

Bringing water to life

Supporting the lives of people and the places
they love for generations to come

Vision, purpose and values

Providing essential water and wastewater services while investing in renewable energy to support a sustainable future.

Our vision

Bringing water to life



Our purpose

Bringing water to life – supporting the lives of people and places they love for generations to come

As a purpose-led business, committed to the effective stewardship of the environment and our communities, we are shaped by our values and culture. We know that it's not only what we do, but how we do it that is really important for our customers, colleagues, communities and the environment – that's why we're focused on living our values, every day.

Underpinned by the values we live by



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



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



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

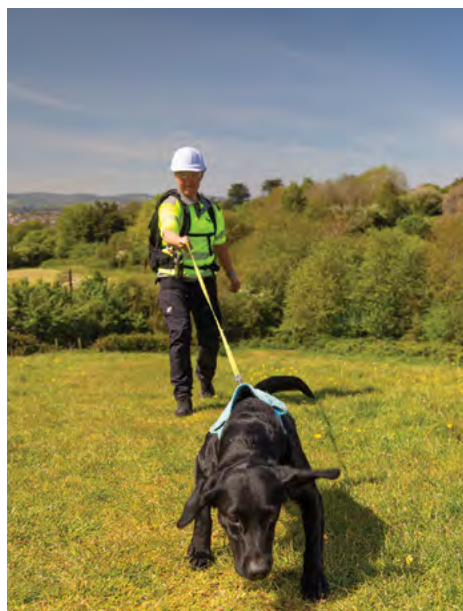


Barrow Gurney Reservoir

Contents

Strategic Report

Year in summary	2
About us	3
Group Executive Chair's letter	4
Group Chief Executive's introduction	7
Our strategy and business model	8
Our plans to 2030	10
Our people and culture	14
Stakeholder engagement	18
Pennon delivery framework	28
– Building water resources, improving water quality	29
– Tackling storm overflows and pollutions	36
– Driving environmental gains and delivering Net Zero	42
– Supporting affordability, delivering for customers	47
Group Chief Financial Officer's review	52
Our financial KPIs	60
Our risk management	62
Viability statement	70
Our ESG approach	72
Our ESG performance	74
Our Net Zero Transition	78
Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD)	83
Non-financial and sustainability information statement	94



Leakage dog



Granular Activated Carbon (GAC) at Littlehempston water treatment works

Governance

Governance at a glance	96
Chair's introduction	98
Our Board	100
Pennon Executive Board	102
Monitoring purpose and culture	104
Board leadership	105
Division of responsibilities	106
An effective Board	107
Key activities of the Board	109
How the Board engages with stakeholders	111
Composition, succession and evaluation	113
Section 172(1) statement	114
Nomination Committee report	117
Audit Committee report	120
ESG Committee report	126
Health and Safety Committee report	129
Remuneration Committee report	130
Directors' Remuneration report	133
Directors' report	156

Financial Statements

Independent auditor's report	160
Financial Statements	165
Notes to the Financial Statements	171

Other Information

Alternative performance measures	218
Five-year financial summary	221
Glossary	222
Shareholder information	223

SES Water – Metering – 'on the road'

Year in summary

Financial

Revenue

£1,291.4m

(2024/25: £1,047.8m)

Underlying EBITDA[^]

£519.2m

(2024/25: £335.6m)

Earnings per share – Basic – underlying[^]

28.3p

(2024/25: (10.3)p)

Earnings per share – Basic – statutory

19.4p

(2024/25: (16.1)p)

Profit/(loss) before tax – statutory

£114.4m

(2024/25: (£72.7)m)

Profit/(loss) before tax – underlying[^]

£135.1m

(2024/25: £(35.1)m)

Group capital investment[^]

£643.6m

(2024/25: £652.5m)

Water Group Gearing[^]

61.8%

(2024/25: 61.8%)

Water Group Return on Regulated Equity (RoRE)[^]

6.7%

(2024/25: 5.1%)

RCV – Water Group[^]

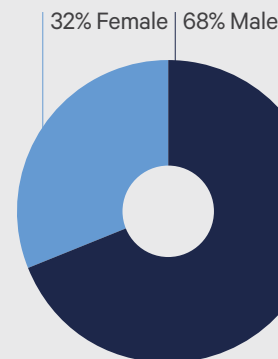
£6,505.0m

(2024/25: £5,983.1m)

