

# Independent auditors' report to the members of Pennon Group plc

## Report on the audit of the financial statements

### Opinion

In our opinion:

- Pennon Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2025 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements 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
- the financial statements 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 Accounts (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 March 2025; the Consolidated statement of profit or loss, Consolidated statement of comprehensive income, Statements of changes in equity and Consolidated cash flow statement for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee.

### 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 group 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 listed public interest entities, 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 consolidated 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 consolidated and company financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### Overview

#### Audit scope

- Following our assessment of the risk of material misstatement of the consolidated financial statements, we identified five components where we performed a full scope audit of their complete financial information, either due to size or risk characteristics.
- We further identified three components where we performed audit procedures over specific financial statement line items.
- The audit work on all the components as well as audit procedures over centralised balances, the consolidation and the company was undertaken by the Group audit team.

#### Key audit matters

- Revenue recognition in relation to the accrued income for measured water services (group)
- Valuation of the expected credit loss provision for household customer trade receivables (group)
- Carrying value of investment in subsidiary undertakings (parent)

#### Materiality

- Overall group materiality: £10,400,000 based on 1% of Revenue.
- Overall company materiality: £17,900,000 based on 1% of Total assets.
- Performance materiality: £7,800,000 (group) and £13,400,000 (company).

### 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.

### Key audit matter

#### Revenue recognition in relation to the accrued income for measured water services (group)

The Group'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.

Refer to Notes 4 and 5 to the financial statements and the Matters of significance for 2024/25 section of the Audit committee report.

### How our audit addressed the key audit matter

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 measured water services accrual, with a specific focus on the directors' methodology, including reviewing accounting papers supporting the estimation;
- We reviewed the report produced by the directors' expert, who were engaged to review the processes and systems used to calculate the measured water services accrual;
- We performed lookback procedures over the directors historical forecasting to assess the accuracy of the manual adjustments applied; 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 (group)

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 future cash collections where these are expected to not be represented by historic losses.

We focussed 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 future rates, discontinuation of customer support programmes such as GC50, whether the household customer no longer occupies a property in the area and the level of expected leakage.

Refer to Notes 4 and 22 to the financial statements and the Matters of significance for 2024/25 section of the Audit committee report.

#### Carrying value of investment in subsidiary undertakings (parent)

Investment in subsidiary undertakings are accounted for at cost less provision for impairment. Investments are tested for impairment if indicators exist. If such indicators exist, the recoverable amounts of the investments in subsidiary undertakings are estimated in order to determine the extent of the impairment loss, if any. Any such impairment loss is recognised in the income statement.

A review for indicators of impairment was performed by the directors, including considering the latest available forecasts and developments in the Group during the year. The assessment identified no impairment indicator in respect of the investment in subsidiary undertakings.

Refer to note 20 to the financial statements.

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 expected credit loss provision, with a specific focus on the directors' methodology for applying manual adjustments;
- We have considered external macroeconomic data such as Real Household Disposable Income reports, as well as employment, inflation, interest rate trends and the post balance sheet collections data for April 2025 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.

We evaluated the directors' determination of whether there were any other indicators of impairment. Our procedures included:

- comparing the carrying value of investment with the market capitalisation of the Group at 31 March 2025; and
- considering the Group's current trading performance.

Overall, we found the assessment of the carrying value of investment in subsidiary undertakings and associated disclosures to be 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 group and the company, the accounting processes and controls, and the industry in which they operate.

The group financial statements are a consolidation of multiple components across the UK, comprising the group's operating businesses and centralised functions. These components maintain their own accounting records and controls and report to the head office finance team for consolidation purposes.

In establishing the overall approach to the Group audit, we identified five components which, in our view, required an audit of their complete financial information whether due to their size or risk characteristics: including South West Water and Pennon Water Services as the largest two. We also added three components to our scope where we performed audit procedures over specific financial statement line items to ensure sufficient coverage within the group consolidation. All in-scope component work was performed by the Group engagement team. The Group consolidation, centralised balances and financial statement disclosures were audited by the Group audit team.

### The impact of climate risk on our audit

In planning our audit, we considered the potential impact of climate change on the Group's 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 Group's financial statements and the Group's preparedness for this. The TCFD statement describes and explains how climate change could have an impact on the group's business. Using our knowledge of the business we considered whether the risks identified are consistent with our knowledge 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:

	Financial statements – group	Financial statements – company
<b>Overall materiality</b>	£10,400,000.	£17,900,000.
<b>How we determined it</b>	1% of Revenue	1% of Total assets
<b>Rationale for benchmark applied</b>	Based on the benchmarks included in the annual report and accounts, revenue is considered a key metric for the users of the financial statements that represents a generally acceptable auditing benchmark.	Based on the nature of the company, trading is not the entity's main function. The company has transactions that are there to support the group in its trading and so total assets is considered appropriate and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £2,250,000 to £9,450,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

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% of overall materiality, amounting to £7,800,000 for the group financial statements and £13,400,000 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 the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) and £895,000 (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and 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. The directors' assessment covered the period of 15 months from the date of approval of the Annual Report and Accounts to September 2026, we focused on this period and also considered the subsequent six months to March 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 obtain assurance of the ability of the directors to prepare accurate forecasts;
- Obtaining and understanding the terms of the Group's financing and available credit facilities and in particular the financial covenants that the Group 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 ensure 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;
- 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 group's and 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 group's and 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 2025 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 group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

### Directors' Remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Corporate governance statement

The Listing Rules 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 specified for our review. 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 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 group's and 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 group's and 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 group and 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 group and company and their 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 group's and 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 group's and 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 group or 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 group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Environmental regulations, Ofwat regulations and the FCA Listing rules, 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 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 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 internal audit reports insofar as they 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](http://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 company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 24 July 2024 to audit the financial statements for the year ended 31 March 2025 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

## Other matter

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R – 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

### Colin Bates (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

Bristol

3 June 2025

# Consolidated statement of profit or loss

For the year ended 31 March 2025

	Notes	Before non-underlying items 2025 £m	Non-underlying items (note 6) 2025 £m	Total 2025 £m	Before non-underlying items 2024 £m	Non-underlying items (note 6) 2024 £m	Total 2024 £m
<b>Revenue</b>	5	<b>1,047.8</b>	<b>–</b>	<b>1,047.8</b>	907.8	–	907.8
Operating costs	7						
Employment costs		<b>(151.1)</b>	<b>(11.7)</b>	<b>(162.8)</b>	(114.8)	(0.7)	(115.5)
Raw materials and consumables used**		<b>(51.7)</b>	<b>(0.2)</b>	<b>(51.9)</b>	(37.4)	–	(37.4)
Other operating expenses**		<b>(499.7)</b>	<b>(25.7)</b>	<b>(525.4)</b>	(410.2)	(25.2)	(435.4)
Financial assets impairment		<b>(9.7)</b>	<b>–</b>	<b>(9.7)</b>	(7.1)	–	(7.1)
<b>Earnings before interest, tax, depreciation and amortisation</b>	5	<b>335.6</b>	<b>(37.6)</b>	<b>298.0</b>	338.3	(25.9)	312.4
Depreciation and amortisation	7	<b>(187.1)</b>	<b>–</b>	<b>(187.1)</b>	(172.0)	–	(172.0)
<b>Operating profit/(loss)</b>	5	<b>148.5</b>	<b>(37.6)</b>	<b>110.9</b>	166.3	(25.9)	140.4
Finance income	8	<b>15.0</b>	<b>–</b>	<b>15.0</b>	12.6	–	12.6
Finance costs	8	<b>(199.4)</b>	<b>–</b>	<b>(199.4)</b>	(162.8)	–	(162.8)
<b>Net finance costs</b>	8	<b>(184.4)</b>	<b>–</b>	<b>(184.4)</b>	(150.2)	–	(150.2)
<b>Share of post-tax profit from associated companies</b>	20	<b>0.8</b>	<b>–</b>	<b>0.8</b>	0.7	–	0.7
<b>(Loss)/profit before tax</b>	5	<b>(35.1)</b>	<b>(37.6)</b>	<b>(72.7)</b>	16.8	(25.9)	(9.1)
Taxation credit/(charge)	9	<b>7.0</b>	<b>8.9</b>	<b>15.9</b>	(4.3)	4.9	0.6
(Loss)/profit for the year		<b>(28.1)</b>	<b>(28.7)</b>	<b>(56.8)</b>	12.5	(21.0)	(8.5)
Attributable to:							
Ordinary shareholders of the parent				<b>(57.9)</b>			(9.5)
Non-controlling interests				<b>1.1</b>			1.0
<b>Earnings per ordinary share (pence per share)*</b>	11						
Basic				<b>(16.1)</b>			(2.9)
Diluted				<b>(16.1)</b>			(2.9)

\* Earnings per ordinary share restated for 2024, see note 11.

\*\* Raw materials and consumables used and other operating expenses have been restated, see note 2.

The above results were derived from continuing operations.

The notes on pages 200 to 247 form part of these financial statements.

# Consolidated statement of comprehensive income

For the year ended 31 March 2025

	Notes	Before non-underlying items 2025 £m	Non-underlying items (note 6) 2025 £m	Total 2025 £m	Before non-underlying items 2024 £m	Non-underlying items (note 6) 2024 £m	Total 2024 £m
<b>(Loss)/profit for the year</b>		<b>(28.1)</b>	<b>(28.7)</b>	<b>(56.8)</b>	12.5	(21.0)	(8.5)
<b>Other comprehensive income/(loss)</b>							
<b>Items that will not be reclassified to profit or loss</b>							
Remeasurement of defined benefit obligations	30	3.5	–	3.5	(7.7)	–	(7.7)
Income tax on items that will not be reclassified	9	(0.9)	–	(0.9)	2.2	–	2.2
Total items that will not be reclassified to profit or loss		2.6	–	2.6	(5.5)	–	(5.5)
<b>Items that may be reclassified subsequently to profit or loss</b>							
Loss on cash flow hedging*		(19.7)	–	(19.7)	(34.7)	–	(34.7)
Hedging losses recycled to profit or loss*		15.4	–	15.4	18.3	–	18.3
Income tax on items that may be reclassified	9	2.4	–	2.4	4.1	–	4.1
Total items that may be reclassified subsequently to profit or loss		(1.9)	–	(1.9)	(12.3)	–	(12.3)
<b>Other comprehensive income/(loss) for the year net of tax</b>	36	<b>0.7</b>	<b>–</b>	<b>0.7</b>	(17.8)	–	(17.8)
<b>Total comprehensive (loss)/income for the year</b>		<b>(27.4)</b>	<b>(28.7)</b>	<b>(56.1)</b>	(5.3)	(21.0)	(26.3)
Total comprehensive (loss)/income attributable to:							
Ordinary shareholders of the parent				(57.2)			(27.3)
Non-controlling interests				1.1			1.0

\* Movements on cash flow hedges were presented net in 2024, the presentation has been restated to present as gross, see note 2 for further detail.

The notes on pages 200 to 247 form part of these financial statements.



# Consolidated and Company balance sheets

At 31 March 2025

	Notes	Group		Company	
		2025 £m	Restated* 2024 £m	2025 £m	2024 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	15	179.9	179.9	–	–
Other intangible assets	16	62.2	60.3	–	–
Property, plant and equipment	17	5,849.4	5,374.3	–	0.1
Other non-current assets	19	8.7	8.7	104.6	54.1
Financial assets at fair value through profit	24	0.6	0.9	0.6	0.9
Deferred tax assets	31	–	–	23.6	20.7
Derivative financial instruments	23	22.4	17.4	0.1	0.2
Investments in subsidiary undertakings	20	–	–	1,562.7	1,153.2
Investments in associated companies	20	1.8	1.0	–	–
Retirement benefit assets	30	22.0	26.6	4.0	3.5
		6,147.0	5,669.1	1,695.6	1,232.7
<b>Current assets</b>					
Inventories	21	12.8	13.2	–	–
Trade and other receivables	22	391.8	355.4	53.8	151.8
Current tax receivable	27	0.9	6.0	–	–
Derivative financial instruments	23	9.8	23.4	0.7	1.0
Cash and cash equivalents	25	417.9	134.0	45.0	79.2
Restricted funds	25	58.2	37.4	–	–
Retirement benefit assets	30	9.2	–	–	–
		900.6	569.4	99.5	232.0
<b>Liabilities</b>					
<b>Current liabilities</b>					
Borrowings	28	(257.4)	(240.7)	(51.5)	(8.0)
Financial liabilities at fair value through profit	24	(0.3)	(0.1)	(0.3)	(0.1)
Derivative financial instruments	23	(0.5)	(5.4)	(0.1)	(0.1)
Trade and other payables	26	(331.0)	(346.5)	(19.6)	(11.5)
Current tax liabilities	27	–	–	(1.9)	(3.2)
Provisions	32	(6.8)	–	(0.3)	–
		(596.0)	(592.7)	(73.7)	(22.9)
<b>Net current assets/(liabilities)</b>		304.6	(23.3)	25.8	209.1
<b>Non-current liabilities</b>					
Borrowings	28	(4,296.9)	(3,775.5)	(195.6)	(245.6)
Other non-current liabilities	29	(171.3)	(154.9)	–	–
Derivative financial instruments	23	(1.6)	(3.3)	–	–
Deferred tax liabilities	31	(530.6)	(548.4)	–	–
Provisions	32	(0.5)	(1.1)	–	–
		(5,000.9)	(4,483.2)	(195.6)	(245.6)
<b>Net assets/(liabilities)</b>		1,450.7	1,162.6	1,525.8	1,196.2
<b>Shareholders' equity</b>					
Share capital	33	288.1	174.6	288.1	174.6
Share premium account	34	755.0	398.2	755.0	398.2
Capital redemption reserve	35	157.1	157.1	157.1	157.1
Retained earnings and other reserves	36	248.0	431.3	325.6	466.3
<b>Total shareholders' equity</b>		1,448.2	1,161.2	1,525.8	1,196.2
Non-controlling interests		2.5	1.4	–	–
<b>Total equity</b>		1,450.7	1,162.6	1,525.8	1,196.2

\* The 2024 balance sheet has been restated, see note 2 for further detail.

The loss for the year attributable to ordinary shareholders' equity dealt with in the accounts of the Parent Company is £13.5 million (2024: £34.4 million profit). The notes on pages 200 to 247 form part of these financial statements. The financial statements on pages 194 to 247 were approved by the Board of Directors and authorised for issue on 3 June 2025 and were signed on its behalf by:

**Laura Flowerdew**

Chief Financial Officer

Pennon Group plc

Registered Office: Peninsula House, Rydon Lane, Exeter, Devon, England EX2 7HR. Registered in England Number 02366640.

# Statements of changes in equity

At 31 March 2025

Group	Share capital (note 33) £m	Share premium account (note 34) £m	Capital redemption reserve (note 35) £m	Retained earnings and other reserves (note 36) £m	Non-controlling interests £m	Total equity £m
At 31 March 2023	159.5	237.6	157.1	570.6	0.4	1,125.2
(Loss)/Profit for the year	–	–	–	(9.5)	1.0	(8.5)
Other comprehensive loss for the year	–	–	–	(17.8)	–	(17.8)
Total comprehensive (loss)/income for the year	–	–	–	(27.3)	1.0	(26.3)
<i>Transactions with equity shareholders:</i>						
Dividends paid	–	–	–	(111.7)	–	(111.7)
Shares issued	15.1	164.9	–	–	–	180.0
Transaction costs arising on shares issued	–	(4.7)	–	–	–	(4.7)
Adjustment in respect of share-based payments (net of tax)	–	–	–	1.1	–	1.1
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	–	–	–	(1.4)	–	(1.4)
Proceeds from shares issued under the Sharesave Scheme	–	0.4	–	–	–	0.4
Total transactions with equity shareholders	15.1	160.6	–	(112.0)	–	63.7
At 31 March 2024	174.6	398.2	157.1	431.3	1.4	1,162.6
(Loss)/Profit for the year	–	–	–	(57.9)	1.1	(56.8)
Other comprehensive income for the year	–	–	–	0.7	–	0.7
Total comprehensive (loss)/income for the year	–	–	–	(57.2)	1.1	(56.1)
<i>Transactions with equity shareholders:</i>						
Dividends paid	–	–	–	(126.9)	–	(126.9)
Rights issue*	113.5	377.5	–	–	–	491.0
Transaction costs relating to rights issue	–	(20.5)	–	–	–	(20.5)
Transaction costs arising on shares issued	–	(0.2)	–	–	–	(0.2)
Adjustment in respect of share-based payments (net of tax)	–	–	–	2.0	–	2.0
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	–	–	–	(1.2)	–	(1.2)
Total transactions with equity shareholders	113.5	356.8	–	(126.1)	–	344.2
<b>At 31 March 2025</b>	<b>288.1</b>	<b>755.0</b>	<b>157.1</b>	<b>248.0</b>	<b>2.5</b>	<b>1,450.7</b>

\* On 17 February 2025 the Company completed a rights issue to existing shareholders on the basis of 13 ordinary shares for every 20 fully paid ordinary shares held. As a result, 185,928,002 ordinary shares with an aggregate nominal value of £113.5 million were issued for cash consideration of £491.0m. Transaction costs directly attributable to the rights issue of £20.5 million were incurred and have been accounted for as a deduction from share premium, cash paid in relation to the transaction costs amounted to £15.4m with the rest held on the balance sheet as payable.

The notes on pages 200 to 247 form part of these financial statements.

# Statements of changes in equity (continued)

For the year ended 31 March 2025

Company	Share capital (note 33) £m	Share premium account (note 34) £m	Capital redemption reserve (note 35) £m	Retained earnings and other reserves (note 36) £m	Total equity £m
At 31 March 2023	159.5	237.6	157.1	545.7	1,099.9
Profit for the year	–	–	–	34.4	34.4
Other comprehensive loss for the year	–	–	–	(1.0)	(1.0)
Total comprehensive income for the year	–	–	–	33.4	33.4
<i>Transactions with equity shareholders:</i>					
Dividends paid	–	–	–	(111.7)	(111.7)
Shares issued	15.1	164.9	–	–	180.0
Transaction costs arising on shares issued	–	(4.7)	–	–	(4.7)
Adjustment in respect of share-based payments (net of tax)	–	–	–	1.1	1.1
Charge in respect of share options vesting	–	–	–	(2.2)	(2.2)
Proceeds from shares issued under the Sharesave Scheme	–	0.4	–	–	0.4
Total transactions with equity shareholders	15.1	160.6	–	(112.8)	62.9
At 31 March 2024	174.6	398.2	157.1	466.3	1,196.2
Loss for the year	–	–	–	(13.5)	(13.5)
Other comprehensive income for the year	–	–	–	0.3	0.3
Total comprehensive loss for the year	–	–	–	(13.2)	(13.2)
<i>Transactions with equity shareholders:</i>					
Dividends paid	–	–	–	(126.9)	(126.9)
Rights issue*	113.5	377.5	–	–	491.0
Transaction costs relating to rights issue	–	(20.5)	–	–	(20.5)
Transaction costs arising on shares issued	–	(0.2)	–	–	(0.2)
Adjustment in respect of share-based payments (net of tax)	–	–	–	1.5	1.5
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	–	–	–	(2.1)	(2.1)
Total transactions with equity shareholders	113.5	356.8	–	(127.5)	342.8
<b>At 31 March 2025</b>	<b>288.1</b>	<b>755.0</b>	<b>157.1</b>	<b>325.6</b>	<b>1,525.8</b>

\* On 17 February 2025 the Company completed a rights issue to existing shareholders on the basis of 13 ordinary shares for every 20 fully paid ordinary shares held. As a result, 185,928,002 ordinary shares with an aggregate nominal value of £113.5m were issued for cash consideration of £491.0m. Transaction costs directly attributable to the rights issue of £20.5m were incurred and have been accounted for as a deduction from share premium.

The notes on pages 200 to 247 form part of these financial statements.

