

Registered in England & Wales
Registered Number: 2366640

23 May 2017

This document is important and requires your immediate attention. If you are in any doubt about the action you should take, you should immediately consult your stockbroker, solicitor, accountant, bank manager or independent financial adviser who is authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your ordinary shares please send this document, together with the accompanying proxy form, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. The proxy form, if used, should be lodged with the Company's registrar, Capita Asset Services, not less than 48 hours before the time fixed for the meeting.

Dear Shareholder

Annual General Meeting 2017 and financial results for the year ended 31 March 2017

Please find attached to this letter the Notice of our 2017 AGM, together with notes explaining the business of the meeting. The AGM will be held on Thursday 6 July 2017, starting at 11.00am at **Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN**. Details of how to reach this venue are set out on the next page. Free parking will be available.

If you are unable to attend the AGM, please register your vote with us electronically via **www.signalshares.com**. Registering your vote electronically is entirely secure and ensures the privacy of your personal information. Alternatively, please complete and return your proxy form by post. More details can be found in the notes on page 4. The deadline for the receipt by our registrar, Capita Asset Services, of all proxy appointments is 11.00am on 4 July 2017.

Your Directors consider that all the proposals to be considered at the AGM are in the best interests of the Company and its shareholders as a whole and recommend shareholders vote in favour of the resolutions as they intend to do in respect of their own shareholdings.

Electronic communications

The Company's policy is to provide all shareholder documents electronically whenever possible. As a consequence, you will receive copies of the annual report and certain other shareholder communications by post only if you have specifically opted to do so or if you became a shareholder on the register after 29 April 2017. For those of you who have not requested to receive shareholder communications by post you can now view a copy of the Company's annual report on the Company's website **www.pennon-group.co.uk/investor-information**

Using our website allows us to offer you greater choice on how you receive your shareholder communications. Electronic communications are not only secure, but they are also quicker, more cost effective, and are in line with the Company's sustainability objectives as less resources are required compared with traditional printing and distribution methods.

If you previously elected to receive a printed copy of the annual report, this is enclosed. If you have not elected to receive a printed copy and now wish to receive one, please contact Capita Asset Services by telephoning 0371 664 9234 (lines are open 8.30am to 5.30pm Monday to Friday excluding public holidays in England and Wales) or +44 371 664 9234 (from outside the UK) and quoting your Investor Code which can be found on your proxy form.

If you have not already done so and now wish to sign up to receive future shareholder communications electronically, you can do so via the share portal service provided by our registrar. To register simply go to **www.signalshares.com** and select 'Account Registration' and then follow the on-screen instructions by inputting your surname and your Investor Code. You will also need to input your postcode as well as entering an email address and selecting a password.

Yours sincerely



Sir John Parker
Chairman

Peninsula House, Rydon Lane, Exeter EX2 7HR

Annual General Meeting 2017

The twenty-eighth Annual General Meeting (AGM) of Pennon Group plc will be held at **Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN** on Thursday 6 July 2017 at 11.00 am.

How to get to the Pennon Group plc AGM at Sandy Park Conference Centre, adjacent to Sandy Park Stadium, Sandy Park Way, Exeter, Devon EX2 7NN

By road:

From junction 30 on the M5 take the A379 for Exeter and Dawlish. Sandy Park is the first exit left off the dual carriageway. Free parking will be available within a designated area at Sandy Park.

By rail:

The nearest rail station is Digby and Sowton, which is a 10-minute walk from the venue. The nearest mainline station is Exeter St David's, which is four miles from the venue. Direct trains from Exeter St David's to Digby and Sowton run every 30 minutes, with a journey time of 10 minutes.

By bus:

The No. 52 bus service from Exeter bus station to Sidmouth stops at Sandygate, which is a five-minute walk from the venue.

Notice of Annual General Meeting 2017

The twenty-eighth AGM of Pennon Group plc will be held at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN on Thursday 6 July 2017 at 11.00am for the transaction of the following business.

The following resolutions will be proposed as ordinary resolutions:

Reports and accounts

Resolution 1

That the annual accounts and reports for the year ended 31 March 2017 be received and adopted.

Dividend

Resolution 2

That a final dividend of 24.87 pence per ordinary share recommended by the Directors for the financial year ended 31 March 2017 be declared for payment on 1 September 2017.

Directors' remuneration report

Resolution 3

That the Directors' remuneration report for the financial year 2016/17, as contained in the Company's annual report 2017 (excluding the Directors' remuneration policy set out on pages 78 to 87 of the Company's annual report), be approved.

Directors' remuneration policy

Resolution 4

That the Directors' remuneration policy, the full text of which is set out on pages 78 to 87 of the Company's annual report 2017, be approved.

Directors

Resolution 5

To re-elect Sir John Parker as a Director.

 [Read biography on page 6](#)

Resolution 6

To re-elect Martin Angle as a Director.

 [Read biography on page 7](#)

Resolution 7

To re-elect Neil Cooper as a Director.

 [Read biography on page 7](#)

Resolution 8

To re-elect Susan Davy as a Director.

 [Read biography on page 7](#)

Resolution 9

To re-elect Christopher Loughlin as a Director.

 [Read biography on page 7](#)

Resolution 10

To re-elect Gill Rider as a Director.

 [Read biography on page 8](#)

Re-appointment of auditor

Resolution 11

That Ernst & Young LLP be reappointed auditor of the Company to hold office until the conclusion of the next AGM at which accounts are laid before the Company.

Auditor's remuneration

Resolution 12

That the Audit Committee be authorised to determine the remuneration of the auditor on behalf of the Board.