Our people

c.4,000

Employees



➔ Read more on page 14 to 17

Customers

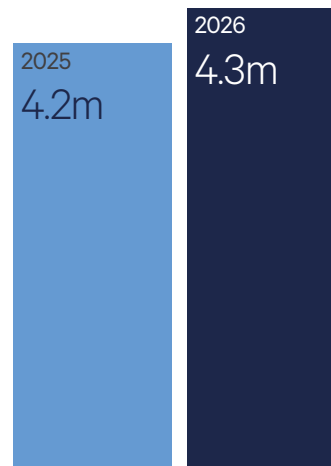


1,090m

Total litres of drinking water per day

4.3m

Customers served



Environment

41%

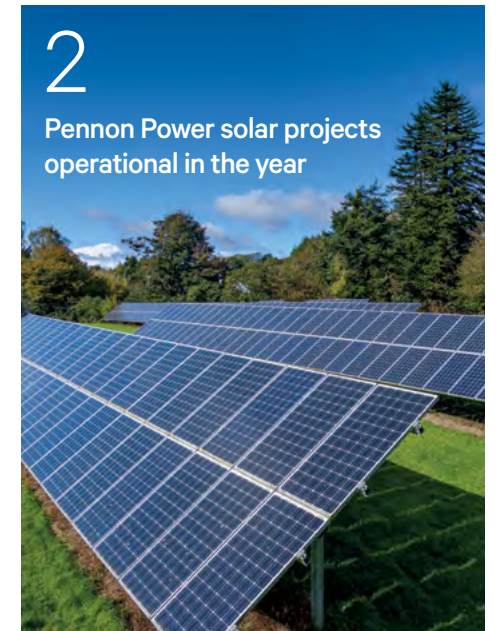
Reduction in carbon footprint¹

31,893

Number of trees planted in 2025/26

2

Pennon Power solar projects operational in the year



[^] Measures with this symbol are defined in the Alternative performance measure (APMs) as outlined on pages 218 to 220.

1. Reduction in Scope 1 and 2 GHG emissions from a 2021/22 baseline.

About us

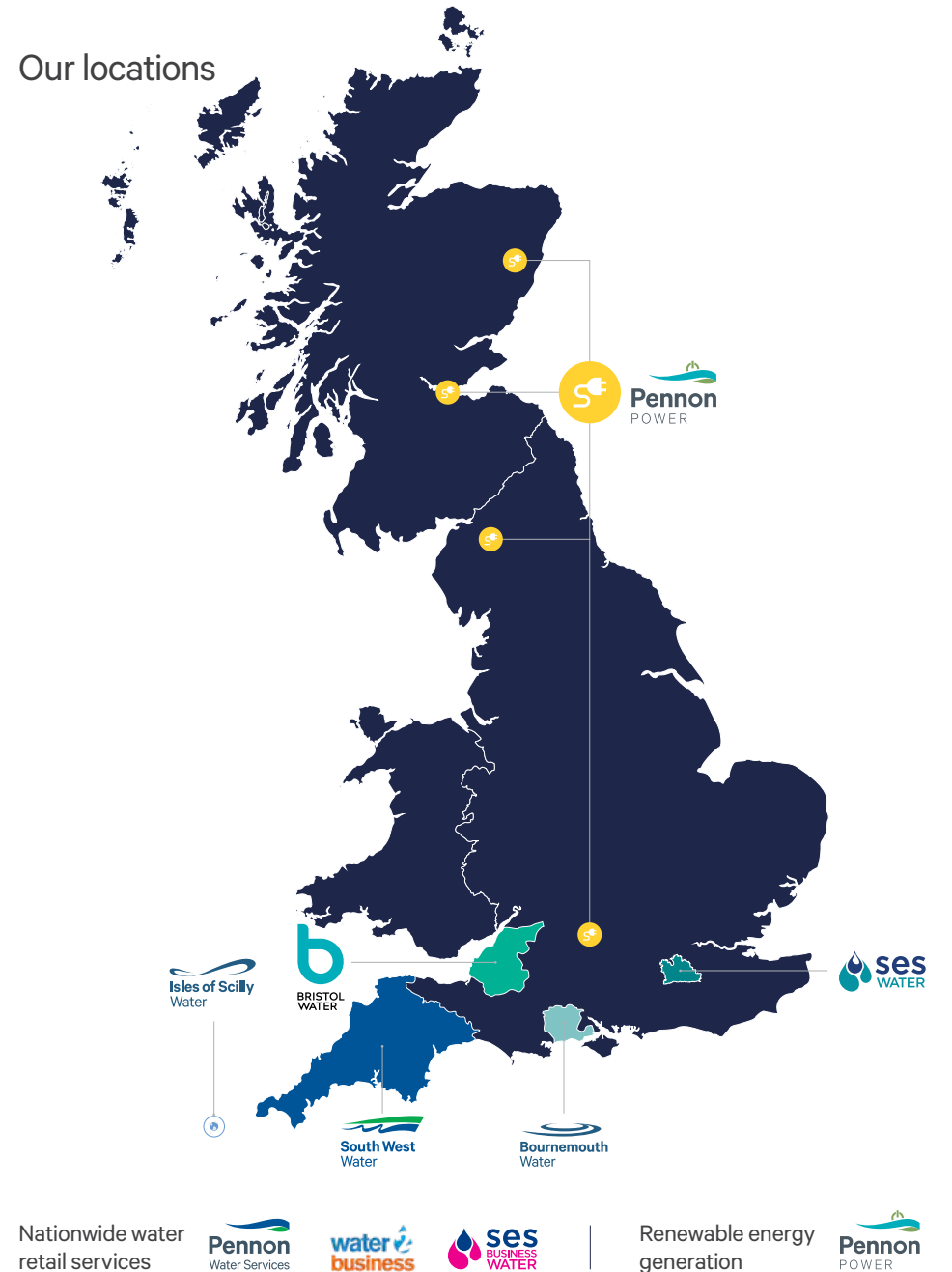
Pennon is an environmental infrastructure group focused on the UK water sector.

