OBE in 2016 and knighted for services to transport and the economy in 2025.

Andrea Blance Independent Non-Executive Director
Appointment to the Board Andrea was appointed to the Board as an Independent Non-Executive Director on 8 April 2025. She is Chair of the Remuneration Committee and is also a member of the Audit and Nomination Committee.
Current external appointments Non-Executive Director and Risk Committee Chair at Aviva plc.
Skills and experience Andrea brings extensive risk and regulation expertise gained within the financial services sector and works with businesses to develop customer focused commercial strategies. Andrea spent her Executive career at Legal & General Group plc where she held a range of senior leadership roles including Group Chief Risk Officer and Strategy & Marketing Director. More recently, Andrea has been Risk Committee Chair at Hargreaves Lansdown plc, Senior Independent Director and Remuneration Committee Chair of Vanquis Banking Group plc, Senior Independent Director and Audit Committee Chair of ReAssure plc, and Risk Committee Chair of Scottish Widows plc and Lloyds Banking Group Insurance.

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 Chair of the Environmental, Social and Governance Committee and a member of the Nomination and Remuneration Committees.
Current external appointments Partner and Global Partnership Board member of FGS Global, Non-Executive Director at Post Holdings, Inc.
Skills and experience Dorothy has over 20 years' experience in banking and communications, specialising in natural resources and advising clients around issues of sustainability, strategy, and corporate communications. She is well known for driving substantive diversity and inclusion agendas. Between 2002 and 2006, Dorothy held analyst and senior roles at Goldman Sachs in the investment banking division, in both London and New York, as well as in the firmwide Strategy Group, where she focused on proprietary mergers and acquisitions and new business development. Dorothy graduated from the Florida Agricultural and Mechanical University, USA with a Bachelor and Master of Business Administration, Finance and Management.

Jon Butterworth MBE Independent Non-Executive Director
Appointment to the Board Jon was appointed to the Board on 28 September 2017. He is Chair of the Health and Safety Committee and is a member of the Nomination and Environmental, Social and Governance Committees.
Current external appointments Chief Executive Officer at National Gas. Major in the British Army Reserves. UK Emergency Energy Co-ordinator for HMG. Chair of the National Gas Museum Trust.
Skills and experience Jon has a distinguished track record and an immense depth of experience and knowledge within infrastructure and utilities. Jon begun his career as an apprentice at British Gas over 47 years ago working in Europe, the USA and the UK on major infrastructure. Currently as the CEO of National Gas plc, Jon is responsible for the primary energy supply into the UK and the operation of the system.

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 Chair of the Audit Committee and a member of the Environmental, Social and Governance, Health and Safety and Nomination Committees.
Current external appointments Senior Independent Director and Chair of the Audit Committee for the British Land Company plc, Non-Executive Director for Associated British Foods plc and a Trustee and Audit Committee member at the Zoological Society London.
Skills and experience Loraine is an experienced finance executive, with her experience focused in the retail and consumer sector, and more recently in real estate and infrastructure through her roles with Intu Properties plc and British Land Company plc. Loraine was the Chief Financial Officer of Halfords Group plc until June 2022, before which she spent five years in executive and senior finance roles within the John Lewis Partnership, including Waitrose. Prior to that, Loraine was Chief Financial Officer of Hobbs, Finance Director of Capital Shopping Centres Limited (subsequently Intu Properties plc) and Finance Director of Costa Coffee Limited.

Andrew Garard 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.
Current external appointments Non-Executive Director at Zinc Media Group plc where he is Chair of the Remuneration Committee, co-founder and Chair of the Board of Trustees of the Social Mobility Business Partnership.
Skills and experience Andrew is a very experienced General Counsel, having joined from Meggitt plc, where he was Group General Counsel and Director of Corporate Affairs, and a member of the group Executive responsible for legal, commercial, trade compliance, government relations, ethics and contract management. Previously, he was Group General Counsel and Company Secretary at ITV plc where he was a member of the Executive Board and led a global team responsible for legal and business affairs, secretariat, compliance, insurance, health & safety, rights management and corporate responsibility. Prior to this, he was Group General Counsel and Company Secretary at Cable & Wireless plc and Global Head of Legal at Reuters Group plc.

BOARD CHANGES 2025/26:

Susan Davy stepped down from the Board on 31 December 2025. Until her resignation, she was a member of ESG Committee and Health and Safety Committee.

Iain Evans CBE stepped down from the Board on 31 March 2026. Until his resignation, Iain was the Senior Independent Director, a member of the Health and Safety Committee, the Audit Committee and the Remuneration Committee.

THE SOUTH WEST WATER EXECUTIVE TEAM

- **Keith Haslett** - Chief Executive Officer of South West Water and Pennon Group plc - see biography on page 102.
- **Laura Flowerdew** - Chief Financial Officer of South West Water and Pennon Group plc - see biography on page 102.
- **Andrew Garard** - General Counsel and Company Secretary of South West Water and Pennon Group plc - see biography on page 104.
- **David Harris** - Managing Director of Water Services - David joined the Company as Drought and Resilience Director in 2022. He was appointed as Managing Director, Water Services (National) in July 2024. With over 25 years of executive experience, he has successfully led 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 and fully vertically integrated water companies through the worst droughts in the country's history, ensuring a constant supply of water and the building of additional water resources.
- **Richard Price** - Managing Director of Wastewater Services - Richard was appointed Managing Director, Wastewater Services in July 2024. Previously, he held the position of Group Chief Engineering Director from 1 September 2022, having joined Bristol Water in February 2018. Richard is a Chartered Civil Engineer and Fellow of the Institution of Civil Engineers and Institute of Water. Richard has over 30 years' experience engineering, constructing and operating water and wastewater infrastructure, having previously held senior roles at other water companies. Richard was instrumental in the transformation of Bristol Water as Chief Operating Officer. He is passionate about safety and customer excellence, embedding leading practices whilst transforming operating and delivery functions.
- **Ian Cain** - Chief Executive Officer, Retail and Customer Markets - Ian has responsibility for all customer service operations across Company's brands. He leads Company's customer strategy and governance, ensuring clarity, accountability and a strong alignment to regulatory expectations, customer insight and industry good practice. Ian became CEO of SES Water in February 2020, bringing extensive experience from senior leadership roles in the UK utilities and service sectors. Before joining SES Water, Ian was CEO of iSupplyEnergy. Prior to that, Ian held other senior roles in leading water and energy utilities including Managing Director for Retail and Group Customer Service at Thames Water and Managing Director of British Gas Energy, where he led major transformation in customer propositions, service solutions and customer experience, digitisation and operational effectiveness.
- **Ian Christie** - Chief Asset Officer - Ian joined as Chief Asset Officer in May 2026. Ian brings extensive experience across asset management, operational delivery and system planning. His expertise will be instrumental in strengthening the Company's focus on asset health and reliability, and in supporting the successful delivery of current and future business plans. Prior to joining South West Water, Ian Christie was the Managing Director at Welsh Water, leading various directorates on their Executive Committee. Ian also served as the Head of Potable Water Service at United Utilities and with a background in civil engineering, Ian also has a wealth of experience in delivering construction and asset investment programmes for a number of utility providers.
- **Graham Murphy** - Chief Engineering Officer - Graham joined South West Water in 1991 and has held a number of positions within engineering, operations and HR. He was appointed to his current role as Chief Engineering Officer in July 2024 and has full responsibility for the timely and efficient delivery of the South West Water's capital investment programme. Prior to joining South West Water, he undertook a variety of operational management roles within British Gas. Graham will retire from the Company on 30 June 2026 and we thank Graham for his commitment and significant contribution to South West Water over his career.

- **Sarah Heald** - Chief Strategy and Regulatory Affairs Officer - Sarah was appointed Chief Strategy, Regulatory Affairs, and Investor Relations Officer in July 2025. Sarah is an experienced executive with over 17 years' experience spanning corporate strategy, stakeholder engagement, sustainability and investor relations across regulated industries including the water sector, infrastructure, and financial services. She leads the Company's strategy, regulatory and external affairs, and investor relations functions, shaping the Company's direction and positioning amid the most significant re-examination of the water sector. Previously, Sarah served on the Executive Committee at Aberdeen plc, where she led sustainability, corporate affairs, marketing, and investor relations. She chaired Aberdeen's executive sustainability committee, the Charitable Foundation, and was a Non-Executive Director of the Aberdeen Financial Fairness Trust. Prior to that, Sarah was Corporate Affairs and Investor Relations Director at Pennon Group plc 2015-2020 and was on the Executive Leadership Team that sold Viridor to KKR in July 2020. Earlier in her career, Sarah worked at FGS Global and she started her career in investment banking at Bank of America Merrill Lynch.
- **Carolyn Cadman** - Chief Sustainability and Natural Resources Officer - Carolyn has recently been appointed Chief Sustainability and Natural Resources Officer, having joined South West Water as Director of Natural Resources in May 2022. Carolyn's team are delivering projects to lower carbon emissions, increase nature recovery efforts and improve the sustainability of operations across the Company, including mainstreaming nature-based solutions. Carolyn's team lead the Upstream Thinking catchment management programme, the South West Peatland Partnership and are part of the South West Invasives Forum. Prior to joining South West Water, Carolyn was Chief Executive of Cornwall Wildlife Trust, and has served in national roles for Natural England and the Marine Management Organisation, and in the South West region for Cornwall Council. Carolyn is a Director of South West Water's partnership with Exeter University, the Centre for Resilience, Environment, Waste and Water, which undertakes innovative research in catchment management, microplastics, peatland restoration, AI, engineering and water management. Carolyn sits on the Board of the Devon Local Nature Partnership and she chairs the Cornwall Catchment Partnership.

EXECUTIVE TEAM CHANGES 2025/26:

Adele Barker was Chief People Officer and was a member of the Executive during 2025/26.

Sharon Gathercole was appointed Chief People Officer in October 2025 and stepped down in May 2026.

MONITORING PURPOSE AND CULTURE

PURPOSE, VALUES AND CULTURE

Our purpose, ***Bringing water to life - supporting the lives of people and the places they love for generations to come***.

Our values:

Be YOU | Be ROCK SOLID | Be the FUTURE

As a dedicated business, working round the clock to deliver our essential water services for our customers, we are influenced by our values and culture to be effective stewards of the environment and our communities. We know that it's not only what we do, but how we do it that is important for our customers, communities and ourselves. That's why we will keep our focus on living our values across South West Water, every day.

We want our values and our behaviours to be the golden thread across South West Water - all businesses within our Company to have the same values and therefore the same way of being.

Our values were developed after intensive involvement and listening sessions with the Executive Board, the larger leadership group, colleague organisations such as the employee forum, and comprehensive colleague listening groups.

HOW THE BOARD MONITORS CULTURE

The Board plays a vital role in monitoring and assessing the culture of the Company and its alignment with the Company's purpose, values and strategy. During the year, the Board considered a number of areas that helped them to assess the development of the Company's culture.

Area assessed	How the Board monitors the culture
Employee engagement	Appointment of a designated Non-Executive Director for workforce engagement - The Board approved the appointment of the designated Non-Executive Director, giving the employees a meaningful voice and representation in Board discussions. Site visits - the Board attended a number of site visits and other office locations to meet operational colleagues in their day-to-day environment to hear from them. Big Chat and Be the Future Forum - The Executive team engages with all employees on all business topics and ensures that their views and opinions are shared with the Board.
Workforce policies and practices	The Board formally reviews the Company's workforce policies and practices to ensure these remain consistent with the Company's purpose and values and support the Company's long-term sustainable success. Gender and ethnicity pay gap - The Board monitors the culture on gender and ethnicity pay through review, assessment, and approval of the Gender and ethnicity pay gap report. Diversity and inclusion - The Nomination Committee monitors diversity and inclusion through regular updates, and the Board fosters the Company's culture on diversity and inclusion through the review and approval of the Diversity, Respect and Inclusion policy. General pay conditions - The Remuneration Committee ensures that reward and pay arrangements support a culture that is transparent, fair, and consistent to ensure that employees' trust is maintained and that talent is attracted and retained.
Whistleblowing	Speak Up - Employees raise concerns anonymously without fear of reprisal. Any significant concerns, following formal investigation, are shared with the Audit

Area assessed	How the Board monitors the culture
	Committee through the Ethics Management Committee and ultimately, shared with the Board.
Health and Safety	HomeSafe - This remains a standing agenda item at every Board meeting in 2025/26. The regular updates on safety initiatives adopted for the achievement of the Company's 2025 strategic plan to be health and safety leaders in the water sector. The Board also conducted an assessment and approval of the HomeSafe strategic plan to 2030. Lost time injuries - Updates on efforts to reduce injuries of our staff across all Company are assessed at every Executive meeting and further presented for assessment at the Health and Safety Committee.
Remuneration	The Remuneration Committee is regularly provided with feedback from shareholder consultations and customer engagement which helps the Committee and the Board to monitor the culture on wider workforce pay, and Executive and Chief Executive Officer remuneration. The Committee reviews and approves the wider workforce Reward Framework and relevant policies, and ensures that incentives and rewards align with culture. Chief Executive Officer pay ratio - The Board ensures that the Chief Executive Officer pay ratio is fair, balancing stakeholder expectations while rewarding leadership success.

BOARD LEADERSHIP

GOVERNANCE STRUCTURE AND FRAMEWORK

South West Water Limited - Board of Directors
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 Board's role is to foster the long-term success and sustainability of the Company, while establishing value for all its stakeholders, customers, employees and the communities it serves, by providing robust leadership and effective direction to the business as a whole. It sets the Company's strategy and sustainability strategy, considering stakeholders, while maintaining a balanced approach to risk within a framework of effective controls for the mutual benefit of customers and employees. It has also established the Company's purpose and values and monitors culture to ensure alignment. It sets the tone and approach to corporate governance and is responsible for the overall financial performance of the Company.

The Board Committees
The Chair of each Committee formally reports to the Board and meets three or more times a year as necessary. Committee members have the essential skills and experience to execute the specific area of focus delegated by the Board. Demonstrating accountability for Committee recommendations by reporting to the Board and ensuring the Board has oversight of Committee matters. 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/.

Audit Committee
Ensures the quality and integrity of the Company's financial reporting, assesses the application of accounting policies given underlying standards, probes and tests the accounting judgements made in preparing financial reporting and evaluates whether the presentation of the Company's activities is fair, balanced and understandable.
Reviews and challenges the ongoing effectiveness of the internal control environment and the scope and adequacy of risk management processes across the Company.

Audit Committee Report on pages 130 to 139.

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

Nomination Committee Report on pages 125 to 12.

Remuneration Committee
Ensures remuneration is aligned with the Company's strategy and reflects the values of the Company.
Advises the Board on the framework of executive remuneration for the Company and for the wider workforce.

Remuneration Committee Report on pages 145 to 149.

ESG Committee
Ensure robust scrutiny of key aspects of Environmental, Social and Governance (ESG) performance and oversees performance against our ESG strategy and strategic sustainability objectives.

ESG Committee Report on pages 140 to 143.

Health and 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.

Health and Safety Committee Report on page 144.

Chief Executive Officer and Executive Board
Responsible for framing and navigating the business objectives to achieve delivery of the Company's strategy. To the extent of the authority delegated by the Board, ensuring the proper and prudent management of Company resources to create and maximise value while protecting the interests of the wider stakeholder group. Chaired by the Chief Executive Officer, the Executive Board meets regularly to receive reports from the management committees and to ratify recommendations to be presented to the Board.

* An Operating Committee headed by the Chair acted in the absence of the Chief Executive Officer between 1 January 2026 to 31 March 2026 to ensure continuity and stability in delivery of the business strategy.

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/s	Role
Chair	David Sproul	• Lead the Board and promote a strong culture of openness and debate to facilitate constructive Board relations and effective contribution from all Non-Executive Directors • Ensure the Board holds itself to the highest standards of good and effective governance through integrity and credibility. • Maintain a 'fit for purpose' Board through ongoing skills assessment and training as required and proactively aligning Board composition, performance, and succession planning with future strategic needs. • Setting the agenda and ensuring the timely dissemination of information to the Board to ensure all relevant information is provided in a timely manner before constructive discussion and decision-making. • Exhibit the high standards and values of the Company and make certain that the views of all stakeholders are understood and considered. • Provide advice, support and guidance to the Chief Executive Officer thereby facilitating an open relationship.
Chief Executive Officer	Keith Haslett	• Managing the Company and providing executive leadership • Develop, propose and implement Company strategy, as agreed by the Board and in line with the strategic framework • Lead on all regulatory and policy decisions • Lead the Company in accordance with the decisions of the Board • Ensure financial and operational leadership • Collaborate with the Chair on important and strategic issues of the company and providing input to the Board's agenda • Contribute to succession planning and implement the organisational structure • Lead on acquisitions, disposals, and business development • Develop and manage relations with all stakeholders
Senior Independent Director	Sir Andrew Haines	• Assist the Chair with stakeholder communications and being an additional point of contact for stakeholders • Being available to other Non-Executive Directors if they have any concerns that are not satisfactorily resolved by the Chair • Ensure an annual performance evaluation of the Chair, with the support of the other Non-Executive Directors and ensure effective succession planning for the Board
Chief Financial Officer	Laura Flowerdew	• Manage the Company's financial affairs and supporting the Chief Executive in providing executive leadership and implementing the Company strategy • Report accurate and detailed financial information to the Board on performance and developments across the business • Manage and balance relationships with areas of the Company, such as finance and treasury, as well as external stakeholders
Non-Executive Directors	Jon Butterworth Loraine Woodhouse Dorothy Burwell Andrea Blance	• Critically review the strategies, operational performance and financial reporting for the Company • Evaluate proposals from management and constructively challenge its recommendations • Contribute to corporate accountability and good governance through being active members of the Committees of the Board

Position	Director/s	Role
		• Play a key role in succession planning of the Board and the annual Board and Committees evaluations
General Counsel and Company Secretary	Andrew Garard	• Support the Chair, Chief Executive Officer and Board in ensuring all policies, processes, information, and resources are in order to ensure the Board can operate effectively and efficiently. • Advise and keep the Board updated on any changes to Listing and Transparency Rules and best corporate governance practices. • Facilitate a comprehensive induction for newly appointed Directors, that is tailored to the Company's industry and strategy. • Co-ordinate the annual Board and Committees evaluations in conjunction with the Chair and Chief Executive Officer • Provide advice and services to all Directors, as needed.

AN EFFECTIVE BOARD

MANAGING SOUTH WEST WATER

The South West Water Board continues to operate as a separate independent Board - albeit with 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 focus 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. The Company has a rigorous conflicts of interest process which 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:

- The approval of the Annual Report and financial statements
- 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 plc 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.

HOW THE BOARD OPERATES

In fulfilling its responsibilities, the Board has established a clear strategy for sustainable growth and ensures that its carefully defined aims and objectives align with the Company's purpose and values. The Board maintains the highest standards of governance alongside taking decisions to ensure the long-term sustainability of the Company.

Benefiting from a diverse skill set, independence of thinking and experience of the Directors as demonstrated by their biographies on pages 102 to 104, decisions reached by the Board are fair, focused and balanced and they demonstrate that constructive debate has occurred. The best possible outcomes for the mutual benefit of our customers, employees, and the communities we serve are at the heart of the Board decision-making process.

The culture of the Board is one of openness and constructive dialogue with the senior management team. Regular and effective flow of information between the Non-Executive Directors and senior management, both in and out of the Boardroom, ensures that there is good understanding of the business. As detailed on pages 110 to 111, there is a clear division of responsibilities between the roles of the Chair and Chief Executive Officer; however, to ensure that their responsibilities are discharged effectively, there is consistent communication on all areas of the business between them.

The Board held six scheduled meetings during the year, with additional meetings held during the year to consider pertinent issues, including matters requiring timely consideration. Directors' attendance at scheduled Board meetings held during the year is set out on page 99. The Board also approved a number of matters during the year by written resolution.

Board and Committee meeting agendas are prepared in advance by the Company Secretary in conjunction with the Chair and the Chief Executive Officer. Agenda items are aligned with the annual Board and Committee cycle programme, with other items and updates added for consideration in response to matters of importance to the business at the time. For each scheduled Board meeting there are a number of standing items such as the monthly performance reports from the Chief Executive Officer and Chief Financial Officer, operational reports, detailed reviews, and legal and governance updates. All matters are given due consideration by the Board and are reviewed at the appropriate point in the regulatory and financial cycles. Flexibility is retained in the programmes to include additional items requested by the Board, Committees, or senior management. The key activities of the Board can be found on pages 116 to 117 and the key activities of the Committees during the year can be found in the Committee Reports.

Directors are provided with papers at least five business days in advance of each Board or Committee meeting to allow for adequate time to review, ensuring impactful contributions are made at the meetings. Meeting packs are provided via an online Board portal system offering a fast, secure and reliable method of distribution.

The Chair has calls with each of the Non-Executive Directors in advance of each scheduled Board meeting to discuss the papers and the business of the meeting. If a Director is unable to attend a meeting because of exceptional circumstances, they will continue to receive all the material for the meeting and have an opportunity to have a briefing discussion with the Chair in advance. Feedback is provided to the Directors unable to attend on the decisions taken at the meeting.

Non-Executive Directors communicate directly with senior management between Board and Committee meetings, where required. Members of the Executive Board also present at the annual strategy Board meeting and at other times during the year on their areas of responsibility, along with members of their teams.

During the year, the Chair had catch-ups with the Chief Executive Officer and regular updates with the General Counsel and Company Secretary and Chief Financial Officer.

Meetings of the Non-Executive Directors, in the absence of the Executive Directors, are scheduled in the Board's annual programme. During the year, Non-Executive Directors met without the Executive Directors after every Board meeting. These meetings provide the Non-Executive Directors with the opportunity to share experiences and discuss wider business topics, fostering debate in Board and Committee meetings and strengthening working relationships.

SCHEDULE OF MATTERS RESERVED TO THE BOARD

The Board maintains oversight of the areas material to the delivery of the Company's strategy and purpose, and acts as the main governing body for the purpose of oversight for the Company. The Board undertakes a review of the Matters Reserved to the Board on a periodic basis.

COMMITTEES

In accordance with the Code, the Board delegates certain responsibilities to its core committees, which monitor various subject matters in depth and gain greater understanding in detail. The Committees' responsibilities and mode of operation are guided by their respective terms of references which have been agreed by the Board and summarised on the Committee Report pages below. In addition, each committee considers its calendar of business at every meeting to ensure responsibilities continually remain clear. Each Committee Chair provides an update on matters discussed at each Board meeting, reporting on decisions taken and where appropriate provides a recommendation to the Board on matters requiring its approval. The reports from each committee of the Board can be found on pages 125 to 149.

STRATEGY

The Board recognises its responsibility to create and oversee the framework for the delivery of the Company's strategic model, ensuring that the strategy and purpose continually deliver for our stakeholders. At the meetings the Board receive presentations from Managing Directors and senior management, deep diving into the performance of each business unit, including reviews into the financial outlook and opportunities for growth. In addition, the Board dedicates a separate meeting at its scheduled meeting in September to discuss the Company's strategy, ensuring that the Company remains on track in its implementation and delivery or improvement, where necessary, of the agreed strategy.

EXECUTIVE BOARD

The Board meet on a monthly basis and are responsible for executing the Company's strategy and the day-to-day management of the Company operations. Responsibilities and processes are designed to ensure effective management and oversight of Company affairs. Governance policies and terms of references are reviewed in accordance with the demands of the business, changing regulation and emerging best practice. The Executive

Board is led by the Chief Executive Officer. The biographies of the Executive Board can be found on pages 102 to 104.

During the year, Susan Davy resigned as Chief Executive Officer on 31 December 2025. To support an orderly succession, the Board approved an interim arrangement covering the period between Susan stepping down from the Board and Keith Haslett joining the Board on 19 May 2026.

From 1 January 2026 to 31 March 2026, David Sproul assumed the role of Executive Chair, supported by an Operating Committee comprising the Chief Financial Officer, Chief Strategy and Regulatory Affairs Officer and General Counsel and Company Secretary. The Operating Committee with delegated executive powers continued to run the business and deliver the Company's strategy and ensured continuity.

WORKFORCE ENGAGEMENT

During the year, the Board decided to adopt one of three employee engagement methods referred to in the UK Code. The Board appointed Dorothy Burwell, a Designated Non-Executive Director for Workforce Engagement, to engage with colleagues. The Designated Non-Executive Director for Workforce Engagement would report to the Board on the progress of workforce engagement, initiatives, and activities. The Board is confident that this would further enhance colleagues' voice in the Boardroom coupled with gaining first-hand knowledge of how the culture is being embedded across various areas of the Company.

To further enhance the Board's approach to workforce engagement, the periodic employee engagement surveys (including related management feedback sessions) and continuous employee feedback through our own in-house forums, such as 'Be the Future Forums' and the 'Big Chat', hosted on a fortnightly basis by the Executive team would continue to function. 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 these chosen approaches are 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 page 118.

STAKEHOLDER ENGAGEMENT

In delivering our strategy and ensuring sustainable, long-term success of the Company, the Board places utmost importance on the interest of our stakeholders in its decision-making process. Further details on how the Board has fulfilled its duties under section 172(1) of the Companies Act 2006, to consider all stakeholders in its discussions and decisions and that each decision reached is in line with the company's purpose and culture, is set out on pages 122 to 124 and an explanation as to how we engaged with our different stakeholders during the year can be found on pages 118 to 119.

WORKFORCE POLICIES AND PRACTICES AND CONFLICTS OF INTEREST

In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. The Board considers this has operated effectively during the year. Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company.

This duty is in addition to the duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company. A register of Directors' conflicts is maintained and reviewed at each Board meeting.

WHISTLEBLOWING

The Board maintains overall responsibility for the Company's Whistleblowing Policy (the Policy). The Policy provides a clear procedure for employees and suppliers to report concerns, through the Speak Up service, either to their line manager or through a third-party whistleblowing hotline. The Policy is well communicated to employees across the Company. All whistleblowing cases are investigated by the Ethics Management Committee. The Board, through its Audit Committee, receives yearly whistleblowing updates which set out any whistleblowing issues raised during the period and interim updates on any significant matters. The updates provided are anonymous and summarise the result of any investigation. The Board is satisfied that the Policy and the work of the Ethics Management Committee remain effective.

KEY ACTIVITIES OF THE BOARD

In 2025/26, the Board engaged in a wide range of activities. The Board visited Bournemouth and Bristol operational sites, welcomed the Secretary of State for Water and Flooding at the Department for Environment, Food and Rural Affairs (Defra) and the respective Chief Executive Officer and Chair of Ofwat to its Board meeting during the year.