Political donations

Resolution 13

That in accordance with Section 366 of the Companies Act 2006 the Company, and all companies that are subsidiaries of the Company at any time during the period for which the resolution has effect, be generally and unconditionally authorised to:

- (a) make political donations to political parties and/or independent election candidates not exceeding £75,000 in total;
- (b) make political donations to political organisations other than political parties not exceeding £75,000 in total; and
- (c) incur political expenditure not exceeding £75,000 in total,

during the period from the date of this resolution to the date of the next AGM of the Company in 2018, or if earlier at the close of business on 1 October 2018, provided that the aggregate amount of any such donations and expenditure shall not exceed £75,000 and that for the purpose of this resolution the terms 'political donations', 'political parties', 'independent election candidates', 'political organisations' and 'political expenditure' have the meanings set out in Sections 363 to 365 of the Companies Act 2006.

Authority to allot shares

Resolution 14

That:

- (a) the Directors be generally and unconditionally authorised, in accordance with Section 551 of the Companies Act 2006, to exercise all powers of the Company to allot shares in the Company and grant rights to subscribe for, or convert any security into, shares in the Company:
 - (i) up to a maximum nominal amount of £56,498,376 (such amount to be reduced by the nominal amount of any equity securities (as defined in Section 560 of the Companies Act 2006) allotted under paragraph (ii) below in excess of £56,498,376); and
 - (ii) comprising equity securities (as defined in Section 560 of the Companies Act 2006) up to a maximum nominal amount of £112,996,752 (such amount to be reduced by any shares allotted or rights granted under paragraph (i) above) in connection with an offer by way of a rights issue:
 - (A) to holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and
 - (B) to holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;

Annual General Meeting 2017

continued

and so that the Directors may make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter;

- (b) this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2018;
- (c) the Company may, before this authority expires, make an offer or enter into an agreement which would or might require shares to be allotted or rights to be granted after it expires and the Directors may allot shares or grant rights in pursuance of such offer or agreement as if this authority had not expired; and
- (d) all previous unutilised authorities under Section 551 of the Companies Act 2006 shall cease to have effect (save to the extent that the same are exercisable pursuant to Section 551(7) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted or rights to be granted on or after that date).

Pennon Group long-term incentive plan

Resolution 15

That approval be given to the rules of the Pennon Group long-term incentive plan (LTIP), the principal terms of which are summarised in the appendix to this document, and that the Directors be authorised

- (a) to do all acts and things they consider necessary or expedient to implement and give effect to the Pennon Group LTIP;
- (b) to operate the Pennon Group LTIP in accordance with its rules until the tenth anniversary of its approval by shareholders; and
- (c) to establish further plans based on the Pennon Group LTIP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under any further plans will count against any limits on individual or overall participation in the Pennon Group LTIP.

The following resolutions will be proposed as special resolutions:

General authority to disapply pre-emption rights

Resolution 16

That:

- (a) the Directors be given power:
 - (i) subject to the passing of Resolution 14 above, to allot equity securities (as defined in Section 560 of the Companies Act 2006) for cash pursuant to the authority conferred on them by that resolution under Section 551 of that Act; and

- (ii) to allot equity securities as defined in Section 560(3) of that Act (sale of treasury shares) for cash,

in either case as if Section 561 of that Act did not apply to the allotment or sale, but this power shall be limited:

- (A) to the allotment of equity securities in connection with an offer or issue of equity securities (but in the case of the authority granted under Resolution 14(a)(ii), by way of a rights issue only) to or in favour of:
 - (I) holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and
 - (II) holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;

and so that the Directors may make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter; and

- (B) to the allotment of equity securities pursuant to the authority granted under Resolution 14(a)(i) and/or by virtue of Section 560(3) of the Companies Act 2006 (in each case otherwise than under paragraph (A) above) up to a maximum nominal amount of £8,474,756;
- (b) this power shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2018; and
- (c) the Company may, before this power expires, make an offer or enter into an agreement, which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

Authority to disapply pre-emption rights in connection with an acquisition or specified capital investment

Resolution 17

That:

- (a) the Directors, in addition to any authority granted under Resolution 16 above, be given power:
 - (i) subject to the passing of Resolution 14, to allot equity securities (as defined in Section 560 of the Companies Act 2006) for cash pursuant to the authority conferred on them by that resolution under Section 551 of that Act; and
 - (ii) to allot equity securities as defined in Section 560(3) of that Act (sale of treasury shares) for cash, in either case as if Section 561 of that Act did not apply to the allotment or sale, but this power shall be:
 - (A) limited to the allotment of equity securities up to a maximum nominal amount of £8,474,756; and
 - (B) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-emption Rights most recently published by the Pre-emption Group prior to the date of this notice;
- (b) this power shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2018; and
- (c) the Company may, before this power expires, make an offer or enter into an agreement, which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.
- (d) this authority will, unless previously varied, revoked or renewed, expire at the conclusion of the next AGM of the Company or, if earlier, on 1 October 2018, but the Company may make a contract or contracts to purchase ordinary shares under this authority before its expiry which will or may be executed wholly or partly after the expiry of this authority and may make purchases of ordinary shares pursuant to any such contract; and
- (e) all existing authorities for the Company to make market purchases of ordinary shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

Notice of general meetings

Resolution 19

That a general meeting, other than an AGM, may be called on not less than 14 clear days' notice.

By Order of the Board

Helen Barrett-Hague

Group General Counsel and Company Secretary

Pennon Group plc

Registered Office: Peninsula House, Rydon Lane, Exeter EX2 7HR

Registered in England and Wales No. 2366640

23 May 2017

Authority to purchase own shares

Resolution 18

That in accordance with the Companies Act 2006, the Company is generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of ordinary shares of 40.7p each in the capital of the Company on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:

- (a) the maximum number of ordinary shares that may be purchased under this authority is 41,644,994 (being no more than 10% of the issued share capital exclusive of treasury shares of the Company as at 23 May 2017);
- (b) the minimum price which may be paid for each ordinary share is 40.7p (exclusive of expenses payable by the Company in connection with the purchase);
- (c) the maximum price which may be paid for each ordinary share purchased under this authority (exclusive of expenses payable by the Company in connection with the purchase) shall not be more than the higher of (i) an amount equal to 105% of the average of the middle market quotations for such ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased; and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System;

Important notes

The following notes explain your general rights as a shareholder and your rights to attend and vote at this meeting or to appoint someone else to attend and vote on your behalf.