# Consolidated cash flow statement

For the year ended 31 March 2025

	Notes	Group	
		2025 £m	2024 (restated) £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	37	233.6	261.7
Interest paid	37	(143.1)	(116.2)
Tax received		3.0	3.4
Net cash generated from operating activities		93.5	148.9
<b>Cash flows from investing activities</b>			
Interest received		11.1	7.1
Purchase of property, plant and equipment		(663.1)	(555.1)
Acquisition of subsidiaries, net of cash acquired	20, 43	-	(62.7)
Deposit of restricted funds*		(20.8)	(4.3)
Purchase of intangible assets		(5.5)	(43.8)
Proceeds from sale of property, plant and equipment		1.9	0.8
Net cash used in investing activities		(676.4)	(658.0)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares		491.0	175.7
Share issue transaction costs		(15.4)	-
Purchase of ordinary shares by the Pennon Employee Share Trust		(1.2)	(14)
Proceeds from new borrowing		920.0	574.5
Repayment of borrowings		(328.5)	(168.7)
Cash inflows from lease financing arrangements		25.0	64.8
Lease principal repayments (including net recoverable VAT paid/recovered)		(97.2)	(22.4)
Dividends paid		(126.9)	(111.7)
Net cash received from financing activities		866.8	510.8
<b>Net increase/(decrease) in cash and cash equivalents</b>		283.9	1.7
Cash and cash equivalents at beginning of the year*	25	134.0	132.3
<b>Cash and cash equivalents at end of the year</b>	25	417.9	134.0

\* Cash and cash equivalents has been restated, see note 2 for further detail.

The notes on pages 200 to 247 form part of these financial statements.

# Notes to the Financial Statements

## 1. General information

Pennon Group plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 255. Pennon Group's business is operated through its principal subsidiaries: South West Water Limited provides water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire, Wiltshire and Bristol. Sutton and East Surrey Water plc ("SES Water") provides water only services in the South East region. Sutton and South East Surrey Water Services ("SESWS") provides water and wastewater retail services to non-household customer accounts. Pennon Group is the majority shareholder of Pennon Water Services Limited, a company providing water and wastewater retail services to non-household customer accounts across Great Britain. The Company owns a 30% share in Water 2 Business Limited, a joint venture with Wessex Water, operating in the same sector as Pennon Water Services Limited and SESWS.

## 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

The financial statements for the Group have been prepared on the historical cost accounting basis (except for fair value items, principally acquisitions, transfers of assets from customers and certain financial instruments as described in accounting policy notes (b), (u) and (n) respectively) and in accordance with UK-adopted international accounting standards.

The parent company financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements 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) as the parent company financial statements are Companies Act 2006 accounts.

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).
- IFRS 7, 'Financial instruments: Disclosures'.
- 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:
  - 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':
  - 10(d) (statement of cash flows),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 111 (statement of cash flows information), and
  - 134-136 (capital management disclosures).

- IAS 7, 'Statement of cash flows'.
- 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 Company has taken advantage of section 408 of the Companies Act 2006 not to present the parent company profit and loss account. The loss for the year is disclosed in the Company statement of changes in equity and the Company balance sheet.

The Group and parent company financial statements are presented in pounds sterling and all values rounded to the nearest one-hundred thousand pounds, except when otherwise indicated.

### Restatements

In the prior year 'Cash and cash deposits' consisted of 'Cash and cash equivalents' and 'Restricted funds'. As restricted funds do not form part of cash and cash equivalents has been re-presented in the 2024 balance sheet. Cash and cash equivalents totalled £134.0 million and Restricted funds £37.4 million at 31 March 2024. An adjustment has also been reflected in the cash flow statement, the opening and closing values of cash and cash equivalents in the prior year have been restated to £132.3 million and £134.0 million respectively from £143.7 million and £145.4 million.

In the prior year 'Financial liabilities at fair value through profit' (FVTP) included a £2.5m current liability and £31.8m non-current liability. These items relate to an unamortised hedging adjustment following a decision to de-designate a hedging relationship on a bond in a prior period. The unamortised hedging adjustment has been reclassified to be shown as part of borrowings to align with the debt for which the hedge was entered into.

In the prior year purchases of water from wholesalers by SESWS were presented as raw materials in operating costs, to align with the existing group presentation this has been reclassified to other operating expenses, the total being £14.4m.

In the prior year movements on cash flow hedges were presented net in the statement of comprehensive income, the presentation has been amended to show the gross values in relation to the loss on cash flow hedging (2024: £34.7 million) and hedging gains recycled to profit or loss (2024: £18.3 million).

Adjustments to the prior period have been made in relation to the acquisition of SES as detailed in note 43.

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.

### Going concern

The going concern basis has been adopted in preparing these financial statements. At 31 March 2025 the Group has access to undrawn committed funds and cash and cash equivalents totalling £977.9 million, including cash and other short-term deposits of £417.9 million and £560.0 million of undrawn facilities. Cash and cash equivalents excludes £58.2 million of restricted funds deposited with financial institutions which are available for access, subject to being replaced by an equivalent valued security. The Group has an expected headroom of £379.6 million at 30 September 2026.

## 2. Principal accounting policies *continued*

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Group's going concern status, to do this the Group's business plan has been stress-tested. Whilst the Group's risk management processes seek to mitigate the impact of principal risks as set out on pages 70 to 79, individual sensitivities against these risks have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Group's annual budget for FY 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 30 September 2026. The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic impacts such as inflation and interest rate increases and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Group collectively. The combined weighted impact of the risks occurring is a cash outflow of c.£108.5 million; this value is considered equivalent to an extreme one-off event that could occur by 30 September 2026, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Group over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. In the combined scenario to ensure that the Group was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. In the combined stress test scenario, the group has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Group. However, if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

We have considered the Group's funding position and financial projections which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Having considered these factors, the Directors have a reasonable expectation that that the Group will meet the requirements of its covenants and has adequate resources to continue in operational existence for the period to at least the end of the going concern assessment period of 30 September 2026, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, management has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosure. The expected environmental impact of climate change on the water business has been modelled noting that the physical risks are increasing. It is likely that the Group will need to invest to protect certain assets such as sewage works and pumping stations against sea level inundation and these considerations form part of the planning process for new capital expenditure. Longer term investment, outlined in the strategic plans, will be needed to manage future risks. To achieve this, combined regulatory and government support within their policy frameworks will be essential. Whilst it is estimated additional spend will be required to manage future risks, the current available information and assessment did not identify any risks regarding the sufficiency of funds available to the Group to support this additional spend or any risk that would require the useful economic lives of assets to be reduced in the year or identify the need for impairment that would impact the carrying values of such assets or have any other impact on the financial statements. The impact assessments will be continuously updated to reflect the latest available information on the impact of climate change.

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2024 did not have a material impact on the net assets or results of the Group 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 2025 are not expected to have a material impact on the Group's and the parent company's net assets or results.

### (b) Basis of consolidation

The Group financial statements include the results of Pennon Group plc and its subsidiaries and joint ventures.

The results of subsidiaries and joint ventures are included from the date of acquisition or incorporation and excluded from the date of disposal. The results of subsidiaries are consolidated where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of joint ventures are accounted for on an equity basis.

Intra-group trading, loan balances and transactions are eliminated on consolidation.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business, together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets, is recorded as goodwill.

### (c) Revenue recognition

Group revenue is recognised following delivery of performance obligations and an assessment of when control over the product or service is transferred to the customer. Revenue is only recognised when collection of consideration is highly probable.

Revenue is recognised either when the performance obligation in the contract has been performed (point in time recognition) or 'over time' as the performance obligations to the customer are satisfied. For each obligation satisfied over time, the Group applies a revenue recognition method that accurately reflects performance in transferring control of the services to the customer.

Where a contract with a customer includes more than one performance obligation, revenue is allocated to each obligation in proportion to a fair value assessment of the total contract sales value split across the services provided.

At the inception of a contract the total transaction price is estimated, being the fair value to which the Group expects to be entitled under the contract, including any variable consideration. Variable consideration is based on the most likely outcome of the performance obligations. Revenue excludes value added tax, trade discounts and revenue arising from transactions between Group companies.

#### Water (domestic and non-household retail)

For most of the services provided to domestic customers, contract terms are implied through statute and regulation in the absence of formal, written contracts. South West Water and SES Water have a duty under legislation to provide domestic customers with services regardless of payment and are not permitted to disconnect domestic customers for non-payment of bills. Charges are set via the periodic review price-setting process, regulated by Ofwat.

In respect of ongoing, continuous services to customers, such as the provision of drinking water and wastewater services, revenue is recognised over time.

Customers with an unmeasured supply are billed at the start of the year for the full amount of the annual charge but typically take advantage of a choice of payment arrangements to pay by regular instalments. The performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue is recognised under IFRS 15 as the stand-ready obligation is fulfilled over time.

## 2. Principal accounting policies *continued*

Customers with a metered supply are sent up to four bills per year, based either on actual meter readings or estimated usage. For these customers, revenue includes an estimation of the amount of unbilled usage at the period end. Payment options for domestic customers include an annual meter payment plan where customers agree to pay a fixed amount per month which is adjusted to reflect actual consumption at the end of the year. Revenue is recognised as water is supplied, based on estimate usage for unbilled elements.

A range of regulated services is offered to property developers and owners who require connection to the water and sewerage networks or need the networks to be extended or altered. Typically, these customers pay an estimate of the charges in advance as a deposit, which is treated as a contract liability and are billed or refunded the difference between the estimate and actual costs on completion of the work.

The principle components of these contributions are as follows:

- i) Where the performance obligation relates solely to a connection to the network, revenue is recognised at the point of connection when the customer is deemed to obtain control.
- ii) Where assets are constructed or provided by the Group or assets transferred to the Group, it is considered that there is an explicit or implied performance obligation to provide an ongoing water and/or wastewater service, with the result that revenue is recognised over a time no longer than the economic life of assets provided by or transferred to the Group.

Pennon Water Services provides specialist retail water and wastewater services to business customers. It raises bills and recognises revenue in accordance with its contracts with customers and in line with the limits established for the non-household periodic price-setting process where applicable.

### Contract assets and liabilities

A trade receivable is recognised when the Group has an unconditional right to receive consideration in exchange for performance obligations already fulfilled. A contract asset is recognised when the Group has fulfilled some of its performance obligations but has not yet obtained an unconditional right to receive consideration. The amounts for contract assets, when applicable, are disclosed within note 19 (Other non-current assets) and note 22 (Trade and other receivables) as appropriate. A contract liability is recognised when consideration is received in advance of the Group performing its performance obligations to customers, including, when appropriate, transfers of assets from customers (per paragraph (u) below). The value of contract liabilities is disclosed within note 26 (Trade and other payables) and note 29 (Other non-current liabilities) as appropriate.

### (d) Segmental reporting

Each of the Group's business segments provides services which are subject to risks and returns which are different from those of the other business segments. The Group's internal organisation and management structure and its system of internal financial reporting are based primarily on business segments. The Group is organised into two operating segments. The water segment comprises the regulated water and wastewater services undertaken by South West Water and the regulated water services undertaken by SES Water. The non-household retail business reflects the services provided by Pennon Water Services and SESWS. Other components, including Pennon Group plc, are not reportable segments as they are not reported to Chief Decision makers. Segmental revenue and results include transactions between businesses. Inter-segmental transactions are eliminated on consolidation.

### (e) Goodwill

Goodwill arising on consolidation from the acquisition of subsidiary undertakings represents the excess of the purchase consideration over the fair value of net assets acquired, less any subsequent impairment charges.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs) or group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (i).

When a subsidiary undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of goodwill.

### (f) Other intangible assets

Other intangible assets include assets acquired in business combination and are capitalised at fair value at the date of acquisition. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful lives, with the expense charged to the income statement through operating costs.

### (g) Property, plant and equipment

#### i) Infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS, and subsequent additions are recorded at cost less accumulated depreciation and impairment charges. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the Group. The cost of day-to-day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their useful economic lives, and are principally:

<b>Dams and impounding reservoirs</b>	100 to 200 years
<b>Water mains</b>	60 to 180 years
<b>Sewers</b>	75 to 150 years

Assets in the course of construction are not depreciated until commissioned.

#### ii) Other assets (being property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly to their residual value over their estimated economic lives, and are principally:

<b>Land and buildings – freehold buildings</b>	10 to 80 years
<b>Land and buildings – leasehold buildings</b>	Over the estimated economic lives or the lease period, whichever is the shorter
<b>Operational properties</b>	15 to 100 years
<b>Fixed and moveable equipment</b>	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 Group. Borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. Assets transferred from customers are recognised at fair value as set out in accounting policy (u).

The assets' residual values and useful lives are reviewed annually.

Gains and losses on disposal are determined by comparing sale proceeds with carrying amounts. These are included in the statement of profit or loss.



## 2. Principal accounting policies *continued*

### (h) Leased assets

All are accounted for by recognising a right-of-use asset and a lease liability except for:

- Low value assets; and
- Leases with a duration of 12 months or less.

Contracts are initially measured at the present value of contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate 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 within property, plant and equipment as right-of-use assets at the present value of the minimum lease payments and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter.

The Group uses sale and leaseback transactions to finance its capital programme. A sale and leaseback transaction is where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. If the sale criteria are met a lease liability is recognised, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the right retained. Any gain or loss arising relates to the rights transferred to the buyer. If the criteria for a sale under IFRS 15 have not been met the asset is not derecognised and no sale is recorded.

### (i) Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Assets subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Value-in-use represents the present value of projected future cash flows expected to be derived from a CGU, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the CGU. Impairments are charged to the income statement in the year in which they arise.

Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Where a previously impaired asset or CGU's recoverable amount is in excess of its carrying amount, previous impairments are reversed to the carrying value that would have expected to be recognised had the original impairment not occurred.

### (j) Parent company: Investment in subsidiary undertakings

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid. Subsequently investments are reviewed for impairment on an individual basis annually or if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

### (k) Investment in associated companies

Associated companies are entities over which the Group exercises joint control. Investments in associated companies are accounted for using the equity method of accounting. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associated company at the date of acquisition is recognised as goodwill and is included in the carrying value of the investment in the associated company.

The carrying value of the Group's investment is adjusted for the Group's share of post-acquisition profits or losses recognised in the income statement and statement of comprehensive income. Losses of an associated company in excess of the Group's interest are not recognised unless the Group has a legal or constructive obligation to fund those losses.

### (l) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress includes raw materials and the cost of bringing stocks to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price less cost to sell. The costs of items of inventory are determined using weighted average costs.

### (m) Cash and cash 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) Financial instruments

Financial instruments are recognised and measured in accordance with IFRS 9. The Group classifies its financial instruments in the following categories:

#### i) Debt instruments at amortised cost

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition, interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through amortisation.

Borrowings are classified as current liabilities unless the Group has a right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for expected credit losses (ECLs). In accordance with IFRS 9, each Group entity performs an impairment analysis at each reporting date to measure the ECLs. Each entity does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Each subsidiary has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.



## 2. Principal accounting policies *continued*

### iii) Trade payables

Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### iv) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, principally interest rate swaps, cross-currency interest rate swaps and inflation swaps to hedge risks associated with interest rate and exchange rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value for the reported balance sheet.

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge); or
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

The gain or loss on remeasurement is recognised in the income statement except for cash flow hedges which meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are subsequently recognised in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at the end of each reporting period to ensure that the hedge remains highly effective.

The full fair value of a hedging derivative is apportioned on a straight-line basis between non-current and current assets and liabilities based on the remaining maturity of the hedging derivative.

Derivative financial instruments deemed held for trading, which are not subject to hedge accounting, are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

The Group uses cross-currency swaps for some of its foreign currency denominated private placement borrowings. The swaps either have the effect of (i) converting variable rate foreign currency borrowings into fixed rate sterling borrowings, (ii) converting fixed rate foreign currency borrowings into fixed rate sterling borrowings, or (iii) converting fixed rate foreign currency borrowings into floating rate sterling borrowings.

### v) Financial instruments at fair value through profit

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on a hedged item through a fair value hedging relationship. The fair values of these financial instruments are initially recognised on the date the hedging relationship is entered into and thereafter remeasured at each subsequent balance sheet date. The gain or loss on remeasurement for the period is recognised in the income statement.

### vi) Receivables due from subsidiary undertakings

Amounts owed by subsidiaries are classified and recorded at amortised cost and reduced by allowances for ECLs. Estimated future credit losses are first recorded on initial recognition of a receivable and are based on estimated probability of default. Individual balances are written off when management deems them not to be collectible.

### (o) Taxation including deferred taxation

The tax charge for the year comprises current and deferred taxation. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity as appropriate.

#### Current tax

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, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. 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 Group includes a number of companies, including the parent company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payments for group relief are included within the current tax disclosures.

#### Deferred tax

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 probable that the temporary differences will not reverse in the foreseeable future.

## 2. Principal accounting policies *continued*

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 group 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.

### (p) Provisions

Provisions are made where there is a present legal or constructive obligation as a result of a past event and it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made. Where the effect of the time value of money is material the current amount of a provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as notional interest within finance costs.

### (q) Share capital and treasury shares

Ordinary shares are classified as equity.

Where the Company purchases the Company's equity share capital (treasury shares) the consideration paid, including any directly attributable costs, is deducted from equity until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable transaction costs, is included in equity.

The Group and Company balance sheet includes the shares held by the Pennon Group plc Employee Benefit Trust relating to employee share-based payments which have not vested at the balance sheet date. These are shown as a deduction from shareholders' equity until such time as they vest.

#### *Share buy-back scheme and tender offer*

Shares purchased for cancellation are deducted from retained earnings at the total consideration paid or payable, including any related expenses. Where the Group has an irrevocable commitment to purchase shares for cancellation at the balance sheet date, a liability is recognised in other creditors based on the share price at the balance sheet date and retained earnings reduced by the amount of the liability.

Shares purchased and held by the Group (treasury shares) are deducted from the treasury reserve at the total consideration paid or payable. On cancellation of treasury shares, the cost is transferred from the treasury reserve to retained earnings.

When treasury shares are issued at below cost, an amount representing the difference between the cost of those shares and issue proceeds is transferred to retained earnings. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

### (r) Dividend distributions

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid, final dividends when approved by shareholders at the Annual General Meeting.

### (s) Employee benefits

#### **i) Retirement benefit obligations**

The Group operates defined benefit and defined contribution pension schemes.

#### **Defined benefit pension schemes**

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the year less the fair value of plan assets. If the value of a plan's assets exceeds the present value of its obligations, the resulting surplus is only recognised if the Group has an unconditional right to that surplus.

The defined benefit obligation is calculated by independent actuaries who advise on the selection of Directors' best estimates of assumptions, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation. The increase in liabilities of the Group's defined benefit pension schemes, expected to arise from employee service in the year, is charged against operating profit.

Changes in benefits granted by the employer are recognised immediately as a past service cost in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

#### **Defined contribution scheme**

Costs of the defined contribution pension scheme are charged to the income statement in the year in which they arise. The Group has no further payment obligations once the contributions have been paid.

#### **ii) Share-based payment**

The Group operates a number of equity-settled, share-based payment plans for employees. The fair value of the employee services required in exchange for the grant is recognised as an expense over the vesting period of the grant.

Fair values are calculated using an appropriate pricing model. Non-market-based vesting conditions are considered in the assumptions as to the number of shares which are expected to vest.

#### **(t) Fair values**

The fair value of interest rate, inflation and cross currency swaps is based on the market price to transfer the asset or liability at the balance sheet date in an ordinary transaction between market participants. The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of non-current bank loans and other loans, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

#### **(u) Transfers of assets from customers**

Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised as a contract liability on the balance sheet. The contract liability reduces, and revenue is recognised in the income statement, as performance obligations are satisfied. The period over which the credit is recognised depends upon the nature of the service provided, as determined by the agreement with the customer. Where the service provided is solely a connection to the network, the credit is recognised at the point of connection. If the agreement does not specify a period, revenue is recognised over a period no longer than the economic life of the transferred asset used to provide the ongoing service.

The fair value of assets on transfer from customers is determined using a cost valuation approach allowing for depreciation.