The key activities that were carried out by the Board during the year, together with an indication of the stakeholders affected and whose interests the Board considered in its discussions and decision-making, are set out below:

Area	Activity	Outcome	Stakeholders affected
Strategic	**Delivery of capital programme** Reviewed and approved the delivery of the AMP8 capital programme in line with the business delivery plans and framework model for delivery.	Successfully deliver the capital programme for the benefit of all stakeholders and foster long-term relationships with our suppliers.	**Customers** **Suppliers** **Communities** **Environment**
	Strategy Day Attended Strategy Day to drive focus for the next steps for growth.	Organic and inorganic growth opportunities were presented and considered.	**Customers** **People** **Regulators** **Environment**
Operational	**ODI improvements** Monitored our ODI improvements to meet regulatory requirements, ongoing regulatory/ innovation initiatives were monitored via ESG and Health and Safety reports and adapted plans where needed.	Successful regulatory outcomes, safe customer and employee experience, enhancing day-to-day operations.	**Customers** **People** **Regulators** **Environment**
	Storm overflows and pollutions Reviewed and assessed measures tackling storms overflows at bathing waters and reducing spill rates across our sites and within our communities.	Delivery against our objective to ensure continuous supply of safe and clean water to our customers.	**Customers** **Environment** **Communities**
	Water quality and resilience Approved the projects to upgrade treatments works and expanded capacity of our reservoir across the regions.	Successfully maintaining bathing water quality all year round. Reduction in pollution levels to Industry-leading low levels.	**Customers** **Regulators** **Environment** **Communities**
Financial	**2024/25 APR and Statutory Accounts** Reviewed and authorised the APR and Statutory Accounts	Delivery against objectives to return capital where appropriate.	
Environmental	**Net Zero strategy plan, green recovery investment programmes** Implementation and alignment of plans with our strategic priorities by engaging In, for example, Upstream Thinking investments to enhance water quality while also contributing to Net Zero.	Accelerate our Net Zero plans to achieve a more sustainable future for all.	**Customers** **People** **Suppliers** **Regulators** **Environment**
	Pollution Incident Reduction Plan 2026 Reviewed and approved our plan to improve the environment and reduce pollution risk across all aspects of our operations - and especially with regard to our wastewater operations.	Ensure that our waterways and water consumption remain safe for our customers and for communities that we serve.	**Customers** **People** **Suppliers** **Regulators** **Environment**

	Ofwat delivery plan Reviewed and approved the submission of our Final Delivery Plan to highlight the planned investments over the 2025-2050 period.	Foster our commitment to the long-term sustainable growth of the UK's environmental infrastructure.	**Customers** **People** **Suppliers** **Regulators** **Environment**
Social	**Supporting customers on low income** Monitored customer service levels and plans to deliver improved diversity mix and adapting where needed.	Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny.	**Customers**
	Workforce engagement Considered and approved the appointment of a workforce engagement Non-Executive Director.	Create employee voice within the Boardroom to enhance decision-making that considered the interest of our people.	**Customers** **Communities** **People**
	Investment in job opportunities and apprenticeships for local communities Reviewed and approved investments towards the benefit of the communities	Create job opportunities and improving career of our people and retaining talent.	**Customers** **Communities** **People**
Risk	**Mitigation of key risks** Ongoing focus on key risks, with detailed reviews at Audit Committee meetings.	Continued alignment of plans to ensure appropriate risk mitigation.	**People**
	Deep dive on cyber security risk Reviewed our information security systems and assessed mitigating measures to avoid cyber-attacks.	Continued protection of sensitive data of our customers and our people and ensure business preparedness to tackle this risk.	**Customers** **People** **Suppliers** **Regulators** **Communities**
Compliance, governance, legal and regulatory	Regular updates on Corporate Governance and key legal developments during the year.	Continued alignment of plans to ensure appropriate compliance/best practice governance.	**Customers** **People**

HOW THE BOARD ENGAGES WITH STAKEHOLDERS

The Board understands the role the Company has to play in creating a more sustainable South West and UK as a whole. We are committed to carrying out our business in a responsible way and to continuously improving how we provide all our services for the benefit of all our stakeholders.

Our section 172(1) statement describes in more detail how the Board considers the interests of all our stakeholders when carrying out its duties. South West Water is committed to ensuring that its decision-making process takes into account the interests of all key stakeholders, including our customers, communities, people and suppliers. Our Directors take their duties under this section seriously and carefully consider the long-term impact of their decisions.

In fulfilling their duties, our Board engage with stakeholders through a variety of channels to understand their views and priorities. This includes direct engagement with customers, employee feedback mechanisms, consultations with regulators, and community outreach programmes. By integrating these perspectives into our decision-making, we aim to create value, while also ensuring the sustainable use and protection of our water resources.

ENGAGING WITH OUR CUSTOMERS AND COMMUNITIES

The WaterShare+ customer meetings are an opportunity for our customers to provide direct feedback to our independent WaterShare+ Advisory Panel, who, in turn, provide direct feedback to our Board. The WaterShare+ Panel champions the customer voice, ensuring that consumer views are actively represented in Board level decision-making.

The Chief Executive Officer's monthly report, which is presented to the Board and discussed at every meeting, included updates on customer engagement sessions conducted as part of the PR24 Business plan process.

The WaterShare+ scheme was developed in direct response to feedback from our customers who said they would like to share in the success of the Company, alongside giving them a greater say in our business. The first WaterShare+ scheme was launched in 2020 and returned £20 million to customers as a reduction of £20 on their bill. Eligible customer had the option of choosing a minimum of £20 in our parent Company, Pennon Group plc, shares. In November 2022, the second Watershare+ scheme was launched and returned c.£20 million to customers of South West Water (including Bournemouth Water) and for the first time, customers of Bristol Water. Eligible customers could choose between £13 reduction on their bill or to opt for a shareholding in our parent Company Pennon Group plc.

ENGAGING WITH OUR PEOPLE

The Board receive regular updates on our people from the Chief Executive Officer and Chief People Officer at its meetings. Feedback from employee surveys, the Big Chat and Be the Future Forums was provided to the Board to ensure that the decisions made consider employee interests and include what is of priority to our people. Further details on the engagement with our people can be found on pages 28 to 31.

ENGAGING WITH OUR REGULATORS AND POLICY MAKERS

The Board receives regular updates on our regulators and policy makers from the Chief Executive Officer and Chief Strategy and Regulatory Affairs Officer. The Board, through the Chair, Chief Executive Officer and Chief Financial Officer proactively engages with our regulators, particularly Ofwat and the Environment Agency, and Government, both at a local and national level, including sharing platforms with local MPs at constituency meetings, and face-to-face discussions with Defra throughout the year.

In November 2025, the Chief Executive Officer attended an industry-wide meeting hosted by the Secretary of State to discuss strategically significant issues, including transition, performance, and delivery. Additionally, the Chief Executive Officer and members of the Executive regularly engage with Members of Parliament through site visits and meetings to discuss individual projects. Our dedicated Public Affairs department focuses on responding to casework from Parliamentary offices, ensuring queries are dealt with quickly and effectively, regularly feeding back to the Chief Executive Officer and Executive on topics of interest to MPs and other stakeholders.

ENGAGING WITH ENVIRONMENTAL ORGANISATIONS

During the year, the Board received regular updates on environmental performance, regulatory engagement and partnership activity through the Chief Executive Officer, informed by the Chief Sustainability and Natural

Resources Officer. In this role, responsibility for environmental and biodiversity strategy, Net Zero, catchment management and environmental stakeholder relationships sits centrally.

We continue to maintain constructive engagement with key regulators, including Department for Environment, Food & Rural Affairs (Defra), the Drinking Water Inspectorate (DWI) and the Environment Agency, alongside industry collaboration through Water UK.

Through our attendance at Catchment Partnerships and our close collaboration with local authorities, local nature partnerships, landowners, and community groups across the region, we continue to promote nature-based solutions and shared environmental stewardship across the region. Our Upstream Thinking programme and leadership of the South West Peatland Partnership remain central to this approach, working with farmers and our NGO delivery partners to improve raw water quality and sustainability of supply at source. This catchment management approach enhances biodiversity and reduces treatment risk and demand.

Our Green First approach to managing asset risk has been progressed through the development of natural catchment management plans that bring all stakeholders in water management in a catchment together. These are a critical tool in understanding where we can apply nature-based solutions to managing excess water flows, and we are now progressing to the next stage of working with partners in trial catchment such as the Bidwell brook to progress nature-based flood risk solutions.

The Chief Sustainability and Natural Resources Officer has throughout the year convened a Let's Talk Water Stakeholder Forum. Since 2022 when the Forum was established, meetings have normally been held online, however in September 2025 stakeholders from across the region headed to Roadford reservoir to discuss a range of themes, including Cycle 2 of the Drainage and Wastewater Management Plan and criteria for a nature recovery fund.

ENGAGING WITH OUR SUPPLIERS

The Board receives updates at Board meetings on our engagement with suppliers which is conducted through formal Request for Proposal processes and periodic supplier review meetings to ensure that our suppliers deliver outcomes that benefit all our stakeholders.

The Board is regularly informed and involved through the stages of tender processes which are undertaken to ensure that suitable and experienced suppliers are contracted to deliver our capital projects.

The Executive team are actively engaging the wider industry supply chain directly and indirectly through organisations such as British Water, Future Water and the Civil Engineering Contractors Association to both understand and influence emerging trends and mobilise the best suppliers and innovation for the benefit of the Company. Updates are regularly provided to the Board.

COMPOSITION, SUCCESSION AND EVALUATION

BOARD SUPPORT AND TRAINING

In the discharge of its statutory duties, the Board has been supported by the advice and services of the Company Secretary and other relevant functions of the business. An established procedure whereby Directors can seek independent professional advice at the Company's expense to fulfil their duties is in place.

The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors and the Committees and between senior management and Non-Executive Directors.

As part of the Board effectiveness review process, the training needs of Directors are discussed and an action plan for delivery considered. Training may include attendance at external courses organised by professional advisers and internal presentations from senior management.

During the year, updates were provided to the Board and Committees via the General Counsel and Company Secretary and/or the Company's external advisers. These included updates on mandatory reporting and recent legal or governance changes. Specifically, the Board received updates on the Water (Special Measures) Act, the Cunliffe Review, Directors duties' under the Companies Act 2006 and identity verification for Directors under the Economic Crime and Corporate Transparency Act 2023.

BOARD INDUCTIONS

Newly appointed Directors receive a formal, tailored induction coordinated by the General Counsel and Company Secretary. The programme goes through the below process:

- **Introductions -** Introduction meetings with key stakeholders in the business and an outline of the Board and its Committees.
- **Information -** Presentations from Executive 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.

BOARD COMPOSITION, INDEPENDENCE AND EXPERIENCE

As at the date of this report, our Board comprises the Chair, five Non-Executive Directors, two Executive Directors and the General Counsel and Company Secretary. As at 31 March 2026, female representation on the Board was at 50%, exceeding the Board's target of 33%.

All of the Non-Executive Directors are considered by the Board to be independent and are subject to re-election each year. All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 102 to 104 demonstrate collectively a broad range of business, financial and other relevant experience.

Loraine Woodhouse is Chair of the Audit Committee and, in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1A, has recent and relevant financial experience and competence in accounting and auditing (as set out in her biography on page 104). The Board is satisfied that the Audit Committee has financial literacy and competence relevant to the sector in which the Company operates.

BOARD APPOINTMENT AND SUCCESSION PLANNING

The Nomination Committee frequently reviews the size and structure of the Board. The Committee regularly reviews the succession plan for Non-Executive Directors and the Executive team at South West Water, with consideration for diversity, skill and experience at the forefront of their minds. External search consultancy firms, Heidrick & Struggles and Russell Reynolds Associates supported the Board during the process of recruitment of Sir Andrew Haines and Keith Haslett as Board Directors. Both firms have no connection with the Company or with any individual Directors. Both firms are signatory to the Voluntary Code of Conduct for External Search Firms.

The Board is aware of the Ofwat's new fitness and propriety rule which ensures that candidates being considered for directorship or senior management roles within the sector meet stringent standards of honesty and integrity, knowledge and experience, and financial soundness before they can be offered their role. The Board ensured that the necessary background checks in line with the rules were conducted during the recruitment process of the Chief Executive Officer and reports submitted to Ofwat.

OFWAT FITNESS AND PROPRIETY RULE

During the year, Ofwat introduced a new Fitness and Propriety Rule, requiring water companies to ensure that individuals appointed to board-level roles demonstrate the highest standards of integrity, competence, and financial soundness. This rule forms part of the wider reforms under the Water (Special Measures) Act 2025, aimed at strengthening governance and rebuilding public trust in the sector.

We have taken proactive steps to embed this requirement into our governance processes, including robust due diligence, assessment, and ongoing monitoring arrangements. Our newly appointed Chief Executive Officer, Keith Haslett, is the first colleague and first industry executive director to undergo and meet the requirements of this enhanced fit and proper assessment, setting the standard for future senior appointments.

TIME COMMITMENT

All Non-Executive Directors are required to devote sufficient time to meet their Board responsibilities and demonstrate commitment to their role. During the year, the Nomination Committee considered the time commitment of all the Non-Executive Directors and was satisfied that the required time dedicated by each of them remains appropriate.

EXTERNAL APPOINTMENTS

All Directors are required to consult with the Chair and obtain Board approval before taking on any additional appointments. Executive Directors are not permitted to take on more than one Non-Executive directorship of a FTSE 100 company or other significant appointment. As part of the selection process for any new Board candidates, any significant external time commitments are considered before an appointment is agreed.

Further information on the other business commitments of the Chair and South West Water's Non-Executive Directors is on pages 102 to 104.

BOARD PERFORMANCE REVIEW

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. Having carried out an internal evaluation in 2024/25, with feedback currently being implemented, the Board was due to undertake an external evaluation this year. However, given the significant changes to the Board during the year, including a new Chief Executive Officer, retirement of the Senior Independent Director, and addition of two Non-Executive Directors, the Board took the decision to commence the evaluation process in May 2026. Recommendations from the review process will be disclosed in the 2026/27 Annual Report and financial statements.

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, not only at Board level, but across the Company, this is embedded as part of our culture. This helps us live our purpose and our values, as a responsible, trusted and sustainable business acting in a way which benefits all our stakeholders as much as possible. Properly understanding the impact of what we are doing has become part of how we operate, and it permeates in everything we do at South West Water.

Each Director has a duty under section 172 (1) of the Companies Act (s.172), to act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of members and stakeholders as a whole, and in doing so, must have regard to a range of broader issues. Therefore, in performing their duties during the year, the Directors had regard to the each of the s.172 matters set out on pages 122 to 124:

s.172 duties	Read more	Page
The long-term consequences of our decisions	Strategic report Our business model Principal risks Our ESG performance Our Net Zero transition Viability statement Key activities of the Board	1 to 95 11 to 13 62 to 74 Pennon Group plc Annual Report pages 74 to 77 Pennon Group plc Annual Report pages 78 to 82 75 to 77 116 to 117
The interests of our employees	Strategic report Investing in our people How we engage Diversity, equity and inclusion Whistleblowing policy and Speak Up Purpose and culture Our values	1 to 95 19 to 25 28 to 31 20 to 21 114 to 115 107 to 108 107
The importance of having excellent business relationships with suppliers, customers and anyone else who we impact	Our operational review How the Board engages with stakeholders	36 to 54 118 to 119
The impacts our operations have on our communities and our environment	Our ESG performance Our Net Zero transition TCFD and TFND disclosures ESG Committee Report	Pennon Group plc Annual Report pages 74 to 77 Pennon Group plc Annual Report pages 78 to 82 79 to 92 140 to 143
Ensuring we maintain our reputation for the highest standards of business conduct	Non-Financial information statement Purpose and culture Our values Modern Slavery Anti-financial crime framework Whistleblowing policy and Speak Up	93 to 95 107 to 108 107 164 to 165 138 114 to 115
The need to act fairly between our stakeholders	Stakeholder Engagement	26 to 35

HOW THE BOARD FULFILS ITS S.172 DUTY

To be able to fulfil their s.172 duty when making decisions, the Board is supported in carefully considering all the relevant factors to ensure the long-term success of the Company.

- **Board information** - all Board papers contain a s.172 information section to enable the Board to consider stakeholder interests as part of their discussions and decision-making. Our Board directly and indirectly engages with our stakeholders. Read more on pages 118 to 119.
- **Board strategic discussion** - s.172 factors are considered in the Board's discussions on strategy, including how they underpin the Company's long-term success. The Company's culture helps ensure there is proper consideration of the impact of Board decisions on our stakeholders and the Board considers the quality of information it has received and seeks assurance where appropriate.
- **Board decision** - outcomes of the Board decision are assessed and further engagement with stakeholders is undertaken, where appropriate. As a result of the Board's engagement, the necessary actions are taken.

KEY STRATGIC DECISIONS CONSIDERED BY THE BOARD

Below are some of the key strategic issues considered and decisions made by the Board during the year and an explanation of how the Board considered the matters in section 172(1) (a) - (f) when taking those decisions and how they link to our strategy.

Key decision	Board discussion and s.172 considerations	Outcome	Link to strategy
Appointment of Workforce Engagement Non-Executive Director	**Our People** The Board assessed the impact of the appointment on promoting effective monitoring of the culture and engagement within the Company and escalating our colleagues' views to support informed decision-making. **Our Regulators** The Board discussed the UK Corporate Governance Code 2024.	In January 2026, the Board appointed a designated Workforce Engagement Non-Executive Director.	**Building water resources, improving water quality** **Tackling storm overflows and pollutions** **Driving environmental gains and delivering Net Zero**
AMP8 Capital Programme	**Our Customers and communities** The Board considered the proposed capital delivery programme against regulatory and strategic priorities. In addition, consideration was given to the long-term benefit of a resilient asset base on affordability of services. **Our Regulators** The Board considered the structure of the capital delivery programme to meet regulatory commitments. **Our Environment** The Board assessed the investments on various grounds including sustainability, water resources, natural habitat and healthier rivers and seas.	The Board approved the AMP8 capital programme.	**Building water resources, improving water quality** **Tackling storm overflows and pollutions** **Driving environmental gains and delivering Net Zero** **Supporting affordability, delivering for customers**
Ofwat delivery plan	**Our Customers** The Board considered the impact of the Company's largest ever investment	In August 2025, the Board approved the submission of the Ofwat delivery plan.	**Building water resources, improving water quality**

Key decision	Board discussion and s.172 considerations	Outcome	Link to strategy
	programme against customer expectations and needs. **Our Regulators** The Board carefully considered the expectations of our regulators in respect of the PR24 business plan and its delivery.		**Tackling storm overflows and pollutions** **Driving environmental gains and delivering Net Zero** **Supporting affordability, delivering for customers**
Customer experience platform - Project Fusion	**Our People** The Board considered the impact of the proposed customer experience platform on our colleagues and their experience at work. **Our Customers** The Board assessed the platform against customer experience and service quality. **Our Regulators** The Board carefully considered the expectations of our regulators in rolling out the new platform in particular with regard to transparency and customer commitments.	The Board approved the additional expenditure on Project Fusion.	**Building water resources, improving water quality** **Tackling storm overflows and pollutions** **Driving environmental gains and delivering Net Zero** **Supporting affordability, delivering for customers**

NOMINATION COMMITTEE REPORT

The Nomination Committee continues to play a pivotal role in shaping the Board's long-term leadership, ensuring its composition remains aligned with South West Water's strategic direction.

Membership	Role	Attendance
David Sproul	Chair	3/3
Andrea Blance[1]	Non-Executive Director	3/3
Iain Evans[2]	Non-Executive Director	2/3
Jon Butterworth	Non-Executive Director	3/3
Dorothy Burwell	Non-Executive Director	3/3
Loraine Woodhouse	Non-Executive Director	3/3
Sir Andrew Haines[3]	Non-Executive Director	1/1

1. Appointed 8 April 2025
2. Resigned 31 March 2026
3. Appointed 1 November 2025

Three additional Nomination Committee meetings were held during the year.

ROLE OF THE NOMINATION COMMITTEE

- Regularly review the structure, size and composition (including skills, knowledge, independence, diversity and experience) required of the Board.
- Consider succession planning for the Board and senior management, overseeing the development of a diverse pipeline.
- Identify and nominate candidates to fill Board vacancies.
- Assist in the annual Board evaluation process to assess performance and effectiveness of the Board and its Committees.
- Evaluate the balance of skills, knowledge, independence, diversity and experience on the Board.
- Review the leadership needs of the Company, both executive and Non-Executive, with a view to ensuring the continued success of the Company.
- Review the Company's policy on Diversity, Respect and Inclusion (see www.pennon-group.co.uk/about-us/governance-and-remuneration), including gender, and the progress against objectives.
- Review membership of the Board Committees.

THE COMMITTEE'S FOCUS FOR 2025/26

- Ensured that the Board has the appropriate mix of skills, experience and diversity and oversaw the effectiveness of the Board's succession plan.
- Continuously reviewed the development and evolution of the Executive leadership team and succession planning.
- Conducted the annual review of Board effectiveness and Board composition.
- Oversaw the recruitment and selection of a new Chief Executive Officer, Keith Haslett, who joined the Company in May 2026.
- Oversaw the annual review and approval of the Company policy on Diversity, Respect and Inclusion and the Company's progress on diversity in line with the Parker Review, including the outcome of the FTSE Women Leaders Review and the Company's position on gender and ethnicity pay.

Over the course of the year, the Committee has continued to focus on ensuring strong and sustainable leadership across the Board and Executive team and welcomed Andrea Blance who joined the Board on 8 April 2025.

As part of our ongoing succession planning and with the support of Heidrick and Struggles, we were delighted to welcome Sir Andrew Haines to the Board in November 2025, bringing with him extensive leadership experience from across the UK's transport and regulatory sectors, most recently as Chief Executive of Network Rail from

2018 to 2025. Sir Andrew's appointment forms an important element of our planned transition as Iain Evans retired from the Board at the end of the financial year. We thank Iain for his wise counsel and significant contribution and wish him well for the future.

The Committee has also devoted significant attention to ensuring a smooth and well-managed transition following Susan Davy's decision to retire as Chief Executive Officer. We are pleased to have completed a comprehensive recruitment process (supported by Russell Reynolds) and to be welcoming Keith Haslett, who brings extensive industry experience and joined the Company in May. The Committee is confident that Keith's leadership will support the continued delivery of South West Water's strategic ambitions.

The Committee held three scheduled meetings during the year and held a number of ad-hoc meetings, in person and by Teams call, to fulfil the duties set out in its terms of reference.

Committee meetings are attended by its members, with other senior leaders invited as appropriate. During the year, regular attendees included the Chief Executive Officer, the General Counsel and Company Secretary, and the Chief People Officer. Committee members do not take part in discussions relating to their own roles or succession.

BOARD DIVERSITY

Fostering a diverse and inclusive culture remains a core priority for South West Water. The Committee continues to monitor the Company's progress in promoting diversity across gender, ethnicity and social mobility, regularly reviewing the composition of both our workforce and our leadership teams. We have seen how bringing together a broader range of perspectives has strengthened our culture, helping us to evolve into a more caring, considerate organisation with a strong focus on wellbeing.

As of 31 March 2026, female representation on the Board stood at 50%. In the 2026 FTSE Women Leaders Report, our parent Company, Pennon was ranked 1st in the FTSE 250 for female representation on boards, a significant achievement that reflects our continued commitment to diversity and inclusion. The report, independently conducted and supported by the Government, provides strong external validation of the progress we are making in advancing gender equality across the organisation. We are exceptionally proud of this recognition and the powerful message it sends to our female colleagues about the opportunities for leadership and progression within the Company.

The Company is an advocate of Sir John Parker's review of ethnic board diversity, meeting the external targets required of a responsible and inclusive business ahead of the required dates. For the third-year running, in line with our commitment to the Change the Race Ratio campaign, we have also voluntarily published our ethnicity pay gap of 10.0% (mean). The Committee will continue to monitor pay gaps. Building our representation across the Company is a focus, given the area we serve has lower representation than the national average, where ethnic representation is around 6.0%. Our Company ethnic diversity has reduced slightly in the year to 2.7% from 3.0%.

BOARD DIVERSITY, RESPECT 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 policy was last reviewed in March 2025.

The Policy reaffirms the Board's commitment to ensuring that all Board and senior leadership appointments are made on merit, assessed against objective criteria, and supported by a search process that actively promotes diversity of gender, social background and ethnicity.

In line with this commitment, the Board continues to work towards - and maintain - the following targets:

- A minimum of 33% female representation on the Board
- At least one racially or ethnically diverse Board member
- A minimum of 33% female representation on the Company's senior management level
- Assurance that succession planning for the Board and senior management delivers an appropriate balance of skills, experience and independence, while supporting the progressive refresh of the Board.

The approach to Company-wide diversity is detailed on page 154 applies equally to the Remuneration, Audit and Nomination Committees. As each Committee is composed of Board members, the principles and expectations of the Board's Diversity, Respect and Inclusion Policy apply consistently across all three Committees. We can confirm that we currently exceed all Policy targets.

To support monitoring and statutory reporting, including FCA Diversity disclosures and our gender and ethnicity pay gap reporting, colleagues - including the Board and senior leadership - are invited to provide personal data relating to protected characteristics. This information is collected during recruitment and onboarding, with colleagues encouraged to review and update their data periodically. All information is held securely on the Company's HR management systems and forms the basis of the reporting reflected in the table below. Participation remains entirely voluntary.

FCA DIVERSITY DISCLOSURE TABLE

The Committee is pleased to report against the FCA's new diversity disclosure requirements, as set out in the table below. At South West Water 'executive management' is defined as the Executive Board. The figures in the table are stated as at 31 March 2026 and have been calculated based on diversity data provided upon employment.

THE ETHNIC REPRESANTATION 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	87.5%	3	9	100%
Mixed / multiple Ethnic Groups	-	-	-	-	-
Asian / Asian British	-	-	-	-	-
Black / African / Caribbean / Black British	1	12.5%	-	-	-
Other ethnic group including Arab	-	-	-	-	-
Not specified / prefer not to disclose	-	-	-	-	-

THE GENDER REPRESANTATION 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	50%	2	5	56%
Women	4	50%	1	4	44%
Other categories	-	-	-	-	-
Not specified / prefer not to disclose	-	-	-	-	-

BOARD PERFORMANCE REVIEW

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

2025 BOARD PERFORMANCE REVIEW

The evaluation was carried out in March 2025 via questionnaires created internally by the General Counsel and Company Secretary in consultation with the Chief Executive Officer and Chair.

The questionnaires focused on the ongoing effectiveness of the Board during the year in setting the Company's strategy for the next AMP, the Board dynamics, ensuring that the Board has a clear understanding of the views of its stakeholders, ensuring the Board takes the lead in promoting a strong health and safety culture throughout the Company, and ensuring the Board has an appropriate level of focus on risk appetite and the internal control framework, and ensuring that the processes are in place to identify risks.