Entitlement to attend or vote

Only those shareholders registered on the register of members of the Company as at close of business on 4 July 2017 (or, if this meeting is adjourned, at close of business on the day that is two days prior to the date fixed for the adjourned meeting), shall be entitled to attend or vote at the AGM in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after close of business on 4 July 2017 or, if this meeting is adjourned, at close of business on the day that is two days prior to the adjourned meeting, shall be disregarded in determining the rights of any shareholder to attend or vote at the AGM.

A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of his or her rights to attend, speak and vote provided that each proxy is appointed to attend, speak and vote in respect of a different share or shares. A proxy need not be a shareholder but must attend the meeting for the shareholder's vote to be counted. Appointing a proxy does not prevent a shareholder from attending and voting in person if he or she so wishes. You must inform the Company's registrar, Capita Asset Services, in writing of any termination of the authority of a proxy. If a share is held by joint shareholders, and more than one of the joint shareholders' votes (including by way of proxy), the only vote that will count for that share is the vote of the person whose name is listed before the other shareholders on the register of members.

Appointing a proxy

A proxy form is enclosed with this Notice of AGM. A shareholder can appoint a proxy only using the procedures set out in these notes and the notes to the proxy form. Details of how to appoint the Chairman of the meeting or another person as a shareholder's proxy using the proxy form are set out in the notes to the proxy form. If a shareholder wishes his proxy to speak on his behalf at the meeting, he or she will need to appoint his own choice of proxy (not the Chairman) and give his/her instructions directly to the proxy. A shareholder may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, a shareholder must complete a separate proxy form for each proxy or, if appointing multiple proxies electronically, follow the instructions given on the relevant electronic facility. Shareholders may copy their original proxy form or, alternatively, additional proxy forms may be obtained by telephoning Capita Asset Services on 0371 664 9234 (calls are charged at standard geographic rates and will vary by provider) or +44 371 664 9234 for outside the UK (charged at the applicable international rate). Lines are open 8.30am to 5.30pm Monday to Friday excluding public holidays in England and Wales. For both UK and overseas shareholders calls are charged at a standard rate. A shareholder appointing more than one proxy should indicate on the relevant proxy forms the number of shares for which each proxy is authorised to act on his or her behalf.

To be valid any proxy form must be received by the registrar at the address shown on the proxy form or received via www.signalshares.com if the appointment is made electronically or lodged using the CREST proxy voting service no later than 11.00 am on 4 July 2017, or 48 hours before the time for holding any adjourned meeting or (in the case of a poll not taken on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used. Further details regarding the CREST proxy voting service are given below. Any power of attorney or any other authority under which the proxy form is signed (or a certified copy of such authority) must be included with the proxy form.

The 'Vote Withheld' option on the proxy form is provided to enable shareholders to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

As an alternative to completing a paper copy of the proxy form, shareholders may register a proxy appointment or voting directions electronically by visiting www.signalshares.com. If you have already registered to receive all shareholder communications electronically you may also submit your proxy form via this web portal. For security purposes you will need to log on with your personal details and Investor Code, which is the number printed under your name on the proxy form. Full instructions are given on the website. The proxy appointment and instructions should reach Capita Asset Services not less than 48 hours before the time appointed for the holding of the AGM or any adjournment thereof. If you return more than one valid proxy appointment, either by paper or electronic communication, that received last by the registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Any electronic communication found to contain a computer virus will not be accepted. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

Electronic proxy appointment through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM to be held on 6 July 2017 and any adjournment(s) thereof by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid the appropriate CREST message (CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction as described in the CREST Manual (available via www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must in order to be valid be transmitted so as to be received by the Company's Registrar, Capita Asset Services (ID RA10) by no later than 11.00 am on 4 July 2017 or, if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting. For this purpose the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) at which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instruction to proxies appointed through CREST should be communicated to the appointees through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate representatives and nominated persons

Any corporation, which is a member, can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him or her and the shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statement of the rights of shareholders in relation to the appointment of proxies in the notes above does not apply to Nominated Persons. The rights described in these notes can only be exercised by shareholders of the Company.

Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

AGM results announcement and total voting rights

As soon as practicable following the AGM the results of the voting at the meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the resolutions will be announced via a Regulated Information Service and also placed on the Company's website www.pennon-group.co.uk. As at 23 May 2017 (being the last practicable date prior to the publication of this Notice of AGM), the Company's issued share capital consists of 416,458,391 ordinary shares of 40.7p each, of which 8,443 ordinary shares are held in treasury. Therefore, the total voting rights in the Company as at 23 May 2017 are 416,449,948.

Shareholders' right to raise questions

Members satisfying the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006 and which the members propose to raise at the meeting. The Company may not require the members requesting the publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Any statement placed on the website must also be sent to the Company's auditor not later than the time it makes its statement available on the website. The business that may be dealt with at the AGM, includes any statement under Section 527 of the Companies Act 2006 that the Company has been required to publish on its website.

A member attending the meeting has the right to ask questions. Pursuant to Section 319A of the Companies Act 2006. The Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except if (a) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered, (b) the answer has already been given on a website in the form of an answer to a question, or (c) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information.