## 2. Principal accounting policies *continued*

### (v) Foreign exchange

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the closing balance sheet rate. The resulting gain or loss is recognised in the income statement.

### (w) Non-underlying items

Non-underlying items are those that in the Directors' view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance.

### (x) Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment which provide the customer with ongoing access to the water and sewerage networks are treated as contract liabilities and released to revenue over the economic life of those elements of property, plant and equipment. Grants and contributions receivable in respect of expenses charged against profits in the year have been included in the income statement.

Government grants are recognised where there is reasonable certainty that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. The income from such grants is presented in the financial statements as a deduction from the expense to which it relates.

### (y) Variable consideration

Variable consideration in connection with the purchase of individual assets outside of business combinations is recognised as a financial liability at fair value when the amount of consideration payable is contingent upon future events that are not within the direct control of the group. Initial recognition of the financial liability is at fair value. Where the variability of the consideration is directly linked to the quality or output of the asset received then any changes in the consideration is recognised by adjusting the carrying amount of the related asset.

### (z) Acquisitions of groups of assets that do not constitute a business

The identifiable assets and liabilities in acquisitions of groups of assets that do not constitute a business, are initially measured at amounts specified in the relevant accounting standards, or determined based on an allocation of the cost. Details of acquisitions in the prior year meeting this definition can be found in note 16.

## 3. Financial risk management

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks, liquidity risk, market risk (interest rate and foreign currency risk), credit risk and inflation risk.

The Group's treasury function seeks to ensure that sufficient funding is available to meet foreseeable needs and to maintain reasonable headroom for contingencies, and manages inflation and interest rate risk.

The principal financial risks faced by the Group relate to liquidity, interest rate and credit counterparty risk.

These risks and treasury operations are managed by the Pennon Chief Financial Officer in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance, manage risk, optimise the use of surplus funds and manage overall interest rate performance. The Group does not engage in speculative activity.

### (i) Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities which are designed to ensure the Group has sufficient available funds for operations and planned expansions equivalent to at least one year's forecast requirements at all times. Details of undrawn committed facilities and short-term facilities are provided in note 28.

Refinancing risk is managed under a Group policy that requires that no more than 20% of Group net borrowings should mature in any financial year.

The Group and water business have entered into covenants with lenders. While terms vary, these typically provide for limits on gearing (primarily based on the water business's regulatory capital value and unregulated EBITDA) and interest cover. Existing covenants are not impacted by subsequent changes to accounting standards.

### 3. Financial risk management *continued*

Contractual undiscounted cash flows, including interest payments, at the balance sheet date were:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due over 5 years £m	Total £m
<b>Group</b>					
31 March 2025					
<b>Non-derivative financial liabilities</b>					
Borrowings excluding lease liabilities	164.8	40.5	101.5	3,062.4	3,369.2
Interest payments on borrowings	183.0	160.3	519.1	1,763.7	2,626.1
Lease liabilities including interest	156.1	60.8	297.9	1,095.4	1,610.2
Trade and other payables	284.3	–	–	–	284.3
<b>Derivative contracts</b>					
Derivative contracts – net receipts	(6.9)	(5.0)	(14.0)	(5.3)	(31.2)
31 March 2024					
<b>Non-derivative financial liabilities</b>					
Borrowings excluding lease liabilities (restated, note 2)	186.3	191.0	335.2	2,145.0	2,857.5
Interest payments on borrowings	114.3	101.4	277.8	832.2	1,325.7
Lease liabilities including interest	89.8	153.6	215.5	1,192.6	1,651.5
Trade and other payables (restated, note 43)	335.9	–	–	–	335.9
<b>Derivative contracts</b>					
Derivative contracts – net receipts	(19.1)	(6.5)	(9.3)	(3.8)	(38.7)

#### ii) Market risk

The treasury policy states at least 60% of the Group's debt should be fixed, this is managed through fixed rate debt and the use of derivatives to ensure these levels are met. Of the Group's net borrowings a proportion is RPI index-linked. The interest rate for index-linked debt is based mainly upon an RPI measure; due to current Ofwat methodology the Group has considered other index linked indices which are also used in determining the amount of revenue from customers of South West Water. The Group uses a combination of fixed rate, index-linked borrowings and fixed rate interest swaps as cash flow hedges of future variable interest payments to achieve this policy. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not therefore an exposure for the Group. These instruments are analysed in note 23.

The Group has no significant interest-bearing assets upon which the net return fluctuates from market risk. Deposit interest receivable is expected to largely fluctuate in line with interest payable on floating rate borrowings. Consequently, the Group's income and cash generated from operations (note 37) are largely independent of changes in market interest rates.

For 2025 if interest rates on variable net borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £4.0 million (2024 post tax profit for the year and equity would have increased/decreased by £7.6 million), for the equity sensitivity fair value, with derivative impacts included. 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 2025 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 £10.0 million (2024 post tax profit for the year and equity would have increased/decreased by £5.5 million). This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the expected volatility is within the range of 0%-2%.

Foreign currency risk occurs at transactional and translation level from borrowings and transactions in foreign currencies. These risks are managed through forward contracts, which provide certainty over foreign currency risk.

#### iii) Credit risk

Credit counterparty risk arises from cash and cash 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 22.

### 3. Financial risk management *continued*

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. The Board has agreed a policy for managing such risk which is controlled through credit limits, counterparty approvals, and rigorous monitoring procedures.

The Group has no other significant concentration of credit risk. The Group's surplus funds are managed by the Group's treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet Board approved minimum criteria based on their short-term credit ratings and therefore be of good credit quality.

#### iv) Inflation risk

Market inflation has caused inflationary pressures across the Group, the Group has index linked facilities which are predominantly Retail Price Index (RPI) linked.

Inflation risk arises if the indexes increase meaning the Group will either be paying or accreting the inflation, this could put pressure on the gearing or interest cover ratios.

Inflation risk is mitigated through the index linked nature of our revenues and RCV calculations.

#### (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

The Group's policy is to have a minimum of 12 months pre-funding of projected capital expenditure. At 31 March 2025 the Group had cash and facilities, including restricted funds, of £1,036 million (2024: £601 million), meeting this objective.

In order to maintain or adjust the capital structure, the Group seeks to maintain a balance of returns to shareholders through dividends and an appropriate capital structure of debt and equity for each business segment and the Group.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings are analysed in note 38 and calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total shareholders' equity plus net borrowings. The Group currently manages a net borrowings position of £4,078.2 million (2024: £3,844.8 million). The gearing ratios at the balance sheet date were:

	2025 £m	2024 £m
Net borrowings (restated, note 2)	<b>4,078.2</b>	3,844.8
Total equity	<b>1,450.7</b>	1,162.6
Total capital	<b>5,528.9</b>	5,007.4
Gearing ratio	<b>73.6%</b>	76.6%

The water segment is also monitored on the basis of the ratio of its net borrowings to regulatory capital value. Ofwat's notional gearing target for the K7 (2020-25) regulatory period is set at 60%. The water segment is also monitored on the basis of the ratio of its net borrowings to regulatory capital value. The table below reflects water segment gearing that comprises South West Water Limited's group of companies and SES Water.

	Water 2025 £m	2024 £m
Shadow Regulatory Capital Value	<b>5,983.1</b>	5,536.0
Net borrowings	<b>3,698.3</b>	3,567.8
Net borrowings/Shadow Regulatory Capital Value	<b>61.8%</b>	64.4%

The Group has entered into covenants with lenders and, while terms vary, these typically provide for limits on gearing and interest cover. The Group has been in compliance with its covenants during the year.

#### (c) Determination of fair values

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial instruments are valued principally using level 2 measures as analysed in note 23.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying values, less expected credit losses, of trade receivables and payables are assumed to approximate to their fair values.

## 4. Critical accounting judgements and estimates

The Group's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However, given the judgemental nature of such estimates, actual results could be different from the assumptions used.

### Estimates

#### *Provision for doubtful debts*

The Group has a material level of exposure to collection of trade receivables. Provisions in respect of these balances are calculated with reference to historical credit loss experience, adjusted for forward-looking factors which by their nature are subject to uncertainty. Analysis of actual recovery compared with provisioning levels have not, to date, resulted in material variances.

Under its regular review procedures at the balance sheet date, the Group applies a simplified approach in calculating ECLs for trade receivables and contract assets. Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Each subsidiary has established a provision matrix that is informed by its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment. The Group's policy is to write-off trade receivables where the expectation of recovery is considered highly unlikely.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2025 the Group's trade and other receivables were £509.1 million (2024: £480.7 million), against which £117.3 million (2024: £125.3 million) had been provided for ECLs (note 22). Whilst the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently the charge or credit to the Income Statement. In determining the allowance for ECLs a provisioning matrix is applied to the debt of customers in Devon, Cornwall and Bournemouth, as set out in note 22. An increase/decrease in the provision rates for current occupiers of 1% would lead to an increase/decrease in the level of provision by £1.4 million (2024: £1.4 million).

#### *Retirement benefit obligations*

The Group operates defined benefit pension schemes for which actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The most recent triennial valuation of the main scheme was as at 31 March 2022, the outcome of which is summarised in note 30.

The pension cost and liabilities under IAS 19 are assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on CMI 2023 actuarial tables with an allowance for future longevity improvement. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in those assumptions and future funding obligations are set out in note 30.

#### *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 Group'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 Group 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 Group's financial performance, the Directors exercise their judgement in assessing the size, nature or incidence of specific items. See note 6 for further details.

#### *Goodwill allocation*

Goodwill arising on the acquisition of Surrey and East Sutton Water is allocated to the group of cash-generating units that are expected to benefit from the synergies of the combination, the 'Water CGU'. The Water CGU comprises the regions of South West Water, Bournemouth Water, Bristol Water and Surrey and East Sutton Water. The Water CGU operates under one management structure with functional integration across the operating segment generating the synergies of the combination. SES operated under separate management whilst the CMA's Initial Enforcement Order (IEO) was in place, however the acquisition was cleared by the CMA in June 2024, allowing integration to proceed. The recoverable amount is the higher of fair value, less costs to sell, and value-in-use. Value-in-use represents the present value of projected future cash flows expected to be derived from a CGU, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the CGU. Impairments are charged to the income statement in the year in which they arise.

#### *Capitalisation of property, plant and equipment*

The property, plant and equipment of the Group relates primarily to infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls) as well as other assets which include fixed plant and operational properties. Given the nature of these assets, the Group incurs expenditure including both asset enhancement as well as repairs and maintenance, which involves judgement in allocation of costs between operating and capital expenditure. The Group continues to apply a consistent policy and approach on capitalisation of property, plant and equipment.

### 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. 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. Segmental information

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker (CODM), which has been identified as the Pennon Group plc Board. The earnings measures below are used by the Board in making decisions.

The Group is organised into two operating segments. The water segment comprises the regulated water and wastewater services undertaken by South West Water and the regulated water services undertaken by SES Water. The non-household retail segment (business retail) reflects the services provided by Pennon Water Services and SESWS. The other segment comprises smaller ancillary business as well as intermediate holding companies not further separated in reports to the Board.

Segment assets include goodwill and other intangible assets, property, plant and equipment, inventories, trade and other receivables and cash and cash equivalents. Segment liabilities comprise operating liabilities and borrowings and exclude taxation. The other segment liabilities include the Company's financing arrangements and Group taxation liabilities. Capital expenditure comprises additions to property, plant and equipment.

	Water £m	Non- household retail £m	Other £m	Eliminations £m	Group £m
<b>2025</b>					
Revenue	820.5	320.3	12.8	(105.8)	1,047.8
Employment Costs	(126.3)	(7.8)	(17.0)	–	(151.1)
Raw materials and consumables used	(48.3)	(0.9)	(2.5)	–	(51.7)
Operating costs	(307.7)	(304.1)	(3.4)	105.8	(509.4)
<b>Operating Profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)</b>	<b>338.2</b>	<b>7.5</b>	<b>(10.1)</b>	<b>–</b>	<b>335.6</b>
Depreciation and amortisation	(184.4)	(0.3)	(2.4)	–	(187.1)
<b>Operating Profit before non-underlying items</b>	<b>153.8</b>	<b>7.2</b>	<b>(12.5)</b>	<b>–</b>	<b>148.5</b>
Finance income	13.1	0.4	18.8	(17.3)	15.0
Finance costs	(202.5)	(3.3)	(10.9)	17.3	(199.4)
Share of post-tax profit from associated companies	–	–	0.8	–	0.8
<b>Loss before tax and non-underlying items</b>	<b>(35.6)</b>	<b>4.3</b>	<b>(3.8)</b>	<b>–</b>	<b>(35.1)</b>
Non-underlying items	(36.1)	–	(1.5)	–	(37.6)
<b>Loss before tax</b>	<b>(71.7)</b>	<b>4.3</b>	<b>(5.3)</b>	<b>–</b>	<b>(72.7)</b>
<b>2024</b>					
Revenue	745.8	253.5	11.8	(103.3)	907.8
Employment Costs	(98.6)	(6.2)	(10.0)	–	(114.8)
Raw materials and consumables used	(37.1)	(0.4)	–	–	(37.5)
Operating costs	(274.3)	(239.2)	(7.0)	103.3	(417.2)
<b>Operating Profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)</b>	<b>335.8</b>	<b>7.7</b>	<b>(5.2)</b>	<b>–</b>	<b>338.3</b>
Depreciation and amortisation	(165.9)	(0.8)	(5.3)	–	(172.0)
<b>Operating Profit before non-underlying items</b>	<b>169.9</b>	<b>6.9</b>	<b>(10.5)</b>	<b>–</b>	<b>166.3</b>
Finance income	7.2	0.4	15.6	(10.6)	12.6
Finance costs	(165.3)	(2.4)	(5.7)	10.6	(162.8)
Share of post-tax profit from associated companies	–	–	0.7	–	0.7
<b>Loss before tax and non-underlying items</b>	<b>11.8</b>	<b>4.9</b>	<b>0.1</b>	<b>–</b>	<b>16.8</b>
Non-underlying items	(25.2)	–	(0.7)	–	(25.9)
<b>Loss before tax</b>	<b>(13.4)</b>	<b>4.9</b>	<b>(0.6)</b>	<b>–</b>	<b>(9.1)</b>

1. Intra-segment transactions between and to different segments are under normal market-based commercial terms and conditions. Intra-segment revenue of the other segment is at cost.

	Water £m	Non- household retail £m	Other £m	Eliminations £m	Group £m
<b>Balance sheet</b>					
<b>31 March 2025</b>					
Assets (excluding carrying value in associated companies)	6,657.6	105.3	479.0	(204.8)	7,037.1
Carrying value in associated companies	–	–	10.5	–	10.5
<b>Total assets</b>	<b>6,657.6</b>	<b>105.3</b>	<b>489.5</b>	<b>(204.8)</b>	<b>7,047.6</b>
Liabilities	(5,327.6)	(115.2)	(358.9)	204.8	(5,596.9)
<b>Net assets</b>	<b>1,330.0</b>	<b>(9.9)</b>	<b>130.6</b>	<b>–</b>	<b>1,450.7</b>
<b>31 March 2024</b>					
Assets (excluding carrying value in associated companies)	5,802.3	209.7	432.4	(215.6)	6,228.8
Carrying value in associated companies	–	–	9.7	–	9.7
<b>Total assets (restated, note 43)</b>	<b>5,802.3</b>	<b>209.7</b>	<b>442.1</b>	<b>(215.6)</b>	<b>6,238.5</b>
Liabilities (restated, note 43)	(4,845.6)	(130.6)	(315.3)	215.6	(5,075.9)
<b>Net assets</b>	<b>956.7</b>	<b>79.1</b>	<b>126.8</b>	<b>–</b>	<b>1,162.6</b>



## 5. Segmental information *continued*

Segment liabilities of the water segment comprise of operating liabilities and borrowings. The other segment includes Company only assets and liabilities as well as Group taxation liabilities and should be considered in conjunction with the eliminations column.

	Notes	Water £m	Non-household retail £m	Other and eliminations £m	Group £m
<b>Other information</b>					
<b>31 March 2025</b>					
Intangible asset additions	16	4.1	2.1	(0.7)	5.5
Amortisation of other intangible assets	7	4.0	0.3	(2.0)	2.3
Capital expenditure (Property, plant and equipment)	17	606.1	–	40.9	647.0
<b>31 March 2024</b>					
Intangible asset additions	16	4.2	0.4	40.4	45.0
Amortisation of other intangible assets	7	3.5	0.2	–	3.7
Capital expenditure (Property, plant and equipment)	17	585.6	0.1	18.8	604.5

All revenue is generated in the United Kingdom. The grouping of revenue streams by how they are affected by economic factors, as required by IFRS 15, is as follows:

	Water £m	Non-household retail £m	Other £m	Total £m
<b>Year ended 31 March 2025</b>				
Segment revenue – underlying	820.5	320.3	12.8	1,153.6
Inter-segment revenue	(100.6)	(0.2)	(5.0)	(105.8)
Revenue from external customers	719.9	320.1	7.8	1,047.8
Significant service lines				
Water	719.9	–	–	719.9
Non-household retail	–	320.1	–	320.1
Other	–	–	7.8	7.8
	719.9	320.1	7.8	1,047.8
<b>Year ended 31 March 2024</b>				
Segment revenue – underlying	745.8	253.5	11.8	1,011.1
Inter-segment revenue	(91.4)	(0.2)	(11.7)	(103.3)
Revenue from external customers	654.4	253.3	0.1	907.8
Significant service lines				
Water	654.4	–	–	654.4
Non-household retail	–	253.3	–	253.3
Other	–	–	0.1	0.1
	654.4	253.3	0.1	907.8

The Group's country of domicile is the United Kingdom and this is the country in which it generates the majority of its revenue. The Group's non-current assets are all located in the United Kingdom.



## 6. Non-underlying items

Non-underlying items are those that in the Directors' view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance in the year and business trends over time. The presentation of results is consistent with internal performance monitoring.

	Notes	2025 £m	2024 £m
<b>Operating costs</b>			
Brixham water quality incident <sup>1</sup>		<b>(21.0)</b>	–
Restructuring/Transformational costs <sup>2</sup>		<b>(15.8)</b>	(13.9)
SES Water Group acquisition costs <sup>3</sup>		<b>(0.7)</b>	(9.6)
Renewables Projects acquisition related costs <sup>4</sup>		<b>(0.1)</b>	(0.6)
Drought costs <sup>5</sup>		<b>–</b>	(1.8)
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>(37.6)</b>	(25.9)
Net tax credit arising on non-underlying items above <sup>6</sup>	9	<b>8.9</b>	4.9
<b>Net non-underlying charge</b>		<b>(28.7)</b>	(21.0)

- On 15 May 2024 an outbreak of cryptosporidium was detected in the water supply in the Brixham area of Devon, causing South West Water to issue a notice to customers in the area to boil water before consuming. £21.0 million (2024: £nil) of costs have been incurred which include enhanced customer compensation, provision of bottled water over an eight-week period, and extensive interventions to clean and filter the network. £0.8m of the costs incurred were employment costs.
- £15.8 million (2024: £13.9 million) of costs were incurred in connection with the business transformation of the Group, £10.9 million (2024: £0.7 million) of which were employment costs. These restructuring and transformation costs are one-off in nature and incidence, with the benefits from incurring these costs expected to endure into the future on a recurring basis. Further costs are not expected to arise in the year ended 31 March 2026.
- In the year the Group incurred expenses of £0.7 million (2024: £9.6 million) in connection with the acquisition of SES Water Group. Due to the one-off nature and incidence of the costs they have been classified as non-underlying.
- Expenses in connection with the strategic review of renewal energy generating investments, not directly attributable to the intangible assets acquired, totalled £0.1 million (2024: £0.6 million). Due to the one-off nature and incidence of the costs they have been classified as non-underlying.
- In financial year 2022/23, a combination of elevated demand from increased tourism and record-breaking extremes of prolonged dry and hot weather led to extremely low water storage levels in the Cornwall region. Drought permits were issued allowing increased extractions, and water-saving measures for the South West Water region were implemented for the first time since 1995. To ensure the region could be supplied with water over the summer and continuing into 2023, South West Water instigated a series of mitigating measures and one-off expenditure to address the situation. £1.8 million of specifically identifiable costs were recognised in the first eight months of 2023/24.
- 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 £4.9 million current tax credit also in respect of transformation losses carried forwards.