The review concluded that:

- There is an appropriate current focus on the Company's operational performance with the agenda developing to reflect the current stakeholder environment.
- The Board dynamics are developing but work well, with open, effective debate and appropriate challenge and good meeting preparation. There is good support for the Executive and a feeling that the Board functions best when being totally transparent about the challenges the organisation is facing.
- The Board Committees are well run and have sufficient independent membership to ensure that they can make high-quality decisions that address the diverse customer and stakeholder needs of the Company.
- The 2025 Board and Committee performance reviews identified several recommendations and action points for the Board to consider, which were presented to the Board for discussion at its meeting in May 2025.
- As part of its succession planning, the Board should consider candidates with infrastructure experience. (This was enacted with the appointment of Sir Andrew Haines).
- Members of the Board would appreciate deeper dives into the business and more site visits. (Deep dives are now part of Board and Committee agendas and members have individually and collectively made a number of site visits).
- The Board would appreciate an upweighting in the principal controls. (A new Director of Internal Audit has been appointed and KPMG have been assisting with the review of the internal controls environment).
- There could be better linkage between KPIs and strategic delivery, knowledge of senior management and the resources required to enable effective and efficient delivery. (A KPI pack has been developed and deep-dives have taken place on talent).

- The Board would value the 'outside-in' perspective from stakeholders. (A weekly corporate affairs report is sent to the Board).
- The length of Board papers should be reviewed. (Further instructions have been sent out on the composition of Board papers).

2026 BOARD PERFORMANCE REVIEW

This review is currently under way now that Keith Haslett has joined the Company. It is being conducted by Chris Saul Associates and will comprise a combination of interviews with members of the Board and Executive, meeting observation and a report to be prepared in consultation with the Chair, Chief Executive Officer and General Counsel and Company Secretary.

The outcome will be reported in the 2026/27 Annual Report and financial statements. In accordance with Provision 21 of the UK Corporate Governance Code 2024, the Board confirms that Chris Saul Associates is an independent third party and has no other commercial relationship with the Company or any of the Directors.

AUDIT COMMITTEE REPORT

The Audit Committee is focused on ensuring sound financial and risk management to support the Company's strategy

Membership	Position	Attendance
Loraine Woodhouse	Chair	4/4
Iain Evans[1]	Non-Executive Director	3/4
Andrea Blance[2]	Non-Executive Director	4/4

1. Resigned 31 March 2026
2. Appointed 8 April 2025

Sir Andrew Haines became a member of the Audit Committee effective 1 April 2026.

For the period between 1 April 2025 and the appointment of Andrea Blance on April 8 2025, the Committee composition was not in compliance with Provision 24 of the UK Corporate Governance Code 2024. However, there were no Committee meetings held or decisions made during the relevant period.

ROLE OF THE AUDIT COMMITTEE

- Monitor and review the effectiveness of the Company's risk management and internal control framework, including financial, operational, reporting and compliance controls.
- Monitor the integrity of the Company's financial and regulatory reporting, including significant reporting judgements.
- Oversee the effectiveness and independence of Internal Audit and the adequacy of the Company's assurance framework.
- Review key Company policies within the Committee's remit, including Risk Management, Treasury, Tax and the Delegated Authorities Schedule.
- Oversee the external audit process, including auditor appointment (as appropriate), audit quality and independence, and approval of non-audit services.
- Review the effectiveness of arrangements for whistleblowing and fraud risk management.

THE COMMITTEE'S FOCUS FOR 2025/26

- Strengthen oversight of the Company's risk management and internal control framework, including targeted deep dives.
- Challenge key financial reporting judgements.
- Oversee external assurance, including audit scope, key risks, materiality, independence and approval of non-audit services, as well as regulatory assurance on the Annual Performance Report.
- Review Internal Audit findings, monitor delivery of management actions, and approve the audit plan.
- Support readiness for the UK Corporate Governance Code reforms, including Provision 29 requirements for audit, risk and internal controls.

This was an important year for the Company, reflecting the start of the AMP8 regulatory period, evolving reporting requirements and a change in Chief Executive Officer.

This report describes how the Committee discharged the responsibilities delegated to it by the Board, including monitoring the integrity of the financial statements and related disclosures, reviewing the effectiveness of the Company's risk management and internal control systems, and supporting the Board's assessment that the 2025/26 Annual Report is fair, balanced and understandable.

We have focused on the following key priority areas:

- Internal controls and risk: Development of the Company's risk management and internal control framework, including deep dives on incident management, cyber security, and wastewater processes and controls.

- Financial reporting and FBU (fair, balanced and understandable): Challenge key financial reporting judgements (including climate-related considerations) and support the Board's assessment that the Annual Report is fair, balanced and understandable.
- External audit: Oversee the work of PwC as External Auditor, including audit scope, key risks, materiality, independence and approval of non-audit services.
- Assurance and internal audit: Review Internal Audit findings, monitor delivery of management actions, and ensure the audit plan remains aligned to principal and emerging risks.
- Resilience, regulatory and governance readiness: Oversee going concern and longer-term viability work, regulatory reporting/assurance activity (including AMP8 regulatory assurance), and preparations for UK Corporate Governance Code reforms including the programme of work to support the Board's future Provision 29 declaration on material internal controls.

The Committee provided robust challenge to management's key judgements and the related disclosures, supported by the External Auditors and specialist assurance providers. Following PwC's appointment as External Auditors for the 2024/25 financial year (after a competitive tender in 2023/24), we oversaw audit delivery, monitored independence (including non-audit services approvals) and assessed the effectiveness of the audit process.

The Committee advised the Board on its statement that the 2025/26 Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Company's position, performance, business model and strategy. In doing so, we considered the effectiveness of the verification and review processes supporting the Annual Report and challenged management to improve clarity and balance where needed. The key financial reporting judgements considered by the Committee are summarised later in this report (see pages 132 to 133).

Our work programme is aligned to the annual reporting cycle and the Committee's terms of reference, enabling timely review of matters as they arise and appropriate challenge ahead of key Board decisions.

We reviewed the effectiveness of the Company's risk management and internal control systems through regular reporting on the operation of the risk framework, the outcomes of key assurance activity and the work of the independent Internal Audit function.

Additionally, the Audit Committee undertakes risk deep dives focused on aspects of the Company's principal risks. During 2025/26, the Committee performed deep dives on the following areas:

- Incident management - in particular following incidents arising during the current or prior year to ensure that lessons are learned and embedded in the processes and systems operating across the Company.
- Cyber security - as one of our principal risks, this has been a key focus for the Committee, including updates on our cyber-resilience plans at each Audit Committee meeting, as well as cyber exercises taking place during the year, including involvement from the Board.
- Wastewater processes and controls - the effectiveness of our controls, monitoring and reporting processes in wastewater are critical, and we recognised the historic challenges across the sector in offering Enforcement Undertakings in August 2025 in response to legacy issues (see also page 43). The Audit Committee has undertaken a risk deep dive into the wastewater processes and controls, as well as having received updates from Internal Audit on the implementation of the action plan agreed in response to the 2024 Environment Agency prosecution.

More detail on our risk management processes, principal risks and their associated mitigation can be found on pages 62 to 74.

The Committee received regular updates on preparations for the 2024 UK Corporate Governance Code reforms, in particular Provision 29 and the strengthened expectation for the Board to make a declaration on the effectiveness of material internal controls. During the year we progressed the identification and confirmation of material controls across financial and non-financial areas, with a plan being finalised for testing across 2026/27.

The Committee also reviewed the Company's financial resilience throughout the year. On behalf of the Board, we considered the going concern assessment over a 15 month 'look-forward' period aligned to the Company's liquidity policy, and reviewed the Company's longer-term viability over seven years. This assessment considered projections and scenarios reflecting the external environment, including economic uncertainty, inflation and the potential impact of regulatory incentives and penalties.

The Board has maintained the seven-year period for the viability assessment. In the current year, this includes the four years remaining of AMP8 alongside longer-term forecasts informed by early AMP9 projections. The viability statement is set out on pages 75 to 77.

I would like to thank Iain for his significant contribution to the Committee over many years, and I am pleased to welcome Sir Andrew Haines to the Committee following his appointment to the Board during the year.

AUDIT COMMITTEE COMPOSITION

All members of the Committee are Independent Non-Executive Directors of the Board. In accordance with the UK Code, the Board is satisfied that Loraine Woodhouse, Iain Evans and Andrea Blance, 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.

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 Chief Executive, the Chief Financial Officer, the General Counsel and Company Secretary, Director of Risk and Assurance, Financial Controller and the External Auditors.

The Committee regularly holds private discussions with the External Auditors and the Director of Risk and Assurance without management present. Further, the Committee Chair regularly communicates with the Chief Financial Officer, the External Auditors and with Committee members outside the meetings to better understand any issues or areas for concern.

MATTERS OF SIGNIFICANCE IN 2025/26

Financial reporting	• Reviewed and discussed reports from management on the financial statements, considered managements significant accounting judgements and policies being applied, and assessed the findings of the statutory audit in respect of the integrity of the financial reporting of full and half-year results • Reviewed the internal assessment of going concern and longer-term viability on behalf of the Board • Reviewed in detail the 2025/26 Annual Report and advised the Board that the presentation of the 2025/26 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 auditors	• Oversaw the 2025/26 statutory audit, including the key audit risks and level of materiality applied by the External Auditors • Agreed the statutory audit fee for the year ending 31 March 2026 • Reviewed and approved the non-audit services and related fees provided by the External Auditors for 2025/26 Note, in line with the structure of the Group, certain activities such as recommending reappointment of the External Auditors and assessment of effectiveness of the External Auditors are performed by the Pennon Group plc Audit Committee. The responsibilities of the Pennon Group plc Audit Committee are described in the Pennon Group plc Annual Report and Accounts (pages 120 to 125).

Internal controls and risk management	• Reviewed the effectiveness of the Company's risk management framework and its integration into Board and Committee reporting. • Reviewed the Company's Risk Appetite statement prior to making a recommendation to the Board. • Monitored fraud reporting and whistleblowing activity, including the effectiveness of the Company's Speak Up arrangements and oversight of themes arising and management actions taken. No material issues were identified. • Reviewed the Company risk register as part of the Annual Report process and considered appropriate areas of focus and prioritisation for the internal audit work programme for the financial year. • Reviewed internal assurance reports and recommendations, and undertook deep dives at Committee meetings on principal risk areas, tracking agreed actions to completion (for details, see above). • Approved the revised Internal Audit Charter in line with latest guidance and updated standards. • Advanced the programme of work in preparation for the Board's future declaration under UK Corporate Governance Code Provision 29, including identification and confirmation of material controls and planning for assurance and testing. The Committee will oversee the assurance/testing plan through 2026/27 to support the Board's declaration. • Reviewed updated Legal Compliance Policies to progress for approval.
Governance	• Considered and approved Company accounting policies and judgements used in the preparation of the financial statements, including any required alignments accounting policies • Reviewed and considered internal financial policies. • Reviewed the governance statement disclosures and confirmed the basis for compliance with the UK Corporate Governance Code (on a comply or explain basis), including consideration of any areas requiring enhanced explanation. • Held regular meetings with the External Auditors without members of management being present. • Reviewed progress against UK Corporate Governance Code reforms, including governance reporting expectations and the staged implementation of Provision 29 (material internal controls), and agreed the Committee's oversight approach. This will include oversight of the testing approach in 2026/27.

The UK Corporate Governance Code requires the Committee to describe the significant matters it considered in relation to the financial statements and how those matters were addressed. The significant areas of judgement considered for the year ended 31 March 2026 are set out in the table to the right, together with the Committee's actions and conclusions. We also considered presentational and disclosure matters, including the use of non-underlying performance measures and ensuring a fair presentation of statutory and non-statutory performance.

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. The Committee undertook a deep dive into the measured income accrual to ensure a robust and accurate position in the current year, as well as a further streamlining of the methodologies and judgements applied. The Committee continues to scrutinise the track record of accuracy by comparing actual outturns with accruals at previous year ends to form a judgement about the quality of decision-making and to ensure any learnings are further embedded in the calculation to improve accuracy going forward. The Committee also closely considered the work in respect of these areas

	at year end by the External Auditors as well as reviewing disclosures around revenue recognition accounting policies.
Expected credit losses	Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly across the Company against historical standards and compared to the track records of other companies in the relevant sectors. The Committee was particularly mindful of the ongoing impacts of affordability on the assessment of expected credit losses in determining the bad debt provision, noting the significant increases in inflation arising from macroeconomic developments. At the year end, the External Auditors reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for expected credit losses were reasonable.
Going concern basis for the preparation of the financial statements and viability statement	A report from the Chief Finance Officer on the financial performance South West Water, including forward-looking estimates of covenant compliance and funding levels under different scenarios, including inflationary scenarios, is provided to the Committee on a periodic basis. Rolling seven-year strategy projections, and the resultant headroom relative to borrowings, are also regularly reviewed by the Committee, including the application of scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Committee receives for consideration a report focusing on the Company's liquidity over the 15-month period from the date of signing of either the Annual Report or half-year results. The Committee also reviewed a report on the Company's financial viability over an appropriate period, in connection with the UK Corporate Governance Code's requirement for a viability statement to be given by the Board. The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Company's viability should be unchanged at seven years, which recognises the longer-term visibility in the regulatory environment of the water business. Similarly, this report also considered the viability of the Company, taking into account the potential manifestation of other adverse events modelled from the Company's principal risks and resultant sensitivity scenarios. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Company to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on pages 75 to 77.

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 auditors as well as their independence, while recognising there is a need to use our External Auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The External Auditors produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditors 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 Auditors is considered as part of the Committee's annual performance evaluation, which also examines the relationship and communications between the Committee and the External Auditors. No issues were raised during that review. The Committee concluded that the auditors was effective during the year and that the relationship and communications were open and constructive.

The Committee Chair has also met privately with the External Auditors to discuss key matters.

AUDITORS INDEPENDENCE

The Committee regards independence of the External Auditors 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 Auditors and management remains appropriate.

The External Auditors 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 auditors. 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 auditors.

The Committee carefully reviews non-audit work proposed for the statutory auditors, 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 Auditors.

The level of non-audit fees payable to the External Auditors for the past year is 33% of the audit fee, which is within the Company's 70% non-audit fee limit.

The Chief Financial Officer regularly reports to the Committee on the extent of services provided to the Company by the External Auditors 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 197.

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 South West Water, which supports the Committee in delivering its responsibilities and has continued to operate effectively. The internal audit charter was updated during the year to reflect the requirements of the new Global Internal Audit Standards. The Internal Audit Plan is set on a rolling six-month basis and was approved in March 2025 and September 2025, 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 Auditors, 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.

The Director of Risk and Assurance reported regularly through the year to the Committee on the outcomes and findings of internal audit activity. There were regular discussions, correspondence and private meetings between the Director of Risk and Assurance and the Committee Chair. The Committee continues to monitor the performance of the internal audit function as part of its annual assessment of the effectiveness of the function. As required by IIA standards, the next cyclical external review of the internal audit function will take place before the end of 2026/27 (the last having been undertaken in 2021/22).

FAIR, BALANCED AND UNDERSTANDABLE ASSESSMENT

To enable the Committee to advise the Board in making its statement that it considered that the Company's annual report is fair, balanced and understandable (FBU) on pages 166 to 167, 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 2026 Annual Report. This is in addition to the formal process carried out by the External Auditors to enable the preparation of the independent auditor's report, which is set out on pages 168 to 175.

In preparing and finalising the 2025/26 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 Executive. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for stakeholder's to assess the Company's position, performance, business model and strategy.

LOOKING FORWARD

During the forthcoming year, the Committee will remain focused on the key areas of responsibility delegated to it by the Board, ensuring that standards of good governance are maintained and that appropriate assurance is obtained across all areas of the business. Particular focus will be given to the Company's principal risks, internal control environment and approach to financial reporting. The Committee will also oversee the programme of work to support implementation of the revised UK Corporate Governance Code, including the identification, assurance and testing of material controls to support the Board's future declaration under Provision 29.

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 plc'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 auditors, South West Water also engages a technical auditors 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: 2022 (information security)
- ISO 17025: 2017 (laboratories and sampling)
- ISO 45001: 2018 (occupational health and safety)
- ISO 50001: 2018 (energy management)
- ISO 55001: 2014 (asset management)
- BS ISO 22458: 2022 (customer vulnerability)

These specific areas are also subject to periodic external reviews (such as ISO external reviews). Certain standards above were not held by Bristol Water when acquired by South West Water and we have an ongoing programme to incorporate the Bristol Water area of operation within the above accreditations/certifications, where relevant. During 2025/26, South West Water's certifications for ISO 9001:2015 and ISO 14001:2015 were extended to include the Bristol Water area and these certifications now include all the Company's water and wastewater supply areas.

SOUTH WEST WATER'S 2025/26 BOARD ASSURANCE STATEMENT

In July 2026, 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 Water's annual reporting publications - available at www.southwestwater.co.uk/report2026.

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 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 financial statements and was last reviewed by the Board at its meeting in March 2026.

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 Board's risk framework described on pages 62 to 74 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. Key performance indicators are in place to enable the Board to measure the Company's ESG performance shown in the Pennon Annual report on pages 72 to 77 and a number of these are linked to remuneration incentives on page 157. A full breakdown of performance during the year against these KPIs is provided in South West Water's Annual Performance Report, which will be published in July (see www.southwestwater.co.uk/report2026).

The Audit Committee reviews the Company's internal control systems and receives updates on the findings of internal audit's investigations at every meeting. During the year, work has been undertaken to document the operation of existing internal controls over financial reporting. Internal control systems over financial reporting are the responsibility of the Chief Financial Officer, with the support of the financial control team and the internal audit team. During the year the internal controls over financial reporting were reviewed with refreshed risk and control matrices produced. Confirmation that the controls and processes are being adhered to is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work, which the Committee approves each year.

As part of the review evaluating the system of risk management and internal control under the 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.

We have assessed the internal control systems alongside our own view arising from the ongoing regulatory investigations into operational aspects. Noting where we have had non-compliances, we have action plans in place and have continued to assess this during the year, and we have supplemented this with other aspects of investigation and remediation as required.

The Company's 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 able to react appropriately to new risks as they arise. New and emerging risks are identified in further detail in the risk management section on pages 62 to 74.

Changes in the UK Corporate Governance Code relating to risk management, specifically the pending requirements of Provision 29, have been considered throughout the year with a programme put in place to ensure readiness for the enhanced requirements that come into effect in 2026/27.

CODE OF CONDUCT AND POLICIES

South West Water has adopted the Pennon Group plc's Code of Conduct. The Code of Conduct and related policies set out the Company's 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.

Training on our Code of Conduct is mandatory for all employees, with training for new joiners and annual employee refresher training. Our Code of Conduct and other key compliance policies can be found here: https://www.pennon-group.co.uk/about-us/policies

ANTI-FINANCIAL CRIME POLICY

The Anti-Financial Crime Policy outlines the requirements of the Company's compliance with relevant legislation, ethical standards and best practice on preventing financial crime (including acts of bribery, fraud, money laundering and tax evasion) and provides information and guidance to those working for and on the Company's behalf on how to spot 'red flags' that could indicate a risk of financial crime.

The policy is at the heart of the Code of Conduct. The Code of Conduct was launched to employees together with a bespoke interactive e-learning module which steps employees through different financial crime scenarios asking the learner to identify red flags which are set out in the policy. The e-learning is mandatory for all employees and is delivered through the Company's learning management platform to track completion. Employees will be obligated to complete an annual refresher, and the course is part of the induction of all new employees irrespective of job function or business area.

The Legal Compliance function ensures compliance with the policy and Code of Conduct in line with our risk-based approach by conducting ad hoc checks on completion of the mandatory training set out above, providing specific training to areas of potential higher risk as part of our Bribery and Fraud Risk Assessment programme (e.g. Procurement and Commercial & Estates), and carrying out detailed investigations into allegations of potential wrongdoing (whistleblowing reports) received from employees, customers and suppliers.

The potential consequences for colleagues and the Company itself are clearly set out in the policy as are the processes for raising concerns. Any breaches or failure to adhere to the Company's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Company. All employees are required to report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Company's confidential whistleblowing service Speak Up.

A financial crime risk assessment framework is in place and is complemented by the regular review of corporate policies relating to financial crime prevention.

Allegations of financial crime are reported to the Audit Committee together with investigation outcomes and details of any action taken, which are disclosed to our external auditors. There were no confirmed cases of bribery, corruption, fraud, business ethics, money laundering, insider trading, conflicts of interest or notable breaches of customer privacy data violations during the year.

TRAINING AND COMMUNICATIONS

Our comprehensive programme of training and internal communications continues with targeted messaging and interactive training sessions. This programme addresses the business's key compliance risk areas and has been designed to increase resilience, heighten awareness and promote a culture of doing the right thing. Colleagues are required to complete a refresher compliance training (focused on the Code of Conduct which sign posts to all Company policies) on a yearly basis to ensure that continuous knowledge and understanding of our policies are maintained.

WHISTLEBLOWING POLICY - SPEAK UP

The Speak Up service encourages employees and our suppliers to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how any such concerns should be raised and ensures that employees and suppliers are able to do so without fear of 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
- Tax evasion or the facilitation of tax evasion

The Speak Up service comprises telephone and web-based reporting channels operated for South West Water by independent provider People in Touch B.V. trading as Speak Up.

The investigation process is overseen by the Ethics Management Committee and is undertaken without fear or favour 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 Deputy General Counsel to identify any lessons learnt, or organisational improvements or training requirements.

Other improvements identified are always acted upon, while ensuring the paramount requirement of operating a whistleblowing process that protects the identity of individuals and the independence and integrity of the process.

Our whistleblowing process is designed to support our staff, reflect shared responsibility, promote a positive culture and provide unique insights, and is central to our system of checks and balances.

To emphasise our commitment to transparency and continuous improvement, we continue to chair the Water Industry Whistleblowing Best Practice Forum consisting of 12 water and waste companies across England and Wales.

ESG COMMITTEE REPORT

The ESG committee (the Committee) supports the company's ongoing commitment to environmental stewardship, social responsibility, and strong governance, ensuring that sustainability remains embedded across the company.

Membership	Role	Attendance
Dorothy Burwell	Chair	4/4
Jon Butterworth	Non-Executive Director	3/4
Laura Flowerdew	Chief Finance Officer	4/4
Loraine Woodhouse	Non-Executive Director	4/4
Susan Davy[1]	Chief Executive Officer	3/3

1. Resigned 31 December 2025

Keith Haslett became a member of the ESG Committee effective 19 May 2026.

ROLE OF THE ESG COMMITTEE

The ESG Committee supports the Board in overseeing the Company's Environmental, Social and Governance (ESG) strategy, performance and disclosures, ensuring sustainability considerations are embedded across the business.

- Review the policies, management, initiatives and performance of the Company with respect to environmental, social and governance matters, including climate-related and nature-related risks and opportunities.
- Review the overarching environmental performance of the business, including progress against ESG targets, climate transition plans and environmental improvement programmes, ensuring a focus on key areas of improvement.
- Review the actions of the Company to determine the suitability of environmental and social policies and practices, including those of key suppliers and contractors.
- Monitor workforce, culture, customer and community matters, including employee engagement and wellbeing, diversity and inclusion, customer service and support for vulnerable customers.
- Review the extent and effectiveness of the Company's ESG reporting and assurance and its participation in relevant external benchmarking assessments.
- Regularly report to the Board and advise the Audit Committee of any material non-financial risks.

THE KEY SUCCESSES OF THE COMMITTEE'S FOCUS FOR 2025/26

During the year, the ESG Committee made progress against its focus areas for 2025/26, supported by regular performance oversight and targeted deep dives across environmental, social and governance priorities.

- Oversaw delivery of the Company's refreshed ESG targets for 2025-2030, with 12 of 14 achieving or exceeding target, supported by remediation plans for remaining areas.
- Strengthened ESG governance and leadership through the appointment of a new Committee Chair and the creation of the Chief Sustainability and Natural Resources Officer role.
- Enhanced the Company's approach to climate and nature risk, becoming a Taskforce on Nature-related Financial Disclosures (TNFD) adopter and completing the first stages of a LEAP assessment, progressing a 1.5°C-aligned Climate Transition Plan following revalidation of the Company's science-based targets (SBTs).
- Maintained a focus on social priorities through deep dives on workforce engagement, culture, wellbeing, diversity and customer outcomes, informing continued enhancements to the Company's social strategy.
- Continued embedding ESG priorities across the Company and supply chain, including through the Supply Chain Sustainability School.
- Achieved leading ESG ratings and benchmarking performance, including CDP Climate A List recognition, awards as an ESG Industry and Regional Leader by Sustainalytics, with our parent

Company ranking 1st out of 46 water utilities assessed globally, and recognition as a FTSE Women Leaders company for Women on Boards across the FTSE 250.

- Achieved continued progress against strategic priorities, including emissions reduction and improvements in water quality and resilience.
- Supported continued integration of ESG risks and performance through regular reporting to the Board, including advising the Audit Committee on material non-financial risks.

The Committee has maintained its focus on the effective governance and integration of environmental, social and governance considerations across the Company, supported by regular performance oversight, a programme of targeted deep dives and increased involvement in workforce engagement. Throughout the year, the Committee's work reflected the focus areas set out in last year's report, including embedding refreshed ESG targets, strengthening our social approach, advancing the Company's approach to climate and nature, responding to evolving reporting requirements, and ensuring ESG remains fully integrated across the business.

These priorities have been supported by strengthened leadership arrangements, including the appointment of Carolyn Cadman to the newly created Chief Sustainability and Natural Resources Officer role, enhancing executive accountability and expertise across sustainability, climate and nature.

The year also marked an important step forward in embedding climate-related and nature-related risk within governance and decision-making, with the Company becoming an official Taskforce on Nature-related Financial Disclosures (TNFD) adopter and completing the first stages of a LEAP assessment.

The Committee also reviewed external ESG assessments and benchmarking results, with the Company continuing to lead across key ESG ratings, including recognition on CDP's Climate A List and designation as an ESG industry and Regional Leader by Sustainalytics for 2026. These outcomes provide assurance over the Company's progress and help inform our ongoing reporting focus.

The Committee has continued to challenge and support management throughout the year, ensuring ESG risks and opportunities are appropriately considered in decision-making and that progress against commitments remains transparent and robust.

ESG PERFORMANCE

The ESG Committee received regular updates on ESG performance throughout the year, enabling it to monitor progress against the Company's refreshed ESG targets for the period 2025-2030 and to challenge areas requiring additional focus.

As of 31 March 2026, we have achieved or exceeded 12 out of 14 ESG targets, representing a solid first year of delivery against the Company's refreshed targets, with remediation plans in place for the remaining two areas targeted for improvement as we move into 2026/27. Overall performance reflects effective embedding of the Company's reaffirmed ESG priorities across the business, supported by regular oversight from the ESG Committee and targeted management actions.

Strong performance has also been observed across several social and governance targets, underpinned by deep dives on workforce engagement and culture, wellbeing, talent, recruitment and diversity, customer matters, and key incidents relating to sites at Dousland and Menagwins. These sessions enabled the Committee to assess performance against objectives, understand underlying drivers and ensure that delivery remains aligned with stakeholder expectations.

In addition, health and safety remains a clear Company priority, with the ambition to achieve a stretching Lost Time Injury Frequency Rate (LTIFR). While this target was not met during the year, enhanced leadership focus and strengthened operational controls, including the continued rollout of the HomeSafe programme, are in place to support improved outcomes in 2026/27.

The Committee remains satisfied that the Company's ESG targets provide a clear, measurable framework for action and are embedded within governance processes. Progress against each target is reviewed regularly by the ESG Committee, ensuring appropriate challenge, accountability and transparency as the Company continues to work towards its 2030 objectives and beyond.