Documents available for inspection

Copies of the Executive Directors' service contracts and the Chairman's and the Non-Executive Directors' contracts for service are available for inspection during normal business hours at the Registered Office of the Company. They will also be available, together with a copy of the rules of the Pennon Group long-term incentive plan for inspection at the AGM from 10.00 am on 6 July 2017 until the conclusion of the AGM. The rules of the Pennon Group long-term incentive plan will also be available for inspection from the date of this notice until the conclusion of the AGM at the Company's Registered Office and the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD.

A copy of this notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website:

pennon-group.co.uk/investor-information/shareholder-services/agm

Please note you may not use any electronic address provided either in this Notice of AGM or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

Explanatory notes on resolutions

Annual Reports and Accounts

Resolution 1 proposes that shareholders receive and adopt the Company's annual reports and accounts ('annual report').

The annual report is available on the Company's website at www.pennon-group.co.uk/investor-information. Printed copies have been sent with this Notice of Meeting to shareholders who have previously registered a preference for paper communications. Printed copies can also be obtained from the Company's registrar.

Dividend

Resolution 2 proposes that the shareholders approve the declaration of a final dividend. If approved, a dividend of 24.87p per share will be paid on 1 September 2017 to shareholders on the register at close of business on 7 July 2017.

Directors' remuneration report

Resolution 3 proposes the approval of the Directors' remuneration report, which is set out on pages 74 to 99 inclusive of the annual report (but excluding the Directors' remuneration policy which is set out on pages 78 to 87). It is a requirement, pursuant to Section 439 of the Companies Act 2006, that the Directors' remuneration report be submitted to shareholders for approval. The result of Resolution 3 is advisory only and the Directors' entitlement to remuneration is not conditional on this resolution being passed.

Directors' remuneration policy

Resolution 4 proposes the approval of the Directors' remuneration policy which is set out on pages 78 to 87 inclusive of the annual report. It is a requirement pursuant to Section 439A of the Companies Act 2006 that the Directors' remuneration policy be submitted to shareholders for approval at least every three years. The Directors' remuneration policy was last approved by a shareholder vote at the AGM in 2014.

The Directors' remuneration policy sets out the Company's forward-looking policy on Directors' remuneration and is subject to a binding shareholder vote. The Company will not be able to make a remuneration payment to a current or future director or a payment for loss of office to a current or past director, unless that payment is consistent with the policy or has been approved by a resolution of the members of the Company.

The key changes to the remuneration policy relate to the performance measurement framework, to ensure this is aligned with the Group's strategic priorities and structure, and simplification of the long-term incentive plan (LTIP). The co-investment requirement will be removed, although existing shareholding guidelines (which are unconnected to LTIP eligibility) will be increased significantly. The Board also proposes to increase the maximum LTIP opportunity; while a number of best practice features have been introduced in recent years (for example, two-year holding periods), the revised remuneration policy follows the first comprehensive review of executive remuneration arrangements for 10 years and reflects the major changes Pennon has made to its strategy, management structure and governance in the past year. Further context is provided in the Remuneration Committee chairman's annual statement on pages 76 and 77 inclusive of the annual report.

Re-election of Directors

Resolutions 5, 6, 7, 8, 9, and 10 propose the re-election of Sir John Parker, Martin Angle, Neil Cooper, Susan Davy, Christopher Loughlin, and Gill Rider as Directors of the Company.

The Company's Articles of Association require Directors to retire and submit themselves for reappointment by shareholders at the first AGM following their appointment and for reappointment at least every three years. Irrespective of this provision, in accordance with the UK Corporate Governance Code, all Directors will stand for re-election at the AGM as they have at each AGM since 2011.

The Directors' biographies are set out below and details of the Directors' remuneration are set out in the annual report.

Sir John Parker

Chairman

GBE, FEng, DSc (Eng), ScD (Hon), DSc (Hon), DUniv (Hon), FRINA

Sir John was appointed to the Board as Deputy Chairman on 1 April 2015 and became Chairman on 1 August 2015. He is also chairman of the Nomination Committee.

Skills and experience

Sir John is a highly experienced and independent chairman and brings a wealth of leadership experience across a range of industries. He won the lifetime achievement award at The Sunday Times 2015 Non-Executive Director Awards and is widely recognised for his policy work on corporate governance, including the value of diversity in the boardroom.

He has chaired five FTSE 100 companies and was previously the chairman of National Grid plc, senior non-executive director and chair of the Court of the Bank of England, deputy chairman of DP World, joint chair of Mondi and chair of BVT and P&O plc. He was also president of the Royal Academy of Engineering from 2011 to 2014.

Since his appointment as Chairman, Sir John has brought the Group together under a revised governance framework that features a new role of Group Chief Executive Officer and other senior positions. The new team is working together collaboratively to drive forward the Group's strategy.

External appointments

Sir John is the chairman of Anglo American plc and of Advanced Plasma Power Limited. He is also a non-executive director of Carnival Corporation and Airbus Group, and is a Visiting Fellow of the University of Oxford. Sir John's commitments are expected to reduce in 2017, when he retires from the board of Anglo American plc.

Martin Angle
Independent Non-Executive Director
BSc Hons, FC, MCSI

Martin was appointed to the Board on 1 December 2008. He is chairman of the Remuneration Committee and a member of the Audit, Nomination and Sustainability Committees.

Skills and experience

Martin is an experienced non-executive director, bringing a wide range of knowledge and experience from a career in investment banking, private equity and industry.

Over a 20-year executive career in investment banking, Martin held senior roles with SG Warburg & Co. Ltd, Morgan Stanley and Dresdner Kleinwort Benson, before becoming the group finance director of TI Group plc, then a FTSE 100 company. He subsequently joined Terra Firma Capital Partners where he held various senior roles in its portfolio companies, including the executive chairmanship of the Waste Recycling Group Limited, then a major participant in the UK waste sector, and Le Meridien Hotel Group where he was executive deputy chairman.