## 7. Operating costs

	Notes	2025 £m	2024 £m
Employment costs (underlying)	13	151.1	114.8
Raw materials and consumables*		51.7	37.4
Other operating expenses before non-underlying items include:			
Profit on disposal of property, plant and equipment		(1.2)	(0.8)
Short-term/low value asset lease expense		6.2	3.6
Trade receivables impairment	22	9.7	7.1
Depreciation of property, plant and equipment:			
• Owned assets	17	147.7	133.7
• Under leases	17	37.0	34.6
Amortisation of other intangible assets	16	2.3	3.7
Impairment of assets	17	0.1	–

\* Raw materials and consumables used and other operating expenses have been restated, see note 2.

Operating costs include a charge of £37.6 million (2024: £25.9 million) relating to non-underlying items, as detailed in note 6.

Fees payable to the Company's auditor in the year were:

	2025 £000	2024 £000
Fees payable to the Company's auditor and its associates for the audit of parent company and consolidated financial statements	922	465
Fees payable to the Company's auditor and its associates for other services:		
The audit of Company's subsidiaries	1,511	969
Audit-related assurance services	360	133
Other non-audit services	1,866	111
Total fees	4,659	1,678
Fees payable to the Company's auditor in respect of Pennon Group pension schemes:		
Audit	–	35

A description of the work of the Audit Committee is set out in its report on pages 151 to 155 which includes an explanation of how the auditor's objectivity and independence are safeguarded when non-audit services are provided by the auditor's firm.

## 8. Net finance costs

	Notes	2025			2024		
		Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
<b>Cost of servicing debt</b>							
Bank borrowings and overdrafts		(138.6)	–	(138.6)	(113.0)	–	(113.0)
Interest element of lease payments		(49.9)	–	(49.9)	(44.0)	–	(44.0)
Other finance costs		(10.9)	–	(10.9)	(5.8)	–	(5.8)
Interest received		–	11.1	11.1	–	7.1	7.1
Net gains on derivative financial instruments – transfer from OCI		–	2.3	2.3	–	3.8	3.8
		(199.4)	13.4	(186.0)	(162.8)	10.9	(151.9)
<b>Notional interest</b>							
Retirement benefit obligations	30	–	1.6	1.6	–	1.7	1.7
<b>Net finance costs</b>		(199.4)	15.0	(184.4)	(162.8)	12.6	(150.2)

In addition to the above, finance costs of £27.7 million (2024: £15.5 million) have been capitalised on qualifying assets included in property, plant and equipment, at an average borrowing rate of 5.7% (2024: 6.4%).

Other finance costs include £1.1 million (2024: £1.1 million) of dividends payable on listed preference shares issued by Bristol Water plc, which are classified as debt (see note 28).

## 9. Taxation

	Before non- underlying items 2025 £m	Non- underlying items (note 6) 2025 £m	Total 2025 £m	Before non- underlying items 2024 £m	Non- underlying items (note 6) 2024 £m	Total 2024 £m
<b>Analysis of charge/(credit) in year</b>						
Current tax charge/(credit)	0.8	(0.5)	0.3	(0.6)	–	(0.6)
Deferred tax (credit)/charge	(7.8)	(8.4)	(16.2)	4.9	(4.9)	–
Tax (credit)/charge for year	(7.0)	(8.9)	(15.9)	4.3	(4.9)	(0.6)

UK corporation tax is calculated at 25% (2024: 25%) of the estimated assessable profit for the year.

UK corporation tax for the Group is stated after a charge relating to prior year current tax of £0.3 million (2024: £0.6 million credit) and a prior year deferred tax charge of £0.7 million (2024: £nil). These items relate to prior year adjustments in respect of capital allowances claimed in accordance with UK tax legislation (2024 additional interest deductions).

The tax for the year differs from the theoretical amount which would arise using the standard rate of corporation tax in the UK of 25% (2024: 25%) as follows:

	2025 £m	2024 £m
<b>Reconciliation of total tax credit</b>		
Loss before tax	(72.7)	(9.1)
Loss multiplied by the standard rate of UK corporation tax of 25% (2024: 25%)	(18.2)	(2.3)
Effects of:		
Expenses not deductible for tax purposes	0.8	1.6
Associate profits not taxable	(0.2)	(0.2)
Adjustments to tax charge in respect of prior years	1.5	(0.6)
Depreciation charged on non-qualifying assets	1.0	0.9
Adjustment in respect of deferred revenue contributions	(0.7)	–
Other	(0.1)	–
Tax credit for year	(15.9)	(0.6)

	2025 £m	2024 £m
<b>Reconciliation of current tax credit</b>		
Loss before tax	(72.7)	(9.1)
Loss multiplied by the standard rate of UK corporation tax of 25% (2024: 25%)	(18.2)	(2.3)
Effects of:		
Relief for capital allowances in place of depreciation	(26.5)	(37.0)
Disallowance of depreciation charged in the accounts	39.6	36.5
Other timing differences	(6.6)	(5.3)
Expenses not deductible for tax purposes	0.8	1.6
Associate profits not taxable	(0.2)	(0.2)
Adjustments to tax charge in respect of prior years	0.3	(0.6)
Depreciation charged on non-qualifying assets	1.0	0.9
Tax losses carried forward	15.9	9.3
Relief for capitalised interest and foreign exchange gains/losses	(5.8)	(3.5)
Current tax charge/(credit) for year	0.3	(0.6)

The Group's current tax charge is lower (2024: lower) than the UK headline rate of 25% (2024: 25%), primarily due to losses generated which are carried forward to offset against future taxable profit.

The Group benefits from the 100% full expensing and 50% enhanced allowances in respect of qualifying spend relating to certain qualifying assets (largely plant and machinery). The Group incurs significant capital expenditure each year as it maintains and enhances its assets for the benefit of its customers, communities and the environment. These enhanced allowances have increased capital allowance claims for the year and contributed significantly to the current tax credit for the year. There is also a consequently higher deferred tax liability and charge due to the additional capital allowance deductions.

## 9. Taxation *continued*

Certain types of expenditure are not deductible for tax purposes. These types of expenditure are set out in tax legislation. The main category of expenditure not deductible during the year are acquisition costs relating to the purchase of the SES Group and various renewables businesses, where these are classified as capital in nature for tax purposes.

Profits from associates and joint ventures are included in the consolidated accounts on an after-tax basis, as such these profits are not taxable in the Group accounts.

Depreciation charge on non-qualifying assets generates a permanent adjustment which increases the tax charge. Non-qualifying assets are those which do not qualify for writing down tax allowances including certain fixed assets typically in relation to older buildings and premises where tax relief is not available.

Tax losses generated in the year and carried forward generate a deferred tax rather than current tax credit, hence the adjustment to current tax. When utilised, the adjustment will be reflected through a movement from deferred to current tax.

Other timing differences relate to the timing of relief for items including pensions, general provisions and financial derivatives. The reduction in the year relates mainly to additional pension contributions made to fund deficits in the scheme.

Immediate tax relief is available in respect of capitalised interest and foreign exchange gains/losses.

In addition to the amounts recognised in the statement of profit or loss, the following tax charges/(credits) were recognised:

	2025 £m	2024 £m
<b>Amounts recognised directly in other comprehensive income</b>		
Deferred tax charge/(credit) on defined benefit pension schemes	0.9	(2.2)
Deferred tax credit on cash flow hedges	(2.4)	(4.1)
<b>Amounts recognised directly in equity</b>		
Deferred tax charge on share-based payments	–	0.1

## OECD Pillar 2

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing the Pillar Two global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. Under the legislation, the group will be required to pay, in the UK, top-up tax on profits of its subsidiaries that are taxed at a Pillar Two effective tax rate of less than 15%. 2024/25 is the first accounting period where the Group is within scope of the Pillar Two rules. The UK is the only jurisdiction in which the Group operates therefore an assessment of any potential Pillar Two tax exposure for 2024/25 has been performed focusing solely on the application of the UK domestic top-up tax rules. The assessment performed by the Group is based on country-by-country reporting principles and financial statements information for 2024/25. 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 Group is continuing to assess the impact of the Pillar Two income taxes legislation and related updates on its future financial performance.

## 10. (Loss)/profit of the parent company

	2025 £m	2024 £m
(Loss)/profit attributable to ordinary shareholders' equity dealt within the accounts of the parent company	(13.5)	34.4

As permitted by Section 408 of the Companies Act 2006, no statement of profit or loss or statement of comprehensive income is presented for the Company.

## 11. Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust (note 36), which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares. The Group has two types of dilutive potential ordinary shares – those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; and the contingently issuable shares under the Group's Performance and Co-investment Plan, the long-term incentive plan and the deferred shares element of the Annual Incentive Bonus Plan, based on performance criteria for the vesting of the awards.

Basic and diluted earnings per share figures and the weighted average number of shares for the comparative period have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share. Amounts as originally stated at 31 March 2024 were (3.6)p basic and diluted earnings per share, 6.2p basic and diluted adjusted earnings per share and 266.6 million weighted average number of shares.

Potential ordinary shares, as discussed above, that could dilute basic earnings per share in the future, were not included in the calculation for statutory earnings per share because they were anti-dilutive for the current year. The weighted average number of shares and earnings used in the calculations are detailed in the table below.

**11. Earnings per share** *continued*

	2025	2024 (restated)
Number of shares (millions)		
For basic earnings per share	<b>360.5</b>	322.5
Effect of dilutive potential ordinary shares from share options	–	–
For diluted earnings per share	<b>360.5</b>	322.5

**Basic and diluted earnings per ordinary share**

Earnings per ordinary share before non-underlying items and deferred tax are presented as the Directors believe that this measure provides a more useful year-on-year comparison of business trends and performance. Deferred tax is excluded as the Directors believe it reflects a distortive effect of changes in corporation tax rates and the level of long-term capital investment. Earnings per share have been calculated as follows:

	2025			2024 (restated)		
	(Loss)/profit after tax £m	Earnings per share		(Loss)/profit after tax £m	Earnings per share	
		Basic p	Diluted p		Basic p	Diluted p
Statutory earnings attributable to ordinary shareholders of the parent	<b>(57.9)</b>	<b>(16.1)</b>	<b>(16.1)</b>	(9.5)	(2.9)	(2.9)
Deferred tax (credit)/charge before non-underlying items	<b>(7.8)</b>	<b>(2.1)</b>	<b>(2.1)</b>	4.9	1.5	1.5
Non-underlying items (net of tax)	<b>28.6</b>	<b>7.9</b>	<b>7.9</b>	21.0	6.5	6.5
Adjusted earnings	<b>(37.1)</b>	<b>(10.3)</b>	<b>(10.3)</b>	16.4	5.1	5.1

**12. Dividends**

	2025 £m	2024 £m
<b>Amounts recognised as distributions to ordinary equity holders in the year</b>		
Interim dividend paid for the year ended 31 March 2024 11.60p (restated) (2023: 10.71p restated) per share	<b>40.1</b>	33.9
Final dividend paid for the year ended 31 March 2024 25.07p (restated) (2023: 24.60p restated) per share	<b>86.8</b>	77.8
	<b>126.9</b>	111.7
<b>Proposed dividends</b>		
Proposed interim dividend for the year ended 31 March 2025 12.14p (2024: 11.60p restated) per share	<b>42.0</b>	40.2
Proposed final dividend for the year ended 31 March 2025 19.43p (2024: 25.07p restated) per share	<b>91.7</b>	86.7
	<b>133.7</b>	126.9

The proposed interim and final dividends have not been included as liabilities in these financial statements.

The proposed interim dividend for 2025 was paid on 4 April 2025 and the proposed final dividend is subject to approval by shareholders at the AGM.

Proposed dividends per share for the 2024 comparative period have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share and as detailed in note 11. The proposed interim dividend for the year ended 31 March 2025 of 14.69p as announced previously has been restated to 12.14p as adjusted by the bonus factor.

**13. Employment costs**

	Notes	2025 £m	2024 £m
Wages and salaries		<b>175.5</b>	134.9
Social security costs		<b>17.5</b>	14.2
Pension costs	30	<b>16.2</b>	13.8
Share-based payments	33	<b>2.0</b>	1.1
Total employment costs		<b>211.2</b>	164.0
Charged:			
• Employment costs (excluding non-underlying items)		<b>151.1</b>	114.8
• Employment costs (non-underlying items)		<b>11.7</b>	0.7
• Capital schemes – property, plant and equipment		<b>48.1</b>	47.8
• Research and development		<b>0.3</b>	0.7
Total employment costs		<b>211.2</b>	164.0

Details of Directors' emoluments are set out in note 14. There are no personnel, other than Directors, who as key management exercise authority and have responsibility for planning, directing and controlling the activities of the Group. Members of other executive committees assist the Directors in their duties but do not hold authority to control the activities of the Group.

### 13. Employment costs *continued*

	2025	2024
<b>Employees (average full-time equivalent number)</b>		
The average monthly number of employees (including Executive Directors) was:		
Water	3,528	3,051
Non-household retail	259	192
Other	123	90
Total	3,910	3,333

### 14. Directors' emoluments

	2025 £000	2024 £000
Executive Directors:		
• Salary	968	895
• Share-based payments	680	1,103
• Other emoluments, including payments in lieu of pension provision	121	111
Non-Executive Directors	648	649
	2,417	2,758

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) and share interests is shown in the Directors' remuneration report on pages 166 to 183.

#### Remuneration of key management personnel

	2025 £000
Salaries and short-term employee benefits	3,724
Share-based payments	854
	4,578

Key management personnel (KMP) remuneration has been disclosed for the first time in this financial year to align with restructuring into the four new business units. KMP remuneration comprises all directors and certain senior managers who are members of the executive team.

### 15. Goodwill

	£m
Cost:	
At 1 April 2023	163.9
Acquisition of SES Water Group (restated, note 43)	16.0
At 31 March 2024 (restated)	179.9
At 31 March 2025	179.9
Carrying amount:	
At 1 April 2023	163.9
At 31 March 2024 (restated)	179.9
At 31 March 2025	179.9

Goodwill acquired in a business combination is allocated at acquisition to the CGU expected to benefit from that business combination. During the year ended 31 March 2024, the Group acquired the SES Water Group, adding £16.0 million to goodwill (see note 43).

All goodwill represents the water business, therefore this is the lowest level at which goodwill is monitored and tested.

#### Impairment testing of goodwill

The Group tests goodwill for impairment annually, or more frequently if there are any indications that impairment may have arisen.

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. Costs to sell are calculated using the sale of Viridor by Pennon in 2020 as an estimate. RCV for the water business is disclosed in note 3, 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.

**16. Other intangible assets**

	Renewable Energy Generation £m	Software development (restated, note 43) £m	Total £m
Cost:			
At 1 April 2023	–	22.3	22.3
Arising on acquisitions	–	4.2	4.2
Additions	40.3	4.7	45.0
Disposals	–	(1.3)	(1.3)
At 31 March 2024	40.3	29.9	70.2
Additions	–	5.5	5.5
Transfers/reclassifications	–	3.6	3.6
Disposals	–	–	–
<b>At 31 March 2025</b>	<b>40.3</b>	<b>39.0</b>	<b>79.3</b>
Accumulated amortisation:			
At 1 April 2023	–	7.4	7.4
Charge for year	–	3.7	3.7
Disposals	–	(1.2)	(1.2)
At 31 March 2024	–	9.9	9.9
Charge for year	–	2.3	2.3
Transfers/reclassifications	–	3.6	3.6
Impairment charge	–	1.3	1.3
<b>At 31 March 2025</b>	<b>–</b>	<b>17.1</b>	<b>17.1</b>
Carrying amount:			
At 1 April 2023	–	14.9	14.9
At 31 March 2024	40.3	20.0	60.3
<b>At 31 March 2025</b>	<b>40.3</b>	<b>21.9</b>	<b>62.2</b>

Additions to intangible assets during the year ended 31 March 2024 included £40.3m as a result of acquiring renewable energy sites with rights to generate energy in the future. The sites acquired have been accounted for under “asset purchase” accounting as opposed to “business combination” accounting, having considered the facts and circumstances surrounding the sites acquired. The intangible assets acquired relate to energy generation rights on all four sites purchased and a battery energy storage system on a single site, these assets will be amortised over periods expected to be between 35 and 45 years in line with the rights acquired. These assets will be tested for impairment annually until they are available for use.

The carrying values of other intangible assets are reviewed annually or when events or changes in circumstance indicate that the carrying amounts may not be fully recoverable.

An adjustment has been made to reclassify cost and accumulated depreciation in relation to assets acquired on the acquisition of Bristol Water plc totalling £3.6m.

## 17. Property, plant and equipment

Group	Land and buildings (restated, note 43) £m	Infrastructure assets (restated, note 43) £m	Operational properties £m	Fixed and moveable plant and equipment (restated, note 43) £m	Construction in progress £m	Total £m
Cost:						
At 31 March 2023	188.8	2,863.3	971.6	2,377.0	290.4	6,691.1
Additions	1.3	65.0	14.3	118.6	405.3	604.5
Arising on acquisition	14.2	268.6	92.2	74.1	5.2	454.3
Assets adopted at fair value	–	10.6	–	–	–	10.6
Disposals	–	(1.4)	–	(3.4)	–	(4.8)
Transfers/reclassifications	1.3	36.7	12.5	82.6	(133.1)	–
At 31 March 2024	205.6	3,242.8	1,090.6	2,648.9	567.8	7,755.7
Additions	<b>1.5</b>	<b>68.3</b>	<b>8.9</b>	<b>99.1</b>	<b>469.2</b>	<b>647.0</b>
Assets adopted at fair value	–	<b>17.4</b>	–	–	–	<b>17.4</b>
Disposals	<b>(0.7)</b>	<b>(1.3)</b>	<b>(1.0)</b>	<b>(13.8)</b>	–	<b>(16.8)</b>
Transfers/reclassifications	<b>3.0</b>	<b>40.1</b>	<b>14.6</b>	<b>74.4</b>	<b>(134.1)</b>	<b>(2.0)</b>
<b>At 31 March 2025</b>	<b>209.4</b>	<b>3,367.3</b>	<b>1,113.1</b>	<b>2,808.6</b>	<b>902.9</b>	<b>8,401.3</b>
Accumulated depreciation:						
At 31 March 2023	27.3	402.9	332.1	1,451.9	–	2,214.2
Charge for year	4.3	41.0	21.4	105.3	–	172.0
Disposals	–	(1.4)	–	(3.4)	–	(4.8)
At 31 March 2024	31.6	442.5	353.5	1,553.8	–	2,381.4
Charge for year	<b>2.7</b>	<b>49.0</b>	<b>23.9</b>	<b>113.1</b>	–	<b>188.7</b>
Disposals	<b>(0.1)</b>	<b>(1.5)</b>	<b>(0.9)</b>	<b>(13.6)</b>	–	<b>(16.1)</b>
Impairment loss	–	–	–	<b>(0.1)</b>	–	<b>(0.1)</b>
Transfers/reclassifications	–	<b>(8.6)</b>	<b>2.2</b>	<b>4.4</b>	–	<b>(2.0)</b>
At 31 March 2025	<b>34.2</b>	<b>481.4</b>	<b>378.7</b>	<b>1,657.6</b>	–	<b>2,551.9</b>
Net book value:						
At 31 March 2023	161.5	2,460.4	639.5	925.1	290.4	4,476.9
At 31 March 2024	174.0	2,800.3	737.1	1,095.1	567.8	5,374.3
<b>At 31 March 2025</b>	<b>175.2</b>	<b>2,885.9</b>	<b>734.4</b>	<b>1,151.0</b>	<b>902.9</b>	<b>5,849.4</b>

Of the total depreciation charge of £188.7 million (2024: £172.0 million), £1.6 million (2024: £1.5 million) has been charged to capital projects, £2.4 million (2024: £2.2 million) has been offset by deferred income and £184.7 million (2024: £168.3 million) has been charged against profits. Asset lives and residual values are reviewed annually. During the year borrowing costs of £27.7 million (2024: £15.5 million) have been capitalised on qualifying assets, at an average borrowing rate of 5.7% (2024: 6.4%).