More information on our performance is disclosed in our parent Company, Pennon's annual report on pages 72 to 77.

CLIMATE AND NATURE
Climate and nature remained central to the Committee's agenda during the year. The Committee oversaw the continued development of the Company's climate strategy, including progress towards publication of a 1.5°C aligned Climate Transition Plan.

During the year, the Company revalidated its near-term science-based targets in line with the latest climate science, and continued to embed climate considerations into policies, performance monitoring and decision-making.

The Committee also enhanced its oversight of nature-related risks and opportunities by supporting the Company's decision to become a Taskforce on Nature-related Financial Disclosures (TNFD) adopter and overseeing completion of the first stages of a LEAP assessment, helping to strengthen the integration of climate and nature risk into governance processes.

REPORTING AND ASSURANCE
The ESG Committee recognises that high-quality reporting and assurance are essential to maintaining trust and confidence in the Company's ESG performance and disclosures. During the year, the Committee continued to take an active role in overseeing how ESG information is reported, assured and communicated, ensuring it remains robust, transparent and meaningful for stakeholders.

ESG disclosures are integrated throughout the Pennon Group plc Annual Report and Accounts, available on our parent Company's website, and supported by the ESG Databook, providing greater visibility of performance and progress.

The Committee also oversaw the continuation of limited independent assurance over selected ESG metrics, providing additional confidence in the accuracy and reliability of reported information. This assurance focuses on the systems, processes and governance that underpin ESG data and is complemented by wider non-financial assurance activity across the Company's regulated businesses. The Committee works closely with the Audit Committee to consider assurance findings and ensure that any material issues are appropriately addressed and escalated.

Looking ahead, the Committee is considering the implications of emerging reporting requirements, including the UK Sustainability Reporting Standards (UK SRS) published in February 2026 and currently under consideration by the Financial Conduct Authority (FCA). The Committee will continue to monitor regulatory developments closely to ensure the Company remains well-prepared and its reporting continues to meet both regulatory and stakeholder expectations as standards evolve.

BENCHMARKING
External ratings and benchmarking remain an important element of the ESG Committee's oversight, providing independent insight into the effectiveness, credibility and ambition of the Company's ESG performance. These assessments help the Committee understand relative performance, identify emerging best practice and ensure that external reporting remains relevant, decision-useful and aligned with stakeholder expectations.

During the year, the Committee reviewed ratings across a range of independent ESG rating assessments and benchmarks, using these to inform discussions on ESG performance. The Company continued to demonstrate leading performance across key ESG ratings, including recognition on CDP's Climate A List and being awarded as an ESG Industry and Regional Leader by Sustainalytics for 2026, with our parent Company ranking 1st out of 46 water utilities assessed globally. Additionally, our parent Company's Board was recently recognised as a FTSE Women Leaders company for Women on Boards across the FTSE 250.

These results provide independent validation of the Company's progress and performance throughout the year and it is encouraging to see the Company move from strength to strength across these ratings, reflecting the hard work to embed ESG priorities across the Company.

FOCUS AREAS FOR 2026/27

Looking ahead, the ESG Committee will continue to focus on the following priorities:

- Oversight of delivery against ESG targets for 2025-2030, ensuring sustained progress, appropriate challenge and remediation actions are in place where required.
- Continued development of the Company's social approach, including assessing the Company's current approach to social impact and value delivery and outcomes for customers and communities.
- Deepening oversight of workforce and customer engagement, including continued focus on employee experience, culture, and support for customers in vulnerable circumstances.
- Publication and oversight of the Company's formal Climate Transition Plan in 2026/27, aligned to a 1.5°C warming pathway, and continued monitoring of delivery against carbon commitments and science-based targets.
- Further embedding of climate-related and nature-related risk into governance and decision-making, including expansion of the scope and maturity of the Company's LEAP assessment.
- Ongoing review of ESG reporting and regulatory developments, including conducting a gap analysis against the UK SRS and preparing for future implementation requirements.
- Continued review of external ESG benchmarking and rating assessments, using insights to inform performance.
- Continued integration of ESG considerations across the Company, supported by effective reporting to the Board and engagement with other Board Committees.

HEALTH AND SAFETY COMMITTEE REPORT

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

Membership	Role	Attendance
Jon Butterworth	Chair	2/2
Iain Evans[1]	Non-Executive Director	2/2
Loraine Woodhouse	Non-Executive Director	2/2
Susan Davy[2]	Chief Executive Officer	2/2
Laura Flowerdew	Chief Financial Officer	2/2

1. Resigned 31 March 2026
2. Resigned 31 December 2025

Keith Haslett and Sir Andrew Haines became members of the Health and Safety Committee effective 19 May 2026 and 1 April 2026 respectively.

THE COMMITTEE'S FOCUS FOR 2025/26

During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Half-yearly comprehensive reviews of the Company's Health and Safety performance.
- A review of the tactical interventions to deliver in year improvements in incident reduction.
- A review and challenge of high potential near-miss events within our strategic supply chain to ensure themes are identified and pragmatic solutions implemented.
- Visiting sites to engage with front-line colleagues and the wider Health and Safety teams.

At South West Water we are passionate about health and safety. Everyone is empowered to take responsibility for both safety and wellbeing, feeling able to call out anything that makes us better. Safety is about taking accountability and brave leadership, which leads to the journey of a world-class culture.

HomeSafe, our flagship initiative to drive enduring and sustained change, continues to drive the overall approach and the Board Committee has robustly reviewed the 2030 strategy and implementation of the four cornerstones. As ever, leadership sets the tone and the Board has dedicated time to visit operational sites, discuss and review performance, offer support, encourage learning, and meet department and site leaders and employees from across the business. The Board Committee recognises the improvements across the four cornerstones of the HomeSafe 2030 strategy and supports the focus on risk management and reduction.

The Board Committee also acknowledges the increase in personal lost time injuries across the winter period and has reviewed these in detail. The Board is satisfied the response is proportionate and that there can be periods where low impact injuries fluctuate, this does not change the overall strategic direction of HomeSafe, however does serve as a timely reminder that the focus on HomeSafe has to be consistent and persistent.

During the year the Board reviewed two significant incidents within the supply chain and was satisfied the investigations and subsequent actions were appropriate and that wider learning, particularly around supervision was adopted across the Company.

COMMITTEE COMPOSITION

From 1 April 2026 membership of the Health and Safety Committee will be Jon Butterworth, Sir Andrew Haines, Loraine Woodhouse and Laura Flowerdew. Keith Haslett joined the Committee effective 19 May 2026.

REPORTING

In addition to the regular Board report by the Chief Executive Officer, detailed performance is reviewed quarterly by the Executive team, and six-monthly by this Committee, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health, critical safety controls and working environment. The Committee will continue to review and challenge plans and performance to support our HomeSafe ambitions.

REMUNERATION COMMITTEE REPORT

EVOLVING REMUNERATION IN A CHANGING ENVIRONMENT

Membership	Role	Attendance
Andrea Blance	Chair	4/4
Iain Evans[1]	Non-Executive Director	4/4
Dorothy Burwell	Non-Executive Director	4/4

1. Resigned 31 March 2026

Sir Andrew Haines became a member of the Remuneration Committee effective 1 April 2026. Three additional Remuneration Committee meetings were held during the year.

ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee is responsible for making sure pay and rewards across the Company are fair, competitive, and support the company's goals. Specifically, it:

- Ensures pay is aligned with the Company's strategy and reflects its values.
- Sets and reviews the overall pay policy, considering stakeholder views and best practice, so the company can attract, retain and motivate senior leaders.
- Advises the Board on how executive pay should be structured.
- Decides the pay levels for the Chair, Executive Directors and senior executives, and keeps an eye on pay across the wider workforce.
- Approves how performance-related pay schemes are designed and sets the targets for them.
- Reviews performance outcomes and decides how much should be paid under incentive schemes.

THE COMMITTEE'S FOCUS FOR 2025/26

During the year the Committee focused on:

- Reviewing pay and terms for the Executive Directors, the Chair, senior executives and the wider workforce.
- Considering long-term incentive plans for the next three to five years, engaging with stakeholders as
- appropriate.
- Setting challenging but realistic performance targets that align with the Company's strategy, values
- and best practice.
- Reviewing the Remuneration Policy to ensure it continues to support delivery of the Company's strategy.
- Looking at pay arrangements for the incoming Chief Executive Officer.

As a leading company in the UK water sector, we focus on long-term responsibility and sustainability. We recognise the impact we have on many groups, including our customers, local communities, the environment and our employees.

These considerations guide the Committee's decisions. We aim to act responsibly while also encouraging strong performance to deliver the significant investment needed for the future of the business.

Pay for senior executives in our sector is under close public scrutiny, and we understand the need to rebuild trust. At the same time, we operate in a complex and highly regulated environment, providing essential water and wastewater services to millions of households.

South West Water has an ambitious investment plan for the AMP8 period, with £3.0 billion[2] being invested across our regions. This includes major projects such as reducing storm overflows, upgrading major water

[2] In forecast outturn prices

treatment works, replacing ageing infrastructure, and supporting nature recovery. Our teams are also dealing with ongoing challenges such as affordability for customers, population growth, and reducing environmental impact.

Given the scale and complexity of these challenges, it is essential that we attract and retain highly capable leaders. We compete with other large organisations for senior talent, both within and beyond the water sector.

To do this, our pay levels must remain competitive with similar companies, including utilities and infrastructure businesses. Pay plays an important role in attracting, motivating and retaining the right people. Having a strong leadership team is critical to delivering our long-term strategy and meeting the expectations of all our stakeholders.

BUSINESS CONTEXT

This has been a year of significant progress, evolution and continued delivery for South West Water amidst a changing landscape in the UK water sector.

The Company has returned to profitability during the year, with underlying EBITDA increasing by 55.7% year-on-year to £482.4 million, driven by higher water revenue and a continued focus on operational efficiency.

The year has once again demonstrated how rapidly the operating environment for water infrastructure is changing. Conditions during the year ranged from one of the driest springs on record to intense storms and exceptional rainfall later in the year.

These extremes, and the impact on our performance, highlight the increasing volatility created by climate change and reinforce the need for sustained investment in resilient infrastructure. We know we have further to go, but our Pollutions Incident Reduction Plan is delivering measurable improvements with a c.34% reduction year-on- year in pollutions.

There was also a c.17% reduction in storm overflow use year-on-year, and a 25% reduction in average spill duration. Disappointingly, one event resulted in a Category 1 incident - although our overall Category 1 and 2 pollutions reduced year-on-year to three. In addition, our provisional assessment for the 2025 EPA rating is 1* given that whilst underlying operational performance saw improvement, we still did not achieve the high standards required across a number of measures, and in the current year, four projects within our broader WINEP programme were not finalised by March 2026, and therefore further impacted the EPA scorecard.

On 2 June 2026, South West Water was fined £1.9 million in respect of the Brixham cryptosporidium incident arising in May 2024. We recognise the impact both on our customers from this incident, and we recognise that we must do more to live up to the expectations of the customers and communities we serve. Supporting customers and communities remains central to South West Water's purpose. The start of the new regulatory period saw bill increases across the sector reflecting record levels of investment in infrastructure and environmental improvements. We remain mindful of affordability for many households, and will aid customers through our £200 million support package across this five-year period coupled with our affordability toolkit.

Our £3.0 billion[2] investment programme over the five-year AMP8 period is a core focus across the business, to deliver improvements for customers and to ensure we improve the resilience and performance of our assets. In the first year of AMP8, we have continued to focus on delivering on our four strategic priorities through our business units, and to focus on efficiency opportunities across our integrated structures and operations. We invested record levels of capital (£563.3 million) to deliver network resilience and enhancements and benefits for the environment and our customers.

Further detail regarding our operating performance is set out in the Strategic Report. Many of the key aspects of our performance were captured in the scorecards that we use for senior executive incentives.

[2] In forecast outturn prices

WIDER WORKFORCE REMUNERATION

We continue to prioritise fair and competitive pay for our front-line colleagues, particularly at a time when the financial environment remains challenging. We believe this is the right approach, both for our people and for the long-term success of the business.

We are proud to be an accredited Living Wage Foundation employer, with the majority of our workforce covered since 2021. In 2026, most colleagues received a pay increase of 4.5%, and our minimum hourly rate has increased to £13.95 around £1,000 per year higher than the Real Living Wage. This reflects our ambition to remain an employer of choice.

Our overall approach to reward continues to evolve alongside the Company. As we now operate across more locations, we have focused on ensuring our reward offering remains relevant, competitive and inclusive. This year, we have:

- Refreshed our reward and recognition programmes
- Enhanced our all-employee share plans by introducing matching shares
- Increased flexibility in benefits, giving colleagues more choice over options that suit their lifestyles

We also continue to offer strong pension provision and enhanced life assurance benefits.

We are committed to ensuring that performance-related pay is meaningful and clearly linked to outcomes. This means rewarding colleagues when they deliver for our customers, communities, and the environment all aligned with our Company values. For senior managers, there is also a continued focus on building share ownership in our parent Company Pennon Group plc, strengthening alignment with the long-term success of the business.

Encouragingly, our share scheme remain popular, with around 34% of colleagues participating in either ShareSave or our enhanced share incentive plan, ExtraShare, through our parent Company, Pennon Group plc.

INCENTIVE OUTCOMES

Our incentives are designed to provide a rounded assessment of performance across a range of key metrics. In line with Ofwat guidance, the majority of our incentives are linked to delivery of stretching objectives in relation to our customers, communities and the environment.

Our stretching business plan for AMP8 was agreed with Ofwat and was rated as outstanding. The targets that we set for our incentive plans are directly linked to this business plan which takes into account the expectations from the regulator and our various stakeholders. The bonus and LTIP awards for the Executive Directors are funded at the Pennon Group level, ensuring incentives are not funded by customers.

The annual bonus for 2025/26 is structured to provide a clear link to the performance of South West Water and other Pennon Group regulated entities, which reflects feedback previously provided by Ofwat, with 70% of the award weighted to South West Water and the remainder linked to other Group activities. Within these elements, financial, customer and environmental measures are embedded. This basket of measures seeks to capture areas of focus across a diverse range of stakeholders.

Based on a formulaic assessment of performance, the outturn of the 2025/26 bonus was 32.6% of maximum. The Committee thereafter considered events which could trigger Ofwat's performance-related executive pay prohibition rules, including the review of certain matters which have not been fully concluded at the time of decision-making. On the assumption that the incident at Menagwins in June 2025 (see page 42 for further details) will be classified as a Category 1 event, the Committee concluded that no bonus would be paid in respect of South West Water. In the event that both the Menagwins incident is downgraded to a Category 2 event and the EPA is improved to 2*, the Committee would reconsider whether either of the Executive Directors should be eligible for a bonus in respect of South West Water performance. In the event that both the Menagwins incident is downgraded to a Category 2 event and the EPA is improved to 2*, the Committee would reconsider whether either of the Executive Directors should be eligible for a bonus in respect of South West Water performance. The impact of the Brixham water quality incident has already been reflected in directors' remuneration, through the cancellation of the annual bonus for relevant directors in respect of the 2023/24 financial year.

The 2023 LTIP was subject to stretching targets relating to RoRE, operational water quality measures and a basket of customer measures. This is the first award to include additional goals relating to water quality following feedback from Ofwat. RoRE targets for the final year of the performance period were adjusted to reflect the Company's allowed rate of return, as determined by Ofwat, over AMP8.

The adjusted targets were calibrated so that they maintain comparable stretch as when targets were set (based on allowed rate of return in AMP7), ensuring that performance is assessed on a like-for-like basis. The customer metrics also included affordability and social value measures following feedback from EFRA Committee members at a sector wide Select Committee in January 2025.

Our incentives are structured to provide a rounded measure of performance, incorporating metrics related to customers, operations, water quality and financial resilience. The stretching performance targets mean that full payouts are dependent on strong delivery. Where targets had not been achieved, this is already reflected in the performance assessment. The Committee undertook a holistic review of both the annual bonus and LTIP outcomes, and concluded that the outcomes for the year were supported by the performance achieved.

Full details of both incentives are set out in the main body of the Pennon Group plc Annual Report and Accounts 2026 in the Remuneration Report on pages 133 to 149.

In addition, the Committee is mindful that the in-flight 2024 and 2025 LTIP awards are subject to Ofwat's pay prohibition rules. The Committee will consider how the rules should be applied and any impact on payment of each of these awards following the end of the relevant performance period.

BOARD CHANGES

Susan Davy stepped down from the Board and retired as Chief Executive Officer on 31 December 2025. Remuneration arrangements in relation to Susan's departure were determined in accordance with our Remuneration Policy and have been detailed on page 158.

We were delighted to appoint Keith Haslett as our new Chief Executive Officer (CEO) - with Keith joining the Company on 19 May 2026. Keith is a seasoned leader in the UK water sector, bringing over 25 years of experience across regulated utilities, with a strong track record of delivering for customers by driving operational excellence, delivering complex capital programmes, and increasing stakeholder value. He most recently served as the Chief Executive Officer of Affinity Water and also held senior executive roles at Northumbrian Water Group and United Utilities.

As South West Water operates within the broader Pennon Group, the Committee considered the importance of ensuring that executive leadership across the Group is appropriately positioned to support the scale, complexity and regulatory demands of the business. For some time, the Committee recognised that Pennon's previous approach to remuneration had fallen significantly behind competitive market practice. As noted in last year's Remuneration Report, the pay for the previous Chief Executive Officer was in the bottom 10% of the FTSE 250. The unsustainable market positioning was emphasised when recruiting our Chief Financial Officer in 2024, as many credible external candidates had pay expectations that far exceeded the pay levels of our previous Chief Executive Officer. Prior to Susan's decision to retire from the business, the Committee had already held initial discussions with some of our investors regarding a potential reset to her salary.

When setting salary levels for the new Chief Executive Officer, the Committee considered a range of factors, including FTSE 250 and sector pay levels, Keith's experience in the sector and outstanding leadership skills, the size of our business, our record capital investment plans, and the complexity of operating in the water sector. While the Group CEO role carries substantial responsibility across Pennon's portfolio of regulated water businesses, the Committee did not seek to position remuneration in line with larger global organisations. Alongside published benchmarking data, the Committee also considered live market evidence based on remuneration expectations observed during the recruitment process.

Keith's salary as Chief Executive Officer of Pennon Group plc, of which South West Water is a subsidiary, has been set at £800,000. South West Water is recharged an appropriate proportion of this remuneration in respect of services provided to the Company. The salary level is broadly aligned with the median for FTSE-listed companies of a similar market capitalisation. Total target and maximum remuneration remain in lower quartile practice and are positioned at around the 20th percentile. Therefore, the overall package remains modest compared to the broader industry practice.

When considered against the broader FTSE 250, where Pennon remains among the larger companies by market capitalisation, total remuneration is positioned around the median.

The Committee also reviewed pay relative to water and utility peers. It is recognised that there are a wide range of pay models operated by peers and there is also variance in disclosure levels, reflecting the different ownership models which apply across the sector. These variations make direct comparison of pay levels challenging. However, the Committee remains comfortable that the package for the incoming Chief Executive Officer was competitive and appropriate when taking into account the scale and complexity of South West Water within the broader Pennon Group, and supported by real-time market insights gathered during recruitment.

Following this reset in salary for the Chief Executive Officer role, we would expect future salary increases to be capped in line with the rate for wider employees.

Further details of Keith's joining arrangements are set out on page 158.

In the period between Susan stepping down and Keith joining the business, David Sproul was appointed as Executive Chair, supported by an Operating Committee, including Laura Flowerdew, with delegated executive authority across the Group's operations, including South West Water.

REMUNERATION POLICY REVIEW

The current South West Water Directors' remuneration policy was set in 2023. The full policy is contained in the 2023 South West Water Annual Performance Report on the Company's website at South West Water Annual Report and Financial Statements 2023.

For the Executive Directors of Pennon Group plc, the policy can be found in full in the Pennon Group Annual Report and Accounts 2023. A summary of the policy and implementation for 2026/27 has been shared in the Pennon Group Annual Report and Accounts 2026. While we are required to seek approval at the 2026 AGM, we have decided to keep the policy largely unchanged for now, given the recent Chief Executive Officer transition. However, this will not limit future improvements. Following the AGM, we plan to carry out a more comprehensive review, including engaging with shareholders and consideration of evolving regulatory expectations and market practices.

SUMMARY

The Committee continues to be mindful of the scale of the challenges facing the water sector and the need to be able to incentivise the delivery of long-term, sustainable performance that delivers value to all our stakeholders.

For the sector to deliver improved performance for all stakeholders, it is essential that we are able to attract and retain high-quality talent to the sector.

As always, we have sought to take a measured and pragmatic approach to remuneration as we navigate these challenges in a time of unprecedented change. The main body of the report provides further details on our key decisions.

DIRECTORS' REMUNERATION REPORT

INTRODUCTION
As a leading company in the UK water sector, we focus on long-term responsibility and sustainability. We recognise the impact we have on many groups, including our customers, local communities, the environment and our employees.

Pay for senior executives in our sector is under close public scrutiny, and we understand the need to rebuild trust. At the same time, we operate in a complex and highly regulated environment, providing essential water and wastewater services to our customers.

As a principle, we always strive to maintain constructive working relationships with the Government and our regulators.

The Pennon Group plc Annual Report and Accounts 2026 provides further details on our approach to remuneration.

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.

ROLE OF REMUNERATION COMMITTEE
The Remuneration Committee is responsible for ensuring that pay and reward arrangements across the Pennon Group (including South West Water) are fair, competitive, and support the Company's goals. Specifically it:

- Ensures pay is aligned with the Company's strategy and reflects its values
- Sets and reviews the overall pay policy, considering shareholder views and best practice, so the company can attract, retain and motivate senior leaders
- Advises the Board on how executive pay should be structured
- Decides the pay levels for the Chair, Executive Directors and senior executives, and keeps an eye on pay across the wider workforce
- Approves how performance-related pay schemes are designed and sets the targets for them
- Reviews performance outcomes and decides how much should be paid under the incentive schemes.

AT A GLANCE
For further detail on the structure of executive pay for Pennon Group Executives, please see page 133 of the Pennon Group plc Annual Report and Accounts 2026. In summary there are six key elements of the structure of Executive pay:

Element	Description	Timeframe
Base Salary	Core element of a fixed amount, reflecting the size and scope of the role.	Year 1
Benefits	Appropriate and sufficient level of benefits based on individual circumstances, includes car allowance and private medical insurance, for example.	Year 1
Retirement Benefits	Executive directors are eligible to participate in the Company's defined	Year 1: 10% of salary

	contribution pension scheme (or receive a cash alternative).	
Annual Bonus	Rewards performance against annual targets which support the strategic direction of the Company.	Year 1: Bonus up to 125% of salary, up to 50% in cash Year 2 to 4: 50% deferred into shares for three years
Long-term Incentive Plan (LTIP)	Rewards performance against targets set by the Board for financial performance over three years.	Year 1 to 3: Subject to three-year performance period Year 4 to 5: Subject to a two-year holding period
Shareholding guideline	Executive Directors are expected to build up a shareholding equivalent to 200% of salary over a 5-year period	Year 1 to 5

What safeguards are in place?

Robust performance conditions	Variable pay linked to a rounded assessment of performance against stretching targets
Robust framework	Holistic review of performance to consider if formulaic incentive outcomes are fair and appropriate
Deferral and holding period	Bonus (50%) and LTIP awards are deferred for a further period to provide long-term alignment
Malus and clawback	Provisions in place for variable pay to safeguard against payments for failure

ANNUAL REPORT ON REMUNERATION

For 2025/2026 the statutory directors included in this report are as follows:

Susan Davy, Chief Executive Officer is an Executive Director of Pennon Group plc and South West Water Ltd who retired and stepped down from the Board on 31 December 2025.

Laura Flowerdew, Chief Financial Officer of Pennon Group plc and South West Water Ltd.

The apportionment of fixed pay included in this report for Pennon Group Executives in 2025/26 is 70% for South West Water, covering South West Water, Bournemouth Water and Bristol Water.

No cost is borne by or apportioned to South West Water for any performance related pay for any Executive as Pennon Group fund any such payments with no cost to customers.

Remuneration is set by the Pennon Group Remuneration Committee and in accordance with the Pennon Group remuneration policy, approved by shareholders on 22 July 2023 in line with the normal three-year review process. The policy was approved with 93.6% shareholder support and is detailed in the Pennon Group plc Annual Report 2023. Full details of the implementation for 2025/26 can be read in the Pennon Group plc Annual Report 2026 on pages 150 to 155.

All remuneration arrangements relating to Susan Davy's departure were consistent with the Remuneration Policy and the Company's incentive plans, and are detailed in the Pennon Group plc Annual Report and Accounts 2026.

Keith Haslett joined Pennon as Chief Executive Officer on 1 April 2026, and was appointed to the Board of Pennon Group Plc on 1 April 2026, and South West Water Ltd on 19 May 2026 following Ofwat's approval under the new fitness and propriety rule. Further information relating to Keith's remuneration is detailed in the Pennon Group plc Annual Report and Accounts 2026.

THE SOUTH WEST WATER DIRECTORS' REMUNERATION POLICY AND IMPLEMENTATION IN 2025/26

The current South West Water Directors' remuneration policy was set in 2023. The full policy is contained in the 2023 South West Water Annual Performance Report on the Company's website at South West Water Annual Report and Financial Statements 2023.

For the Executive Directors of Pennon Group plc, the policy can be found in full in the Pennon Group plc Annual Report and Accounts 2023. A summary of the policy and implementation for 2026/27 in the Pennon Group plc Annual Report and Accounts 2026.

While we are required to seek approval again at the 2026 AGM, we have decided to keep the policy largely unchanged for now, given the recent Chief Executive Officer transition. However, this will not limit future improvements.

Following the AGM, we plan to carry out a more comprehensive review, including engaging with shareholders and consideration of evolving regulatory expectations and market practices.

NOTES TO THE SINGLE FIGURE TABLE

As noted in the Pennon Group plc Annual Report and Accounts 2026, the Chief Financial Officer received a modest salary supplement to reflect the additional responsibilities taken on after Susan Davy left and prior to Keith Haslett joining the business. This supplement ceased in March 2026.

In line with our previous approach, following guidance from Ofwat, all performance related pay for Executive Directors is funded at the Group level and therefore not funded by customers.

Our incentives are designed to provide a rounded assessment of performance across a range of key metrics. In line with Ofwat guidance, the majority of our incentives are linked to the delivery of stretching objectives in relation to our customers, communities and the environment.

Executive Directors full remuneration at a Pennon Group level is disclosed in detail within the Pennon Group plc Annual Report and Accounts 2026 (on pages 133 to 155).