Martin has also served as a non-executive director on a number of boards including Savills plc, where he was the senior independent director; National Exhibition Group, where he was chairman; Severstal; and Dubai International Capital.

As chairman of the Remuneration Committee, Martin has steered Pennon's approach on executive remuneration, ensuring that it is aligned with and supports the Group's strategy.

External appointments

Martin is currently vice chairman and non-executive director of the FIA Foundation, the adviser to the Board of the Commercial Bank of Dubai and the adviser to NGP, a private group based in the USA, which is building out a major platform in renewable energy in emerging markets.

Neil Cooper
Independent Non-Executive Director
BSc Hons, FCMA

Neil joined the Board on 1 September 2014. He is chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Skills and experience

Neil brings to the Board extensive experience in a wide variety of corporate and financial matters. Most recently, he was group finance director of Barratt Developments plc and, before that, group finance director of William Hill plc and Bovis Homes plc. He also held senior finance positions at Whitbread plc, worked for PricewaterhouseCoopers as a management consultant and held a number of roles with Reckitt & Colman plc.

As chairman of the Audit Committee, Neil has been influential in directing Pennon's approach on a number of significant matters including internal control, governance and financial reporting.

External appointments

None.

Susan Davy
Chief Financial Officer
BSc Hons, ACA

Susan joined the Board on 1 February 2015. She is a member of the Pennon Executive.

Skills and experience

Susan is a graduate qualified chartered accountant with 20 years' experience in the utility sector.

Prior to her current appointment Susan was Finance Director at South West Water between 2007 and 2015, during which time she was responsible for the company's Business Plan to 2020. She has also held a number of other senior finance roles in the water sector, including as Head of Regulation and Head of Finance (Wastewater) at Yorkshire Water.

Susan's knowledge of the industry coupled with her financial and regulatory expertise has supported the development of Pennon's strategy and her input has been invaluable to the Board in its deliberations. Susan is highly respected in the City and has been instrumental in building Pennon's reputation.

External appointments

Susan is a member of the A4S (Accounting for Sustainability) CFO leadership network and a council member of CBI South West.

Christopher Loughlin
Chief Executive Officer
BSc Hons, MICE, CEng, MBA

Chris was appointed to the Board on 1 August 2006 upon joining Pennon as Chief Executive of South West Water. He became the Group Chief Executive Officer on 1 January 2016. Chris is chairman of the Pennon Executive and a member of the Sustainability Committee.

Skills and experience

Chris has extensive experience of the regulated business environment and the management of major engineering and infrastructure services. He started his career as a chartered engineer working in both the consulting and contracting sectors and, after holding a number of senior positions with British Nuclear Fuels plc, joined its board as an executive director. Prior to joining Pennon he was chief operating officer with Lloyds Register and before that executive chairman of Magnox Electric plc. He was also a senior diplomat in the British Embassy, Tokyo.

Chris has a comprehensive understanding of the water industry. He was previously a board member (and, for a period, president) of the Institute of Water, and between April 2008 and March 2012 was chairman of Water UK.

Since his appointment as Group Chief Executive Officer, Chris has set Pennon on a path of closer collaboration in pursuit of delivery of its strategy, with the constituent parts of the Group now working together to identify synergies, reduce costs and exploit opportunities for growth.

External appointments

Chris is currently chairman of British Water, a director of Water UK and a trustee of the charity WaterAid. An enthusiastic advocate of local business, Chris is also vice chairman of the Cornwall Local Enterprise Partnership.

Explanatory notes on certain business of the AGM

continued

Gill Rider

Senior Independent Director
CB, PhD, CCIPD

Gill was appointed to the Board on 1 September 2012. She is chairman of the Sustainability Committee and a member of the Audit, Remuneration and Nomination Committees.

Skills and experience

Gill has a wealth of experience in leadership, governance and remuneration across a broad range of sectors including professional services, education and government.

Formerly, she was head of the Civil Service Capability Group in the Cabinet Office reporting to the Cabinet Secretary and prior to that held a number of senior positions with Accenture LLP culminating in the post of chief leadership officer for the global firm. She was previously president of the Chartered Institute of Personnel and Development and a non-executive director of De La Rue plc.

As chairman of the Sustainability Committee, Gill has encouraged and supported executive management in the development of a sustainability programme that underpins the delivery of Pennon's strategy. At Accenture she chaired the global corporate responsibility and Foundation giving programme and was instrumental in building sustainability objectives into Accenture's worldwide human capital strategies.

External appointments

Gill currently holds non-executive directorships with Charles Taylor plc, where she is senior independent director, and Intertek Group plc. She is chairman of both their remuneration committees. She is also chair of the council (board) of the University of Southampton.

Statement in support of re-election of Directors

The Board supports the re-election of each Director, as it believes that the particular knowledge and experience of each Director assists in ensuring that the Board has an appropriate balance of skills and experience for the requirements of the business. The Chairman confirms that, following the formal annual performance evaluation, each Non-Executive Director continues to perform effectively and demonstrates commitment to his or her role, including commitment to time for Board and Committee meetings and other duties as they are likely to arise. The Board has determined that each of the Non-Executive Directors is independent. A particularly rigorous review was undertaken in respect of Martin Angle's re-election, given his longer service on the Board. The Board is satisfied that he continues to demonstrate independence of character and judgement in the performance of his role.

Reappointment of auditor

Resolution 11 proposes the reappointment of Ernst & Young LLP as auditor of the Company to hold office until the conclusion of the next AGM at which accounts are laid before the Company.

Auditor's remuneration

Resolution 12 proposes that the Audit Committee be authorised to determine the level of the auditor's remuneration.