Our team of c.4,000 amazing colleagues works around the clock to deliver over 1 billion litres of water to 4.3 million people every day.

Our services



Our locations



Group Executive Chair's letter



David Sproul
Group Executive Chair

With a renewed focus and leadership changes, we are well positioned to deliver for customers, communities, shareholders and the environment.

This has been a year of progress, and continued delivery at Pennon in the face of challenging weather patterns, particularly in the second half of the year. It has also been a year of leadership transition and a changing regulatory landscape in the UK water sector.

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

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

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

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

Leadership and Board changes

This year has marked a significant transition in Pennon's leadership.

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

Keith Haslett joined Pennon as Chief Executive on 1 April 2026. In previous roles Keith has delivered improvements in business performance and customer outcomes and brings deep operational experience across complex infrastructure businesses and a strong track record of both transformation and disciplined operational and capital delivery. The Board is working closely with Keith as we strengthen operational performance and deliver the ambitious programme of investment now underway with discipline and focus.

In support of our clear aims and ambitions, we also announced in February 2026 the creation of a new Chief Asset Officer role, with Ian Christie joining Pennon in May 2026. Asset health sits at the heart of reliable service delivery and environmental performance and strengthening our asset management capability is a deliberate step as we enter a period of record investment.

“ Pennon is well positioned to meet rising expectations, strengthening leadership, sharpening operational delivery and maintaining the financial resilience required to deliver improvements for customers and the environment.

Water Group RoRE[^]

6.7%

Water Group RCV[^]

£6,505m

Iain brings extensive experience in asset management, operational delivery and system planning, and will play a key role in ensuring that asset health and long-term resilience sit at the centre of decision-making across the Group.

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

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

Our performance

The Group has returned to profitability during the year, with underlying EBITDA[^] increasing by 55% compared with the prior year to £519.2 million. This reflects tariff increases in the first year of AMP8 as well as improving underlying performance across the business with the early benefit of operational efficiencies as well as the investment programmes now underway. Group Profit Before Tax was £114.4 million compared to a prior year loss of £72.7 million.

Our first year has seen Water Group RoRE performance of 6.7%[^], reflecting benefits from financing and Totex performance, partially offset by the in-year impact of operational performance challenges from weather extremes.

[^] Measures with this symbol are defined in the Alternative performance measures (APMs) as outlined on pages 218 to 220

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

“ April 2025 marked the beginning of the new regulatory period and the start of the most ambitious investment programme in Pennon’s history.



Ⓢ Alderney

Operational and environmental performance

The year has once again demonstrated how rapidly the operating environment for water infrastructure is changing. Conditions during the year ranged from one of the driest springs on record to intense storms and exceptional rainfall later in the year. The South West of England experienced five named storms with around 150% of average rainfall during November and December 2025, rising to 190% in January and February 2026, placing significant pressure on both our water and wastewater networks and resulting in net operational penalties of £42.0 million.¹ These extremes, and the impact on our performance, highlight the increasing volatility created by climate change and reinforce the need for sustained investment in resilient infrastructure.

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

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

We recognise the significant impact sewer flooding can have on customers when homes, businesses and properties are affected. Internal sewer flooding incidents remained strong, although increased year-on-year to 1.20 per 10,000 connections; around one-third of this increase is due to the exceptionally high rainfall and weather events, with underlying performance consistent with previous years and we are focused on ensuring we deliver at these levels going forward.

This performance still delivers strong outperformance against the target of 1.34 and we expect it to remain a strong position compared with industry performance.

