



PENNON GROUP DIVIDEND REINVESTMENT PLAN FREQUENTLY ASKED QUESTIONS

How does the DRIP work?

If you join the DRIP, your cash dividend will be used to purchase as many whole shares as possible on your behalf at market price.

How do I join the DRIP?

Instructions for joining the DRIP are provided on our website at www.pennon-group.co.uk/dividends/dividend-reinvestment-plan-drip

What happens to my existing scrip dividend mandate?

If you have a scrip dividend mandate in place, this will be terminated automatically and you will not receive new ordinary shares in the Company in respect of the interim dividend payable in April 2018 or any future dividend. Unless you apply to join the DRIP, you will now receive cash dividend payments. Any fractional cash amounts carried forward from the last scrip dividend in September 2017 will be paid to you in cash at the same time as the interim dividend.

Are there any fees for joining the DRIP?

There is no fee for joining the DRIP but you may be charged up to 0.05% in market execution charges and 1% dealing commission on the market purchase of your DRIP shares. Minimum fees apply, details of which are provided in Schedule 1 at the back of the DRIP Terms and Conditions. In addition, stamp duty reserve tax will be payable at the prevailing rate (currently 0.5% of the deal value).

Due to minimum charges, the DRIP may not be cost effective for all shareholders. If you are in any doubt as to whether or not to join the DRIP, you should seek independent financial advice.

Why is the minimum dealing charge higher for shareholders receiving paper communications?

The new Markets in Financial Instruments Directive ("MiFID II"), which came into effect on 3 January 2018, introduced greater transparency and disclosure on the trading of securities. Under MiFID II, Pennon's DRIP provider, Link Asset Services, is required to provide quarterly statements to DRIP participants. In order to cover the additional cost of issuing statements in paper form, Link will charge a higher minimum fee for DRIP participants who have not elected to receive electronic communications.

Pennon encourages its shareholders to adopt electronic communications as this method is in line with its strategic sustainability objectives and reduces paper, energy usage and postage costs.

I have already elected to receive electronic communications from Pennon. Why do I have to provide my email address again for the DRIP?

MiFID II does not allow us to automatically apply your existing preference for electronic communications to any plans we might offer that involve the trading in securities on your behalf. If you wish to receive electronic communications in respect of the DRIP, please provide your email address on the application form.

Why have I not received any correspondence regarding the DRIP?

If you have not received notification of the DRIP this may be because you have appointed a nominee to hold your shares on your behalf, in which case details of the DRIP will have been sent to your nominee. If you believe this is not the case, please contact Link.

Can I apply for the DRIP if my shares are held in a nominee account?

Please contact your nominee who will advise on whether the DRIP is available to you and, if so, how you may apply.

Does the DRIP have to apply to my entire shareholding?

If you hold your shares in certificated form, you may only elect to join the DRIP in respect of your entire shareholding. Partial elections are permitted for CREST holders only.

When are the shares purchased?

Link will instruct a broker to purchase shares under the DRIP on the relevant dividend payment date or as soon as reasonably practicable thereafter. You will be provided with a statement detailing the reinvestment of your dividend the business day following receipt of the contract note from the broker.

How many shares will I receive?

This will depend on:

- the cash amount of your dividend, based on the number of shares you hold at the dividend record date;
- the market price at which the shares are bought; and
- the market charges, dealing fees and stamp duty reserve tax applied.

Example using market price of £7.82, 5,000 shares held and cash dividend of 11.97p

<i>Value of cash dividend:</i>	$5000 \times 11.97p = £598.50$
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The cash dividend is the amount of money that will be invested on your behalf inclusive of costs as outlined below. The total purchase amount will therefore be equal to or less than the value of the cash dividend.

<i>Number of shares purchased under DRIP:</i>	<i>75 shares (The number of shares purchased is reduced to ensure the purchase amount, inclusive of costs, does not exceed the cash dividend value.)</i>
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<i>Value of new shares:</i>	$75 \times £7.82 = £586.50$
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<i>Market execution costs:</i>	$£586.50 \times 0.05\% = £0.29$
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<i>Total value after market execution costs:</i>	$£586.50 + £0.29 = £586.79$
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<i>Dealing fees:</i>	$£586.79 \times 1\% = £5.87$
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<i>Stamp duty reserve tax:</i>	$£586.79 \times 0.5\% = £2.93$
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<i>Purchase amount, including costs:</i>	$£586.79 + £5.87 + £2.93 = £595.59$
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<i>Amount carried forward to next dividend:</i>	$£598.50 - £595.59 = £2.91$
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What happens to any cash left over following the purchase of my DRIP shares?

Any residual cash value that is insufficient to buy a whole share is carried forward to the next dividend and is added to the sum used to purchase additional shares in respect of the next dividend.

Do I need to submit a new DRIP application for every dividend?

If your shares are held in certificated form, once your DRIP application has been accepted, all future dividends to which you are entitled will be reinvested under the DRIP (an “evergreen election”). This arrangement will continue until:

- i) you withdraw from the DRIP;
- ii) the DRIP is suspended or terminated in accordance with the DRIP Terms and Conditions;
- iii) you sell or transfer your entire holding on or before the dividend record date;
- iv) receipt by the Company’s registrar of proper notice of the shareholder’s death, bankruptcy or mental incapacity (or, in the case of a corporate shareholder, of such body being placed into liquidation).

CREST holders can submit an evergreen election through CREST if they elect for their entire holding. Partial elections will require a new DRIP application for every dividend.

What are the tax implications of joining the DRIP?

The tax implications of joining the DRIP are outlined in clause 10 of the DRIP Terms and Conditions.

How do I leave the DRIP?

You may withdraw from the DRIP at any time by sending written notice to Link by post or via www.signalshares.com. Your withdrawal must reach Link before the published deadline for DRIP applications if it is not to apply to that dividend. Any residual cash amount over £3.00 will be paid to you at the same time as the next dividend. Any cash balance of £2.99 or less will be donated to a registered charity of Pennon’s choice.