Political donations

Whilst **Resolution 13** requests shareholder approval by way of an ordinary resolution to approve donations to political parties, please note that the Company and all its subsidiaries have a policy that they do not make donations to, or incur expenditure on behalf of, political parties. However, the Companies Act 2006 contains restrictions on companies making donations or incurring political expenditure and defines these terms very widely, such that activities that form part of the normal relationship between the Company and its subsidiaries and bodies concerned with policy review, law reform and other business matters affecting the Company may be included. These types of activities, which are in the shareholders' interests for the Company and its subsidiaries to conduct, are not designed to support, or implement support for, a particular political party.

The Company believes that the authority proposed under this resolution (which is the same as that agreed by shareholders at the AGM last year and in previous years) is necessary to ensure that it, and its subsidiaries, do not commit any technical breach that could arise from the uncertainty generated by the wide definitions contained within the Companies Act when carrying out activities in the furtherance of their legitimate business interests.

Authority to allot shares

Resolution 14 requests shareholder approval by way of an ordinary resolution to renew (in compliance with published institutional guidelines) until 1 October 2018 or, if earlier, the conclusion of the next AGM of the Company, the Directors' authority to allot ordinary shares or grant rights to subscribe for or convert any security into shares in the Company in accordance with Section 551 of the Companies Act 2006. It is the Directors' intention to seek to renew this authority annually in accordance with investor guidelines.

The Investment Association (IA) guidelines on Directors' authority to allot shares state that IA members will permit, and treat as routine, resolutions seeking authority to allot shares representing up to one-third of a company's issued share capital or up to two-thirds of existing issued share capital where such authority is to be applied for a fully pre-emptive rights issue.

Paragraph (a)(i) of Resolution 14 will allow the Directors to allot ordinary shares up to a maximum nominal amount of £56,498,376 representing approximately one third (33.33%) of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 23 May 2017 (being the latest practicable date prior to publication of this Notice of AGM).

In accordance with the guidelines issued by the IA, paragraph (a)(ii) of Resolution 14 will allow Directors to allot, including the ordinary shares referred to in paragraph (a)(i) of Resolution 14, further of the Company's ordinary shares in connection with a pre-emptive offer by way of a rights issue to ordinary shareholders up to a maximum nominal amount of £112,996,752 representing approximately two thirds (66.67%) of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 23 May 2017 (being the latest practicable date prior to publication of this Notice of AGM).

The Directors have no present intention of issuing new shares (other than pursuant to the Company's scrip dividend alternative and employee share schemes) but they do consider that they should have this authority in order to be able to take advantage of opportunities as they arise and to retain flexibility. If they do exercise this authority, the Directors intend to follow best practice as regards its use, as recommended by the IA.

As at 23 May 2017, the Company held 8,443 ordinary shares in treasury, which represents approximately 0.002% of the total ordinary share capital in issue (excluding shares held in treasury) as at 23 May 2017 (being the latest practicable date prior to publication of this Notice of AGM).

Approval of the Pennon Group long-term incentive plan

Resolution 15 requests shareholder approval for a new long-term incentive plan (LTIP), for senior executives, to replace the current Performance and Co-investment Plan (PCP). The LTIP has been developed in line with the new Directors' remuneration policy. The main features of the LTIP are summarised in the Appendix to this Notice.

General authority to disapply pre-emption rights

Resolution 16 requests shareholder approval by way of a special resolution to renew until 1 October 2018, or if earlier, the conclusion of the next AGM of the Company, the Directors' authority to allot equity securities for cash without first being required to offer such securities to existing shareholders. If approved, the Directors will be authorised to issue shares in connection with a rights issue or other pre-emptive offer and otherwise to issue shares for cash up to a maximum nominal amount of £8,474,756 which includes the sale on a non pre-emptive basis for cash of any shares the Company may hold in treasury. The maximum nominal amount of equity securities to which this authority relates represents not more than 5% of the issued share capital of the Company (excluding shares held in treasury) as at 23 May 2017 (being the latest practicable date prior to publication of this Notice of AGM).

The Directors do not intend to issue, under a general authority to disapply pre-emption rights used other than in conjunction with an acquisition or specified capital investment in line with the Pre-Emption Group Statement of Principles, more than 7.5% of the Company's issued share capital for cash on a non-pre-emptive basis in any rolling three-year period without prior consultation with shareholders.

It is the Directors' intention to seek to renew this authority annually in accordance with investor guidelines.

Authority to disapply pre-emption rights in connection with an acquisition or specified capital investment

Resolution 17 requests further shareholder approval, by way of a separate special resolution in line with the best practice guidance issued by the Pre-Emption Group, for the Directors to allot equity securities or sell treasury shares for cash without first being required to offer such securities to existing shareholders. The proposed resolution reflects the Pre-emption Group 2015 Statement of Principles for the disapplication of pre-emption rights (the 'Statement of Principles') and will expire on 1 October 2018 or at the conclusion of the AGM in 2018, whichever is the earlier.

The authority granted by this resolution, if passed:

- (i) will be limited to the allotment of equity securities and sale of treasury shares for cash up to an aggregate nominal value of £8,474,756, which represents not more than 5% of the issued share capital of the Company (excluding shares held in treasury) as at 23 May 2017 (being the latest practicable date prior to publication of this Notice of AGM); and

- (ii) will only be used in connection with an acquisition or other capital investment of a kind contemplated by the Statement of Principles, and which is announced contemporaneously with the allotment, or has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

The authority granted by this resolution would be in addition to the authority under Resolution 16. The maximum nominal value of equity securities which could be allotted if both authorities were used would be £16,949,512, which represents not more than 10% of the issued share capital (excluding shares held in treasury) of the Company as at 23 May 2017 (being the latest practicable date prior to publication of this Notice of AGM).