SINGLE TOTAL FIGURE OF REMUNERATION TABLES (AUDITED INFORMATION)

	Laura Flowerdew[1] (£000)		Susan Davy[2] (£000)	
	2025/26	**2024/25**	**2025/26**	**2024/25**
Base salary	341	223	279	358
Benefits[3] (including Sharesave)	13	10	53	34
Pension-related benefits[(4)]	34	22	28	36
Total fixed pay	388	255	360	428
Annual bonus (cash and deferred shares)[4]	Nil	Nil	Nil	Nil
Long-Term Incentive Plan[4]	Nil	Nil	Nil	Nil
Total variable pay	Nil	Nil	Nil	Nil
Total remuneration	388	255	360	428

1. Laura Flowerdew was appointed as Chief Financial Officer of Pennon Group plc on 11 July 2024 and South West Water from the same date. The fixed pay figures shown in the table are those re-chargeable to South West Water through Group re-charges (70% of fixed remuneration). Reflecting the nature of their Group position all subsidiaries receive a cross-charge for fixed remuneration. All variable incentives are fully funded by Pennon Group. The full single total figure of remuneration table is shown on page 137 of the Pennon Group plc Annual Report and Accounts 2026.
2. Susan Davy stepped down from the Board and retired as Chief Executive Officer on 31 December 2025. Her departure arrangements are detailed in the Pennon Group plc Annual Report and Accounts on page 142, and these arrangements are funded by Pennon Group. The fixed pay figures shown in the table are those re-chargeable to South West Water through Group re-charges (70% of fixed remuneration). Reflecting the nature of their Group position all subsidiaries receive a cross-charge for fixed remuneration. All variable incentives are fully funded by Pennon Group. The full single total figure of remuneration table is shown on page 137 of the Pennon Group plc Annual Report and Accounts 2026. Keith Haslett joined Pennon on 1 April 2026 as Chief Executive Officer, and his joining arrangements are detailed on page 142 of the Pennon Group plc Annual Report and Accounts 2026. These arrangements are funded by Pennon Group.
3. Benefits comprise a car allowance, fuel allowance and medical insurance. Following a risk assessment of personal security for Susan Davy, the Committee determined that additional security measures were necessary. To facilitate this, the Committee approved a personal security related allowance to be paid in two instalments, the first tranche is included above.
4. For 2024/25, the Committee delayed the bonus payments until there was further clarity on how the Water (Special Measures) Act would be operated in practice. Following further guidance being published by Ofwat, in July the Committee determined it would be appropriate to release these payments. For 2025/26 the Committee determined that a bonus was due, and the LTIP 2023 vested. Further details of the annual bonus and LTIP awarded to the Pennon Group Executive Directors are shown on page 138 to 140 of the Pennon Group plc Annual Report and Accounts 2026.

How does the Committee ensure incentives are linked to stretching targets?

- **Rounded assessment** - incentive metrics linked to a basket of measures including financial, operational, customer and environmental measures. This means that full payouts require outperformance across all aspects of performance.
- **Link to Ofwat approved business plans** - incentive targets linked to the regulated entities are derived from the stretching business plans approved by Ofwat. For AMP8, Ofwat once again rated our business plan as "outstanding".
- **Combination of absolute and relative metrics** - in addition to the absolute operating metrics, the customer related metrics in the LTIP are assessed on a relative basis, with full vesting requiring upper-quartile performance.

- **Financial resilience** - financial metrics are essential as they enable the Company to invest in the future and deliver robust and sustainable performance for all of our stakeholders. Full payouts on financial metrics require delivery of stretching goals.

WIDER WORKFORCE REMUNERATION

We continue to prioritise fair and competitive pay for our front-line colleagues, particularly at a time when the financial environment remains challenging. We believe this is the right approach, both for our people and for the long-term success of the business.

We are proud to be an accredited Living Wage Foundation employer, with the majority of our workforce covered since 2021. In 2026, most colleagues received a pay increase of 4.5%, and our minimum hourly rate has increased to £13.95 around £1,000 per year higher than the real Living Wage. This reflects our ambition to remain an employer of choice.

Our overall approach to reward continues to evolve alongside the Company. As the business has grown through acquisitions and now operates across more locations, we have focused on ensuring our reward offering remains relevant, competitive and inclusive. This year, we have:

- Refreshed our reward and recognition programmes
- Enhanced our all-employee share plans by introducing matching shares
- Increased flexibility in benefits, giving colleagues more choice over options that suit their lifestyles

We also continue to offer strong pension provision and enhanced life assurance benefits.

We are committed to ensuring that performance-related pay is meaningful and clearly linked to outcomes. This means rewarding colleagues when they deliver for our customers, communities and the environment all aligned with our Company values. For senior managers, there is also a continued focus on building share ownership, strengthening alignment with the long-term success of the business.

Encouragingly, our share schemes remain popular, with around 34% of colleagues participating in either ShareSave or our enhanced share plan, ExtraShare.

GENDER AND ETHNICITY PAY REPORTING

We recognise our duty to contribute positively to society by cultivating an environment that promotes social mobility, prioritises diversity and inclusion, and ensures equitable treatment for all employees. Our aspiration is to become the Employer of Choice across our region, where trust is paramount, and every individual is valued for their contributions. Transparency lies at the heart of our commitment to diversity and inclusion.

Reporting serves as a vital instrument in our journey towards openness, allowing us to candidly assess the gender and ethnic diversity within our workforce. Moreover, it enables us to share the proactive measures we have implemented and will continue to pursue to enhance diversity across all levels and roles within our organisation. We understand that fostering an inclusive workplace is imperative not only for attracting talent but also for retaining our valued colleagues and because it is the right thing to do.

We have voluntarily published our Ethnicity Pay Gap data since 2023. The results reflect our journey in building representation of ethnic minority groups and gender diversity, noting that the South West, has a lower diversity mix than other parts of the UK.

Further details on the gender and ethnicity pay reporting can be found in the Pennon Annual Report and Accounts 2026, or on the Pennon website.

We are committed to deliver on our ambitions to build diversity and inclusion across the Company and the water industry.

ANNUAL BONUS OUTTURN FOR 2025/26

A summary of the process the Committee undertakes before agreeing to any incentive outturns is below.

The performance under the different elements of the bonus (including performance against the scorecard for the business area) is reviewed and forms the formulaic outcome.

The Committee then considered whether there were any events in the year which would trigger Ofwat's performance-related executive pay prohibition rule, including certain events for which assessments by external bodies had not been fully concluded at the time of decision-making.

The Committee also undertook a holistic assessment of performance to determine whether the bonus outturn remains appropriate in the context of broader performance (as illustrated below) and further detail is found in the Pennon Group plc Annual Report and accounts on this holistic approach.

Formulaic outcome	+	Holistic performance assessment: **Culture and conduct** - focus on significant health and safety, culture and operational events **Alignment with customers, communities and the environment** - Including customer experience, water quality and resilience, pollution incidents/EPA and emissions reduction **Consideration of external environment** - Including the employee and wider stakeholder experience **Input from other Board Committees** - Including ESG and Health and Safety Committees, HR, Compliance, Internal Audit and WaterShare+ panel **Broader financial, operating and strategic performance** - Including impact of exceptional and one-off events **Sector best practice principles and regulatory guidance** - Assessment versus best practice principles developed by sector	=	Determination of performance outcome

On the assumption that the incident at Menagwins in June 2025 (see page 42 for further details) will be classified as a Category 1 event, the Committee concluded that no bonus would be paid in respect of South West Water. In the event that both the Menagwins incident is downgraded to a Category 2 event and the EPA is improved to 2*, the Committee would reconsider whether either of the Executive Directors should be eligible for a bonus in respect of South West Water performance.

In addition, enforcement undertakings agreed in August 2025, related to Ofwat's wastewater investigation and the guilty plea lodged in respect of the EA prosecutions arose in periods when Laura Flowerdew was not an Executive Director of South West Water and therefore we believe that the prohibition rules would not apply. However, the former Chief Executive Officer, Susan Davy was an Executive Director at the time of some of these events and these have already been taken into account with the relevant performance related pay outcomes for 2025/26. The Committee also noted that the Brixham water quality incident resulted in the cancellation of the 2023/24 bonus.

As a result of prohibition there was a zero outturn for Executive Directors for performance related to South West Water. A summary of the bonus outturn and the impact of the prohibition is shown on the following page.

Measure	Sub-weighting	Targets	Actual	Outcome
Financial resilience - PBT[1]	20%	£157.6m	£139.6m	0.0%
Customer and Environmental measures	65%			
Wastewater				
Discharge permit compliance	2.6%	99%	98.1%	0.0%
Internal flooding (per 10k cust.)	2.6%	1.54	1.20	2.6%
External flooding	2.6%	15.29	18.04	0.0%
Sewer collapses	2.6%	13.00	5.06	2.6%
Bathing water quality	2.6%	100%	100%	2.6%
Normalised pollutions - category 1-3	2.6%	25.02	51	0.0%
Storm overflow - average spills per overflow	2.6%	20	34	0.0%
Biodiversity	2.6%	On Track	On Track	2.6%
South West Water - Water Services				
Water resources	2.6%	90%	97%	2.6%
CRI	2.6%	1.83	1.37	2.6%
Water quality contacts	2.6%	1.33	1.55	0.0%
Leakage (3-year rolling average)	2.6%	104.5	113.3	0.0%
Supply interruptions	2.6%	05m 00s	1hr 9m 14s	0.0%
Mains repairs (per 1,000km)	2.6%	141.3	169.3	0.0%
Unplanned outage	2.6%	2.14%	2.39%	0.0%
PCC (3-year rolling average)	2.6%	143.7	147.7	0.0%
Bristol				
Water resources	2.6%	90%	95%	2.6%
CRI	2.6%	1.50	3.95	0.0%
Water quality contacts	2.6%	0.79	0.97	0.0%
Leakage (3-year rolling average)	2.6%	35	35.2	0.0%
Supply interruptions	2.6%	05m 00s	33m 42s	0.0%
Mains repairs	2.6%	140.2	149.6	0.0%
Unplanned outage	2.6%	2.78%	1.93%	2.6%
PCC (3-year rolling average)	2.6%	0	148.3	0.0%
Capital programme				
PCD delivery	2.6%	100%	100%	0.0%

[1] Based on South West Water group of companies

ESG measure	15%	See below table	11.8%	11.8%
Overall total				**32.6%**
Impact of prohibition				**0.0%**

ESG Measure	Sub-weighting	Targets	Actual	Outcome
Environment, Social & Governance				
Renewable electricity (%)	1.07%	16.1%	8.6%	0.00%
Reduction in GHG emissions (%)	1.07%	49%	52%	1.07%
Tree Planting	1.07%	400,000	421,199	1.07%
Peatland Restoration (Ha)	1.07%	5,000	5,138	1.07%
Diversity of workforce	1.07%	33%	34%	1.07%
5% Club accreditation status (Grade)	1.07%	Platinum	Platinum	1.07%
Glassdoor Score (average)	1.07%	4.0	3.5	0.00%
Lost Time Injury (LTIFR)	1.07%	0.2	0.43	0.00%
ESG rating (Score)	1.07%	Top 10%	Top 1%	1.07%
Sustainable Financing (£m)	1.07%	£400m	£490m	1.07%
ESG Tender Evaluations (%)	1.07%	75%	95%	1.07%
Supply Chain (Grade)	1.07%	Silver	Gold	1.07%
Customer affordability	1.07%	95%	99.4%	1.07%
Increase in social impact	1.07%	£1m	£1.2m	1.07%
ESG Total				**11.8%**

LONG-TERM INCENTIVE OUTTURN FOR 2025/26

The Executive Directors are members of the Pennon Group Long Term Incentive Plan (LTIP). The cost of this is not cross charged to South West Water and is met in full by Pennon.

The 2023 LTIP outturn is disclosed thoroughly in the Pennon Group plc Annual Report and Accounts 2026. The performance measures applicable to these awards reflect the nature of their Group roles and are based on RoRE (50%), operational measures (30%) and a basket of customer measures (20%).

The Committee specifically considered the EPA rating of South West Water when considering incentive outturns.

The Committee noted that a portion of the LTIP is directly linked to EPA ratings over the three-year period, with a four-star average required for maximum payout. This element of the 2023 LTIP lapsed in full, and therefore the outcomes were already reduced to zero based on the EPA ratings achieved.

The vesting level for the Pennon LTIP is 35.4% of maximum.

Consistent with Ofwat guidance the performance-related pay prohibition rules do not apply retrospectively to the 2023 LTIP award.

However, the Remuneration Committee is mindful that the in-flight 2024 and 2025 LTIP awards are subject to Ofwat's pay prohibition rules. The Committee will consider how the rules should be applied and any impact on payment of each of these awards following the end of the relevant performance period.

ADDITIONAL CONTEXTUAL INFORMATION
Other information including share holdings and share awards made to Directors, Chief Executive Officer pay ratio, and details on Directors service contracts are detailed in the Pennon Group plc Annual Report and Accounts on pages 143 to 149.

ARRANGEMENTS FOR THE INCOMING CHIEF EXECUTIVE OFFICER
Arrangements for the incoming Executive Director, Keith Haslett, are detailed on page 142 of the Pennon Group plc Annual Report and Accounts 2026.

We are delighted to appoint Keith Haslett as our new Chief Executive Officer (CEO) - with Keith joining the Pennon Group on 1 April 2026, and subsequently the South West Water Board on 19 May 2026 following Ofwat's approval. Keith is a seasoned leader in the UK water sector, bringing over 25 years of experience across regulated utilities, with a strong track record of delivering for customers by driving operational excellence, delivering complex capital programmes, and increasing shareholder value.

He most recently served as the CEO of Affinity Water and also held senior executive roles at Northumbrian Water Group and United Utilities.

ARRANGEMENTS FOR THE OUTGOING CHIEF EXECUTIVE DIRECTOR
Arrangements for the outgoing Executive Director, Susan Davy, are detailed on 142 of the Pennon Group plc Annual Report and Accounts 2026. Remuneration arrangements in relation to Susan's departure were determined in accordance with the Remuneration Policy.

NON-EXECUTIVE DIRECTORS' REMUNERATION

SINGLE TOTAL FIGURE OF REMUNERATION TABLES (AUDITED INFORMATION)

	2025/26			2024/25		
	Fees[1] (£000)	Taxable benefits (£000)	Total Fees (£000)	Fees[1] (£000)	Taxable benefits (£000)	Total Fees (£000)
David Sproul[2]	218	-	**218**	131		**131**
Iain Evans[3]	66	-	**66**	65	-	**65**
Jon Butterworth	53	-	**53**	51	-	**51**
Loraine Woodhouse	61	-	**61**	59	-	**59**
Dorothy Burwell[4]	59	-	**59**	47	-	**47**
Andrea Blance[5]	58	-	**58**	Nil	-	**Nil**
Sir Andrew Haines[6]	20	-	**20**	Nil	-	**Nil**

1. 70% of fees are recharged through Pennon Group plc.
2. David Sproul received an additional fee due to taking on the role of Executive Chair from 1 January 2026 to 31 March 2026 during the period of CEO transition.
3. Iain Evans resigned from the Board on 31 March 2026.
4. Dorothy Burwell was appointed ESG Chair on 1 April 2025.
5. Andrea Blance was appointed as Remuneration Committee Chair effective 8 April 2025.
6. Sir Andrew Haines was appointed to the Board on 1 November 2025.

Non-Executive Director fee information is disclosed in the Pennon Group Annual Report and Accounts on page 142.

MALUS AND CLAWBACK

Malus and Clawback provisions are embedded in the employment contracts of Executive Directors and relevant scheme documentation. Malus and clawback provisions apply to all incentive awards. These provisions enable awards to either be forfeited prior to delivery, repaid or made subject to further conditions where the Committee considers it appropriate in the event of any significant adverse circumstances. For awards granted under the term of this policy, the circumstances in which malus and clawback may be applied include a financial misstatement, error in calculation, material failure of risk management, serious reputational damage, serious corporate failure or misconduct.

In respect of the annual bonus, clawback may be applied for the period of three years following determination of the cash bonus. Under the LTIP, clawback may be applied until the end of the holding period. The Committee have not applied any action under the provisions of malus and clawback during 2025/26.

THE REMUNERATION COMMITTEE AND ITS ADVISERS

Andrea Blance, Iain Evans and Dorothy Burwell were members of the Remuneration Committee through the year, with Iain Evans stepping down on 31 March 2026. David Sproul, Jon Butterworth, Sir Andrew Haines and Susan Davy attended by invitation as required.

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	D Sproul
CHIEF EXECUTIVE OFFICER	K Haslett
CHIEF FINANCIAL OFFICER	L Flowerdew
SENIOR INDEPENDENT DIRECTOR	Sir Andrew Haines (Non-Executive)
NON-EXECUTIVE DIRECTORS	D Burwell J Butterworth L Woodhouse A Blance
COMPANY SECRETARIES	A Garard
REGISTERED OFFICE	Peninsula House Rydon Lane Exeter Devon EX2 7HR
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP 2 Glass Wharf Bristol BS2 0FR
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.

DIRECTORS' REPORT

INTRODUCTION

The Directors present their Annual Report and financial statements for the year ending 31 March 2026. The Directors' Report comprises this report and the entire Governance section including the Chair's Governance Statement. It has been prepared in accordance with the provisions of the Companies Act 2006 and regulations made under it. In accordance with the Financial Conduct Authority Listing Rules, the information to be included in the 2026 Annual Report and financial statements, where applicable (under Listing Rule 6.6.1), is set out in this Directors' report. Other information relevant to this report, and which is incorporated by reference, can be located as follows:

Information	Page number
Particulars of important events affecting the Company and/or its subsidiaries which have occurred since the year end	226
Likely future developments of the Company	14 to 18
Risk management systems	62 to 74
Certain employee and employee engagement matters as well as the disclosures below	19 to 25 and 28 to 31
How the Board have engaged with employees and had regard for employee interests	28 to 31 and 118
Business relationships/engagement with suppliers, customers and others	26 to 35
Carbon and greenhouse gas emissions, energy consumption and energy efficiency action	Pennon Group plc Annual Report and Accounts pages 74 to 82
Financial risk management	191 to 194
Financial instruments	188 to 189 and 209 to 211

This Directors' report (including pages 96 to 167, 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 Auditors for the 2025/26 financial year was PricewaterhouseCoopers LLP. The Independent Auditors' Report starting on page 168 sets out the information contained in the Annual Report which has been audited. The Audit Committee considered the performance and audit fees of the External Auditors and the level of non-audit work undertaken.

CHANGE OF CONTROL

No person holds securities in the Company carrying special rights with regard to control of the Company. All of the Company's share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions proration for time where appropriate.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as bank loan agreements, Eurobond documentation, hybrid capital securities documentation, private placement debt and employees' share plan. This may result in certain funding agreements being altered or repaid early. The impact of employees' share plans is not considered significant.

FINAL DIVIDEND

A total dividend for the year of £75.0 million was paid during the year (2024/25: £nil). The Report of the Chief Financial Officer on pages 55 to 61 analyses the Company's financial results in more detail and sets out other financial information.

SIGNIFICANT EVENT SINCE THE YEAR END

On 7 July 2026, South West Water Finance plc, a subsidiary of South West Water Limited, announced the successful pricing of £250.0 million 6.000% fixed rate guaranteed notes due 2035 and £100.0 million 3.806% index-linked guaranteed notes due 2041 under its Euro Medium Term Note ("EMTN") programme. The notes are expected to be issued on 16 July 2026, subject to final legal documentation and customary closing conditions.

The notes will be guaranteed by South West Water Limited and the proceeds are expected to be on-lent to South West Water Limited on the same terms.

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 (2024/25: nil)

OTHER CONTRIBUTIONS

During the year, the Company provided a total of £423,692 in charitable donations (2024/25: £50,000) and £231,950 in sponsorships (2024/25: £267,000).

DIRECTORS

APPOINTMENTS

Details of the Directors who served in the year and to the date of this report can be found on pages 99. Biographies for Directors currently in office can be found on pages 102 to 104 and on our website. During the year, Susan Davy resigned as a Director of the Company on 31 December 2025, Iain Evans resigned as a Director of the Company on 31 March 2026, Andrea Blance was appointed as a Director of the Company on 8 April 2025, Sir Andrew Haines was appointed as a Director of the Company on 1 November 2025 and Keith Haslett was appointed as a Director of the Company on 19 May 2026.

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 62 to 74. 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 2026 the Company has access to undrawn committed funds of £445.0 million, cash and cash equivalents and restricted funds totalling £295.9 million, totalling £740.9 million. The Company has an expected headroom of £101.0 million at 31 October 2027.

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 62 to 74, 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 financial year 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 31 October 2027.

The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macroeconomic 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 a cash outflow of c.£94.9 million; this value is considered equivalent to an extreme one-off event that could occur over the 15 month period of the assessment to 31 October 2027, 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. 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. In the combined stress test scenario, the company has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Company. However, if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

We have considered the Company's funding position and financial projections which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Having considered these factors, the Directors have a reasonable expectation that the 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 October 2027, 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 regarding the sufficiency of funds available to the Company to support this additional spend or any risk that would require the useful economic lives of assets to be reduced in the year or identify the need for impairment that would impact the carrying values of such assets or have any other impact on the financial statements. The impact assessments will be continuously updated to reflect the latest available information on the impact of climate change.

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2025 did not have a material impact on the net assets or results of the Company and the parent Company. Existing borrowing covenants were not impacted by changes in accounting standards.

New standards or interpretations due to be adopted from 1 April 2026 are not expected to have a material impact on the Company's and the parent Company's net assets or results.

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

The Company has a culture of continuous improvement through investment in people at all levels within the Company. The Company is committed to pursuing equality and diversity in all its employment activities including recruitment, training, career development and promotion and ensuring there is no bias or discrimination in the treatment of people. In particular, applications for employment are welcomed from persons with disabilities, and special arrangements and adjustments as necessary are made to ensure that applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible the opportunity is taken to retrain people who become disabled during their employment to maintain their employment within the 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 125 to 129. Also, information regarding the employee diversity is provided on pages 20 to 21 and page 154. The Board's activities in relation to assessing and monitoring culture can be found in the Corporate Governance Statement on pages 107 to 108.

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. 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 28 to 31 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 2024 AGM, these were amended to provide for the increased savings limits approved by Government. At 31 March 2026, approximately 34% 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.

We remain focused on improving our risk assessment and the widening of our engagement. We have continued to engage and raise awareness, through internal training, and by continuing as a member of Slave Free Alliance.

We are part of a utilities sector working group which shares best practice across our industry. We will continue to work hard to tackle this issue collaboratively with our partners, employees, suppliers, and peers, to evolve our approach to ensure it remains effective. Our latest Modern Slavery Statement can be found here: https://www.pennon-group.co.uk/sites/default/files/attachments/pdf/pennon-modern-slaverystatement-2025.pdf

ENERGY USAGE

Details of our Energy usage can be found in the Pennon Group Annual Report and Accounts on page 82.

RESEARCH AND DEVELOPMENT

Research and development within the Company involving water and wastewater treatment processes amounted to £1.2 million during the year (2025: £1.1 million).

OVERSEAS BRANCHES

The Company has no overseas branches.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law).

Under company law 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 that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS CONFIRMATIONS

The Directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the directors whose names and functions are listed in pages 102 to 104 confirm that, to the best of their knowledge:

i) The company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the company; and

ii) the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

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 96 to 167 was approved by the Board on 15 July 2026.

On behalf of the Board

L. Flowerdew

Laura Flowerdew
Chief Financial Officer
15 July 2026

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, South West Water Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2026 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise:

- the Balance Sheet as at 31 March 2026;
- the Statement of Profit or Loss, for the year then ended;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Cash Flow Statement for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 7 to the Financial Statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

OUR AUDIT APPROACH

CONTEXT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

OVERVIEW

AUDIT SCOPE

- Following our assessment of the risk of material misstatement of the Company financial statements, we identified two operations where we performed a full scope audit of their complete financial information, either due to size or risk characteristics.

KEY AUDIT MATTERS

- Revenue recognition in relation to manual adjustments to the accrued income for measured water services
- Valuation of the expected credit loss provision for household customer trade receivables

MATERIALITY

- Overall materiality: £14,000,000 (2024/25: £11,088,000) based on 1.5% of Revenue.
- Performance materiality: £10,500,000 (2024/25: £8,316,000).

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition in relation to manual adjustments to the accrued income for measured water services The Company's revenue streams include the provision of water and waste water services. Revenue from measured water services requires an estimation of the level of usage/ consumption of water and/ or wastewater services between the last meter read date and the balance sheet date. The directors apply judgment through manual adjustments for factors such as seasonality and operational data trends regarding consumption, which are adjusted on top of the system generated information covering volume usage and the last meter reading. We focused on this area because the manual adjustments are judgmental and therefore the position adopted is subjective.	As part of our audit of the Directors' judgment over the level of manual adjustments required: • We have performed walkthrough procedures to understand the process for calculating the accrued income, with a specific focus on the directors' methodology, including reviewing accounting papers supporting the estimation; • We performed lookback procedures over the directors historical forecasting to assess the accuracy of the manual adjustments applied; • We performed post year-end lookback procedures over the 2025/26 accrued income based on amounts subsequently billed in April 2026; and • We developed an independent range estimate to assess the reasonableness of the estimate generated by the directors. Based on our procedures, the conclusion that the level of manual adjustments applied was reasonable is consistent with the evidence obtained.
Valuation of the expected credit loss provision for household customer trade receivables	As part of our audit of the Directors' judgment over the level of manual adjustments required:

The expected credit loss provision for household customer balances is calculated using a combination of system generated information on historic debt recovery rates and the directors' judgement of whether manual adjustments are necessary to reflect the future likely level of cash collections where these are expected to not be represented by historic losses. We focused on this area because the key assumptions driving whether manual adjustments are required are subjective and require the directors to apply judgment. The key assumption related to these manual adjustments is whether historic level of collections is indicative of the ability to collect at the same levels in the future. The risk of non-recovery from customers varies, depending on a number of factors which include, but are not limited to; increases to inflation and water tariffs, changes to customer support programmes, whether the household customer no longer occupies a property in the area and the level of expected leakage.	• We have performed walkthrough procedures to understand the process for calculating the expected credit loss provision, with a specific focus on the directors' methodology for applying manual adjustments; • We have considered the key factors relating to non-recovery through review of external macroeconomic data and the post balance sheet collections data for April 2026 to assess the impact on the provision held; • We developed an independent range estimate to assess the reasonableness of the estimate generated by the directors; and • We have understood the nature and relevance of the manual adjustments posted validating the basis of the adjustment to supporting evidence. Based on our procedures, the conclusion that the level of manual adjustments applied was reasonable is consistent with the evidence obtained.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The financial statements of the Company are an aggregation of two operations, these operations maintain their own accounting records and controls. We performed an audit of their complete financial information due to their size or risk characteristics.