We are also strengthening our water quality and water resource resilience through upgrades to treatment works, enhanced monitoring and increased focus on asset health. Our targeted investment in AMP7 coupled with high rainfall across the winter months, meant that storage levels finished the year at c.98% – well ahead of anticipated needs in the summer months. Our water quality performance continues to strengthen – a testament to our Quality First approach. SES Water maintained their industry-leading water quality position, whilst South West Water maintained a strong sector-wide position and Bristol Water saw year-on-year improvements.

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



Ⓢ Knapp Mill

Group Executive Chair's letter continued



Peatland restoration

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

We continue to deliver environmental gains, having restored 254 hectares of peatland during the year, engaging 2,370 people in events, volunteer days and school excursions. Pennon Power also plays a central role in driving gains in clean energy, enhancing energy resilience, and reducing exposure to energy market fluctuations, while also delivering sustainable financial returns and contributing to overall Group profitability. Two solar projects were fully constructed by March 2026, with Aberdeenshire at full generation and Fife energised and in commissioning stage. Two further sites are on track for energisation and commissioning in 2026/27.

Supporting customers and communities

Supporting customers and communities remains central to Pennon's purpose.

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

In response, we have continued to strengthen support for customers needing additional help, through our £200 million support package across this five-year period coupled with our affordability toolkit. Over the past year, we saw a 11% year-on-year increase in those benefitting from that toolkit and support available, and we continue to focus on proactively providing support to those who need it most.

We also remain focused on supporting customers with the tailored services they need through our Priority Services Register (PSR). c.309,000 customers are now registered for additional help during an incident.

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

Mobilising the AMP8 investment programme and delivering on our four priorities

The challenging weather events in the year underline the importance of sustained investment in resilient infrastructure as climate extremes become more frequent and more severe. April 2025 marked the beginning of the new regulatory period and the start of the most ambitious investment programme in Pennon's history.

Our acceptance of the PR24 Final Determinations enabled us to accelerate mobilisation of our £3.2 billion¹ investment programme to 2030. This programme is focused on strengthening water resource resilience, improving environmental performance and upgrading critical infrastructure across the regions we serve.

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

Legal and regulatory proceedings

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

Looking ahead

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

Pennon enters this new phase with a refreshed and strengthened leadership, a clear strategy and the largest investment programme in our history underway. Our £3.2 billion¹ programme that runs to 2030 will deliver improvements to water quality, environmental performance and infrastructure resilience across the regions we serve. In addition, we have made a submission to Ofwat for a further c.£250 million² of investment, under the new 'cost change process', which will provide a further growth opportunity whilst supporting resilience.

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

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

David Sproul

Group Executive Chair
Pennon Group plc



Sidmouth beach

1. In forecast outturn prices.
2. In 2022/23 prices.

Group Chief Executive Officer's introduction



Keith Haslett
Group Chief Executive Officer

We have strong foundations to enter our next phase and transition to AMP8.

I was delighted to join Pennon as Chief Executive in April 2026, at an important moment both for the Group and for the wider UK water sector.

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

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

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

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

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

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

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

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

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

Keith Haslett
Group Chief Executive Officer

“ My commitment is simple: Pennon will be a company that delivers – consistently, transparently and with pride in the service we provide.



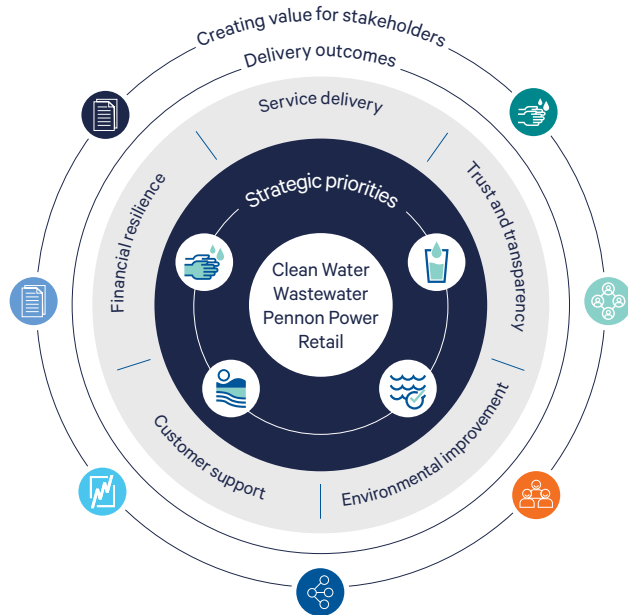
Our strategy and business model

Our business model and clear strategic priorities.


Our business model


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

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




Our four strategic priorities underpin and define everything we do.