Authority to purchase ordinary shares of the Company

Resolution 18 requests shareholder approval by way of a special resolution to renew the Company's authority to purchase up to 41,644,994 shares (representing approximately 10% of its ordinary shares in issue (excluding treasury shares) as at 23 May 2017) at or between the minimum and maximum prices specified in the resolution. This authority is requested in order to increase the Company's flexibility to optimise the long-term financial and tax efficiency of its capital structure. The Directors confirm that they will only purchase shares where they believe the effect would be to increase future earnings per share on those shares not purchased and would be in the best interests of shareholders. The Directors have no current plans to exercise such authority.

The Companies Act 2006 allows companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them. In addition to shares already held in treasury, the Directors may decide to hold further of the Company's own shares that may be purchased pursuant to the authority conferred by this resolution as treasury shares as an alternative to cancelling them. Shares held in treasury may subsequently be cancelled, sold for cash or issued for the purposes of satisfying share options and share awards under the Company's employee share schemes. The Directors believe that holding shares in treasury provides the Company with greater flexibility in management of its share capital. No dividends may be paid on shares held in treasury and no voting rights are exercisable in respect of treasury shares.

The total number of options to subscribe for ordinary shares that were outstanding as at 23 May 2017 (being the latest practicable date prior to publication of this Notice of AGM) was 2,711,240. The proportion of issued share capital that they represented at that time was 0.65% and the proportion of issued share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 0.72%.

Calling of general meetings

Resolution 19 requests shareholder approval by way of a special resolution to enable Directors to continue to be able to call general meetings, other than AGMs, on 14 clear days' notice. A similar resolution has been passed by shareholders at each AGM since 2011. The notice period required by the Companies Act 2006 for general meetings is 21 clear days' notice unless shareholder approval has been obtained for the holding of such meetings on not less than 14 clear days' notice, as sought by Resolution 19. AGMs must always be held on at least 21 clear days' notice. The Company undertakes to meet the requirements for electronic voting under the Companies Act 2006 before calling a general meeting on 14 clear days' notice. If given, the approval will be effective until the Company's next AGM when it is intended that a similar resolution will be proposed. The Directors will only consider taking advantage of the flexibility permitted by this authority where there is a need for urgency and if (taking into account the circumstances, and noting the recommendations of the UK Corporate Governance Code), it is appropriate and considered necessary to do so in the interests of the Company and shareholders as a whole.

Appendix – key features of the Pennon Group long-term incentive plan (LTIP)

The principal terms of the Pennon Group plc 2017 long-term incentive plan ('Plan') are summarised below.

Operation

The Plan will be administered by the Board of Directors of the Company or by any duly authorised committee of it (the 'Board'). Decisions in relation to any participation in the Plan by the Company's Executive Directors will always be taken by the Company's Remuneration Committee. Any employee of the Company's group ('Group') is eligible to participate at the Board's discretion.

Grant of awards

Awards may be granted by the Board as conditional awards of, or nil-cost options over, ordinary shares in the Company ('Shares') or cash-based awards relating to a number of notional Shares.

Awards can only be granted in the six weeks following the day on which the Plan is approved by shareholders, the announcement by the Company of its results for any period, the approval by shareholders of a Directors' remuneration policy or any day on which the Board determines that exceptional circumstances exist which justify the grant of awards. If the Company is restricted from granting awards during such six week period, the period will begin on the day on which the restriction is lifted. Awards are not transferable except on death and will not form part of pensionable earnings.

Performance conditions

Unless the Board determines otherwise, the vesting of awards will be subject to the satisfaction of performance conditions, provided that awards granted to Executive Directors of the Company (other than awards granted to facilitate their recruitment) must be subject to the satisfaction of performance conditions. Performance conditions will usually be measured over a period of at least three years.

Any performance condition may be amended or substituted if one or more events occur which cause the Board to consider that an amended or substituted performance condition would be more appropriate and would not be materially less difficult to satisfy.

Details of the performance conditions applicable to the initial awards proposed to be granted to the Company's Executive Directors are set out on pages 88 and 89 of the Company's annual report and accounts.

Individual limit

Awards (other than awards granted to facilitate the recruitment of a participant) will not be granted to a participant under the Plan in respect of any financial year of the Company over Shares with a market value (as determined by the Board) in excess of 150% of salary.

Overall limits

In any 10-year period, the number of Shares which may be issued under the Plan and any other employee share plan adopted by the Company may not exceed 10% of the issued ordinary share capital of the Company from time to time.

In addition, in any 10-year period, the number of Shares which may be issued under the Plan and any other discretionary employee share plan adopted by the Company may not exceed 5% of the issued ordinary share capital of the Company from time to time.

Treasury Shares will be treated as newly issued for the purpose of these limits until such time as guidelines published by institutional investor representative bodies determine otherwise.

Vesting, exercise and release of awards

Awards subject to performance conditions will normally vest as soon as reasonably practicable after the end of the performance period (or on such later date as the Board determines) to the extent that the performance conditions have been satisfied. Awards not subject to performance conditions will normally vest on the third anniversary of grant (or such other date as the Board determines).

A vested award may then be subject to an additional holding period (the 'Holding Period') during which Shares subject to the vested award will not be delivered to participants and at the end of which awards will be 'released' (i.e. participants will be entitled to receive the Shares under their award). Unless the Board determines otherwise, a Holding Period of two years beginning on the date an award vests will apply.

Nil-cost options will then normally be exercisable from the point of release until the tenth anniversary of the grant date. At any time before the point at which an award has been released, or a nil-cost option has been exercised, the Board may decide to pay a participant a cash amount equal to the value of the Shares they would have otherwise received.

Dividend equivalent payments

The Board may decide to award dividend equivalent payments in respect of the Shares that vest under awards in respect of dividends paid in the period between grant and release. Dividend equivalents may be paid in Shares or cash and may assume the reinvestment of the dividends in Shares.