THE IMPACT OF CLIMATE RISK ON OUR AUDIT

In planning our audit, we considered the potential impact of climate change on the financial statements. We made enquiries of the directors to understand the process for assessing climate related risks and opportunities, the extent of the potential impact of climate change risk on the financial statements and the Company's preparedness for this. The TCFD statement describes and explains how climate change could have an impact on the Company's business. Using our knowledge of the business we considered whether the risks identified are consistent with our understanding of the business and remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any additional risks of material misstatement, or material inconsistencies between the financial statements and the other climate related information presented.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£14,000,000 (2024/25: £11,088,000).
How we determined it	1.5% of Revenue
Rationale for benchmark applied	Revenue is considered a key metric for the users of the financial statements that represents a generally acceptable auditing benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2024/25: 75%) of overall materiality, amounting to £10,500,000 (2024/25: £8,316,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £700,000 (2024/25: £544,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical integrity of the cash flow forecasts and the models supporting these forecasts and reconciling them to Board approved budgets, where the directors' assessment covered the period from the date of approval of the Annual Report and Accounts to October 2027;
- Understanding the key assumptions the directors have applied in developing their base case and severe but plausible downside scenarios. We challenged various aspects of the directors' base case and downside scenarios including consideration of other potential downside risks that were not factored into the directors' downside scenario;
- Assessing the accuracy of the cash flow forecast prepared in the prior years so as to assess the ability of the directors to prepare accurate forecasts;
- Obtaining and understanding the terms of the Company's financing and available credit facilities and in particular the financial covenants that the Company is subject to. We have verified the existence of the facilities in place on which the directors have based their liquidity forecast;
- Reviewing the directors' analysis of both liquidity and covenant compliance to assess that there is sufficient liquidity and no forecast covenant breaches during the going concern period;
- Assessing the extent of mitigating actions that could be taken by the directors, if necessary, to increase liquidity or to prevent a trigger or default event arising against the covenants in place; and
- Assessing the appropriateness of the disclosures within the financial statements as disclosed in the accounting policies, relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

STRATEGIC REPORT AND DIRECTORS' REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2026 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

CORPORATE GOVERNANCE STATEMENT

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by the auditor. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section of the Annual report and financial statements is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the audit committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Environmental Regulations and Ofwat Regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Tax Legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries that improve financial performance, the incorrect classification of items as non-underlying in the Income Statement and management bias in significant accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions among the engagement personnel covering the potential for material misstatements due to error or fraud, the risks associated with related parties and emphasis on the need to maintain professional scepticism throughout the engagement;
- Inquiries of the directors and others within the entity, including those outside of finance, as to their knowledge, awareness and concerns regarding fraud, or breaches in laws and regulations;
- Identification and testing of journal entries that met our risk criteria, in particular any journal entries posted with unusual account combinations that hit our risk criteria and incorporating an element of unpredictability in the nature, timing and extent of audit procedures performed;
- Testing non-underlying items and assessing the judgement made by the directors over their classification;
- Testing significant accounting estimates and judgements made by the directors;
- Reading the minutes of the Board meetings to identify any inconsistencies with other information provided by management;
- Reviewing matters raised through the Company's whistleblowing process insofar as they relate to the financial statements;
- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with laws and regulations;
- Reviewing internal audit reports that related to the financial statements; and
- Reviewing legal expense accounts and other correspondence to identify items which may indicate the existence of material legal claims.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

OTHER VOLUNTARY REPORTING

DIRECTORS' REMUNERATION

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report 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 Companies Act 2006.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
15 July 2026

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 MARCH 2026

	Notes	Before non-underlying items 2026 £m	Non-underlying items (note 6) 2026 £m	Total 2026 £m	Before non-underlying items 2025 £m	Non-underlying items (note 6) 2025 £m	Total 2025 £m
Revenue	5	939.2	-	939.2	739.2	-	739.2
Operating costs	7						
Employment costs		(84.9)	(1.5)	(86.4)	(95.0)	(8.6)	(103.6)
Raw materials and consumables		(32.2)	-	(32.2)	(44.0)	(0.2)	(44.2)
Other operating expenses		(325.7)	(13.9)	(339.6)	(282.2)	(23.6)	(305.8)
Financial asset impairment		(14.0)	-	(14.0)	(8.2)	-	(8.2)
Earnings before interest, tax, depreciation and amortisation		**482.4**	**(15.4)**	**467.0**	**309.8**	**(32.4)**	**277.4**
Depreciation and amortisation	7	(172.0)	-	(172.0)	(168.3)	-	(168.3)
Operating profit		**310.4**	**(15.4)**	**295.0**	**141.5**	**(32.4)**	**109.1**
Finance income	8	15.5	-	15.5	6.0	-	6.0
Finance costs	8	(185.6)	-	(185.6)	(176.3)	-	(176.3)
Net finance costs		**(170.1)**	**-**	**(170.1)**	**(170.3)**	**-**	**(170.3)**
Profit/(loss) before tax		**140.3**	**(15.4)**	**124.9**	**(28.8)**	**(32.4)**	**(61.2)**
Taxation (charge)/credit	9	(36.5)	3.0	(33.5)	4.5	8.1	12.6
Profit/(loss) for the year		**103.8**	**(12.4)**	**91.4**	**(24.3)**	**(24.3)**	**(48.6)**

The above results were derived from continuing operations.

The notes on pages 181 to 226 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2026

	Notes	Before non-underlying items 2026 £m	Non-underlying items (note 6) 2026 £m	Total 2026 £m	Before non-underlying items 2025 £m	Non-underlying items (note 6) 2025 £m	Total 2025 £m
Profit/(loss) for the year		**103.8**	**(12.4)**	**91.4**	**(24.3)**	**(24.3)**	**(48.6)**
Other comprehensive (loss)/income							
Items which will not be reclassified to profit or loss							
Re-measurement of defined benefit obligations	25	(2.7)	-	(2.7)	3.3	-	3.3
Tax relating to components of other comprehensive income	9, 27	0.8	-	0.8	(0.8)	-	(0.8)
Total items that will not be reclassified to profit or loss		**(1.9)**	**-**	**(1.9)**	**2.5**	**-**	**2.5**
Items that may be reclassified subsequently to profit or loss							
Loss on cash flow hedging		(6.6)	-	(6.6)	(19.5)	-	(19.5)
Hedging losses recycled to profit or loss		7.3	-	7.3	15.1	-	15.1
Tax relating to components of other comprehensive (loss)/income	9, 27	(0.2)	-	(0.2)	2.4	-	2.4
Total items that may be reclassified subsequently to profit or loss		**0.5**	**-**	**0.5**	**(2.0)**	**-**	**(2.0)**
Other comprehensive (loss)/income for the year net of tax		**(1.4)**	**-**	**(1.4)**	**0.5**	**-**	**0.5**
Total comprehensive income/(loss) for the year		**102.4**	**(12.4)**	**90.0**	**(23.8)**	**(24.3)**	**(48.1)**

The notes on pages 181 to 226 form part of these financial statements.

BALANCE SHEET

AS AT 31 MARCH 2026

	Notes	2026 £m	2025 £m
Assets			
Non-current assets			
Goodwill	13	299.6	299.6
Other intangible assets	14	18.5	13.9
Property, plant and equipment	15	5,402.4	5,005.0
Derivative financial instruments	20	21.4	22.3
Investment in subsidiary undertakings	17	21.7	21.7
Retirement benefit asset	25	13.3	14.7
		5,776.9	**5,377.2**
Current assets			
Inventories	18	13.8	10.7
Derivative financial instruments	20	7.8	9.3
Trade and other receivables	19	307.2	267.8
Current tax receivable	26	-	3.2
Cash and cash equivalents	21	249.7	280.6
Restricted funds	21	46.2	46.1
		624.7	**617.7**
Liabilities			
Current liabilities			
Borrowings	23	(89.1)	(137.2)
Derivative financial instruments	20	(0.6)	(0.4)
Trade and other payables	22	(467.4)	(265.1)
Provisions	28	(6.1)	(5.1)
		(563.2)	**(407.8)**
Net current assets		**61.5**	**209.9**
Non-current liabilities			
Borrowings	23	(4,063.2)	(3,747.1)
Other non-current liabilities	24	(206.1)	(191.7)
Derivative financial instruments	20	(1.9)	(1.6)
Deferred tax liabilities	27	(483.0)	(453.3)
		(4,754.2)	**(4,393.7)**
Net assets		**1,084.2**	**1,193.4**
Equity			
Called up share capital	29	625.9	625.9
Share premium account	31	413.0	413.0
Retained earnings and other reserves	32	45.3	154.5
Total Equity		**1,084.2**	**1,193.4**

The notes on pages 181 to 226 form part of these financial statements.

The financial statements on pages 176 to 226 were approved and authorised for issue by the Board of Directors on 15 July 2026 and were signed on its behalf by:

L Flowerdew

L Flowerdew
Chief Financial 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 2026

	Called up share capital (note 29) £m	Share Premium account (note 31) £m	Retained earnings and other reserves (note 32) £m	Total Equity £m
At 1 April 2024	**295.9**	**413.0**	**202.3**	**911.2**
Loss for the year	-	-	(48.6)	(48.6)
Other comprehensive income for the year	-	-	0.5	0.5
Total comprehensive loss for the year	-	-	(48.1)	(48.1)
Transactions with equity shareholders				
Issue of ordinary shares	330.0	-	-	330.0
Share based payments (net of tax)	-	-	0.3	0.3
Total transactions with equity shareholders	330.0	-	0.3	330.3
At 31 March 2025	**625.9**	**413.0**	**154.5**	**1,193.4**
Profit for the year	-	-	91.4	91.4
Other comprehensive loss for the year	-	-	(1.4)	(1.4)
Total comprehensive profit for the year	-	-	90.0	90.0
Transactions with equity shareholders				
Dividends paid	-	-	(75.0)	(75.0)
Dividends deferred	-	-	(125.0)	(125.0)
Share based payments (net of tax)	-	-	0.8	0.8
Total transactions with equity shareholders	-	-	(199.2)	(199.2)
At 31 March 2026	**625.9**	**413.0**	**45.3**	**1,084.2**

The notes on pages 181 to 226 form part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2026

	Notes	2026 £m	2025 £m
Cash flows from operating activities			
Cash generated from operations	33	503.8	218.8
Interest paid		(144.4)	(118.2)
Tax recovered		-	3.3
Net cash generated from operating activities		**359.4**	**103.9**
Cash flows used in investing activities			
Interest received		15.5	5.9
Purchase of property, plant and equipment		(562.7)	(603.5)
Purchase of intangible fixed assets	14	(5.9)	(2.2)
Proceeds from sale of property, plant and equipment		4.3	1.6
Deposit of restricted funds	21	(0.1)	(20.1)
Net cash used in investing activities		**(548.9)**	**(618.3)**
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	29	-	330.0
Proceeds from new borrowings		-	345.8
Repayment of borrowings		(104.7)	(354.7)
Proceeds from intercompany borrowings		297.2	650.0
Repayments of intercompany borrowings		(3.6)	(103.5)
Cash inflows from lease financing arrangements		90.0	25.0
Lease principal repayments		(45.3)	(96.8)
Dividends paid		(75.0)	-
Net cash generated from financing activities		**158.6**	**795.8**
Net (decrease)/increase in cash and cash equivalents		**(30.9)**	**281.4**
Cash and cash equivalents at beginning of the year	21	**280.6**	(0.8)
Cash and cash equivalents at end of the year	21	**249.7**	**280.6**

The notes on pages 181 to 226 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION
South West Water Limited is a private company limited by shares, incorporated and 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 160.

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 notes (b), (v) and (o) respectively) and in accordance with the provisions of the Companies Act 2006.

The Company meets the definition of a qualifying entity as defined in FRS 100 'Application of Financial Reporting Requirements', accordingly the Company has elected to apply FRS 101 'Reduced Disclosure Framework'. Therefore, the recognition and measurement requirements of United Kingdom adopted International Financial Reporting Standards have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' - comparative information requirements in respect of:
    - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements);
    - Paragraph 79(a)(iv) of IAS 1,
    - Paragraph 73(e) of IAS 16, 'Property, plant and equipment', and
    - Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
- 16 (statement of compliance with all IFRS),
- 38B-D (additional comparative information), and
- 134-136 (capital management disclosures).
- The requirements of paragraphs 88C and 88D of IAS 12 Income Taxes.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.
- The following paragraphs of IFRS 15, 'Revenue from contracts with customers':
    - 110 (disclosure requirements)
    - 113(a) (separate sources of revenue)
    - 115 (disaggregated of revenue)
    - 118 (explanation of changes in contract assets and liabilities)
    - 120 to 121 (transaction price allocated to the remaining performance obligations)
    - 129 (practical expedients).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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.

New standards and interpretations

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2025 did not have a material impact on the net assets or results of the Company. Existing borrowing covenants were not impacted by changes in accounting standards.

New standards or interpretations due to be adopted from 1 April 2026 are not expected to have a material impact on the Company's net assets or results.

IFRS 18 'Presentation and Disclosure in Financial Statements' (effective from 1 April 2027) will replace IAS 1 'Presentation of financial statements'. IFRS 18 will not impact the recognition or measurement of items in the financial statements but it is expected to have a significant impact on the presentation and disclosure within the financial statements, in particular on the statement of profit and loss and providing management-defined performance measures within the financial statements.

Management is currently assessing the detailed implications of applying the new standard on the Company's financial statements. From the high-level preliminary assessment performed, the following potential impacts have been identified:

- The line items presented on the primary financial statements might change as a result of the application of the concept of 'useful structured summary' and the enhanced principles on aggregation and disaggregation.
- The Company does not expect there to be a significant change in the information that is currently disclosed in the notes because the requirement to disclose material information remains unchanged; however, the way in which the information is grouped might change as a result of the aggregation/disaggregation principles. In addition, there will be significant new disclosures required for management-defined performance measures; and for the first annual period of application of IFRS 18, a reconciliation for each line item in the statement of profit or loss between the restated amounts presented by applying IFRS 18 and the amounts previously presented applying IAS 1.
- Within the cash flow statement perspective, there will be changes to how interest received and interest paid are presented. Interest paid will be presented as financing cash flows and interest received as investing cash flows, which is a change from current presentation as part of operating cash flows.
- Whilst a detailed assessment of the impact of IFRS 18 has not yet been concluded, it is not expected that existing covenants will be impacted by subsequent changes to accounting standards.

The Company will apply the new standard from its mandatory effective date of 1 April 2027. Retrospective application is required, and so the comparative information for the financial year ending 31 March 2027 will be restated in accordance with IFRS 18.

IFRS 20 'Regulatory assets and regulatory liabilities' was published on 29 May 2026 and will be applicable for the year ended 31 March 2030. The Company has not yet assessed the impact of this standard.

Going concern

The going concern basis has been adopted in preparing these financial statements. At 31 March 2026 the Company has access to undrawn committed funds of £445.0 million, cash and cash equivalents and restricted funds totalling £295.9 million, totalling £740.9 million. The Company has an expected headroom of £101.0 million at 31 October 2027.

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 62 to 74, 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 financial year 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 31 October 2027.

The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macroeconomic 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 a cash outflow of c.£94.9 million; this value is considered equivalent to an extreme one-off event that could occur over the 15 month period of the assessment to 31 October 2027, 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. 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. In the combined stress test scenario, the company has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Company. However, if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

We have considered the Company's funding position and financial projections which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Having considered these factors, the Directors have a reasonable expectation that the 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 October 2027, 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 regarding the sufficiency of funds available to the Company to support this additional spend or any risk that would require the useful economic lives of assets to be reduced in the year or identify the need for impairment that would impact the carrying values of such assets or have any other impact on the financial statements. The impact assessments will be continuously updated to reflect the latest available information on the impact of climate change.

(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 obligations and an assessment of when control over the product or service is transferred to the customer. Revenue is only recognised when collection of consideration is

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition (continued)

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. Revenue excludes value added tax.

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 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 IFRS 15 as the stand-ready obligation is fulfilled over time.

Customers with a metered supply are sent up to four bills per year, based either on actual meter readings or estimated usage. For these customers, revenue includes an estimation of the amount of unbilled usage at the period end. Payment options for domestic customers include an annual meter payment plan where customers agree to pay a fixed amount per month which is adjusted to reflect actual consumption at the end of the year. Revenue is recognised as water is supplied, based on estimate usage for unbilled elements.

A range of regulated services are 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 principal 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 that 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 19 (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 (v) below). The value of contract liabilities is disclosed within note 22 (Trade and other payables - current) and note 24 (Other non-current liabilities) as appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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 statement of profit and loss and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs) or group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (i).

When a subsidiary undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of goodwill.

(f) Other intangible assets

Other intangible assets include capitalised software development costs. 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 statement of profit or loss through operating costs. The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company.

Intangible assets are amortised evenly over their useful economic lives:

Software development	5 to 10 years

Assets in the course of construction are not depreciated until commissioned.

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the company are recognised as intangible assets when management intends and has the ability to use the software, it can be reliably measured, and it is probable that incremental future economic benefits will flow to the Company.

(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 statement of profit or loss as it arises.

Infrastructure assets are depreciated evenly over their estimated useful economic lives and are principally:

Dams and impounding reservoirs	100 to 200 years
Water mains	60 to 180 years
Sewers	75 to 150 years

Assets in the course of construction are not depreciated until commissioned.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)
(g) Property, plant and equipment (continued)

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 to 80 years
Land and buildings - leasehold buildings	Over the estimated useful life or the lease period, whichever is shorter
Operational properties	15 to 100 years
Fixed and moveable equipment	4 to 30 years

Assets in the course of construction are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the 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 (v).

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 statement of profit or loss.

(h) Leased assets
Where the Company enters into a contract that contains a lease, it recognises a right-of-use asset and a lease liability except for:

- Low value assets; and
- Leases with a duration of 12 months or less.

Assets and liabilities arising from a lease 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.

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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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 statement of profit or loss 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 statement of profit or loss.

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.

(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 equivalents

Cash and cash equivalents comprise cash in hand and short-term deposits held at banks. Bank overdrafts are offset against cash balances where there is a legally enforceable right to offset and there is an intention to settle the balances on a net basis. Otherwise, overdrafts are included within current borrowings.

(n) Restricted cash

Restricted cash within the financial statements relates to cash held under contractual agreements to offset counterparty exposure or provide cover for future interest payments. The restricted cash could be removed by replacing the cash with an agreed alternative.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) 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 statement of profit or loss when the instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the statement of profit or loss through amortisation.

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) 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).

The gain or loss on remeasurement is recognised in the statement of profit or loss 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 within gains/(loss) on cashflow hedging in the statement of comprehensive income, and the ineffective portion in the statement of profit or loss. The gains or losses deferred in equity in this way are subsequently recognised in the statement of profit or loss in the same period in which the hedged underlying transaction or firm commitment is recognised in the statement of profit or loss. 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 statement of profit or loss.

The Company uses cross-currency swaps for some of its foreign currency denominated private placement borrowings. The swaps either have the effect of (i) converting variable rate foreign currency borrowings into fixed rate sterling borrowings, (ii) converting fixed rate foreign currency borrowings into fixed rate sterling borrowings, or (iii) converting fixed rate foreign currency borrowings into floating rate sterling borrowings.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Financial instruments (continued)

v) 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.

(p) Taxation including deferred taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current taxation

The current tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, including any adjustment to tax payable in respect of previous years. The amount is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the position is uncertain. The Company is part of the Pennon Group tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payments for group relief are included within the current tax disclosures.

The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred taxation

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised. Deferred tax liabilities are recognised for all temporary differences, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures where the timing of the reversal of temporary differences can be controlled and it is probably that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(q) 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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(r) 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.

(s) Dividend distributions

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Dividends are recognised when approved by the shareholders in a general meeting.

(t) 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 statement of profit or loss.

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 statement of profit or loss 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 considered in the assumptions as to the number of shares which are expected to vest.

(u) 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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(v) 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 statement of profit or loss, 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.

(w) Non-underlying items

Non-underlying items are those that in the Directors' view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Company's financial performance. Excluding these items is considered to provide additional useful information on the performance and the position of the Company as well as enhancing the comparability of information between reporting periods.

(x) 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 statement of profit or loss.

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 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 facilities are provided in note 23.

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 no significant concentration of liquidity risk.

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. Whilst a detailed assessment of the impact of IFRS 18 has not yet been concluded, it is not expected that existing covenants will be 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 2026	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	57.6	57.8	232.6	2,711.7	3,059.7
Interest payments on borrowings	176.9	176.9	561.6	1,583.5	2,498.9
Lease liabilities including interest	67.3	80.3	318.9	1,110.4	1,576.9
Trade and other payables	427.8	-	-	-	427.8
Derivative financial liabilities					
Derivative contracts - net receipts	(7.3)	(5.1)	(15.8)	(3.2)	(31.4)

31 March 2025	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	104.9	57.8	196.7	2,479.3	2,838.7
Interest payments on borrowings	159.1	140.4	470.3	1,745.7	2,515.5
Lease liabilities including interest	156.2	60.8	297.9	1,095.5	1,610.4
Trade and other payables	221.7	-	-	-	221.7
Derivative financial liabilities					
Derivative contracts - net receipts	(6.9)	(5.0)	(14.0)	(5.2)	(31.1)

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 20.

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 33) are independent of changes in market interest rates.

For 2026 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 £1.3 million (2025: post tax profit for the year and equity would have increased/decreased by £3.5 million), for the equity sensitivity fair value, with derivative impacts excluded. This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the expected volatility is within the range of 0%-2%.

For 2026 if the indices on index-linked borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £5.6 million (2025: tax profit for the year and equity would have increased/decreased by £5.8 million). This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the expected volatility is within the range of 0%-2%.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

Foreign currency risk occurs at transactional and translation level from borrowings and transactions in foreign currencies. These risks are managed through forward contracts, which provide certainty over foreign currency risk.

iii) Credit risk

Credit counterparty risk arises from cash and cash equivalents, derivative financial instruments and exposure to customers, including outstanding receivables. Further information on the credit risk relating to trade and other receivables is given in note 19.

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 Company's 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. The Company has no significant concentration of inflation risk.

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 2026 the Company had cash and facilities, including restricted funds, of £740.9 million (2025: £696.7 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 34 and is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net borrowings. The Company currently manages a net borrowings position of £3,856.4 million (2025: £3,557.6 million).

The gearing ratios at the balance sheet date were:

	Note	2026 £m	2025 £m
Net borrowings	34	3,856.4	3,557.6
Total equity		1,084.2	1,193.4
Total capital		**4,940.6**	**4,751.0**
Gearing Ratio		**78.1%**	**74.9%**

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 63.0% which is higher than Ofwat's notional gearing target for the AMP8 (2025-2030) regulatory period is set at 55.0%.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Capital risk management (continued)

	Note	2026 £m	2025 £m
Regulatory Capital Value (RCV)		6,119.0	5,617.8
Net borrowings	34	3,856.4	3,557.6
Net borrowings/Regulatory Capital Value		**63.0%**	**63.3%**

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 £3,820.1 million (2025: £3,516.9 million), providing effective South West Water group gearing of 62.4% (2025: 62.6%).

(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 20.

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 performs an impairment analysis at each reporting date. 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimates (continued)

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2026 the Company's current trade receivables were £343.9 million (2025: £282.4 million), against which £106.1 million (2025: £96.5 million) had been provided for ECLs (note 19). 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 statement of profit or loss. In determining the allowance for ECLs a provisioning matrix is applied to the debt of customers in Devon, Cornwall and Bournemouth, as set out in note 19. An increase/decrease in the provision rates for current occupiers of 1% would lead to an increase/decrease in the level of provision by £1.7 million (2025: £1.4 million).

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 2025, the outcome of which is summarised in note 25.

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 2024 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 25.

Useful economic lives of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made on the useful lives of the assets. The estimates are based on engineering data and the Company's experience of similar assets. Asset lives are reviewed annually and amended where changes are made to assumptions relating to the expected life of the asset from judgement around usage and performance experience, technological advancement and other relevant factors. Overall assessments on the impact of climate change on long life assets have been completed and will be continuously updated for the latest available information. The most recent assessment of the impact on climate change, which includes the potential to mitigate adverse impacts, has not identified any specific impact on the useful economic lives of long-life assets. Environmental factors and climate change form part of the planning process for new capital expenditure, where the Company continues to apply a consistent policy on capitalisation. The depreciation charge is sensitive to amendments of the useful economic lives of these assets, a significant change in the estimated life of these assets could have a material impact on depreciation, this is therefore noted as a material other estimate.

Judgements

Non-underlying items

In establishing which items are disclosed separately as non-underlying, to enable a full understanding of the Company's financial performance, the Directors exercise their judgement in assessing the size, nature or incidence of specific items. Excluding these items is considered to provide additional useful information on the performance and the position of the Company as well as enhancing the comparability of information between reporting period. See note 6 for further details.

Capitalisation of property, plant and equipment

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. Given the nature of these assets, the Company incurs expenditure including both asset enhancement as well as repairs and maintenance, which involves judgement in allocation of costs between operating and capital expenditure, including the proportion of employee costs to allocate. The Company continues to apply a consistent policy and approach on capitalisation of property, plant and equipment.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Other estimates

Revenue recognition

Management assessed and resolved that the level of estimation for revenue recognition of accrued revenue relating to water and wastewater should not be considered critical as the estimates are largely calculated on a systematic basis and there's not a significant risk of material change in the next 12 months. However, management consider the total level of estimation of accrued revenue relating to water and wastewater to be material and highlight this as a material other estimate.

5. REVENUE

Revenue has been disaggregated based on the services of supplying clean water, removal and treatment of wastewater and other services.

	2026 £m	2025 £m
Water	531.7	415.2
Wastewater	363.2	278.0
Other services	44.3	46.0
Total	**939.2**	**739.2**

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. Excluding these items is considered to provide additional useful information on the performance and the position of the Company as well as enhancing the comparability of information between reporting periods. The presentation of results is consistent with internal performance monitoring.

	Note	2026 £m	2025 £m
Operating Costs			
Restructuring/Transformation costs[1]		8.7	11.4
Costs of Brixham water quality incident and other regulatory investigations[2]		6.7	21.0
Earnings before interest, tax, depreciation and amortisation		**15.4**	**32.4**
Net tax credit arising on non-underlying items[3]	9	(3.0)	(8.1)
Net non-underlying charge		**12.4**	**24.3**

1. £8.7 million of technological costs were incurred in connection with the business transformation of the Company. £1.5 million of the total costs were employment costs. In the prior year, £11.4 million of costs were incurred in connection with the ongoing restructuring of the Company (£7.8 million of the total costs were employment costs). Due to the one-off nature and incidence of the costs they were classified as non-underlying.
2. £6.7 million includes costs of settlement of both the DWI's prosecution in respect of the May 2024 Brixham water quality incident, and the enforcement undertakings agreed with Ofwat in August 2025 in respect of the wastewater investigations, together with associated legal fees. £21.0 million of prior year costs relate to the operating costs for remediation of the Brixham water quality incidents and include £0.8 million of directly attributable employment costs. Due to the one-off nature and incidence of the costs they were classified as non-underlying.
3. The net tax credit arising on non-underlying items relates to a deferred tax credit in respect of tax losses carried forwards. The prior year credit reflected a £8.1 million deferred tax credit also in respect of tax losses carried forwards.