 Building water resources, improving water quality

 Supporting affordability, delivering for customers

 Tackling storm overflows and pollutions

 Driving environmental gains and delivering Net Zero

We create value for our stakeholders:



Customers

- Delivering reliable services and resolving issues right first time to minimise complaints
- Providing clear, timely and accessible communication across all customer interactions
- Responding quickly and effectively to unplanned interruptions and service failures
- Using customer insight and feedback to drive continuous service improvement
- Supporting customers in vulnerable circumstances through proactive and tailored engagement



Suppliers

- Acting fairly and transparently, in line with the Prompt Payment Code
- Working collaboratively with supply chain partners to deliver outcomes
- Supporting SMEs, innovation and skills development
- Maintaining high standards of safety, ethics and sustainability
- Resilient and responsible supply chains
- Innovation that improves outcomes for customers and the environment
- Shared value creation throughout AMP delivery



Communities

- Supporting local jobs, skills and regional supply chains
- Investing in community and educational programmes
- Building partnerships with local authorities, charities and environmental groups
- Enhancing access to land, nature and wellbeing benefits
- Stronger local economies and communities
- Long-term social value delivered alongside infrastructure investment
- Trusted relationships across our regions



Investors

- Delivering a stable, risk-balanced and long-term investment proposition
- Investing efficiently to enhance asset resilience and environmental performance
- Maintaining strong financial discipline and robust governance
- Providing clear, transparent and high-quality reporting
- Long-term, sustainable returns aligned with regulatory frameworks
- Strong governance and prudent financial management
- Confidence in Pennon's ability to deliver across regulatory cycles



People

- Maintaining a strong focus on health, safety and wellbeing
- Developing skills and capability for a future ready water industry
- Promoting inclusive, diverse and high performing teams
- Encouraging open dialogue, engagement and accountability
- A safe, supportive working environment
- High levels of colleague engagement and capability
- A skilled workforce equipped to deliver long-term resilience



Regulators and policy makers

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

Providing high-quality drinking water and effective wastewater services.

What we do

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

Alongside water and wastewater services, Pennon Power supports operational resilience and Net Zero through renewable energy generation.

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

1. Upstream catchments

We actively manage upstream catchments to protect water quality at source. This includes land stewardship, partnership working with landowners, and nature-based solutions that reduce pollution, improve biodiversity, and enhance long-term resilience of water resources and quality.

2. Raw water reservoirs/water resources

We ensure a resilient and sufficient supply of raw water through the operation of reservoirs, abstraction points, and water resource systems. Careful balancing of river flows, reservoir storage, and abstraction supports environmental protection while maintaining reliable supplies for customers and future growth.

3. Water treatment works

Raw water is treated at our water treatment works to meet stringent drinking water quality standards. Using advanced treatment processes and continuous monitoring, we ensure water is clean, safe, and reliable before entering the distribution network.

4. Drinking water mains network to homes and businesses

We operate and maintain extensive drinking water mains networks that deliver potable water to homes and businesses.

5. Customer services

Domestic and non-household customer services, billing and help provided from our call centres.

6. Wastewater mains network and surface water catchment

Our wastewater collection systems safely transport sewage and surface water away from customers' properties.

7. Wastewater treatment works (including businesses)

Wastewater from households and businesses is treated to high regulatory standards before being safely returned to the environment. Our treatment works play a critical role in protecting public health, environmental quality, and regulatory compliance.

8. Renewable energy

We generate renewable and low-carbon energy from sustainable technologies. This reduces carbon, enhances energy resilience, and contributes to our wider environmental and Net Zero, while supporting long-term value creation.

9. Recycling waste into bio-resources

By recovering bio-resources such as sludge during wastewater treatment, we convert waste into valuable products. These processes support a circular economy through the production of biosolids for agriculture and feedstocks for renewable energy generation.



Our plans to 2030

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

AMP8: ambitious plans, delivering at scale

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

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

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

Delivering for the environment

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

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

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

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



Customer making a cup of tea

Progress in 2025/26

98%
reservoirs full

53%
reduction in normalised pollutions

c.17%
reduction in storm overflow spills

8,300
estimated spills avoided

5,138
hectares of active management on farms and peatland restoration delivered by Upstream Thinking

Finally, our renewables business, Pennon Power, has achieved significant milestones with two projects now energised, and the remaining two on track for delivery in 2026/27. We have also moved forward with smaller 'behind the meter' projects in the South West that provide significant value in terms of ensuring resilient power supply and costs across the Group for progressing in the year ahead.

Delivering clean, reliable drinking water to all

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

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

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

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

“ A healthy environment is a defining priority for customers and communities. In the face of climate change, ecological decline and increasing recreational use of rivers and seas, customers and stakeholders rightly expect environmental leadership from us.

c.195,000¹
customers benefiting from our financial support framework

c.309,000
priority services customers across the Group

1. Customers have benefited from one or more of our affordability initiatives since 2020.

Delivering for our customers

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

We recognise that water is vital for life, and therefore for many, any increase is unaffordable. Our customer teams have worked tirelessly to support customers, and we have increased customer support by 11% year-on-year and continue to do so, with support for customers who need it, identified proactively through our data-led modelling.