Groups of assets forming cash generating units are reviewed for indicators of impairment. No indicators of impairment were identified during the year.

Asset lives are reviewed annually. No significant changes were required in 2024/25.

An adjustment has been made to reclassify cost and accumulated depreciation in relation to assets acquired on the acquisition of Bristol Water plc totalling £2.0m.



**17. Property, plant and equipment** *continued***Assets subject to secured financing arrangements**

When the group enters into sale and leaseback arrangements, the accounting for the arrangement depends on whether the transaction meets the criteria within IFRS 15 for a sale to have occurred. If the sale criteria are met, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the right retained. If the criteria for a sale under IFRS 15 have not been met the asset is not derecognised and a liability to make ongoing payments is recognised as part of the leases 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
<b>Group</b>						
Cost:						
At 31 March 2023	4.1	383.9	335.1	384.0	–	1,107.1
Additions	12	20.1	1.8	41.7	–	64.8
Arising on acquisition	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
At 31 March 2024	5.3	404.0	336.9	425.7	–	1,171.9
Additions	–	<b>22.1</b>	<b>0.8</b>	<b>2.1</b>	–	<b>25.0</b>
Disposals	–	–	–	–	–	–
Transfers/reclassifications	–	–	–	–	–	–
At 31 March 2025	<b>5.3</b>	<b>426.1</b>	<b>337.7</b>	<b>427.8</b>	–	<b>1,196.9</b>
Accumulated depreciation:						
At 31 March 2023	0.5	69.8	90.6	189.1	–	350.0
Charge for year	0.1	5.3	5.8	20.8	–	32.0
Disposals	–	–	–	–	–	–
At 31 March 2024	0.6	75.1	96.4	209.9	–	382.0
Charge for year	<b>0.1</b>	<b>6.2</b>	<b>5.8</b>	<b>21.5</b>	–	<b>33.6</b>
Disposals	–	–	–	–	–	–
At 31 March 2025	<b>0.7</b>	<b>81.3</b>	<b>102.2</b>	<b>231.4</b>	–	<b>415.6</b>
Net book amount:						
At 31 March 2023	3.6	314.1	244.5	194.9	–	757.1
At 31 March 2024	4.7	328.9	240.5	215.8	–	789.9
<b>At 31 March 2025</b>	<b>4.6</b>	<b>344.8</b>	<b>235.5</b>	<b>196.4</b>	–	<b>781.3</b>

## 17. 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:

Group	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Cost:						
At 31 March 2023	31.3	–	–	5.0	–	36.3
Additions	0.6	–	–	3.2	5.5	9.3
Arising on acquisition	–	–	–	0.8	–	0.8
Disposals	–	–	–	(0.9)	–	(0.9)
At 31 March 2024	31.9	–	–	8.1	5.5	45.5
Additions	<b>1.0</b>	–	–	<b>2.6</b>	<b>(0.3)</b>	<b>3.3</b>
Disposals	–	–	–	<b>(0.1)</b>	–	<b>(0.1)</b>
Transfers/reclassifications	<b>2.1</b>	–	–	–	<b>(2.1)</b>	–
At 31 March 2025	<b>35.0</b>	–	–	<b>10.6</b>	<b>3.1</b>	<b>48.7</b>
Accumulated depreciation:						
At 31 March 2023	4.6	–	–	2.7	–	7.3
Charge for year	1.1	–	–	1.5	–	2.6
Disposals	–	–	–	(0.8)	–	(0.8)
At 31 March 2024	5.7	–	–	3.4	–	9.1
Charge for year	<b>1.4</b>	–	–	<b>1.9</b>	–	<b>3.3</b>
Disposals	–	–	–	<b>(0.1)</b>	–	<b>(0.1)</b>
At 31 March 2025	<b>7.1</b>	–	–	<b>5.2</b>	–	<b>12.3</b>
Net book amount:						
At 31 March 2023	26.7	–	–	2.3	–	29.0
At 31 March 2024	26.2	–	–	4.7	5.5	36.4
<b>At 31 March 2025</b>	<b>27.9</b>	–	–	<b>5.4</b>	<b>3.1</b>	<b>36.4</b>

**18. Financial instruments by category**

The accounting policies for financial instruments that have been applied to line items are:

	Notes	Fair value		Amortised cost		Total £m
		Derivatives used for fair value hedging £m	Derivatives used for cash flow hedging £m	Debt instruments at amortised cost £m	Trade receivables and trade payables £m	
<b>Group</b>						
<b>31 March 2025</b>						
<b>Financial assets</b>						
Amounts owed by associated companies	19	-	-	8.7	-	8.7
Trade receivables	22	-	-	-	270.0	270.0
Derivative financial instruments	23	0.4	31.8	-	-	32.2
Cash and cash equivalents and restricted funds	25	-	-	476.1	-	476.1
Total		0.4	31.8	484.8	270.0	787.0
<b>Financial liabilities</b>						
Borrowings	28	-	-	(4,554.3)	-	(4,554.3)
Derivative financial instruments	23	-	(2.1)	-	-	(2.1)
Trade and other payables	26	-	-	-	(281.7)	(281.7)
Total		-	(2.1)	(4,554.3)	(281.7)	(4,838.1)
<b>31 March 2024</b>						
<b>Financial assets</b>						
Amounts owed by associated companies	19	-	-	8.7	-	8.7
Trade receivables	22	-	-	-	250.0	250.0
Derivative financial instruments	23	0.3	40.5	-	-	40.8
Cash and cash equivalents and restricted funds	25	-	-	171.4	-	171.4
Total		0.3	40.5	180.1	250.0	470.9
<b>Financial liabilities</b>						
Borrowings*	28	-	-	(4,016.2)	-	(4,016.2)
Derivative financial instruments	23	-	(8.7)	-	-	(8.7)
Trade and other payables (restated, note 43)	26	-	-	-	(332.8)	(332.8)
Total		-	(8.7)	(4,016.2)	(332.8)	(4,357.7)

\* Restated, see note 2 for further explanation.

**19. Other non-current assets****Non-current receivables**

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Amounts owed by subsidiary undertakings	-	-	95.9	54.1
Amounts owed by related parties (note 42)	8.7	8.7	8.7	-
	8.7	8.7	104.6	54.1

Non-current receivables were due:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Between 1 and 2 years	-	8.7	12.2	8.0
Over 2 years and less than 5 years	8.7	-	45.3	24.1
Over 5 years	-	-	47.1	22.0
	8.7	8.7	104.6	54.1

The fair values of non-current receivables were:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Amounts owed by subsidiary undertakings	-	-	95.9	54.1
Amounts owed by associates	8.7	8.7	8.7	-
Other receivables	-	-	-	-
	8.7	8.7	104.6	54.1

## 19. Other non-current assets *continued*

The fair values of the above non-current receivables are valued using level 2 measures.

On 31 January 2025 the £8.7m (2024: £8.7m) loan receivable with Water 2 Business Limited ("W2B") an indirect associate was transferred from Bristol Water Holdings Limited ("BWH") to the Company.

## 20. Investments

### Subsidiary undertakings

	£m
Company	
At 31 March 2023	1,316.6
Investment in subsidiary undertakings:	
SES Water Group acquisition	90.2
SES Water Group share issue	5.0
Pennon Power share acquisition	25.0
Impairment of investment in subsidiary undertakings	(283.6)
At 31 March 2024	1,153.2
Investment in subsidiary undertakings:	
SES Water Group share issue	80.0
PIL share issue	1.0
SWW share issue	330.0
Impairment of investment in subsidiary undertakings	(1.5)
At 31 March 2025	<b>1,562.7</b>

There are no indicators of impairment in the current year.

In December 2024 the company subscribed for 1,000,000 new shares in Peninsula Insurance Limited, for consideration of £1,000,000.

On 31 March 2025 the company subscribed for 330,000,000 new shares in South West Water Limited, for consideration of £330,000,000.

On 12 December 2024 the company subscribed for 60,000,000 new shares and on 31 March 2025 for 100,000,000 new shares in Sutton and East Surrey Group Holdings Limited, for consideration of £30,000,000 and £50,000,000 respectively.

On 31 January 2025 the investment in Water 2 Business Limited ("W2B"), an indirect associate, was transferred from Bristol Water Holdings Limited ("BWH") to the Company. Accordingly, the investment in the BWH's parent company Bristol Water Holdings UK Limited was reduced by £1,500,000.

On 10 January 2024 the Company acquired 100% of the issued share capital of Sumisho Osaka Gas Water UK Limited, which has subsequently been renamed Sutton and East Surrey Group Holdings Limited ("SESGHL"). SESGHL is the holding company of the SESGHL Group which comprises Sutton and East Surrey Water plc ("SES Water"), a regulated water only company, and certain other ancillary businesses.

On 28 March 2024, the Company subscribed for 10,000,000 new ordinary shares in Sutton and East Surrey Group Holdings Limited, for consideration of £5,000,000.

On 1 February 2024, the Company subscribed for 25,000 new ordinary shares in its wholly-owned subsidiary undertaking, Pennon Power Limited, for consideration of £25,000,000.

During the year ended 31 March 2024, the Company received a dividend of £283.6 million from its subsidiary, Viridor Waste 2 Limited, reducing that entity's net assets to £nil. Accordingly, the Company impaired its investment in Viridor Waste 2 Limited.

**20. Investments** *continued***Investment in associates and joint ventures**

Name of entity	Principal activity	Place of business/country of incorporation	% of ownership	Measurement method
Water 2 Business Limited ("W2B")	National retailer in the non-household market and provides retail water services to non-household customers	England	30%	Equity
Bristol Wessex Billing Services Limited ("BWBSL")	Meter reading, billing, debt recovery and customer contact management services	England	50%	Equity
Searchlight Collection Limited	Debt collection services	England	50%	Equity

The carrying value of the Group's share of these investments in associates and joint ventures at 31 March 2025 is £1.8 million (2024: £1.0 million). The Group's share of the profits and other comprehensive income of these investments in associates and joint ventures for the year ended 31 March 2025 is £0.8 million (2024: £0.7 million).

The Group's joint ventures and associates are all private companies and there are no quoted market prices available for the shares. Summarised financial information for the joint ventures and investments in associates is set out below:

**Summarised balance sheets**

	2025 £m			2024 £m		
	W2B	BWBSL	Searchlight	W2B	BWBSL	Searchlight
<b>Current</b>						
Cash and cash equivalents	2.2	1.7	–	–	1.3	–
Other current assets	71.3	1.2	0.1	66.9	2.1	0.1
<b>Total current assets</b>	<b>73.5</b>	<b>2.9</b>	<b>0.1</b>	66.9	3.4	0.1
<b>Non-current assets</b>	<b>4.2</b>	–	–	4.9	–	–
		–				
Financial liabilities (excluding trade payables)	–	–	–	(12)	–	–
Current liabilities (including trade payables)	(42.5)	(2.9)	–	(37.9)	(3.4)	–
<b>Total current liabilities</b>	<b>(42.5)</b>	<b>(2.9)</b>	–	(39.1)	(3.4)	–
<b>Non-current liabilities</b>	<b>(29.4)</b>	–	–	(29.4)	–	–
<b>Net assets</b>	<b>5.8</b>	–	<b>0.1</b>	3.3	–	0.1

**Summarised statement of comprehensive income**

	2025 £m			2024 £m		
	W2B	BWBSL	Searchlight	W2B	BWBSL	Searchlight
Revenue	327.3	19.7	0.2	278.3	18.5	0.2
Cost of sales and other operating expenses	(321.5)	(19.7)	(0.2)	(273.1)	(18.5)	(0.2)
Interest	(2.1)	–	–	(1.9)	–	–
Pre-tax profit	3.7	–	–	3.3	–	–
Taxation charge	(1.1)	–	–	(1.0)	–	–
<b>Total comprehensive income</b>	<b>2.6</b>	–	–	2.3	–	–

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of these amounts) adjusted for differences in accounting policies between the Group and associates. W2B's year end date is 30 June. BWBSL's and Searchlight's year ends are 31 March. The Group's carrying amount of the investments held is £1.8 million (2024: £1.0 million) which comprises 30% of the Group's share of equity of W2B. For BWBSL and Searchlight, the net equity is £nil (2024: £nil). The Group's share of profit from associated companies is £0.8 million (2024: £0.7 million) which comprises 30% of the Group's share of W2B, restricted by brought forward losses.

**21. Inventories**

	Group	
	2025 £m	2024 £m
Raw materials and consumables	12.1	11.0
Work in progress	0.3	1.6
Finished goods	0.4	0.6
	<b>12.8</b>	13.2

## 22. Trade and other receivables – current

	Group		Company	
	2025 £m	2024 (restated, note 43) £m	2025 £m	2024 £m
Trade receivables	387.3	375.3	–	–
Less: allowance for expected credit losses in respect of trade receivables	(117.3)	(125.3)	–	–
Net trade receivables	270.0	250.0	–	–
Amounts owed by subsidiary undertakings	–	–	51.2	148.5
Amounts owed by associated companies	0.2	0.2	0.2	–
Other receivables	45.6	40.4	1.5	2.5
Accrued income	57.4	45.5	–	–
Prepayments	18.6	19.3	0.9	0.8
	391.8	355.4	53.8	151.8

Trade receivables include accrued income relating to customers with water budget payment plans.

Accrued income includes £34.8million (2024: £28.3 million) in respect of metered accrual revenue in the retail water business. Metered accrual revenue relates to performance obligations that have been fully extinguished in providing services to customers prior to the reporting date. Payment in respect of these services is a matter of time following issuance of invoices.

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value.

There is no concentration of credit risk in trade receivables. The Group has a large number of customers who are dispersed and there is no significant loss on trade receivables expected that has not been provided for.

The Group applies the simplified approach in calculating the expected credit losses for trade receivables allowing a provision matrix to be used which is based on the expected life of trade receivables, default rates for different customer categories within the collection process and forward-looking information.

As at 31 March, an analysis of the ageing of trade receivables is as follows:

	2025 £m	2024 £m
<b>Group</b>		
Not due	64.6	40.9
Past due 1 – 30 days	31.1	45.7
Past due 31 – 120 days	29.3	29.5
More than 120 days	262.3	259.2
	387.3	375.3

The aged trade receivables above are taken directly from aged sales ledger records.

The Group's operating businesses specifically review separate categories of debt to identify an appropriate allowance for expected credit losses as outlined in note 2(n) ii). South West Water Limited and SES Water have a duty under legislation to continue to provide domestic customers with services regardless of payment. Given the different nature of customer demographics within South West Water's operating area, SES Water's operating area and the non-household retail business of PWS and SESWS, different provision matrices are adopted by each business. The provision matrix adopted for household customers in the most significant operating region of Devon, Cornwall & Bournemouth is outlined in the table below, showing the range of provision rates dependent on phase of collection. The table also includes the gross debt and provision rates for other customer areas:

	Trade receivables 2025 £m	Allowance for expected credit losses 2025 £m	Trade receivables 2024 £m	Allowance for expected credit losses 2024 £m
<b>Devon, Cornwall &amp; Bournemouth (household customers)</b>				
• Current occupier < 12 months: 1% - 30%	68.7	0.4	44.8	0.2
• Current occupier 12 – 24 months: 10% – 60%	12.4	2.9	23.1	3.2
• Current occupier 24 – 36 months: 15% – 80%	10.9	3.0	11.5	2.8
• Current occupier > 36 months: 20% – 100%	91.6	39.9	89.2	48.2
• Previous occupier: 55% – 100%	51.3	32.1	53.3	31.3
Bristol	37.4	17.6	37.8	8.6
SES	54.6	16.7	53.3	16.7
Pennon Water Services (Non-household retail)	50.1	4.7	40.6	14.3
Other	10.3	–	21.7	–
	387.3	117.3	375.3	125.3

**22. Trade and other receivables – current** *continued*

No material expected credit loss provision has been recognised in respect of amounts owed by subsidiary undertakings.

The movement in the allowance for expected credit losses in respect of trade receivables was:

	2025 £m	2024 £m
At 1 April	125.3	106.5
Arising on acquisition	–	19.8
Provision for expected credit losses	9.7	7.1
Receivables written off during the year as uncollectable	(17.7)	(8.1)
At 31 March	117.3	125.3

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 group, and where a failure to make payments on overdue invoices indicate the debt is unrecoverable.

**23. Derivative financial instruments**

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
<b>Derivatives used for cash flow hedging</b>				
Non-current assets	22.3	17.2	–	–
Current assets	9.5	23.3	0.4	1.0
Current liabilities	(0.5)	(5.4)	(0.1)	(0.1)
Non-current liabilities	(1.6)	(3.3)	–	–
<b>Derivatives used for fair value hedging</b>				
Non-current assets	0.1	0.2	0.1	0.2
Current assets	0.3	0.1	0.3	0.1

The Group's financial risks and risk management policies are set out in note 3. The fair value of derivatives is split between current and non-current assets or liabilities based on the maturity of the cash flows. The ineffective portion recognised in the statement of profit or loss arising from hedging relationships was £nil (2024: £nil).

A net £4.3 million debit (2024: £16.4 million debit) was recognised in other comprehensive income for cash flow hedges, including a £0.1 million credit (2024: £0.2 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 Group net borrowings are at fixed rate.

At 31 March 2025 the Group had interest rate swaps, to swap from floating to fixed rate, and hedged financial liabilities with a notional value of £636.0 million and a weighted average maturity of 5.3 years (2024: £939.0 million, with 3.5 years). The weighted average interest rate of the swaps for their nominal amount was 2.92% (2024: 1.85%).

At 31 March 2025 the Group had cross currency swaps and hedged financial liabilities with a notional value of £56.1 million (2024: £64.0 million) and a weighted average maturity of 4.1 years (2024: 4.5 years). The weighted average interest rate of the swaps for their nominal amount was 5.6% (2024: 5.8%). The swaps are denominated in USD and EUR to match the underlying currency exposures.

The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the swaps are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item.

The impact of the hedging instrument on the balance sheet is as follows:

Group	Notional amount £m	Carrying amount £m	Line item in the balance sheet	Change in fair value used for measuring ineffectiveness in the period £m
<b>As at 31 March 2025</b>				
Interest rate swaps	636.0	27.7	Derivative financial instruments	10.3
RPI swaps	–	–	Derivative financial instruments	(4.6)
Cross currency swaps	56.1	(1.3)	Derivative financial instruments	–
<b>As at 31 March 2024</b>				
Interest rate swaps	939.4	38.0	Derivative financial instruments	(14.4)
RPI swaps	300.0	(4.6)	Derivative financial instruments	(0.2)
Cross currency swaps	64.1	(1.3)	Derivative financial instruments	(2.4)

## 23. Derivative financial instruments *continued*

Company	Notional amount £m	Carrying amount £m	Line item in the balance sheet	Change in fair value used for measuring ineffectiveness in the period £m
<b>As at 31 March 2025</b>				
Cross currency swaps	16.0	0.4	Derivative financial instruments	(0.4)
<b>As at 31 March 2024</b>				
Cross currency swaps	24.0	0.8	Derivative financial instruments	(0.3)

### Valuation hierarchy

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The Group's financial derivatives are valued using level 2 measures:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
<b>Assets</b>				
Derivatives used for cash flow hedging	31.8	40.5	0.4	0.9
Derivatives used for fair value hedging	0.4	0.3	0.4	0.3
Total assets	32.2	40.8	0.8	1.2
<b>Liabilities</b>				
Derivatives used for cash flow hedging	(2.1)	(8.7)	(0.1)	(0.1)
Total liabilities	(2.1)	(8.7)	(0.1)	(0.1)

## 24. Financial instruments at fair value through profit

	Group		Company	
	2025 £m	2024 (Restated) £m	2025 £m	2024 £m
Current liabilities	(0.3)	(0.1)	(0.3)	(0.1)
Non-current assets	0.6	0.9	0.6	0.9

An unamortised hedging adjustment has been reclassified to borrowing in the current year and the prior year restated. See note 2 for further explanation.