7. OPERATING COSTS

	Note	2026 £m	2025 £m
Employment costs (underlying)	11	84.9	95.0
Raw materials and consumables		32.2	44.0
Other operating expenses before non-underlying include:			
Profit on disposal of property, plant and equipment		(4.1)	(1.3)
Short term/low value asset lease expense		8.8	6.0
Research and development expenditure		1.2	1.1
Financial asset impairment	19	14.0	8.2
Depreciation of property, plant and equipment:			
Owned assets		134.1	129.4
Under leases		36.6	36.4
Amortisation of other intangible assets		1.3	2.5

Operating costs include a charge of £15.4 million (2025: £32.4 million) relating to non-underlying items, as detailed in note 6.

Fees payable to the Company's auditors' in the year were:

	2026 £000	2025 £000
Fees payable to the Company's auditors and its associates for the audit of the financial statements	636	530
Fees payable to the Company's auditors and its associates for other services:		
All other services	213	148
Total fees	**849**	**678**

A description of the work of the Audit Committee is set out in its report on pages 130 to 139 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

	2026			2025		
	Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	(52.7)	-	(52.7)	(66.2)	-	(66.2)
Interest element of lease payments	(48.6)	-	(48.6)	(49.8)	-	(49.8)
Other finance costs	(4.8)	-	(4.8)	(9.2)	-	(9.2)
Interest received	-	14.7	14.7	-	5.5	5.5
Intercompany interest to other Pennon Group companies	(79.5)	-	(79.5)	(51.1)	-	(51.1)
	(185.6)	**14.7**	**(170.9)**	**(176.3)**	**5.5**	**(170.8)**
Notional interest						
Retirement benefit obligations (note 25)	-	0.8	0.8	-	0.5	0.5
Finance (costs)/income	**(185.6)**	**15.5**	**(170.1)**	**(176.3)**	**6.0**	**(170.3)**

In addition to the above, finance costs of £34.0 million (2025: £23.1 million) have been capitalised on qualifying assets included in property, plant and equipment at an average borrowing rate of 5.5% (2025: 5.7%).

9. TAXATION

Analysis of charge/(credit) in year	Before non-underlying items 2026 £m	Non-underlying items (note 6) 2026 £m	Total 2026 £m	Before non-underlying items 2025 £m	Non-underlying items (note 6) 2025 £m	Total 2025 £m
Current year tax charge/(credit)	3.2	-	3.2	(1.5)	-	(1.5)
Deferred tax charge/(credit)	33.3	(3.0)	30.3	(3.0)	(8.1)	(11.1)
Tax charge/(credit) for year	**36.5**	**(3.0)**	**33.5**	**(4.5)**	**(8.1)**	**(12.6)**

UK Corporation tax is calculated at 25% (2025: 25%) of the estimated assessable profit for the year.

UK corporation tax is stated after a charge relating to prior year current tax of £3.1 million (2025: £0.2 million credit) and a prior year deferred tax credit of £2.7 million (2025: £2.0 million charge). These items arise following the recording of the return to provision adjustments following the submission of the tax computations for the year ended 31 March 2025 to HMRC ahead of the 31 March 2026 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 25% (2025: 25%). The differences are explained below:

Reconciliation of total tax charge/(credit)	**2026 £m**	**2025 £m**
Profit/(loss) before tax	124.9	(61.2)
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 25% (2025: 25%)	31.2	(15.3)
Effects of:		
Expenses not deductible for tax purposes	1.3	0.3
Adjustments to tax charge in respect of prior years	0.5	1.8
Depreciation charged on non-qualifying assets	1.0	1.3
Other	(0.5)	(0.7)
Tax charge/(credit) for year	**33.5**	**(12.6)**

Reconciliation of current tax charge/(credit)	**2026 £m**	**2025 £m**
Profit/(loss) before tax	124.9	(61.2)
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 25% (2025: 25%)	31.2	(15.3)
Effects of:		
Relief for capital allowances in place of depreciation	(77.2)	(25.0)
Disallowance of depreciation charged in the accounts	38.3	36.3
Expenses not deductible for tax purposes	1.3	0.3
Adjustments to tax charge in respect of prior years	3.1	(0.2)
Depreciation charged on non-qualifying assets	1.0	1.3
Relief for capitalised interest	(8.5)	(5.8)
Losses carried forward	15.0	7.9
Other timing differences	(1.0)	(1.0)
Current Tax charge/(credit)	**3.2**	**(1.5)**

9. TAXATION (CONTINUED)

The current tax charge arising on the FY26 accounting profit is £3.2 million (2025: current tax credit of £1.5 million) versus the expected current tax at the UK headline rate of 25% x PBT. This is driven by a range of adjustments which are explained further below:

The Company benefits from the 100% full expensing and 50% enhanced allowances in respect of qualifying spend (largely plant and machinery). The Company incurs significant capital expenditure each year as it maintains and enhances it 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 reduction in expected cash tax. Consequently there is a deferred tax charge arising in relation to the tax relief claimed in excess of current year depreciation driven by additional capital allowance deductions leading to a higher deferred tax liability.

Certain types of expenditure are not deductible for tax purposes. These types of expenditure are set out in tax legislation. The main categories of expenditure not deductible is made up of share-based payments, entertaining and other sundry items.

Depreciation charged on non-qualifying assets generates a permanent adjustment which increases the tax charge. Non-qualifying assets are those which do not qualify for writing down tax allowances including certain fixed assets typically in relation to older buildings and premises where tax relief is not available.

Tax losses generated in the year and carried forward generate a deferred tax rather than current tax credit, hence the adjustment to current tax. When utilised, the adjustment will be reflected through a movement from deferred to current tax.

Other temporary differences relate to the timing of relief for items including pensions, general provisions and financial derivatives. The reduction in the year relates mainly to additional pension contributions made to fund deficits in the scheme.

Immediate tax relief is available in respect of capitalised interest and foreign exchange gains/losses.

In addition to the amounts recognised in the statement of profit or loss the following tax charges and credits were also recognised:

	2026 £m	2025 £m
Amounts recognised directly in other comprehensive income		
Deferred tax (credit)/charge on defined benefit pension schemes	(0.8)	0.8
Deferred tax charge/(credit) on cash flow hedges	0.2	(2.4)

OECD Pillar Two

Pillar Two legislation is applicable to the Company. Under the legislation, the Company will be required to pay a top-up tax on profits of its subsidiaries in order to ensure that these profits are taxed at a global minimum tax rate of 15%.

The UK is the only jurisdiction in which the Company operates therefore an assessment of any potential Pillar Two tax exposure for financial year 2025/26 has been performed focusing on the application of the UK domestic top-up tax rules. The assessment performed by the Company, in line with UK legislation, is based on country-by-country reporting principles and financial statements information for financial year 2025/26. Based on that information, the UK is expected to meet the conditions of the transitional safe harbours such that no top-up tax arises. The Company is continuing to assess the impact of the Pillar Two income taxes legislation and related updates on its future financial performance.

10. DIVIDENDS

	2026 £m	2025 £m
Amounts recognised as distributions to equity holders in the year:		
Declared and approved:		
Declared dividend of 20.0p per ordinary share in respect of 2024/25	125.0	-
Declared dividend of 12.0p per ordinary share in respect of 2025/26	75.0	-
	200.0	**-**

On 4 July 2025 a dividend of 20.0p per share, totalling £125.0 million, in respect of 2024/25 was approved by the Board. On 27 March 2026 a dividend of 12.0p per share, totalling £75.0 million, in respect of 2025/26 was approved by the Board.

Dividends of £75.0 million were paid to the parent undertaking in the year (2025: £nil).

£170.0 million of unpaid dividends are recognised within amounts owed to parent undertaking (2025: £45.0 million).

11. EMPLOYMENT COSTS

	Note	2026 £m	2025 £m
Wages and salaries		124.1	127.9
Social security costs		15.8	12.3
Pension costs	25	11.5	11.6
Share-based payments		0.8	0.3
Total employment costs		**152.2**	**152.1**
Charged as follows:			
Employee costs (excluding non-underlying items)		84.9	95.0
Employment costs (non-underlying items)	6	1.5	8.6
Capital schemes - property, plant and equipment		65.5	48.2
Research and development		0.3	0.3
Total employment costs		**152.2**	**152.1**

Details of Directors' emoluments are set out in note 12.

The average monthly number of persons (including Executive Directors) employed by the Company was:

	2026 £m	2025 £m
Operations	1,948	1,921
Support functions	747	856
Total	**2,695**	**2,777**

12. DIRECTORS' EMOLUMENTS

	2026 £000	2025 £000
Executive Directors:		
Salary	611	805
Other emoluments, including payments in lieu of pension provision	86	100
Compensation for loss of office	515	342
Non-Executive Directors (including Chair)	535	454
Total emoluments	**1,747**	**1,701**

12. DIRECTORS' EMOLUMENTS (CONTINUED)

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) is shown in the Annual Report on Remuneration on pages 152 to 159. 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 plc and South West Water. All variable incentives are fully funded by Pennon Group plc. The full single total figure of remuneration table is shown on page 137 of the Pennon Group plc Annual Report and Accounts 2026. These arrangements are fully funded by Pennon Group plc.

13. GOODWILL

	2026 £m	2025 £m
Cost and Net book value		
At 1 April	299.6	299.6
At 31 March	**299.6**	**299.6**

In 2022/23, goodwill of £248.3 million was recognised on acquisition of Bristol Water. Goodwill of £51.3 million was recognised on acquisition of Bournemouth Water in 2016/17.

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 statement of profit or loss in the year which they arise.

Impairment testing of goodwill

The Company tests goodwill for impairment annually or more frequently if there are any indications that impairment may have arisen.

Impairment testing is carried out based on the fair value less costs of disposal method. The recoverable amount of the water business segment is assessed using level 2 fair value hierarchy techniques, with reference to the market value of the water business, using a market-based observable premium, based on historical water industry merger and acquisition activity, to Regulated Capital Value (RCV) as defined by Ofwat. The recoverable amount is adjusted for estimated costs to sell. Historical water industry transactions provide a range of premia that could be used in the calculation, for the current financial year applying a premium to RCV was not required to maintain impairment headroom.

The results of tests performed during the year demonstrate significant headroom in the water CGU, and it is judged that no reasonable change in the key assumptions would cause the carrying amount of the CGUs to exceed the recoverable amount.

14. OTHER INTANGIBLE ASSETS

	Total £m
Cost:	
At 1 April 2024	**18.4**
Additions	2.2
At 31 March 2025	**20.6**
Additions	5.9
At 31 March 2026	**26.5**
Accumulated amortisation:	
At 1 April 2024	**4.2**
Charge for year	2.5
At 31 March 2025	**6.7**
Charge for year	1.3
At 31 March 2026	**8.0**
Carrying amount:	
At 1 April 2024	**14.2**
At 31 March 2025	**13.9**
At 31 March 2026	**18.5**

Other intangible assets relate to software development. Software consists of capitalised development costs being an internally generated intangible asset. 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.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and moveable plant and equipment £m	Construction in progress £m	Total £m
Cost:						
At 1 April 2024	**122.1**	**2,707.6**	**987.1**	**2,517.4**	**544.7**	**6,878.9**
Additions	1.2	68.3	8.9	98.4	409.7	586.5
Assets adopted at fair value	-	17.4	-	-	-	17.4
Disposals	(0.1)	(1.6)	(0.9)	(13.7)	-	(16.3)
Transfers/reclassifications	1.0	43.3	13.1	63.8	(117.1)	4.1
At 31 March 2025	**124.2**	**2,835.0**	**1,008.2**	**2,665.9**	**837.3**	**7,470.6**
Additions	0.4	112.6	40.9	11.7	391.8	557.4
Assets adopted at fair value	-	13.2	-	-	-	13.2
Disposals	-	-	(0.4)	(1.5)	-	(1.9)
Transfers/reclassifications	1.1	113.2	10.1	(24.6)	(99.1)	0.7
At 31 March 2026	**125.7**	**3,074.0**	**1,058.8**	**2,651.5**	**1,130.0**	**8,040.0**
Accumulated depreciation:						
At 1 April 2024	**28.2**	**404.1**	**341.0**	**1,534.5**	**-**	**2,307.8**
Charge for year	3.9	41.2	21.4	103.3	-	169.8
Disposals	-	(1.6)	(0.9)	(13.6)	-	(16.1)
Transfers/reclassifications	-	-	0.9	1.8	1.4	4.1
At 31 March 2025	**32.1**	**443.7**	**362.4**	**1,626.0**	**1.4**	**2,465.6**
Charge for year	3.9	44.9	21.7	102.5	-	173.0
Disposals	-	-	(0.4)	(1.3)	-	(1.7)
Transfers/reclassifications	-	-	0.3	0.4	-	0.7
At 31 March 2026	**36.0**	**488.6**	**384.0**	**1,727.6**	**1.4**	**2,637.6**
Net book value:						
At 1 April 2024	**93.9**	**2,303.5**	**646.1**	**982.9**	**544.7**	**4,571.1**
At 31 March 2025	**92.1**	**2,391.3**	**645.8**	**1,039.9**	**835.9**	**5,005.0**
At 31 March 2026	**89.7**	**2,585.4**	**674.8**	**923.9**	**1,128.6**	**5,402.4**

Out of the total depreciation charge for the Company of £173.0 million (2025: £169.8 million), the sum of £nil million (2025: £1.6 million) has been charged to capital projects, £2.3 million (2025: £2.4 million) has been offset by deferred income and £170.7 million (2025: £165.8 million) against profits. During the year borrowing costs of £34.0 million (2025: £23.1 million) have been capitalised on qualifying assets, at an average borrowing rate of 5.5% (2025: 5.7%).

Groups of assets forming cash generating units are reviewed for indicators of impairment. No indicators of impairment were identified during the year.

Asset lives and residual values are reviewed annually. No significant changes were required in 2025/26.

In the year ended 31 March 2025, an adjustment has been made to reclassify cost and accumulated depreciation in relation to assets transferred from Bristol Water plc to South West Water Limited following the transfer of trade and significant majority of assets and liabilities of Bristol Water plc in February 2023 totalling £4.1 million.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets subject to secured financing arrangements

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 and a liability to make ongoing payments is recognised as part of the lease liability included within borrowings. The table below shows amounts held within property, plant and equipment for assets subject to these arrangements:

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Cost:						
At 1 April 2024	**5.3**	**404.0**	**336.9**	**425.7**	**-**	**1,171.9**
Additions	-	22.0	0.8	2.1	-	24.9
At 31 March 2025	**5.3**	**426.0**	**337.7**	**427.8**	-	**1,196.8**
Additions	0.8	0.2	4.1	32.0	52.9	90.0
Disposals	(0.2)	(6.4)	(10.5)	(36.9)	-	(54.0)
At 31 March 2026	**5.9**	**419.8**	**331.3**	**422.9**	**52.9**	**1,232.8**
Accumulated depreciation:						
At 1 April 2024	**0.6**	**75.1**	**96.4**	**209.9**	**-**	**382.0**
Additions	0.1	6.2	5.8	21.5	-	33.6
At 31 March 2025	**0.7**	**81.3**	**102.2**	**231.4**	**-**	**415.6**
Charge for year	0.3	6.7	5.9	20.7	-	33.6
Disposals	(0.2)	(1.7)	(2.7)	(26.0)	-	(30.6)
At 31 March 2026	**0.8**	**86.3**	**105.4**	**226.1**	**-**	**418.6**
Net book value:						
At 1 April 2024	**4.7**	**328.9**	**240.5**	**215.8**	**-**	**789.9**
At 31 March 2025	**4.6**	**344.7**	**235.5**	**196.4**	**-**	**781.2**
At 31 March 2026	**5.1**	**333.5**	**225.9**	**196.8**	**52.9**	**814.2**

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

IFRS 16 - Right of Use Assets

Right-of-use assets classifying as leases under IFRS included in property, plant and equipment above were:

	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 1 April 2024	**31.9**	**-**	**-**	**5.1**	**-**	**37.0**
Additions	0.8	-	-	2.2	-	3.0
Disposals	-	-	-	(0.1)	-	(0.1)
At 31 March 2025	**32.7**	**-**	**-**	**7.2**	**-**	**39.9**
Additions	-	-	-	0.9	-	0.9
At 31 March 2026	**32.7**	**-**	**-**	**8.1**	**-**	**40.8**
Accumulated depreciation:						
At 1 April 2024	**5.7**	**-**	**-**	**1.7**	**-**	**7.4**
Additions	1.3	-	-	1.5	-	2.8
Disposals	-	-	-	(0.1)	-	(0.1)
At 31 March 2025	**7.0**	**-**	**-**	**3.1**	**-**	**10.1**
Charge for year	1.4	-	-	1.6	-	3.0
At 31 March 2026	**8.4**	**-**	**-**	**4.7**	**-**	**13.1**
Net book value:						
At 1 April 2024	**26.2**	**-**	**-**	**3.4**	**-**	**29.6**
At 31 March 2025	**25.7**	**-**	**-**	**4.1**	**-**	**29.8**
At 31 March 2026	**24.3**	**-**	**-**	**3.4**	**-**	**27.7**

16. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items as below:

	Note	Fair value	Amortised cost		
		Derivatives used for cash flow hedging £m	Loans and receivables £m	Trade receivables and trade payables £m	Total £m
31 March 2026					
Financial assets					
Trade and other receivables	19	-	18.5	237.8	256.3
Cash and cash equivalents and restricted funds	21	-	295.9	-	295.9
Derivative financial instruments	20	29.2	-	-	29.2
		29.2	**314.4**	**237.8**	**581.4**
Financial liabilities					
Borrowings	23	-	(4,152.3)	-	(4,152.3)
Trade and other payables	22	-	(209.9)	(217.9)	(427.8)
Derivative financial instruments	20	(2.5)	-	-	(2.5)
		(2.5)	**(4,362.2)**	**(217.9)**	**(4,582.6)**

	Note	Fair value	Amortised cost		
		Derivatives used for cash flow hedging £m	Loans and receivables £m	Trade receivables and trade payables £m	Total £m
31 March 2025					
Financial assets					
Trade and other receivables	19	-	19.0	185.9	204.9
Cash and cash equivalents and restricted funds	21	-	326.7	-	326.7
Derivative financial instruments	20	31.6	-	-	31.6
		31.6	**345.7**	**185.9**	**563.2**
Financial liabilities					
Borrowings	23	-	(3,884.3)	-	(3,884.3)
Trade and other payables	22	-	(77.5)	(144.3)	(221.8)
Derivative financial instruments	20	(2.0)	-	-	(2.0)
		(2.0)	**(3,961.8)**	**(144.3)**	**(4,108.1)**

17. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2026 £m	2025 £m
At 1 April	21.7	21.7
At 31 March	**21.7**	**21.7**

Principal subsidiary companies	**Registered office address**	**Country of incorporation, registration and principal operations**	
Bristol Water plc	Bridgwater Road, Bristol, BS13 7AT	England	
South West Water Finance plc	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England	
South West Water Customer Services Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England	
Dormant companies	**Registered office address**	**Country of incorporation**	
Avon Valley Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England	
Peninsula Properties (Exeter) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England	
Joint ventures	**Registered office address**	**Country of incorporation**	**Stake**
Bristol Wessex Billing Services Limited	1 Clevedon Walk, Nailsea, Bristol, BS48 1WA	England	50%
CREWW Executive Board Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England	50%
Searchlight Collections Limited	PO BOX 930 Galmington Office, Galmington Trading Estate, Cornishway West, Taunton, Somerset, TA1 9LQ	England	50%

The Company also has minority shareholding in Landlord Tap Limited, which is incorporated, registered and operates in England.

Consolidated financial statements have not been prepared, as explained in note 2(b).

There are no indicators of impairment in the current year.

18. INVENTORIES

	2026 £m	2025 £m
Raw materials and consumables	13.8	10.7

19. TRADE AND OTHER RECEIVABLES - CURRENT

	2026 £m	2025 £m
Trade receivables	343.9	282.4
Less: allowance for expected credit losses in respect of trade receivables	(106.1)	(96.5)
Net trade receivables	**237.8**	**185.9**
Amounts owed by Pennon Group companies	18.5	19.0
Other receivables	34.2	39.8
Prepayments	9.6	12.7
Contract assets	7.1	10.4
Trade and other receivables - current	**307.2**	**267.8**

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:

	2026 £m	2025 £m
Not due	92.7	64.5
Past due 1 - 30 days	17.9	12.4
Past due 31 - 120 days	20.0	14.8
More than 120 days	213.3	190.7
Total trade receivables	**343.9**	**282.4**

The Company specifically reviews separate categories of debt to identify an appropriate allowance for expected credit losses as outlined in note 2 (o) 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, Cornwall and Bournemouth is outlined in the table below, showing the range of provision rates dependent on phase of collection. The table also includes the gross debt and provision rates for other customer areas:

	2026		2025	
	Trade Receivables £m	Allowance for ECL's £m	Trade Receivables £m	Allowance for ECL's £m
Devon, Cornwall and Bournemouth (household customers)				
• Current occupier < 12 months: 1% - 30%	97.7	1.0	68.7	0.4
• Current occupier 12 - 24 months: 10% - 60%	16.0	3.6	12.4	2.8
• Current occupier 24 - 36 months: 15% - 80%	12.2	3.9	10.9	3.0
• Current occupier > 36 months: 20% - 100%	99.1	39.7	91.6	39.9
• Previous occupier: 55% - 100%	58.4	36.9	51.3	32.1
Bristol	44.7	21.0	38.1	18.3
Other	15.8	-	9.4	-
	343.9	**106.1**	**282.4**	**96.5**

No material expected credit loss provision has been recognised in respect of amounts owed by fellow subsidiary undertakings.

19. TRADE AND OTHER RECEIVABLES - CURRENT (CONTINUED)

The movement in the allowance for expected credit losses in respect of trade receivables was:

	2026 £m	2025 £m
At 1 April	**96.5**	**102.8**
Provision for expected credit losses	14.0	8.2
Receivables written-off during the year as uncollectable	(4.4)	(14.5)
At 31 March	**106.1**	**96.5**

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and where a failure to make payments on overdue invoices indicate the debt is unrecoverable.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2026 £m	2025 £m
Derivatives used for cash flow hedging:		
Assets		
Current assets	7.8	9.3
Non-current assets	21.4	22.3
Total assets	**29.2**	**31.6**
Liabilities		
Current liabilities	(0.6)	(0.4)
Non-current liabilities	(1.9)	(1.6)
Total liabilities	**(2.5)**	**(2.0)**

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 statement of profit or loss arising from hedging relationships was £nil (2025: £nil).

A net £0.7 million credit (2025: £4.4 million debit) was recognised in other comprehensive income for cash flow hedges, including a £7.3 million credit (2025: £15.1 million credit) recognised in profit and loss relating to cash flow hedges previously recognised through other comprehensive income and recorded in the hedging reserve.

Interest rate swaps, primarily cash flow hedges, and fixed rate borrowings are used to manage the mix of fixed and floating rates to ensure at least 60% of Company net borrowings are at fixed rate.

At 31 March 2026 the Company had interest rate swaps to swap from floating to fixed rate and hedge financial liabilities with a notional value of £603 million and a weighted average maturity of 4.5 years (2025: £636 million, with 5.3 years). The weighted average interest rate of the swaps for their nominal amount was 3.0% (2025: 2.9%).

At 31 March 2026 the Company had interest rate swaps to swap from RPI Linked to fixed rate and hedge financial liabilities with a notional value of £nil (2025: £nil). The weighted average interest rate of the swaps for their nominal amount was nil% (2025: nil%).

The Company had cross currency swaps and hedged financial liabilities with a notional value of £40 million (2025: £40 million) and a weighted average maturity of 4.1 years (2025: 5.1 years). The weighted average interest for the swaps for their nominal amount was 4.9% (2025: 5.3%). The swaps are denominated in USD to match the underlying currency exposures.

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.

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The hedge ineffectiveness can arise from:
- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item

The impact of the hedging instrument on the balance sheet is as follows:

	Notional Amount £m	Carrying Amount £m	Line item in the balance sheet £m	Change in fair value used for measuring ineffectiveness in the period £m
31 March 2026				
Interest rate swaps	603.0	27.9	Derivative financial instruments	(0.2)
Cross currency swaps	40.1	(2.1)	Derivative financial instruments	0.5
31 March 2025				
Interest rate swaps	363.0	27.7	Derivative financial instruments	(9.9)
Cross currency swaps	40.1	(1.6)	Derivative financial instruments	(1.6)

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 2026					
Assets	7.8	5.8	12.9	2.7	29.2
Liabilities	(0.6)	(0.6)	(1.3)	-	(2.5)
31 March 2025					
Assets	9.3	5.3	12.6	4.4	31.6
Liabilities	(0.4)	(0.3)	(1.0)	(0.3)	(2.0)

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.

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Company's financial instruments are valued using level 2 measures:	2026 £m	2025 £m
Assets		
Derivatives used for cash flow hedging	29.2	31.6
Liabilities		
Derivatives used for cash flow hedging	(2.5)	(2.0)

21. CASH AND CASH EQUIVALENTS AND RESTRICTED FUNDS

	2026 £m	2025 £m
Cash at bank and in hand	24.1	30.6
Short-term bank deposits	75.6	250.0
Other deposits	150.0	-
Cash and cash equivalents	249.7	280.6
Restricted funds	46.2	46.1
Total	**295.9**	**326.7**

Company short-term deposits have an average maturity of one working days (2025: one working day). Company other deposits (including restricted funds) have an average maturity of 76 days (2025: 92 days):

Restricted funds comprise £46.2 million (2025: £46.1 million) to settle long-term lease liabilities (note 23). Restricted funds are available for access, subject to being replaced by an equivalent valued security.

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

	2026 £m	2025 £m
Cash and cash equivalents as above	249.7	280.6
Cash and cash equivalents	**249.7**	**280.6**

22. TRADE AND OTHER PAYABLES - CURRENT

	2026 £m	2025 £m
Trade payables	156.2	87.5
Amounts owed to subsidiary companies	38.4	28.6
Amounts owed to parent undertaking	171.5	48.9
Other tax and social security	4.7	3.8
Other payables	16.4	21.7
Accruals	45.3	35.1
Contract liabilities	34.9	39.5
	467.4	**265.1**

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Included within amounts owed to parent undertaking is £170.0 million relating to dividends declared not paid (2024/25: £45.0 million). Payment of declared dividends will be considered in 2026/27, taking into account the financial resilience of the Company.

22. TRADE AND OTHER PAYABLES - CURRENT (CONTINUED)

The movement in the current and non-current contract liabilities was:

Contract liabilities	2026 £m	2025 £m
At 1 April	**231.2**	**180.2**
Revenue recognised in the year	(13.1)	(5.1)
Additions in relation to property developer services (note 2c)	23.8	33.0
Net movement in customer overpayments	(0.9)	23.1
At 31 March	**241.0**	**231.2**

The analysis of contract liabilities between current and non-current is:

	2026 £m	2025 £m
Current	34.9	39.5
Non-current (note 24)	206.1	191.7
	241.0	**231.2**

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 2027.

Included within contract liabilities are amounts received from customers in advance of the satisfying its performance obligations. The current balance includes these customer overpayments and other advance receipts which are expected to be utilised through the delivery of services or offset against customer bills within the next 12 months.