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

Energy resilience

Increased renewable generation is reducing exposure to energy price volatility, improving energy security at treatment works and pumping stations, and supporting emissions reductions where renewable assets are installed on-site. Continued investment in energy efficiency and environmental research further underpins long-term sustainability, resilience and cost stability.

Delivering through our people and our supply chain

Our people are a critical enabler of our delivery and long-term performance. With c.4,000 colleagues across the Group, increased investment in frontline roles, and alignment of our organisation structure with our delivery priorities, we have been strengthening our operational capability and execution. We continue to focus on ensuring a strong executive team, effective delivery across all areas of our plans, and a clear set of clear accountability and a refreshed leadership team.

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

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

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



Our plans to 2030 continued

Financial discipline and delivery confidence

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

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

Delivering on our promises to customers

Customers said



Protect rivers & beaches

Safe and reliable water

Bill affordability

Easy to contact

Climate-ready future

Customer voice

We did



Reduced spills and pollution through sustained investment in networks, treatment works and catchment solutions.



Continued investment in treatment works and resilience to deliver high-quality, dependable drinking water.



Record affordability support provided to over c.195,000¹ customers through targeted tariffs and debt support.



More frontline colleagues and improved digital services, delivering faster responses and better outcomes.



Significant investment in resilience, leakage reduction, and low-carbon solutions to future-proof services.



Customer panels and WaterShare+ insights shaping investment priorities and service improvements.

1. Customers have benefited from one or more of our affordability initiatives since 2020.



Falmouth

Our 2030 plan: outcomes that drive value

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

Investment over the regulatory period continues to be financed through a combination of investor and customer funding, with around two-thirds provided by investors and one-third by customers. Our financing strategy remains robust, supported by both debt and equity investors and underpinned by a clear, predictable regulatory framework for AMP8.

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

Strategic priorities



Building water resources, improving water quality



Tackling storm overflows and pollutions



Driving environmental gains and delivering Net Zero



Supporting affordability, delivering for customers

Planned investments over AMP8

We are investing in new treatment works and reservoirs, and addressing lead pipe issues to ensure a clean and reliable water for all.

- Upgrading one-third of the water treatment works
- Reducing leakage to less than 10% on our networks – with a 19% reduction in the South West region, and 14% reduction in the Bristol and SES regions
- Lead pipes replacement for 40,000 customers
- Renewing or replacing c.440km of water mains
- Creating a water grid to improve connectivity of our strategic reservoirs
- Investing in large reservoirs, starting with Cheddar 2 in Bristol, a significant project spanning several AMPs

We are investing to address storm overflows at bathing and shellfish waters by 2030

- 291 overflow improvements – 100% of storm overflows at bathing waters addressed
- Removing rainwater draining into our sewerage network by a volume equivalent to over 350 hectares
- Adding over 250,000m³ of storage in the network and at treatment sites to reduce overflows by 62% from 2023/24 levels
- Taking a 'Green First' principle for tackling storm overflows
- Reducing pollution levels and upgrading over 200km of our sewer network

We are committed to reaching Net Zero, investing in climate resilience and adaptation, and strengthening our environmental efforts

- Planting a further 300,000 trees to boost nature recovery
- Recycling more waste and generating energy to power 20,000 homes
- Expand our award-winning Upstream Thinking catchment management programme to 145,000 hectares by 2030
- 10% reduction in the amount of phosphorous entering rivers – improving water quality

Despite doubling our investment programme in AMP8, we are committed to keeping bills as low as possible and supporting people with the cost of living.

- Extended our zero water poverty pledge to 2030
- Ensure fair charging for our customers
- SMART metering installations for one-third of our customer base – helping them to use 5% less water
- Largest ever package of support to help those struggling to pay – doubling to £200 million
- Expanding WaterShare+ through a third issuance incorporating SES customers
- Improved digital and self-service offerings for customers – opening our data to communities

Our operational KPIs

- Water quality (CRI score)
- Supply interruptions
- Taste, smell and colour
- Leakage
- Unplanned outages
- Mains repairs

- Pollution incidents
- Numeric compliance
- Internal sewer flooding
- Sewer collapses
- External sewer flooding
- Sewer blockages
- Average spills
- Bathing waters
- EPA

- Catchment management
- Scope 1 and 2 GHG reduction
- Renewable electricity generation
- Biodiversity units

- PSR volumes
- Number of customers on social tariffs
- Customer measure of experience (C-MeX)
- Business customer and retailer measure of experience (BR-MeX)

2030 outcomes

Strengthening resilience

Strengthening resilience

Protecting the environment

Delivering for customers

Looking ahead to 2030, we are focused on addressing the most pressing challenges facing our regions, supported by a commitment to sustainable returns and building trust through transparency and responsible operations. These outcomes align with Ofwat's expectations, our ESG priorities and the long-term financial sustainability of the business.