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on the hedged item which had been designated in a fair value hedging relationship.

## 25. Cash and cash equivalents and restricted funds

	Group		Company	
	2025 £m	2024 (restated) £m	2025 £m	2024 £m
Cash at bank and in hand	166.2	78.8	44.8	29.2
Short-term bank deposits	0.2	50.0	0.2	50.0
Other deposits	251.5	5.2	–	–
Cash and cash equivalents	417.9	134.0	45.0	79.2
Restricted funds	58.2	37.4	–	–
Total	476.1	171.4	45.0	79.2

Cash and cash deposits have been re-presented on the balance sheet to separately disclose cash and cash equivalents and restricted funds. See note 2 for further explanation.

Group short-term deposits have an average maturity of one working day (2024: one working day).

Group other deposits (including restricted funds) have an average maturity of 14 days (2024: 73 days).

Restricted funds include £46.1 million (2024: £26.0 million) to settle long-term lease liabilities (note 28) and £12.1 million (2024: £11.4 million) held in an instant access account. Restricted funds are available for access, subject to being replaced by an equivalent valued security.



**26. Trade and other payables – current**

	Group		Company	
	2025 £m	2024 (restated, Note 43) £m	2025 £m	2024 £m
Trade payables	<b>138.8</b>	227.5	<b>0.9</b>	2.6
Contract liabilities	<b>46.7</b>	10.6	<b>–</b>	–
Other tax and social security	<b>2.6</b>	3.1	<b>0.3</b>	0.4
Accruals	<b>54.4</b>	37.4	<b>6.1</b>	7.4
Other payables	<b>88.5</b>	67.9	<b>3.5</b>	1.1
Amounts owed to subsidiary undertakings	<b>–</b>	–	<b>8.8</b>	–
	<b>331.0</b>	346.5	<b>19.6</b>	11.5

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

The movement in the contract liabilities was:

	Group	
	2025 £m	2024 £m
Contract liabilities		
At 1 April	<b>165.5</b>	159.0
Revenue recognised in the year	<b>(9.9)</b>	(4.8)
Consideration received in advance of completion of performance obligations*	<b>62.4</b>	5.9
Amounts acquired on acquisition	<b>–</b>	5.4
At 31 March	<b>218.0</b>	165.5

The analysis of contract liabilities between current and non-current is:

	Group	
	2025 £m	2024 £m
Current	<b>46.7</b>	10.6
Non-current (note 29)	<b>171.3</b>	154.9
	<b>218.0</b>	165.5

Performance obligations related to the current contract liabilities balance above are expected to be satisfied, and revenue will be recognised, within the financial year ended 31 March 2026.

\* The Group previously presented cash received in advance from customers within trade debtors in the balance sheet and some contributions received from developers in trade payables. These have been reclassified to contract liabilities in the current year.

## 27. Current tax assets/(liabilities)

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Current year debtor/(creditor)	(0.1)	0.4	0.4	(0.4)
Prior year tax items	1.0	5.6	(2.3)	(2.8)
	0.9	6.0	(1.9)	(3.2)

## 28. Borrowings

	Group		Company	
	2025 £m	(restated, Note 2, 43) 2024 £m	2025 £m	2024 £m
<b>Current</b>				
Bank and other loans	222.0	178.3	49.5	–
Private placements	–	8.0	–	8.0
Fixed rate bonds	2.5	2.5	–	–
Amounts owed to subsidiary undertakings	–	–	2.0	–
	224.5	188.8	51.5	8.0
Leases	32.9	51.9	–	–
Total current borrowings	257.4	240.7	51.5	8.0
<b>Non-current</b>				
Bank and other loans	506.3	733.5	99.9	148.9
Private placements	841.9	719.1	95.7	96.7
Fixed rate bonds	886.4	241.8	–	–
RPI index-linked bonds	1,030.5	997.4	–	–
Listed preference shares	12.5	12.5	–	–
	3,277.6	2,704.3	195.6	245.6
Leases	1,019.3	1,071.2	–	–
Total non-current borrowings	4,296.9	3,775.5	195.6	245.6
Total borrowings	4,554.3	4,016.2	247.2	253.6

An unamortised hedging adjustment has been reclassified from fair value through profit and loss to borrowings in the current year and the prior year restated, see note 2 for further information. The unamortised hedging adjustment is included within fixed rate bonds in current and non current borrowings above. The hedged item was the £150 million bond issued by South West Water Finance Plc in 2010 which matures in July 2040. The hedging relationship was de-designated in a previous period at which point the fair value amount recognised at that point ceased to be revalued. The fixed financial liability at the point of de-designation is released to the income statement over the remaining life of the debt.

South West Water Finance Plc issued a £250 million fixed rate bond in December 2024 maturing in 2032 with a cash coupon of 5.75%.

South West Water Finance Plc issued a £400 million fixed rate bond in July 2024 maturing in 2041 with a cash coupon of 6.375%.

South West Water Finance Plc issued a £150 million fixed rate bond in July 2010 maturing in 2040 with a cash coupon of 5.875%.

South West Water Finance Plc issued a £200 million RPI index-linked bond in July 2008 maturing in 2057 with a cash coupon of 1.99%. Bournemouth Water Limited issued a £65 million RPI index-linked bond in April 2005 maturing in 2033 with a cash coupon of 3.084%. This instrument was transferred to South West Water Limited in April 2017. Prior to acquisition by Pennon, Bristol Water Plc issued RPI index-linked bonds totalling £91 million maturing in 2032 with a cash coupon of 3.635%. These were transferred to South West Water Limited in February 2023.

Sutton and East Surrey Water Plc issued a £100 million RPI index-linked bond in March 2001 maturing in 2031 with a cash coupon of 2.874%.

Fair value adjustments of £109.8 million (2024: £125.7 million) in relation to the acquisition of Bournemouth Water Limited, Bristol Water Plc and SES Water have been allocated to the instruments to which they relate.

The listed preference shares were issued by Bristol Water Plc at £1 in 1992. They are held by external shareholders and are listed on the London Stock Exchange. Shareholders are entitled to receive dividends at 8.75% per annum on the par value of the shares on a cumulative basis; these dividends are payable half yearly on 1 April and 1 October. On winding up, the preference shareholders rank ahead of Bristol Water ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members. The preference share capital consists of 12,500,000 8.75% irredeemable cumulative preference shares of £1 each. The preference shares are classified as liabilities in the consolidated balance sheet of the Group and the related dividends are classified as finance costs.

All bank and other loans and private placement debt (carrying value £1,570.2 million, 2024 £1,637.5 million) require compliance with financial covenants which relate to gearing and interest cover ratios. The group has complied with these covenants throughout the reporting period. There are no indications that the group would have difficulties complying with the covenants when they will next be tested.

**28. Borrowings** *continued*

The fair values of borrowings are valued using level 2 measures, unless otherwise stated below, (as set out in note 23) were:

	2025		2024	
	Book value £m	Fair value £m	Book value (restated, Note 2,43) £m	Fair value £m
<b>Group</b>				
Bank and other loans	222.0	222.0	178.3	178.3
Fixed rate bonds	2.5	–	2.5	–
Private placement	–	–	8.0	8.0
	224.5	222.0	188.8	186.3
Leases	32.9	32.9	51.9	–
Total current borrowings	257.4	254.9	240.7	186.3
<b>Group</b>				
Bank and other loans	506.3	556.1	733.5	704.7
Private placements	841.9	842.2	719.1	737.2
Fixed rate bonds (level 1)	781.4	784.0	136.2	145.2
Fixed rate bonds	105.0	61.6	105.6	64.6
RPI index-linked bonds (level 1)	224.6	233.0	216.4	230.5
RPI index-linked bond	805.9	602.2	781.0	658.6
Listed preference shares	12.5	18.5	12.5	20.1
	3,277.6	3,097.6	2,704.3	2,560.9
Leases	1,019.3	1,007.4	1,071.2	–
Total non-current borrowings	4,296.9	4,105.0	3,775.5	2,560.9
Total borrowings	4,554.3	4,359.9	4,016.2	2,747.2

Under IFRS 7 the disclosure of the fair value of leases is not required.

Where market values are not available, fair values of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates.

During the year ended 31 March 2025, as part of an ongoing programme to renew and raise new financing, the group entered into £800 million of new Public Bonds issuances and Private placements with an average maturity of 13.8 years.

During the year ended 31 March 2024, as part of its ongoing programme to renew and raise new financing, the Group entered into £200 million of new terms loans and leasing facility arrangements, with an average maturity of 6 years, £300 million private placements with an average maturity of 12 years, £25 million 20-year private placement and £100 million of new and renewed revolving credit facilities.

The maturity of non-current borrowings, excluding leases, was:

	Group	
	2025 £m	(restated, Note 43) 2024 £m
Between 1 and 2 years	71.8	191.0
Over 2 years and less than 5 years	268.2	335.2
Over 5 years	2,937.6	2,178.1
	3,277.6	2,704.3

The weighted average maturity of non-current borrowings, excluding leases, was 12.3 years (2024: 12.0 years).

## 28. Borrowings *continued*

Undrawn committed borrowing facilities at the balance sheet date were:

	Group 2025 £m	2024 £m
Floating rate:		
Expiring within 1 year	65.0	50.0
Expiring after 1 year	495.0	380.0
	<b>560.0</b>	430.0

### Information on leases

The Group has leases for various assets as shown in note 17.

The maturity of lease liabilities was:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Within 1 year	32.9	51.9	–	–
Over 1 year and less than 5 years	169.8	187.4	–	–
Over 5 years	849.5	883.8	–	–
	<b>1,052.2</b>	1,123.1	–	–

Analysed as:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Current	32.9	51.9	–	–
Non-current	1,019.3	1,071.2	–	–
	<b>1,052.2</b>	1,123.1	–	–

Lease liabilities includes liabilities of £1,007.2 million (2024: £1,086.7 million) that are subject to secured financing arrangements (see note 17) and lease liabilities under IFRS 16 of £45.0 million (2024: £36.4 million).

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

The discount rate used to calculate the lease liabilities above involves estimation. Where the Group cannot readily determine the rate implicit in the lease the Group uses an estimated incremental borrowing rate (IBR). At 31 March 2025 the range of IBRs used was between 5.1% and 6.9% (2024: between 6.1% and 6.8%) and the weighted average IBR across all leases was 6.2% (2024: 6.3%). 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 2025 (2024: c.1.0%).

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, £46.1 million at 31 March 2025 (2024: £25.9 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 £94.3 million (2024: £19.0 million) and interest repayments of £63.0 million (2024: £53.1 million), in addition to inflows from lease financing arrangements of £25.0 million (2024: £64.8 million).

Other information required to be disclosed under IFRS 16 is included in note 17.

## 29. Other non-current liabilities

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Contract liabilities	171.3	154.9	–	–
	<b>171.3</b>	154.9	–	–

Non-current contract liabilities relate to consideration received in advance of the Group performing its performance obligations to customers where performance obligations will not be completed within 12 months of the balance sheet date. The overall movement in total contract liabilities is disclosed in note 26. Contract liabilities reflect the fair value of assets transferred from customers in the water segment. The majority of the contract liabilities included above are expected to unwind after five years.

### 30. Retirement benefit obligations

During the year the Group operated a number of defined benefit pension schemes and also defined contribution schemes. The principal plan within the Group is the Pennon Group Pension Scheme (PGPS), which is a funded defined benefit, final salary pension scheme in the UK. Following the acquisition of Bristol Water and SES, the Group also assumed defined benefit obligations through Bristol Water's and SES's membership of Water Companies Pension Scheme ('WCPS').

The Group's pension schemes are established under trust law and comply with all relevant UK legislation. The assets of the Group's pension schemes are held in separate trustee administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of schemes' trustees is determined by the schemes' trust documentation. The Group has a policy for the PGPS that one-half of all trustees, other than the Chair, are nominated by members of the schemes, including pensioners.

Bristol Water's membership of WCPS is through a separate section of that scheme. The assets of the section are held separately from those of the Group and are invested by discretionary fund managers appointed by the trustees of the scheme. The employees in the section ceased to earn additional defined benefit pensions on 31 March 2016. There were no employer contributions to the scheme from that date and from 30 June 2016, with the agreement of the trustees, deficit contributions also ceased. All eligible employees were offered membership of a stakeholder pension scheme.

In 2018 the trustees of the Bristol Water section of the WCPS purchased a bulk annuity policy to insure the benefits for members of the section. Following this, the method for valuing the liabilities of the pension scheme has remained the same. However, the scheme assets, in the form of the insurance policy, now materially match the value of the liabilities. The process to buy up and wind up the scheme is continuing, including discussions regarding the release of the surplus on completion of this process. SES's membership of WCPS is through a separate section of that scheme. The assets of the section are held separately from those of the Group and are invested by discretionary fund managers appointed by the trustees of the scheme. The employees in the section ceased to earn additional defined benefit pensions on 31 March 2019.

With effect from 31 March 2023 the trustees of the SES section of the WCPS purchased a bulk annuity policy to insure the benefits for members of the section. Following this the method for valuing the liabilities of the pension scheme has remained the same. However, the scheme assets, in the form of the insurance policy, now materially match the value of the liabilities.

PGPS is closed to future accrual.

In June 2023, the High Court handed down a decision (*Virgin Media Limited v NTL Pension Trustees II Limited and others*) which potentially has implications for the validity of amendments made by schemes, including the PGPS and other Group defined benefit schemes, which were contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. This decision was upheld by the Court of Appeal in August 2024. There is potential for legislative intervention following industry lobbying efforts that may retrospectively validate certain rule amendments that would otherwise be held void where the requirements of section 37 were not met. However, 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. Given that there is no indication of non-compliance with the relevant requirements, the PGPS and other Group defined benefit schemes' valuation as at 31 March 2025 does not reflect potential additional liabilities arising from the Virgin Media case.

#### Defined contribution schemes

Pension costs for defined contribution schemes were £14.9 million (2024: £12.0 million).

#### Defined benefit schemes

##### Assumptions

The principal actuarial assumptions at 31 March were:

	2025 %	2024 %
Rate of increase in pensionable pay	2.5	2.6
Rate of increase for current and future pensions	2.7	2.8
Rate used to discount schemes' liabilities and expected return on schemes' assets	5.8	4.8
Inflation	3.1	3.2

##### Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2023 actuarial tables with an allowance for future longevity improvement.

The average life expectancy in years of a member having retired at age 62 on the balance sheet date is projected as:

	2025	2024
Male	23.8	24.1
Female	26.6	26.8

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2025	2024
Male	24.9	25.5
Female	27.7	28.3

### 30. 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%	+/- 4.4%
Rate used to discount schemes' liabilities	+/- 0.5%	+/- 5.6%
Inflation	+/- 0.5%	+/- 4.3%
Life expectancy	+/- 1 year	+/- 3.4%

The sensitivity analysis shows the effect of changes in the principal assumptions used for the measurement of the pension liability. The method used to calculate the sensitivities is approximate and has been determined taking into account the duration of the liabilities and the overall profile of each scheme's membership. This is the same approach as has been adopted in previous years.

The amounts recognised in the balance sheet were:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Present value of financial obligations	<b>(673.3)</b>	(774.2)	<b>(120.5)</b>	(138.0)
Fair value of plan assets	<b>709.7</b>	806.2	<b>124.5</b>	141.5
Surplus of funded plans	<b>36.4</b>	32.0	<b>4.0</b>	3.5
Less: restriction of surplus	<b>(5.2)</b>	(5.4)	<b>-</b>	-
Net asset recognised in the balance sheet	<b>31.2</b>	26.6	<b>4.0</b>	3.5

The movement in the net defined benefit obligation over the accounting period is as follows:

	2025			2024		
	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	<b>(774.2)</b>	<b>800.8</b>	<b>26.6</b>	(719.5)	748.8	29.3
Acquisition SES Water Group	-	-	-	(66.8)	70.1	3.3
Current service cost	<b>(1.0)</b>	<b>(1.4)</b>	<b>(2.4)</b>	(12)	(0.6)	(18)
Past service cost, curtailments and gains/losses on settlements	-	-	-	(0.2)	-	(0.2)
Interest (expense)/income	<b>(36.0)</b>	<b>37.6</b>	<b>1.6</b>	(33.5)	35.2	1.7
	<b>(37.0)</b>	<b>36.2</b>	<b>(0.8)</b>	(101.7)	104.7	3.0
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	-	<b>(87.9)</b>	<b>(87.9)</b>	-	(13.6)	(13.6)
Gain from change in demographic assumptions	<b>7.2</b>	-	<b>7.2</b>	5.9	-	5.9
Gain from change in financial assumptions	<b>86.3</b>	-	<b>86.3</b>	13.7	-	13.7
Experience (losses)/gains	<b>(2.3)</b>	<b>0.2</b>	<b>(2.1)</b>	(14.9)	12	(13.7)
	<b>91.2</b>	<b>(87.7)</b>	<b>3.5</b>	4.7	(12.4)	(7.7)
Contributions:						
Employers	<b>0.1</b>	<b>1.8</b>	<b>1.9</b>	-	2.0	2.0
Payments from plans:						
Benefit payments	<b>46.6</b>	<b>(46.6)</b>	-	42.3	(42.3)	-
	<b>46.7</b>	<b>(44.8)</b>	<b>1.9</b>	42.3	(40.3)	2.0
<b>At 31 March</b>	<b>(673.3)</b>	<b>704.5</b>	<b>31.2</b>	(774.2)	800.8	26.6

#### 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 Group's principal pension scheme, PGPS, the surplus has been recognised as the Group believes that ultimately it has an unconditional right to a refund of any surplus assuming the full settlement of the plan's liabilities in a single event, such as a scheme wind up.

#### Bristol Water

The Group believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised. This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a tax deduction of 25% (2024: 25%) is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been applied to restrict the value of the surplus recognised for this scheme. The process to buy out and wind up the scheme continues and the Trustee has indicated its intention to return the surplus to the Company. The buy-out of the section is expected to complete within the next 12 months and therefore the £9.2m surplus relating to the Bristol Water Section has been recognised as a current asset on the balance sheet.

#### Sutton and East Surrey Water

The Group believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised. This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a tax deduction of 25% is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been applied to restrict the value of the surplus recognised for this scheme.