Malus and clawback

The Board may apply malus or clawback provisions to an award if the following circumstances occur:

- there is a material misstatement of the Company's audited results;
- there is an error in assessing a performance condition or in the information or assumptions on which an award was granted or is released;
- there is serious misconduct on the part of a participant; or
- in respect of malus only, there is serious reputational damage to any member of the Group or a relevant business unit or misconduct on the part of a participant prior to the fifth anniversary of the grant date.

If the Board decides to apply the malus provisions, it may at any time prior to the vesting of an award reduce such award (to zero if appropriate) or impose additional conditions on the award.

If the Board decides to apply the clawback provisions, it may at any time on or after vesting and prior to the fifth anniversary of the grant date reduce such award (to zero if appropriate) or impose additional conditions on the award if Shares or cash have not been delivered to the participant, or require the participant to return some or all of the Shares acquired under their award or make a cash payment to the Company in respect of the Shares delivered.

The Board may apply the malus or clawback provisions in the Plan in order to effect malus or clawback provisions contained in any other bonus or share plan operated by a member of the Group.

Leavers

Awards will usually lapse on the individual's cessation of office or employment with the Group except where cessation is as a result of the individual's death, ill health, injury or disability, redundancy, where the participant's employer is no longer a member of the Group, where the participant is employed in an undertaking which is transferred out of the Group, or for any other reason that the Board determines, except where a participant is summarily dismissed ('Good Leavers').

If a participant dies, an unvested award will, unless the Board determines otherwise, vest and be released at the time of the participant's death to the extent that the Board determines. The Board will take into account the satisfaction of any performance condition and, unless it determines otherwise, the proportion of the period of time between the start of the performance period and the normal vesting date that has elapsed. A participant's personal representatives will normally have 12 months from the participant's death to exercise any vested and released nil-cost options.

Unvested awards held by other Good Leavers will usually continue until the normal release date following the end of the Holding Period, unless the Board determines that the award will vest (and be released) as soon as reasonably practicable following the date of cessation. Nil-cost options will normally be exercisable for six months after release. The Board will take into account the satisfaction of any performance condition and, unless it determines otherwise, the proportion of the period of time between the start of the performance period and the normal vesting date that has elapsed.

If a participant ceases to be an officer or employee of the Group during a Holding Period, their award will normally be released at the end of the Holding Period, unless the Board determines that it should be released as soon as reasonably practicable following their cessation of office or employment. However, if a participant is summarily dismissed during a Holding Period, their award will lapse immediately. Nil-cost options will normally be exercisable for six months after release.

If a participant ceases to be an officer or employee of the Group whilst holding a vested nil-cost option which is not (or is no longer) subject to a Holding Period, they will normally have six months from their cessation of office or employment to exercise that nil-cost option, unless they are summarily dismissed, in which case their nil-cost option will lapse immediately.

Corporate events

In the event of a change of control of the Company, unvested awards will vest to the extent determined by the Board, taking into account the extent to which any performance condition has been satisfied and, unless the Board determines otherwise, the proportion of the period of time between the start of the performance period and the normal vesting date that has elapsed at the date of the relevant event. Awards to the extent vested will then be released.

Alternatively, the Board may permit awards to be exchanged for shares in the acquiring company. If the change of control is an internal reorganisation of the Group or if the Board so decides, participants will be required to exchange their awards (rather than awards being released as part of the transaction).

If other corporate events occur such as a winding-up of the Company, demerger, delisting, special dividend or other event which, in the opinion of the Board, may affect the current or future value of Shares, the Board may determine that awards will vest taking into account the satisfaction of any performance condition and, unless the Board determines otherwise, the proportion of the period of time between the start of the performance period and the normal vesting date that has elapsed at the date of the relevant event.

Adjustment of awards

The Board may adjust the number of Shares under an award or any performance condition applicable to an award in the event of a variation of the Company's share capital or any demerger, delisting, special dividend or other event which, in the opinion of the Board, may affect the current or future value of Shares.

Amendments

The Board may amend the Plan at any time, provided that prior approval of the Company's shareholders will be required for amendments to the advantage of eligible employees or participants relating to eligibility, limits, the basis for determining a participant's entitlement to, and the terms of, the Shares comprised in an award and the impact of any variation of capital.

However, any minor amendment to benefit the administration of the Plan, to take account of legislative changes, or to obtain or maintain favourable tax, exchange control or regulatory treatment may be made by the Board without shareholder approval.

Satisfying awards and termination of Plan

Awards may be satisfied using newly issued Shares, Shares held in treasury or Shares purchased in the market. Awards may not be granted under the Plan after the tenth anniversary of its approval by shareholders.

Additional information

Key dates

Date and time	What happens?
11am Tuesday 4 July 2017	Deadline for receipt of online or postal proxy appointment and voting instructions to our Registrars, Capita Asset Services
11am Thursday 6 July 2017	AGM held at Sandy Park Conference Centre, Sandy Park Way, Exeter EX2 7NN
7 July 2017	Record date for entitlement to the 2017 final dividend
1 September 2017	Payment of the 2017 final dividend to holders of ordinary shares

Contact information

You can find information on how to manage your shareholding at www.signalshares.com. You will need your Investor Code to register for this service. The investor code is up to 11 digits long and can be found on recent communications such as your dividend confirmation or a share certificate.

Telephone

Shareholder helpline – for general enquiries call:
0371 664 9234 (lines are open 8:30am to 5:30pm Monday to Friday excluding public holidays in England and Wales)

+44 371 664 9234 (for outside the UK)

For both UK and overseas shareholders, calls are charged at a standard rate.

Email

pennon@capita.co.uk

Post

Capita Asset Services,
The Registry, 34 Beckenham Road,
Beckenham, Kent BR3 4TU

You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the proxy form) to communicate with the Company for any purpose other than those expressly stated.

Pennon Group plc

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