23. BORROWINGS

	2026 £m	2025 £m
Current		
Bank and other external loans	53.9	101.3
Loan from subsidiary company	3.7	3.6
	57.6	**104.9**
Leases	31.5	32.3
Total current borrowings	**89.1**	**137.2**
Non-current		
Bank and other external loans	708.1	772.2
Private Placements	679.4	656.2
Fixed Rate Bonds	58.2	57.0
Loan from subsidiary company	1,556.4	1,248.4
	3,002.1	**2,733.8**
Leases	1,061.1	1,013.3
Total non-current borrowings	**4,063.2**	**3,747.1**
Total borrowings	**4,152.3**	**3,884.3**

The current loan from subsidiary company represents a loan of £3.7 million due within one year.

The non-current loan from subsidiary company represents a loan from South West Water Finance plc of £1,529.8 million (2025: £1,221.8 million), a UK company whose purpose is to raise borrowings for South West Water Limited, and a loan from Bristol Water plc of £26.6 million (2025: £26.6 million).

The non-current loans of £1,154.2 million expire in more than five years and carry interest rates between 2.35% and 6.44%, plus £402.2 million expiring in 2057 at a rate of 1.99% + RPI.

23. BORROWINGS (CONTINUED)

The fair value of the non-current borrowings, valued using level 2 measures (set out in note 20) were:

	2026 Book value £m	2026 Fair value £m	2025 Book value £m	2025 Fair value £m
Current				
Bank and other external loans	53.9	53.9	101.3	101.3
Loan from subsidiary company	3.7	3.7	3.6	3.6
	57.6	**57.6**	**104.9**	**104.9**
Leases	31.5	-	32.3	-
Total current borrowings	**89.1**	**57.6**	**137.2**	**104.9**
Non-current				
Bank and other external loans	708.1	708.8	772.2	872.8
Private Placements	679.4	680.9	656.2	659.1
Fixed Rate Bonds	58.2	60.8	57.0	61.6
Loan from subsidiary company	1,556.4	1,360.8	1,248.4	1,059.2
	3,002.1	**2,811.3**	**2,733.8**	**2,652.7**
Leases	1,061.1	-	1,013.3	-
Total non-current borrowings	**4,063.2**	**2,811.3**	**3,747.1**	**2,652.7**
Total borrowings	**4,152.3**	**2,868.9**	**3,884.3**	**2,757.6**

Under IFRS 7 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.

During the year ended 31 March 2026, as part of an ongoing programme to renew and raise new financing, the Company entered into £190 million of new terms loans and leasing facility arrangements, with an average maturity of seven years, as well as £300 million of public bond issuances under our EMTN[1] programme.

The maturity of non-current borrowings, excluding leases, was:

	2026 £m	2025 £m
Between 1 and 2 years	57.8	57.8
Over 2 and less than 5 years	232.6	196.7
Over 5 years	2,711.7	2,479.3
	3,002.1	**2,733.8**

The weighted average maturity of non-current borrowings, excluding leases, was 13 years (2025: 14.0 years).

Undrawn committed borrowing facilities at the balance sheet date were:

	2026 £m	2025 £m
Floating rate:		
Expiring within one year:	25.0	-
Expiring after one year:	420.0	370.0
	445.0	**370.0**

[1] Euro Medium Term Note

23. BORROWINGS (CONTINUED)

Information on leases

The Company has leases for various assets as shown in note 15.

The maturity of lease liabilities was:

	2026 £m	2025 £m
Within 1 year	31.5	32.3
Over 1 year and less than 5 years	150.8	168.1
Over 5 years	910.3	845.2
	1,092.6	**1,045.6**

Analysed as:

	2026 £m	2025 £m
Current	31.5	32.3
Non-current	1,061.1	1,013.3
	1,092.6	**1,045.6**

Lease liabilities includes liabilities of £1,057.0 million (2025: £1,007.4 million) that are subject to secured financing arrangements (see note 15) and lease liabilities under IFRS 16 of £35.6 million (2025: £38.2 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 2026 the range of IBRs used was between 5.7% and 7.9% (2025: between 5.1% and 6.9%) and the weighted average IBR across all leases was 6.3% (2025: 6.2%). If the weighted average rate used increased or decreased by 10bps, this would result in a c.0.9% increase or reduction in the present value of lease liabilities recognised at 31 March 2026 (2025 c.0.9%).

The period for repayment of certain leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £46.2 million at 31 March 2026 (2025: £46.1 million), are currently being held to settle the lease liability subject to rights to release by negotiation with the lessor. The deposits are subject to a registered charge given as security to the lessor for the balance outstanding.

Cash outflows in respect of leasing relate to principal repayments of £45.3 million (2025: £96.8 million) and interest repayments of £51.1 million (2025: £64.3 million), in addition to inflows from lease financing arrangements of £90.0 million (2025 £25.0 million).

Other information required to be disclosed under IFRS 16 is included in note 15.

24. OTHER NON-CURRENT LIABILITIES

	2026 £m	2025 £m
Contract liabilities	206.1	191.7

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 12 months of the balance sheet date. The overall movement in total contract liabilities is disclosed in note 22. 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.

25. 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.

In June 2023, the High Court handed down a decision (Virgin Media Limited v NTL Pension Trustees II Limited and others) which potentially has implications for the validity of amendments made by schemes, including the PGPS and other Group defined benefit schemes, which were contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. This decision was upheld by the Court of Appeal in August 2024. The Company has engaged with the relevant Trustee for PGPS and other Group defined benefit schemes who have confirmed that based on the governance processes in place and reviews of significant deed changes during the period in question, these bodies have no reason to believe that the relevant requirements were not complied with in relation to the Schemes with regard to the relevant period in question. Under the Pensions Schemes Act 2026, which came into force on 29 April 2026, the Trustees will be able to retrospectively validate amendments if required. Accordingly, no additional liabilities have been recognised.

Defined contribution schemes
Pension costs for defined contribution schemes were £10.7 million (2025: £10.3 million).

Defined benefit schemes
The principal actuarial assumptions at 31 March were:

	2026 %	2025 %
Rate of increase in pensionable pay	2.7	2.5
Rate of increase for current and future pensions	2.8	2.7
Rate used to discount schemes' liabilities and expected return on scheme assets	6.1	5.8
Inflation	3.2	3.1

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 2024 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:

	2026	2025
Male	24.2	23.6
Female	26.7	26.4

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2026	2025
Male	25.0	24.4
Female	27.7	27.4

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The sensitivities regarding the principal assumptions used to measure the schemes' liabilities are:

	Change in assumption	Impact on schemes' liabilities
Rate of increase in current and future pensions	+/- 0.5%	+/-4.6%
Rate used to discount schemes' liabilities	+/- 0.5%	+/- 5.4%
Inflation	+/- 0.5%	+/- 3.8%
Life expectancy	+/- 1 year	+/- 3.5%

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:

	2026 £m	2025 £m
Present value of financial obligations	(394.4)	(402.3)
Fair value of plan assets	407.7	417.0
Net asset recognised in the balance sheet	**13.3**	**14.7**

The movement in the net defined benefit obligation over the accounting period is as follows:

			2026			2025
	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	**(402.3)**	**417.0**	**14.7**	**(461.2)**	**472.0**	**10.8**
Current service cost	(1.0)	-	(1.0)	(1.3)	-	(1.3)
Interest (expense)/income	(22.2)	23.0	0.8	(21.6)	22.1	0.5
	(425.5)	**440.0**	**14.5**	**(484.1)**	**494.1**	**10.0**
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	-	(6.7)	(6.7)	-	(52.3)	(52.3)
(Loss)/gain from change in demographic assumptions	(1.3)	-	(1.3)	4.0	-	4.0
Gain from change in financial assumptions	8.1	-	8.1	52.6	-	52.6
Experience loss	(2.8)	-	(2.8)	(1.0)	-	(1.0)
	4.0	**(6.7)**	**(2.7)**	**55.6**	**(52.3)**	**3.3**
Contributions:						
Employers	-	1.5	1.5	-	1.4	1.4
Payments from plans:						
Benefit payments	26.1	(26.1)	-	24.9	(24.9)	-
Administration costs	1.0	(1.0)	-	1.3	(1.3)	-
	27.1	**(25.6)**	**1.5**	**26.2**	**(24.8)**	**1.4**
At 31 March	**(394.4)**	**407.7**	**13.3**	**(402.3)**	**417.0**	**14.7**

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Recognition of surplus on principal pension scheme
In accordance with IAS 19 'Employee Benefits', the value of the net pension scheme surplus that can be recognised in the balance sheet is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. In respect of the 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 31).

The assets in the schemes at year end were:

	2026		2025	
	Quoted prices in active market £m	Fund %	Quoted prices in active market £m	Fund %
Equities	67.8	16	71.0	17
Property	47.9	12	38.5	9
Bonds	214.2	53	192.8	47
Diversified Growth Fund	32.9	8	12.6	3
Insurance linked securities	42.8	10	88.0	21
Other	2.1	1	14.1	3
	407.7	**100**	**417.0**	**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 schemes hold a proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long-term but can give rise to volatility and risk in the short-term. As the funding of the schemes improves, an increasing proportion of the schemes' assets are invested in less volatile asset classes such as cash and bonds which more closely reflect market movements in the schemes' liabilities. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.

Changes in bond yields: A decrease in corporate bond yields will increase the 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.

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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.

As funding of our principal pension scheme has improved the investment portfolio has been de-risked through increasing the scheme's real gilts hedging position through LDIs (Liability Driven Investments), which are commonly used by UK pension schemes.

The weighted average duration of the defined benefit obligation is 11 years (2025: 10 to 12 years).

The 2025 triennial actuarial valuation of the principal defined benefit scheme was agreed in 2025 with an actuarial valuation surplus of £14.0 million. No deficit recovery contributions are required as a result of the 2025 valuation. Additional contributions of £1.5 million were paid into the scheme in respect of scheme expenses (2025: £1.4 million). Pennon Group plc monitors funding levels on an annual basis, the Company expects to pay total contributions of around £1.5 million during the year ending 31 March 2027.

26. CURRENT TAX RECEIVABLES

	2026 £m	2025 £m
Current year asset	-	3.2
At 31 March	**-**	**3.2**

27. 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:

	2026 £m	2025 £m
Net liabilities after offsetting at 1 April	**453.3**	**466.0**
Charge/(credit) to the statement of profit or loss	33.3	(3.0)
Non underlying credit to the statement of profit or loss	(3.0)	(8.1)
Credited to equity/other comprehensive income	(0.6)	(1.6)
Net liabilities after offsetting at 31 March	**483.0**	**453.3**

Deferred tax assets have been recognised in respect of all temporary differences where it is probable that these assets will be recovered. The majority of the Company's deferred tax assets and liabilities are expected to be recovered over more than one year. All deferred tax assets and liabilities within the same jurisdiction are offset where it is appropriate to do so.

The Company has applied the exemption from recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes as required by the amendments to IAS 12 "International Tax Reform - Pillar Two Model Rules".

27. DEFERRED TAX LIABILITIES (CONTINUED)

The movements in deferred tax assets and liabilities were:

Deferred tax liabilities

	Property, plant and equipment £m	Retirement benefit obligations £m	Derivatives £m	Total £m
At 1 April 2024	**480.1**	**2.5**	**7.8**	**490.4**
Underlying charged to the statement of profit or loss	40.6	0.1	0.1	40.8
Charged/(credited) to other comprehensive income/equity	-	0.8	(2.4)	(1.6)
At 31 March 2025	**520.7**	**3.4**	**5.5**	**529.6**
Underlying charged to the statement of profit or loss	44.5	0.5	1.4	46.4
(Credited)/charged to other comprehensive income/equity	-	(0.8)	0.2	(0.6)
At 31 March 2026	**565.2**	**3.1**	**7.1**	**575.4**

Deferred tax (assets)

	Provisions £m	Tax Losses and corporate interest restriction £m	Share based payments £m	Total £m
At 1 April 2024	**(0.3)**	**(24.0)**	**(0.1)**	**(24.4)**
Underlying charged/(credited) to the statement of profit or loss	0.1	(43.9)	-	(43.8)
Non-underlying credited to the statement of profit or loss	-	(8.1)	-	(8.1)
At 31 March 2025	**(0.2)**	**(76.0)**	**(0.1)**	**(76.3)**
Underlying credited to the statement of profit or loss	-	(12.9)	(0.2)	(13.1)
Non-underlying credited to the statement of profit or loss	-	(3.0)	-	(3.0)
At 31 March 2026	**(0.2)**	**(91.9)**	**(0.3)**	**(92.4)**

Deferred tax credited to other comprehensive income/equity during the year was:

	2026 £m	2025 £m
Remeasurement of defined benefit obligations	0.8	(0.8)
Cash-flow hedges	(0.2)	2.4
	0.6	**1.6**

When a business incurs capital expenditure which is qualifying for tax relief, tax deductions are obtained via the capital allowance regime. The tax relief arising replaces the accounting depreciation of the qualifying expenditure which is not tax deductible. Over the period of ownership of the relevant property, plant and equipment, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates typically vary from 3% up to 100%. Depreciation periods vary from 4 to 200 years. Due to the company's continuing capital investment programme, deductions for capital allowances are expected to exceed depreciation in future years.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Company is not the same as the profit reported in the financial statements. The adjustments for this are reflected in the current tax reconciliation. The Company has benefited from full expensing and 50% first year allowances for certain qualifying expenditure. 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.

27. DEFERRED TAX LIABILITIES (CONTINUED)

Short term temporary differences arise on items such as derivatives and share based payments because the treatment of such items are different for tax and accounting purposes creating temporary differences which will unwind in the near future. 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).

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 statement of profit or loss.

Derivatives reflect the fair value movements on treasury derivatives; these can fluctuate considerably each year. The balance will crystallise when derivative items are either terminated or mature, the life of these items can be up to ten years.

Tax losses relate to trading losses and capital losses accumulated to date which have not been utilised. The deferred tax on these tax losses is recognised together with the deferred tax on the UK corporate interest restrictions carried forward. These tax attributes are available indefinitely.

28. PROVISIONS

	Restructuring £m	Other £m	Total £m
At 1 April 2024	-	-	-
Charge	8.2	0.4	8.6
Utilised	(3.5)	-	(3.5)
At 31 March 2025	**4.7**	**0.4**	**5.1**
Charge	-	5.7	5.7
Utilised	(4.7)	-	(4.7)
At 31 March 2026	**-**	**6.1**	**6.1**

£6.1 million (2025: £0.4 million) in relation to ongoing legal and environmental cases. £6.1 million of these provisions are expected to be utilised within one year.

29. CALLED UP SHARE CAPITAL

	2026 £m	2025 £m
Authorised		
900,000,000 Ordinary shares of £1 each (2025: 900,000,000)	900.0	900.0
Allotted and fully paid		
625,923,001 Ordinary shares of £1 each (2025: 625,923,001)	**625.9**	**625.9**

30. 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, including Executive Directors, to invest up to a maximum of £500 per month for three or five years. These savings can then be used to buy ordinary shares, at a price set at a discount to the market value at the start of the savings period, at the third or fifth 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.

30. EMPLOYEE SHARE SCHEMES (CONTINUED)

Outstanding options to subscribe for ordinary shares of 61.05 pence each under the Company's share option 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	
			2026	2025
06 July 2020	750p	2023 - 2025	-	23
06 July 2021	710p	2024 - 2026	36	53
06 July 2022	669p	2025 - 2027	20	183
04 July 2023	536p	2026 - 2028	290	433
02 July 2024	406p	2027 - 2029	933	1,095
03 July 2025	421p	2028 - 2030	686	-
			1,965	**1,787**

The number and weighted average exercise price of Sharesave options are:

		2026		2025
	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	1,787	591	1,314	748
Granted	742	421	1,035	406
Additional options awarded as part of rights issue	-	-	410	492
Forfeited	(353)	535	(650)	684
Exercised	(6)	502	(3)	620
Expired	(245)	732	(295)	798
Transferred to other Group companies	40	-	(24)	-
At 31 March	**1,965**	**508**	**1,787**	**591**

The weighted average share price at the date of exercise of Sharesave options during the year was 513 pence (2025: 612 pence). The options outstanding at 31 March 2026 had a weighted average exercise price of 508 pence (2025: 591 pence) and a weighted average remaining contractual life of 2.0 years (2025: 2.3 years). The number of exercisable Sharesave options at 31 March 2026 was 1,209 (2025: 2,277) and the weighted average exercise price of exercisable Sharesave options was 669 pence (2025: 710 pence).

The aggregate fair value of Sharesave options granted during the year was £0.7 million (2025: £0.8 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model, at the date of issue of the options, were:

	2026	2025
Weighted average share price (pence)	494	564
Weighted average exercise price (pence)	421	406
Expected volatility	30.9%	27.5%
Expected life	3.5 years	3.5 years
Risk free rate	4.3%	5.3%
Expected dividend yield	6.4%	7.8%

Expected volatility was determined by calculating the historical volatility of the Pennon Group's share price over the previous three year and five-year periods depending on the life of the scheme.

30. EMPLOYEE SHARE SCHEMES (CONTINUED)

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. More details concerning LTIPs, including performance conditions, is shown in the Directors' remuneration report in the Pennon Group plc Annual Report and Accounts on pages 133 to 155.

The number and price of shares in the LTIP are:

		2026		2025
	Number of Ordinary shares (thousands)	Weighted average award price per share (p)	Number of Ordinary shares (thousands)	Weighted average award price per share (p)
At 1 April	383	756	158	922
Granted	181	458	171	646
Additional options awarded as part of rights issue	-	-	90	-
Lapsed	(27)	-	(13)	1,335
Released	(77)	620	(23)	753
At 31 March	**460**	**529**	**383**	**756**

The awards outstanding at 31 March 2026 had a weighted average award price of 529 pence (31 March 2025: 756 pence) and a weighted average remaining contractual life of 3.4 years (31 March 2025: 2.7 years).

The aggregate fair value of awards granted during the year was £0.4 million (2025: £0.4 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depend on non-market performance vesting conditions.

iii) Annual Incentive Bonus Plan - Deferred Shares

Awards under the plan to Executive Directors and Senior Management involve the release of Ordinary shares in 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:

		2026		2025
	Number of Ordinary shares (thousands)	Weighted average award price per share (p)	Number of Ordinary shares (thousands)	Weighted average award price per share (p)
At 1 April	26	830	38	904
Granted	71	665	-	700
Vested	(11)	988	(9)	1,141
Lapsed	(1)	988	(3)	876
At 31 March	**85**	**525**	**26**	**830**

The awards outstanding at 31 March 2026 had a weighted average price of 525 pence (31 March 2025: 830 pence) and a weighted average remaining contractual life of 0.8 years (31 March 2025: 1.4 years). The Company's share price at the dates of the awards ranged from 493 pence to 988 pence (2025: 665 pence to 1,141 pence).

The aggregate fair value of awards granted during the year was £0.4 million (2025: £nil), 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.

31. SHARE PREMIUM ACCOUNT

	2026 £m	2025 £m
At 1 April and 31 March	**413.0**	**413.0**

32. RETAINED EARNINGS AND OTHER RESERVES

	Hedging reserve £m	Retained earnings £m	Total £m
At 1 April 2024	**26.3**	**176.0**	**202.3**
Loss for the year	-	(48.6)	(48.6)
Other comprehensive (loss)/income for the year	(2.0)	2.5	0.5
Share-based payments (net of tax)	-	0.3	0.3
At 31 March 2025	**24.3**	**130.2**	**154.5**
Profit for the year	-	91.4	91.4
Other comprehensive income/(loss) for the year	0.5	(1.9)	(1.4)
Dividends paid/payable	-	(200.0)	(200.0)
Share-based payments (net of tax)	-	0.8	0.8
At 31 March 2026	**24.8**	**20.5**	**45.3**

33. CASH GENERATED FROM OPERATIONS

Reconciliation of (loss)/profit for the year to cash generated from operations:

	2026 £m	2025 £m
Profit/(loss) for the year	91.4	(48.6)
Adjustments for:		
Share based payments	0.8	0.3
Profit on disposal of property, plant and equipment	(4.1)	(1.3)
Depreciation charge	170.7	165.8
Amortisation of intangible fixed assets	1.3	2.5
Finance income	(15.5)	(6.0)
Finance costs	185.6	176.3
Taxation	33.5	(12.6)
Changes in working capital:		
Increase in inventories	(3.1)	(0.5)
Increase in trade and other receivables	(40.1)	(22.5)
Increase/(decrease) in trade and other payables	82.8	(39.6)
Decrease in retirement benefit obligations	(0.5)	(0.1)
Increase in provisions	1.0	5.1
Cash generated from operations	**503.8**	**218.8**

34. NET BORROWINGS

	2026 £m	2025 £m
Cash and cash equivalents	249.7	280.6
Restricted funds	46.2	46.1
Borrowings - current		
Bank and other current borrowings	(57.6)	(104.9)
Lease obligations	(31.5)	(32.3)
Total current borrowings	**(89.1)**	**(137.2)**
Borrowings - non-current		
Bank and other non-current borrowings	(3,002.1)	(2,733.8)
Lease obligations	(1,061.1)	(1,013.3)
Total non-current borrowings	**(4,063.2)**	**(3,747.1)**
Total net borrowings	**(3,856.4)**	**(3,557.6)**

The movement in net borrowings during the periods presented were as follows:

	Net borrowings at 1 April 2024 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2025 £m
Cash and cash equivalents	-	280.6	-	-	280.6
Restricted funds	26.0	20.1	-	-	46.1
Bank and other current borrowings	(208.3)	209.0	(108.3)	2.7	(104.9)
Current lease obligations	(50.9)	100.9	(20.4)	(61.9)	(32.3)
Bank and other non-current borrowings	(2,070.6)	(745.8)	108.3	(25.7)	(2,733.8)
Non-current lease obligations	(1,065.5)	35.2	20.4	(3.4)	(1,013.3)
Total net borrowings	**(3,369.3)**	**(100.0)**	**-**	**(88.3)**	**(3,557.6)**

	Net borrowings at 1 April 2025 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2026 £m
Cash and cash equivalents	280.6	(30.9)	-	-	249.7
Restricted funds	46.1	0.1	-	-	46.2
Bank and other current borrowings	(104.9)	108.3	(60.1)	(0.9)	(57.6)
Current lease obligations	(32.3)	96.4	(43.3)	(52.3)	(31.5)
Bank and other non-current borrowings	(2,733.8)	(297.2)	60.1	(31.2)	(3,002.1)
Non-current lease obligations	(1,013.3)	(90.0)	43.3	(1.1)	(1,061.1)
Total net borrowings	**(3,557.6)**	**(213.3)**	**-**	**(85.5)**	**(3,856.4)**

Non-cash movements relates to accrued interest expense which will be presented as operating cash flows in the statement of cash flows when paid.

35. CONTINGENCIES

	2026 £m	2025 £m
Guarantee of borrowings of subsidiary undertaking	1,502.2	1,188.5

Guarantees in respect of the borrowings of the subsidiary undertaking, the last of which expire in 2057 and which will be reduced in line with repayments, are entered into in the normal course of business.

Other contractual and litigation uncertainties

Ofwat and the Environment Agency (EA) announced an industry-wide investigation into sewage treatment works on 18 November 2021. On 10 July 2025, Ofwat announced its findings for South West Water Limited and its decision to accept South West Water Limited's enforcement package, in lieu of a financial penalty. The agreed undertakings consist of investing £20 million between 2025-2030 to reduce spills from specific outflows, establishing a £2 million local fund to tackle sewer misuse and providing £2 million of funding through a Nature Recovery Fund to support environmental groups. The costs in relation to the £20 million investment will be accounted for as capital when incurred.

On 2 February 2024 summons was received by South West Water Limited from the EA in relation to alleged breaches of permits in relation to the illegal water discharge activity at seven locations with a total of 30 charges. The EA have since withdrawn six of these charges relating to one site. At a hearing on 14 November 2024, South West Water Limited pleaded guilty to five of the charges. Sentencing was held on 12 and 13 March 2026 although the value of any fine will not be known until the judgment takes place on 30 July 2026.

On 23 May 2023 Ofwat announced an investigation into South West Water Limited'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 continues to work openly and constructively with Ofwat to comply with the formal notice issued to South West Water Limited as part of this investigation.

The Company has undertaken its own internal investigation into the data and third party experts have concluded the calculations are within a tolerance as reported, as a result there were no detrimental impacts to customers through Outcome Delivery Incentives (ODI). The Company recognises opportunities to enhance data quality to improve the estimation process and these have been shared with Ofwat. Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply from closing the investigation with no further action, agreeing to formal S.19 undertakings through to fining the Company up to 10% of its revenue in relation to the regulated drinking water business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty.

Following the Brixham cryptosporidium outbreak in May 2024, legal proceedings were brought by the Drinking Water Inspectorate (DWI). South West Water pleaded guilty to the charge of supplying water unfit for human consumption on 4 March 2026, with sentence received on 2 June 2026. The Court levied a fine of £1.9 million, reflecting the serious impact this incident had on customers in the area, whilst also recognising the extensive customer support and remedial actions taken by South West Water. Full provision was recognised in the 2025/26 financial year for the fine. The Company establishes provisions in connection with contracts and litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where it is uncertain that these conditions are met, a contingent liability is disclosed unless the likelihood of the obligation arising is remote or the matter is not deemed material. An amount of £6.7 million has been included in non-underlying costs in respect of the above.

36. CAPITAL COMMITMENTS

	2026 £m	2025 £m
Contracted but not provided	233.1	133.4

The above capital commitments in the current and prior year relate to property, plant and equipment.

37. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with associates and joint ventures which were not members of the Pennon Group plc's group of companies. Bristol Wessex Billing Services Limited is a joint venture investment of the Company and Water 2 Business Limited is an associate investment of Pennon Group plc.

The following transactions with associates and subsidiaries which were not wholly owned by the parent Company, Pennon Group plc, occurred in the year:

	2026 £m	2025 £m
Joint ventures and associates		
Purchase of goods and services		
- Management charges	4.0	3.7
- Capital expenditure	0.3	0.3
- Other	0.1	0.1
- Non-household services	31.2	28.6
Year end balances		
Receivables		
- Joint venture and associates	0.2	2.2
Payables		
- Joint venture and associates	1.6	1.6

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.

38. PARENT COMPANY

The parent Company, and ultimate controlling party, is Pennon Group plc which is registered in England. The smallest and largest group in which the Company is consolidated is Pennon Group plc which is registered in England and copies of its consolidated annual report are available from Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR.

39. POST BALANCE SHEET EVENT

On 7 July 2026, South West Water Finance plc, a subsidiary of South West Water Limited, announced the successful pricing of £250.0 million 6.000% fixed rate guaranteed notes due 2035 and £100.0 million 3.806% index-linked guaranteed notes due 2041 under its Euro Medium Term Note ("EMTN") programme. The notes are expected to be issued on 16 July 2026, subject to final legal documentation and customary closing conditions.

The notes will be guaranteed by South West Water Limited and the proceeds are expected to be on-lent to South West Water Limited on the same terms.