**30. Retirement benefit obligations** *continued*

The movement in the Company's net defined benefit obligation over the accounting period is as follows:

	2025			2024		
	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	(137.9)	141.4	3.5	(139.5)	144.2	4.7
Current service cost	(0.4)	–	(0.4)	(0.4)	–	(0.4)
Interest (expense)/income	(6.5)	6.6	0.1	(6.4)	6.6	0.2
	(6.9)	6.6	(0.3)	(6.8)	6.6	(0.2)
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	–	(16.2)	(16.2)	–	(21)	(21)
Gain from change in demographic assumptions	1.2	–	1.2	1.1	–	1.1
Gain from change in financial assumptions	15.8	–	15.8	28	–	28
Experience losses	(0.4)	–	(0.4)	(3.2)	–	(3.2)
	16.6	(16.2)	0.4	0.7	(21)	(14)
Contributions:						
Employers	–	0.4	0.4	–	0.4	0.4
Payments from plans:						
Benefit payments	7.7	(7.7)	–	7.7	(7.7)	–
	7.7	(7.3)	0.4	7.7	(7.3)	0.4
<b>At 31 March</b>	<b>(120.5)</b>	<b>124.5</b>	<b>4.0</b>	<b>(137.9)</b>	<b>141.4</b>	<b>3.5</b>

The schemes' assets relating to the Group were:

	2025			2024		
	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	92.2	–	13	163.7	–	20
Government bonds	16.4	–	2	13.5	–	2
Other bonds	91.7	49.1	20	117.2	55.7	22
Diversified growth	39.1	–	6	38.8	–	5
Property/Infrastructure	42.7	27.8	10	41.2	32.6	9
Insurance linked security	50.0	142.8	27	44.2	165.8	26
LDI investments	114.3	–	16	96.5	–	12
Other (including cash funds)	18.3	20.1	6	10.1	21.5	4
	464.7	239.8	100	525.2	275.6	100

The Company's share of the schemes' assets at the balance sheet date was:

	2025			2024		
	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	21.2	–	17	37.7	–	27
Government bonds	3.8	–	3	3.1	–	2
Other bonds	21.1	11.3	26	27.0	12.8	28
Diversified growth	9.0	–	7	8.9	–	6
Property/Infrastructure	9.8	6.4	13	9.5	7.5	12
Insurance linked security	11.5	–	9	10.2	–	7
LDI investments	26.3	–	21	22.3	–	16
Other	4.1	–	4	2.4	–	2
	106.8	17.7	100	121.1	20.3	100

### 30. Retirement benefit obligations *continued*

Through its defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The schemes hold a proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long term, but can give rise to volatility and risk in the short term. As the funding of the schemes improves, an increasing proportion of the schemes' assets are invested in less volatile asset classes such as cash and bonds which more closely reflect market movements in the schemes' liabilities. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The scheme uses LDIs ('Liability Driven Investment Funds') within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rates and inflation expectations. The structure allows the scheme to both hedge against the risks and retain capital investment in assets that are expected to generate higher returns. Whilst LDIs are an integral part of the hedging strategy, risk management and monitoring strategies are in place to ensure that the collateral requirements to maintain these structures are closely managed.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In conjunction with its investment advisers, the trustees have structured the schemes' investments with the objective of balancing investment returns and levels of risk. The asset allocation for the main scheme has three principal elements:

- Holding of cash funds and bonds which are expected to be less volatile than most other asset classes and reflects market movements in the schemes' liabilities
- A proportion of equities with fund managers having freedom in making investment decisions to maximise returns, and
- Investment of a proportion of the schemes' assets in alternative asset classes which give the potential for diversification (currently property, insurance linked securities and diversified growth).

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected increases in pensionable pay.

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 10 to 12 years (2024: 12 to 13 years).

The 2022 triennial actuarial valuation of the principal defined benefit scheme was agreed in 2024 with an actuarial valuation surplus of £7.6 million. No deficit recovery contributions are required as a result of the 2022 valuation. Additional contributions of £1.8 million were paid into the scheme in respect of scheme expenses (2024: £2.0 million). The Group monitors funding levels on an annual basis and the Group expects to pay only scheme expenses of around £1.8 million, during the year ended 31 March 2026.

The last formal actuarial valuation of the Bristol Water section of the WCPS was at 31 March 2017. The last formal valuation of the SES section of the WCPS was at 31 March 2022.

### 31. Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates.

Movements on deferred tax were:

	Group		Company	
	2025 £m	(Restated, note 43) 2024 £m	2025 £m	2024 £m
Liabilities/(assets) at 1 April	548.4	507.0	(20.7)	(18.6)
(Credited)/charged to the income statement	(7.8)	4.9	(3.0)	(0.7)
(Credited)/charged to other comprehensive income	(1.5)	(6.3)	0.1	(0.3)
Charged to equity, including impact of change in tax rate	–	0.1	–	–
Other non-underlying credits in the income statement	(8.5)	(4.9)	–	(1.1)
Amounts relating to acquired operations	–	47.6	–	–
Liabilities/(assets) at 31 March	530.6	548.4	(23.6)	(20.7)

Deferred tax assets have been recognised in respect of all temporary differences where it is probable that these assets will be recovered.

The Group has applied the exception to recognised and disclosing deferred tax related to Pillar Two income taxes.

The majority of the Group's deferred tax assets and liabilities are expected to be recovered over more than one year. All deferred tax assets and liabilities within the same jurisdiction are offset where it is appropriate to do so.



**31. Deferred tax** *continued*

The movements in deferred tax assets (after offset) were:

**Group****Deferred tax liabilities**

	Derivatives £m	Property, plant and equipment depreciation £m	Fair value adjustments (restated, note 43) £m	Short-term liabilities including provisions £m	Retirement benefit obligations £m	Total £m
At 31 March 2023	29	4732	94.5	1.5	2.9	575.0
Charged/(credited) to the income statement	0.5	5.8	(5.5)	3.4	2.5	6.7
Credited to other comprehensive income	(4.1)	–	–	–	(22)	(6.3)
Reclassification	4.2	–	–	–	–	4.2
Transferred in on acquisition of SES	(3.5)	43.3	15.7	–	(0.9)	54.6
At 31 March 2024	–	522.3	104.7	4.9	2.3	634.2
Charged/(credited) to the income statement	–	39.1	0.5	(0.5)	0.7	39.8
Charged to other comprehensive income	–	–	–	–	0.9	0.9
<b>At 31 March 2025</b>	<b>–</b>	<b>561.4</b>	<b>105.2</b>	<b>4.4</b>	<b>3.9</b>	<b>674.9</b>

**Deferred tax assets**

	Derivatives £m	Share-based payments £m	Tax losses £m	Loan relationship deficits £m	Fair value adjustment £m	Total £m
At 31 March 2023	–	(1.0)	(27.5)	(8.4)	(31.1)	(68.0)
Underlying charged/(credited) to the income statement	–	0.3	(2.8)	(2.3)	3.0	(1.8)
Non-underlying credit to the income statement	–	–	(4.9)	–	–	(4.9)
Reclassification to deferred tax liabilities	(4.2)	–	–	–	–	(4.2)
Charged to equity	–	0.1	–	–	–	0.1
Transferred in on acquisition of SES	–	–	(7.0)	–	–	(7.0)
At 31 March 2024	(4.2)	(0.6)	(42.2)	(10.7)	(28.1)	(85.8)
Charged/(credited) to the income statement	1.1	(0.1)	(51.0)	(0.6)	3.0	(47.6)
Non-underlying credit to the income statement	–	–	(8.5)	–	–	(8.5)
Charged to equity	(2.4)	–	–	–	–	(2.4)
<b>At 31 March 2025</b>	<b>(5.5)</b>	<b>(0.7)</b>	<b>(101.7)</b>	<b>(11.3)</b>	<b>(25.1)</b>	<b>(144.3)</b>

**Net liability**

At 31 March 2024	548.4
<b>At 31 March 2025</b>	<b>530.6</b>

**Deferred tax assets not recognised**

Gross	Accelerated tax depreciation £m	Short-term liabilities including provisions £m	Tax losses and non-trade loan relationship deficits available indefinitely £m	Total £m
At 31 March 2023	–	–	–	–
(Credited)/charged to the income statement	–	(0.1)	0.2	0.1
Transferred in on acquisition from SES	0.4	0.3	21.8	22.5
At 31 March 2024	0.4	0.2	22.0	22.6
Origination and reversal of temporary differences in relation to SES	(0.1)	–	11.6	11.5
<b>At 31 March 2025</b>	<b>0.3</b>	<b>0.2</b>	<b>33.6</b>	<b>34.1</b>

### 31. Deferred tax *continued*

Tax effect	Accelerated tax depreciation £m	Short-term liabilities including provisions £m	Tax losses and non-trade loan relationship deficits available indefinitely £m	Total £m
At 31 March 2023	–	–	–	–
Transferred in on acquisition from SES	0.1	–	5.5	5.6
At 31 March 2024	0.1	–	5.5	5.6
Origination and reversal of temporary differences in relation to SES	–	–	2.9	2.9
<b>At 31 March 2025</b>	<b>0.1</b>	<b>–</b>	<b>8.4</b>	<b>8.5</b>

Following the acquisition of SES Water, the group has acquired temporary differences for which no deferred tax assets are recognised in relation to post 2017 tax losses (£25.5 million), non-trade deficits carried forwards in relation to the UK's corporate interest restriction rules (£8.1 million), fixed assets (£0.3 million) and provisions (£0.1 million). The group has concluded that it is appropriate to continue not to recognise a deferred tax asset on these temporary differences. While the Group is in a net deferred tax liability position, the Group consider there is not a right to offset these deferred tax assets against deferred tax liabilities. In addition, whilst the assets are available indefinitely, there is uncertainty regarding the availability of suitable future taxable profits.

#### Company

##### Deferred tax assets

	Retirement benefit obligations £m	Share-based payments £m	Tax losses £m	Total £m
At 31 March 2023	(1.3)	(0.7)	(16.6)	(18.6)
Charged/(credited) to the income statement	25	0.2	(3.4)	(0.7)
Non-underlying credit to the income statement	–	–	(1.1)	(1.1)
Credited to other comprehensive income	(0.3)	–	–	(0.3)
At 31 March 2024	0.9	(0.5)	(21.1)	(20.7)
Credited to the income statement	–	–	(3.0)	(3.0)
Credited to other comprehensive income	0.1	–	–	0.1
<b>At 31 March 2025</b>	<b>1.0</b>	<b>(0.5)</b>	<b>(24.1)</b>	<b>(23.6)</b>

Deferred tax charged/(credited) to equity or other comprehensive income during the year was:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Remeasurement of defined benefit obligations	<b>0.9</b>	(2.2)	<b>0.1</b>	(0.3)
Cash flow hedges	<b>(2.4)</b>	(4.1)	–	–
Share-based payments	–	0.1	–	–
	<b>(1.5)</b>	(6.2)	<b>0.1</b>	(0.3)

Capital allowances are available when a business incurs qualifying expenditure on capital items such as infrastructure assets. Capital allowances provide tax relief on these items in place of accounting depreciation which is not tax deductible. Over the period of ownership of an asset, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates typically vary from 3% up to 100%. Depreciation periods vary from 4 to 200 years. Due to the group's continuing capital investment programme, deductions for capital allowances are expected to exceed depreciation in future years.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. The adjustments for this are reflected in the current tax reconciliation. In 2023, the Government has introduced permanent full expensing and 50% first year allowances for certain qualifying expenditure. This provides an increase in current tax relief for the Group with a consequently higher deferred tax liability and charge due to the additional capital allowance deductions.

Short term temporary differences arise on items such as retirement benefit obligations, derivatives and share based payments because the treatment of such items are different for tax and accounting purposes. These differences reverse over future years following that in which they arise, as is reflected in the deferred tax charge in these financial statements. Specifically, retirement benefit obligations will crystallise over the life of the pension scheme and/or the period when spreading applies (this can be up to three years for spreading purposes), whilst share based payments will crystallise over the remaining life of the share schemes which are up to five years. Short term liabilities including provisions will typically crystallise in the following year.

The fair value liability relates to the revaluation of tangible fixed assets on the acquisition of Bournemouth Water, Bristol Water and SES Water. The fair value asset relates to the revaluation of debt on the acquisition of Bournemouth Water and Bristol Water. These items will be released over their remaining life which is up to 150 years.

Where interest charges or other costs are capitalised in the accounts, tax relief is given either as the charges are incurred or when the costs are taken to the income statement.

**31. Deferred tax** *continued*

Derivatives reflect the fair value movements on treasury derivatives; these can fluctuate considerably each year. The balance will crystallise when derivative items are either terminated or mature; the life of these items can be up to ten years.

Tax losses relate to trading losses and non-trade deficits carried forwards in relation to the UK's corporate interest restriction rules. These are available indefinitely. With respect to both items, these are recognised on the basis the UK Group has taxable temporary differences that are expected to reverse in the same periods as the unused tax losses and there is a right of offset.

**32. Provisions**

	Restructuring £m	Other £m	Total £m
<b>Group</b>			
As at 1 April 2023	0.4	–	0.4
Utilised	(0.4)	–	(0.4)
Arising on acquisition (restated, note 43)	–	1.1	1.1
At 1 April 2024	–	1.1	1.1
Charge	9.9	0.5	10.4
Utilised	(3.5)	(0.7)	(4.2)
<b>At 31 March 2025</b>	<b>6.4</b>	<b>0.9</b>	<b>7.3</b>

A provision for restructuring of £9.9 million was created in the year in connection with the business transformation of the Group; the majority of the provision relates to employment costs. This restructuring provision is expected to be utilised within one year. Other provisions include amounts in relation to dilapidations and onerous contracts, £0.4 million of these provisions are expected to be utilised within one year.

**33. Share capital****Allotted, called-up and fully paid**

	Number of shares		£m
	Treasury shares	Ordinary shares	
<b>Group and Company</b>			
At 31 March 2023 ordinary shares of 61.05p each	5,628	261,315,489	159.5
For consideration of £460,000, shares issued under the Company's Sharesave Scheme	–	72,299	–
Shares issued	–	24,657,535	15.1
At 31 March 2024 ordinary shares of 61.05p each	5,628	286,045,323	174.6
For consideration of £21,000, shares issued under the Company's Sharesave Scheme	–	3,386	–
Rights issue	–	185,928,002	113.5
<b>At 31 March 2025 ordinary shares of 61.05p each</b>	<b>5,628</b>	<b>471,976,711</b>	<b>288.1</b>

Shares held as treasury shares may be sold or reissued for any of the Company's share schemes or cancelled.

On 17 February 2025 the Company completed a rights issue to existing shareholders on the basis of 13 ordinary shares for every 20 fully paid ordinary shares held. As a result, 185,928,002 ordinary shares with an aggregate nominal value of £113.5 million were issued for cash consideration of £491.0 million. Transaction costs directly attributable to the rights issue of £20.5 million were incurred and have been accounted for as a deduction from share premium.

During the year ended 31 March 2024 the Group issued 24,657,535 new ordinary shares of 61.05 pence each in connection with the acquisition of SES Water Group (see note 43). The equity capital raise was used to reduce leverage in the enlarged group following the acquisition.

**Employee share schemes**

The Group operates a number of equity-settled share plans for the benefit of employees. 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 year anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Group before the option exercise period commences.

### 33. Share capital *continued*

Outstanding options to subscribe for ordinary shares of 61.05 pence each under the Company's share option schemes are:

	Date granted and subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March	
			2025	2024
3 July 2018	635p	2021 – 2023	–	1
9 July 2019	501p	2022 – 2024	–	69
19 July 2020	750p	2023 – 2025	27	30
6 July 2021	710p	2024 – 2026	53	306
5 July 2022	669p	2025 – 2027	206	302
4 July 2023	536p	2026 – 2028	495	753
2 July 2024	406p	2027 – 2029	1,383	–
			<b>2,164</b>	1,461

The number of shares and, where relevant, the exercise subscription prices above have been adjusted to reflect the impact of the rights issue which took place on 17 February 2025. The options outstanding at 31 March 2025 have been updated at the time of the rights issue and the options outstanding at 31 March 2024 remain at the pre rights issue value.

The number and weighted average exercise price of Sharesave options are:

	2025		2024	
	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	1,461	746	1,462	835
Granted	1,324	406	847	663
Additional options awarded as part of rights issue	493	492	–	–
Forfeited	(789)	543	(617)	828
Exercised	(4)	501	(72)	639
Expired	(321)	645	(159)	859
<b>At 31 March</b>	<b>2,164</b>	<b>472</b>	1,461	746

The weighted average price of the Company's shares at the date of exercise of Sharesave options during the year was 612 pence (2024: 689 pence). The options outstanding at 31 March 2025 had a weighted average exercise price of 472 pence (2024: 746 pence) and a weighted average remaining contractual life of 2.4 years (2024: 2.0 years). The number of exercisable Sharesave options at 31 March 2024 was 2,277 (2024: 1,000) and the weighted average exercise price of exercisable Sharesave options was 710 pence (2024: 799 pence).

The aggregate fair value of Sharesave options granted during the year was £1.0 million (2024: £0.7 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model at the date of issue of the options were:

	2025	2024
Weighted average share price (pence)	564	700
Weighted average exercise price (pence)	406	663
Expected volatility	27%	26%
Expected life	3.5 years	3.4 years
Risk-free rate	5.3%	4.5%
Expected dividend yield	7.8%	6.1%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years and five years periods depending on the life of the scheme.

#### ii) Long-term incentive plan (LTIP)

Executive Directors and senior management receive an annual grant of conditional shares. Share awards vest subject to the achievement of specific performance conditions measured over a performance period of not less than three years. More details concerning LTIPs, including performance conditions, is shown in the Directors' remuneration report on pages 176 to 177.

**33. Share capital** *continued*

The number and price of shares in the LTIP are:

	2025		2024	
	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	1,122	863	880	990
Granted	603	646	553	714
Additional shares awarded as part of rights issue	470	–		
Vested	(133)	753	(125)	784
Lapsed	(84)	1,093	(186)	1,069
<b>At 31 March</b>	<b>1,978</b>	<b>773</b>	<b>1,122</b>	<b>863</b>

The number of shares above have been adjusted to reflect the impact of the rights issue which took place on 17 February 2025. The granted shares outstanding at 31 March 2025 have been updated at the time of the rights issue and the granted shares outstanding at 31 March 2024 remain at the pre rights issue value.

The awards outstanding at 31 March 2025 had a weighted award price of 773 pence (2024: 863 pence) and a weighted average remaining contractual life of 3.3 years (2024: 3.1 years).

The aggregate fair value of awards granted during the year was £1.3 million (2024: £1.8 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depends 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 the Company to participants. There is no performance condition since vesting is conditional upon continuous service with the Group for a period of three years from the award. The number and weighted average price of shares in the Annual Incentive Bonus Plan are:

	2025		2024	
	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	217	863	141	1,065
Granted	22	665	124	700
Vested	(45)	(1,141)	(41)	1,079
Lapsed	(86)	(729)	(7)	972
<b>At 31 March</b>	<b>108</b>	<b>803</b>	<b>217</b>	<b>863</b>

The awards outstanding at 31 March 2025 had a weighted average award price of 803 pence (2024: 863 pence) and a weighted average remaining contractual life of 1.6 years (2024: 1.3 years). The Company's share price at the date of the awards ranged from 665 pence to 1,141 pence (2024: 700 pence to 1,141 pence).

The aggregate fair value of awards granted during the year was £0.1 million (2024: £0.9 million), determined from market value. No option pricing methodology is applied since dividends paid on the shares are receivable by the participants in the scheme.

Further details of the plans and options granted to Directors, included above, are shown in the Directors' remuneration report.

**34. Share premium account**

	£m
<b>Group and Company</b>	
At 31 March 2023	237.6
Shares issued under the Sharesave Scheme	0.4
Other shares issued	164.9
	402.9
Less: Transaction costs arising on share issues	(4.7)
At 31 March 2024	398.2
Rights issue	377.5
	775.7
Less: Transaction costs arising on share issues	(0.2)
Less Transaction costs directly attributable to rights issue	(20.5)
<b>At 31 March 2025</b>	<b>755.0</b>

### 35. Capital redemption reserve

The capital redemption reserve represents the redemption of B shares and cancellation of deferred shares arising from a capital return to shareholders undertaken during 2006, together with the redemption of shares during the years ended 31 March 2023 and 31 March 2022.

	£m
<b>Group and Company</b>	
At 1 April 2023	157.1
At 31 March 2024	157.1
<b>At 31 March 2025</b>	<b>157.1</b>

### 36. Retained earnings and other reserves

	Own shares £m	Hedging reserve £m	Retained earnings £m	Total £m
<b>Group</b>				
At 31 March 2023	(3.5)	38.9	535.2	570.6
Loss for the year	–	–	(9.5)	(9.5)
Other comprehensive loss for the year	–	(12.3)	(5.5)	(17.8)
Dividends paid relating to 2023	–	–	(111.7)	(111.7)
Credit to equity in respect of share-based payments (net of tax)	–	–	1.1	1.1
Charge in respect of share options vesting	2.2	–	(2.2)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(1.4)	–	–	(1.4)
At 31 March 2024	(2.7)	26.6	407.4	431.3
Loss for the year	–	–	(57.9)	(57.9)
Other comprehensive (loss)/ income for the year	–	(1.9)	2.6	0.7
Dividends paid relating to 2024	–	–	(126.9)	(126.9)
Credit to equity in respect of share-based payments (net of tax)	–	–	2.0	2.0
Historic reserves transfer	1.8	–	(1.8)	–
Charge in respect of share options vesting	1.4	–	(1.4)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(1.2)	–	–	(1.2)
<b>At 31 March 2025</b>	<b>(0.7)</b>	<b>24.7</b>	<b>224.0</b>	<b>248.0</b>

The own shares reserve represents the cost of ordinary shares in Pennon Group plc issued to or purchased in the market and held by the Pennon Group plc Employee Benefit Trust to satisfy awards under the Group's Annual Incentive Bonus Plan.

The market value of the 127,801 ordinary shares (2024: 162,024 ordinary shares) held by the Trust at 31 March 2025 was £573,000 (2024: £825,000).

	Own shares £m	Retained earnings £m	Total £m
<b>Company</b>			
At 31 March 2023	–	545.7	545.7
Profit for the year	–	34.4	34.4
Other comprehensive loss for the year	–	(1.0)	(1.0)
Dividends paid relating to 2023	–	(111.7)	(111.7)
Credit to equity in respect of share-based payments (net of tax)	–	1.1	1.1
Charge in respect of share options vesting	–	(2.2)	(2.2)
At 31 March 2024	–	466.3	466.3
Loss for the year	–	(13.5)	(13.5)
Other comprehensive income for the year	–	0.3	0.3
Dividends paid relating to 2024	–	(126.9)	(126.9)
Charge to equity in respect of share-based payments (net of tax)	–	1.5	1.5
Credit in respect of share options vesting	1.4	(1.4)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(2.1)	–	(2.1)
<b>At 31 March 2025</b>	<b>(0.7)</b>	<b>326.3</b>	<b>325.6</b>

In making decisions about the level of dividends to be proposed the Directors take steps to check that retained earnings include a sufficient amount of realised profits and are therefore distributable within the requirements of the Companies Act 2006.

**37. Analysis of cash flows given in the statement of cash flows**

Reconciliation of profit for the year to cash generated from operations:

**Cash generated from operations**

	Group	
	2025 £m	2024 £m
(Loss)/profit for the year	<b>(56.8)</b>	(8.5)
Adjustments for:		
Share-based payments	<b>2.0</b>	1.2
Profit on disposal of property, plant and equipment	<b>(1.2)</b>	(0.7)
Depreciation charge	<b>184.7</b>	168.2
Amortisation of intangible assets	<b>2.3</b>	3.7
Intangible impairment charge	<b>1.3</b>	–
Share of post-tax profit from associated companies	<b>(0.8)</b>	(0.7)
Finance income	<b>(15.0)</b>	(12.6)
Finance costs	<b>199.4</b>	162.8
Taxation credit	<b>(15.9)</b>	(0.6)
Changes in working capital:		
Decrease/(increase) in inventories	<b>0.4</b>	(1.1)
Increase in trade and other receivables	<b>(42.5)</b>	(47.6)
Decrease in trade and other payables	<b>(30.5)</b>	(2.0)
Increase/(decrease) in provisions	<b>6.2</b>	(0.4)
Cash generated from operations	<b>233.6</b>	261.7

Reconciliation of total interest paid:

	Group	
	2025 £m	2024 £m
Interest paid in operating activities	<b>143.1</b>	116.2
Total interest paid	<b>143.1</b>	116.2

**38. Net borrowings**

	Group		Company	
	2025 £m	(restated, note 2, 43) 2024 £m	2025 £m	2024 £m
Borrowings – current				
Bank and other current borrowings*	<b>(224.5)</b>	(188.8)	<b>(51.5)</b>	(8.0)
Lease obligations	<b>(32.9)</b>	(51.9)	–	–
Total current borrowings	<b>(257.4)</b>	(240.7)	<b>(51.5)</b>	(8.0)
Borrowings – non-current				
Bank and other non-current borrowings*	<b>(3,265.1)</b>	(2,691.8)	<b>(195.6)</b>	(245.6)
Listed preference shares	<b>(12.5)</b>	(12.5)	–	–
Lease obligations	<b>(1,019.3)</b>	(1,071.2)	–	–
Total non-current borrowings	<b>(4,296.9)</b>	(3,775.5)	<b>(195.6)</b>	(245.6)
Total financing liabilities	<b>(4,554.3)</b>	(4,016.2)	<b>(247.1)</b>	(253.6)
Less:				
Cash and cash equivalents	<b>417.9</b>	134.0	<b>45.0</b>	79.2
Restricted funds	<b>58.2</b>	37.4	–	–
Total net borrowings	<b>(4,078.2)</b>	(3,844.8)	<b>(202.1)</b>	(174.4)

### 38. Net borrowings *continued*

The movements in net borrowings during the periods presented were as follows:

#### Group

	Net borrowings at 1 April 2023 £m	SES Water Group acquisition (restated, note 43) £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2024 (restated) £m
Bank and other current borrowings	(95.1)	(58.5)	52.9	(88.8)	0.7	(188.8)
Current lease obligations	(32.0)	(0.7)	73.9	(33.8)	(59.3)	(51.9)
Bank and other non-current borrowings	(1,994.9)	(301.7)	(458.7)	88.8	(25.3)	(2,691.8)
Listed preference shares	(12.5)	–	–	–	–	(12.5)
Non-current lease obligations	(1,032.7)	(0.5)	(64.8)	33.8	(7.0)	(1,071.2)
Total financing liabilities	(3,167.2)	(361.4)	(396.7)	–	(90.9)	(4,016.2)
Less:						
Cash and cash equivalents	132.2	–	1.8	–	–	134.0
Restricted funds	33.2	–	4.2	–	–	37.4
	(3,001.8)	(361.4)	(390.7)	–	(90.9)	(3,844.8)

The movement in net borrowings for the prior year has been corrected to show the gross cash flows and other non-cash movements relating to lease obligations whereby interest accrues to and is paid from net borrowings, these amounts were previously shown net within other non-cash movements. Transfers between non-current and current for these items has also been corrected.

- \* An unamortised hedging adjustment has been reclassified from fair value through profit and loss to borrowing in the current year (£32.2m) and the prior year restated, see note 2 for further information. This is reflected in Bank and other current borrowings (2025: £2.5m, 2024: £2.5m) and Bank and other non-current borrowings (2025: £29.7m, 2024: £31.8m). The 1 April 2023 values in the above table also reflect this adjustment to allow for comparison between periods. The total of the unamortised hedging adjustment as at 1 April 2023 was £36.4m reflected in Bank and other current borrowings (£2.4m) and Bank and other non-current borrowings (£34.0m).

	Net borrowings at 31 March 2024 (restated) £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2025 £m
Bank and other current borrowings	<b>(188.8)</b>	<b>152.0</b>	<b>(190.7)</b>	<b>3.0</b>	<b>(224.5)</b>
Current lease obligations	<b>(51.9)</b>	<b>101.3</b>	<b>(20.4)</b>	<b>(61.9)</b>	<b>(32.9)</b>
Bank and other non-current borrowings	<b>(2,691.8)</b>	<b>(743.5)</b>	<b>190.7</b>	<b>(20.5)</b>	<b>(3,265.1)</b>
Listed preference shares	<b>(12.5)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(12.5)</b>
Non-current lease obligations	<b>(1,071.2)</b>	<b>35.2</b>	<b>20.4</b>	<b>(3.7)</b>	<b>(1,019.3)</b>
Total financing liabilities	<b>(4,016.2)</b>	<b>(455.0)</b>	<b>–</b>	<b>(83.1)</b>	<b>(4,554.3)</b>
Less					
Cash and cash equivalents	<b>134.0</b>	<b>283.9</b>	<b>–</b>	<b>–</b>	<b>417.9</b>
Restricted funds	<b>37.4</b>	<b>20.8</b>	<b>–</b>	<b>–</b>	<b>58.2</b>
	<b>(3,844.8)</b>	<b>(150.3)</b>	<b>–</b>	<b>(83.1)</b>	<b>(4,078.2)</b>

Other non-cash movements for the Group in the year ended 31 March 2024 included the increase in borrowings from interest which is rolled into the amount repayable. Cash flows of £6.0 million in the year ended 31 March 2024 include the cash acquired on acquisition of SES Water Group of £27.5 million (see note 43).



**39. Subsidiary and joint venture undertakings at 31 March 2025**

Principal subsidiary companies	Registered office address	Country of incorporation, registration and principal operations
<b>Water</b>		
Bristol Water Plc	Bridgwater Road, Bristol, BS13 7AT	England
South West Water Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South West Water Finance Plc	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South West Water Customer Services Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Sutton and East Surrey Water Plc	66-74 London Road, Redhill, RH1 1LJ	England
<b>Non-household retail</b>		
Pennon Water Services Limited <sup>(1)</sup>	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Sutton and East Surrey Water Services Limited	66-74 London Road, Redhill, RH1 1LJ	England
<b>Other</b>		
Advanced Minerals Limited <sup>(1)</sup>	66-74 London Road, Redhill, RH1 1LJ	England
Allmat (East Surrey) Limited	66-74 London Road, Redhill, RH1 1LJ	England
Dunfermline Solar Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
East Surrey Holdings Limited	66-74 London Road, Redhill, RH1 1LJ	England
EEB16 Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
EEB17 Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
EEB31 Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Insurance Limited <sup>(2)</sup>	Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ	Guernsey
Pennon Power Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SES Business Water Limited	66-74 London Road, Redhill, RH1 1LJ	England
SES Home Services Limited	66-74 London Road, Redhill, RH1 1LJ	England
Sutton and East Surrey Group Holdings Limited*	66-74 London Road, Redhill, RH1 1LJ	England
SESW Holding Company Limited	66-74 London Road, Redhill, RH1 1LJ	England
Surrey Downs Estates Limited	66-74 London Road, Redhill, RH1 1LJ	England
Surrey Downs Property Investment Limited	66-74 London Road, Redhill, RH1 1LJ	England
The Cheam Group Plc	66-74 London Road, Redhill, RH1 1LJ	England
<b>Other trading companies</b>		
Bristol Water Holdings Limited	Bridgwater Road, Bristol, BS13 7AT	England
Bristol Water Holdings UK Limited*	Bridgwater Road, Bristol, BS13 7AT	England
<b>Dormant companies</b>		
Avon Valley Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Bristol Water Core Holdings Limited <sup>(3)</sup>	Bridgwater Road, Bristol, BS13 7AT	England
Peninsula Properties (Exeter) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Defined Contribution Pension Trustee Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Pension Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SES Water Limited	66-74 London Road, Redhill, RH1 1LJ	England
Source for Business Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South West Water Services Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SWW Pension Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
The Calcite Factory B.V. <sup>(1)</sup>	Moezelhavenweg 9, 1043 AM, Amsterdam	Netherlands
The Sutton District Water Plc	66-74 London Road, Redhill, RH1 1LJ	England

The subsidiary undertakings are wholly owned unless stated otherwise and all shares in issue are ordinary shares. All companies above are consolidated in the Group financial statements.

Joint Ventures and Associates	Registered office address	Country of incorporation	Stake (%)
Bristol Wessex Billing Services Limited	1 Clevedon Walk, Nailsea, Bristol, BS48 1WA	England	50
CREWW Executive Board Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England	50
Searchlight Collections Limited	PO BOX 930 Galmington Office, Galmington Trading Estate, Cornishway West, Taunton, Somerset, TA1 9LQ	England	50
Water 2 Business Limited	21e Somerset Square, Nailsea, Bristol, United Kingdom, BS48 1RQ	England	30

\* Indicates the shares are held directly by Pennon Group plc, the Company.

1. 80% of share capital owned by Pennon Group plc. All shares in issue are ordinary shares.

2. Captive insurance company established with the specific objective of financing risks emanating from within the Group.

3. Dissolved 6 May 2025.

### 39. Subsidiary and joint venture undertakings at 31 March 2024 *continued*

#### Subsidiary audit exemption

Pennon Group plc has issued guarantees over the liabilities of the following companies at 31 March 2025 under section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

Company	Company number
Bristol Water Holdings Limited	02630760
Bristol Water Holdings UK Limited	04789566
Dunfermline Solar Limited	12683727
EEB16 Limited	10789260
EEB17 Limited	10790759
EEB31 Limited	11780715
East Surrey Holdings Limited	02660370
Pennon Power Limited	00736732
SESW Holding Company Limited	04151446
South West Water Customer Services Limited	07620338
Surrey Downs Estates Limited	02465343
Surrey Downs Property Investment Limited	02783440

### 40. Contingencies

#### Contingent liabilities

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Guarantees:				
Performance bonds	20.0	13.8	15.0	13.8
	20.0	13.8	15.0	13.8

Guarantees in respect of performance bonds relate to changes to the collateral requirements for the non-household retail business with other wholesalers. The possibility of the bond being required is remote hence the fair value of the bond is not material.

#### Other contractual and litigation uncertainties

Ofwat and the Environment Agency (EA) announced an industry-wide investigation into sewage treatment works on 18th November 2021. On 27th June 2022, as part of its ongoing investigation, Ofwat announced enforcement action against South West Water Limited and the company is now included alongside all other waste water companies. The Group continues to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The Group has undertaken its own internal investigation and investment interventions have been undertaken at a small number of our sites. In addition, the Group has looked for opportunities for additional future investment to include further storm storage and an extension of its sewer misuse programme which has been shared with Ofwat. Ofwat have yet to formally respond on the investigation and the timing of a response is unknown, although has been potentially indicated for later in 2025. Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply from closing the investigation with no further action, agreeing to formal S.19 undertakings through to fining the Group up to 10% of its revenue in relation to the regulated wastewater business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty. On 23rd May 2023 Ofwat announced an investigation into South West Water's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to assurance processes which include independent checks and balances carried out by an external technical auditor. The Group continues to work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation. The Group has undertaken its own internal investigation into the data and third party experts have concluded the calculations are within a tolerance as reported, as a result there were no detrimental impacts to customers through Outcome Delivery Incentives (ODIs). The Group recognises opportunities to enhance data quality to improve the estimation process and these have been shared with Ofwat. Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply from closing the investigation with no further action, agreeing to formal S.19 undertakings through to fining the Group up to 10% of its revenue in relation to the regulated drinking water business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty.

On 2nd February 2024 summons were received by South West Water Limited from the EA in relation to alleged non permitted discharges at 7 locations with a total of 30 charges. The EA have since withdrawn 6 of these charges relating to 1 site. At a hearing on 14th November 2024, South West Water pleaded guilty to 5 of the charges and the sentencing hearing for all 24 charges will take place in the third quarter of 2025 with judgment following at a later date.

On 15th May 2024, cryptosporidium was detected in South West Water's water network and, in response, boil water notices were issued for certain customers in the Brixham area that were lifted in a phased manner completing on 8th July 2024. South West Water continues to assist the Drinking Water Inspectorate in their ongoing investigation, the outcome of which is not known at this time.

The Group establishes provisions in connection with contracts and litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where it is uncertain that these conditions are met, a contingent liability is disclosed unless the likelihood of the obligation arising is remote or the matter is not deemed material.

**41. Capital commitments**

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Contracted but not provided	167.9	211.5	–	–

**42. Related party transactions**

Group companies entered into the following transactions with associates and joint ventures which were not members of the Group. Bristol Wessex Billing Services Limited is a joint venture investments of South West Water Limited and Water 2 Business Limited is an associate investment of the Company.

	2025 £m	2024 £m
<b>Sales of goods and services</b>		
Water 2 Business Limited	29.5	19.8
<b>Purchase of goods and services</b>		
Bristol Wessex Billing Services Limited	4.1	4.0

**Year-end balances**

	2025 £m	2024 £m
<b>Receivables due from related parties</b>		
Water 2 Business Limited (including loan receivable of £8.7 million (2024: £8.7 million))	10.9	8.9
Bristol Wessex Billing Services Limited	0.2	–
<b>Payables due to related parties</b>		
Bristol Wessex Billing Services Limited	1.6	3.0

The receivables due from related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made, or are considered necessary, for doubtful debts in respect of these amounts due.

The loans to Water 2 Business Limited are due to be repaid on 28 February 2028 and carry interest at SONIA plus 2.00%.

**Company**

The following transactions with associates and subsidiaries which were not wholly owned by the Company occurred in the year:

	2025 £m	2024 £m
<b>Sales of goods and services</b>		
Water 2 Business Limited	0.1	–

**Year-end balances**

	2025 £m	2024 £m
<b>Receivables due from related parties</b>		
Water 2 Business Limited (including loan receivable of £8.7 million (2024: £8.7 million))	8.9	–

On 31 January 2025 the £8.7m (2024: £8.7m) loan receivable with Water 2 Business Limited ("W2B") an indirect associate was transferred from Bristol Water Holdings Limited ("BWH") to the Company.

The loans to Water 2 Business Limited are due to be repaid on 28 February 2028 and carry interest at SONIA plus 2.00%.

**43. Acquisition of SES Water Group**

On 10 January 2024, the Pennon Group acquired 100% of the issued share capital of Sumisho Osaka Gas Water UK Limited, which has subsequently been renamed Sutton and East Surrey Group Holdings Limited ('SESGHL'). SESGHL is the holding company of the SES Water Group which comprises Sutton and East Surrey Water plc ('SES Water'), a regulated water only company, and certain other ancillary businesses. The purpose of the acquisition was to expand the Group's presence in water supply across Southern England.

The acquisition of SESGHL was reviewed by the Competition and Markets Authority and given full clearance on 14 June 2024. For the year ended 31 March 2024, the SESGHL Group was consolidated into Pennon Group plc's consolidated financial statements from 10 January 2024 due to management's assessment of obtaining control of SESGHL as of that date in accordance with IFRS 10.

The net assets recognised in the 31 March 2024 financial statements were based on a provisional assessment of their fair value. This valuation exercise has now been finalised. Final Fair values on acquisition are shown in the table below. Corresponding amounts for the financial year ended 31 March 2024 have also been restated in the balance sheet.

### 43. Acquisition of SES Water Group *continued*

The fair value of trade and other receivables acquired as part of the business combination amounted to £63.1 million with a gross contractual amount of £82.6 million. At the acquisition date the Group's best estimate of the contractual cash flows expected not to be collected amounted to £19.5 million.

The Goodwill that arose on acquisition is attributable to the recognition of deferred tax liabilities on fair value gains recognised as part of the acquisition. None of the goodwill recognised is expected to be deductible for tax purposes. Goodwill has been allocated to the water segment. The acquisition of the SES Water Group provides a strategic fit for Pennon Group plc as the Group expands its presence in water supply across Southern England.

The details of the business combination are as follows:

	10 January 2024 Adjustments included until 31 March 2024 £m	Adjustments £m	10 January 2024 Adjustments included until 9 January 2025 £m
<b>Fair value of consideration transferred</b>			
Amount settled in cash	90.2	–	90.2
<b>Total consideration transferred</b>	90.2	–	90.2
<b>Fair value of assets and liabilities recognised on acquisition</b>			
Property, plant and equipment	441.6	12.7	454.3
Intangible assets	11.6	(7.4)	4.2
Inventories	2.1	–	2.1
Trade and other receivables	61.4	1.7	63.1
Cash and cash equivalents	27.5	–	27.5
Current tax receivable	0.4	–	0.4
Borrowings	(360.1)	(1.3)	(361.4)
Trade and other payables	(65.3)	(5.3)	(70.6)
Retirement benefit obligations	3.3	–	3.3
Deferred tax liabilities	(47.5)	(0.1)	(47.6)
Provisions	(0.4)	(0.7)	(1.1)
<b>Identifiable net assets</b>	74.6	(0.4)	74.2
<b>Goodwill on acquisition</b>	15.6	0.4	16.0
<b>Outflow of cash to acquire subsidiary, net of cash acquired</b>			
Consideration for equity settled in cash	90.2	–	90.2
Cash and cash equivalents acquired	(27.5)	–	(27.5)
<b>Net cash outflow on acquisition</b>	62.7	–	62.7

#### Acquisition related costs

Total acquisition related costs of £10.3 million, including £9.6 million incurred in the prior year, are not included as part of the consideration transferred and were recognised as an expense in the consolidated income statement within other operating expenses.