Our people and culture

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

With nearly 4,000 colleagues across our Group, we understand the scale of our responsibility both as a major employer and as a provider of essential public services.

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

Prepared to deliver

This year we have continued to shape the Group so we are set up to deliver with greater clarity, capability and operational focus. We have aligned our structures, strengthened frontline teams and made progress in ensuring we operate as one integrated organisation. These changes mean we are better positioned to meet the delivery challenges in AMP8 and beyond and respond confidently to heightened scrutiny across the water sector. We welcomed our new Group Chief Executive Officer on 1 April 2026, through a series of in-person meet and greets across the Group. Keith has held open forums in order to share the next phase of our transformation, and to encourage transparency with colleagues.

Our values and culture

Our culture remains the foundation of how we work and how we deliver for our customers and communities. This year we continued to embed our values Be You, Be Rock Solid and Be The Future, ensuring they guide the decisions we make, the standards we set and the behaviours we expect every day. Our values are now firmly part of the colleague experience – from onboarding and training, to recognition and leadership development. In the spirit of 'Be You' we continued to reinforce our values through our engagement programmes – including colleague listening through our Employee Network Groups, and our 'You Rock' Awards, which celebrate those who live our values in action.

These initiatives have helped colleagues feel more connected to our purpose and to each other, strengthening a sense of shared ownership and pride.

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

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

Learning and development

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

Leadership Development

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

Empowered to Act

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

H2Grow

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



📍 Bristol – Littleton Water Treatment Works

Early careers

Our commitment to developing future talent remains strong. We continue to be active members of the 5% Club, reinforcing our ambition to ensure that at least 5% of our workforce consists of apprentices, graduates and trainees. Since 2021, we have onboarded 105 graduates, and we have 75 colleagues on apprenticeship programmes. Our graduate and apprenticeship programmes remain a key part of our talent pipeline, supporting skills development in priority areas.

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

Recruitment and attracting talent

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



📍 Area 6 Croyde

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

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

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

Our commitment to inclusive hiring continues to strengthen. We closely monitor application trends to identify areas for improvement and ensure our processes remain fair and accessible. During the year, 35% of applicants were female and 45% were from ethnically diverse backgrounds, signalling healthy engagement from groups historically not represented in the utilities sector.

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

Equity, Diversity and Inclusion

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

Launching our family friendly policy

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

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

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

Expanding and strengthening our Employee Resource Groups

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

Key progress included:

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

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

Establishing the Pennon Inclusion Council

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

The Council focuses on:

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

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

Broadening access to opportunities

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

We also continued working with Change the Race Ratio, aligning our ambitions for diverse leadership with nationally recognised standards and strengthening transparency through annual benchmarking and data disclosure.

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

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

Launching ExtraShare

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



⌚ Bottled water collection station during a Plymouth water outage

Our people and culture continued

Our gender and ethnicity pay gap

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

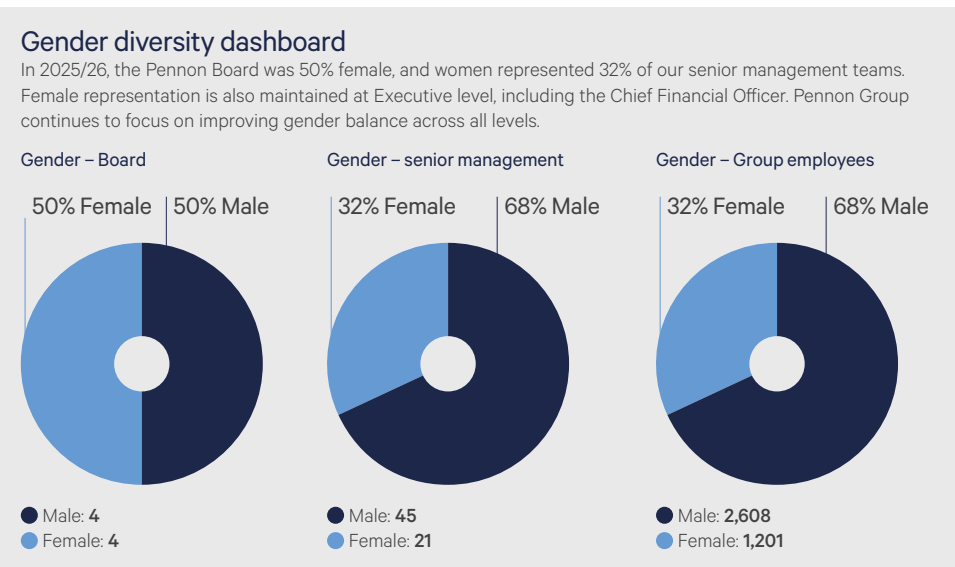
We have published our Gender Pay Gap report for the past seven years, and this year we are pleased to publish our Ethnicity Pay Gap report for the second consecutive year. The latest results show encouraging progress, with our median gender pay gap reducing from 11.1% to 9.6% and our median ethnicity pay gap improving from 11.9% to 10.7%. While these shifts are incremental, they reflect sustained focus on representation, progression and fair reward, underpinned by strengthened governance, clearer leadership accountability and deeper colleague engagement. Both reports are available on our website:

www.pennon-group.co.uk

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

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

➔ For detail on our Board and leadership ethnic and gender representation, please refer to page 118



Our Three-Year EDI Action Plan (2026–2028)

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

Strengthening Representation

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

Improving Inclusion and Accountability

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

Expanding Social Mobility and Talent Pipelines

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

Governance and Transparency

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



HomeSafe, the Group's flagship health and safety programme

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

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

Cornerstone activity

Process safety

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

Occupational safety

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

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

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

Occupational health and wellbeing

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

Security

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

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

In the year we delivered a stable year in terms of total injuries, however over the winter period we had an increase in the number of short duration lost time incidents, almost exclusively as a result of a slip or trip. Consequently, our number of lost time incidents and our Lost Time Incident Frequency Rate (LTIFR) increased. We ended the year at 28 lost time incidents, with over half of these happening between December and March. Our LTIFR increased from 0.24 to 0.39. We have developed re-energising plans for the new year to address this, reconnecting people to the emotional elements of why HomeSafe is so important to everyone at Pennon.



Occupational Safety:
focusing on the individual



Process Safety:
focusing on the high consequence processes within our water and wastewater treatment process



Occupational Health and Wellbeing:
focusing on physical and mental health



Security:
focusing on physical and personnel security

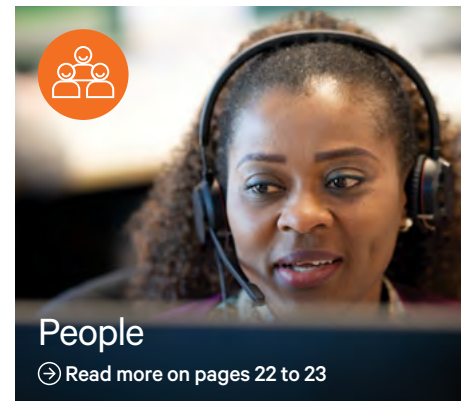
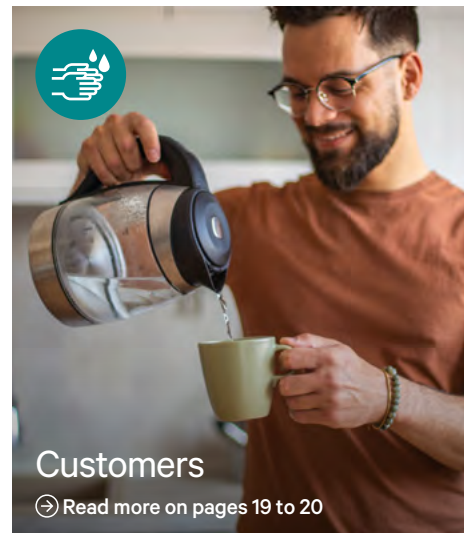
Stakeholder engagement

Pennon, a business that listens and acts.

Overview

We believe the best decisions are made when everyone has a voice. That's why we maintain regular, open dialogue with our stakeholders, from customers and community groups, to regulators and environmental partners.

These conversations are not a formality, they are a vital part of how we shape our strategy, make decisions, and deliver meaningful outcomes. By listening closely to what matters to our stakeholders, we can respond effectively, and ensure our actions deliver real value to the communities we serve.





Customers

Who they are

Our businesses provide water and wastewater services to 4.3 million residents across the South West and Sutton and East Surrey regions. Each year, we also support around 10 million visitors to the South West, making our services vital not only to local communities but to the regional economy. Nationally, we serve 210,000 business customers across England through our non-household businesses.

Why we engage

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



Engaging with an SES customer



Sidmouth

Key highlights

80,000

customers are shareholders through WaterShare+

260+

customers joined our WaterShare+ meetings and spoke directly to our Executive

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

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

Stakeholder engagement continued

How we engage

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

Customer insight underpins both our long-term strategy and our day-to-day decision-making. Our plans to 2030 are built on a deep understanding of what matters most to customers and communities, with our sector-leading WaterShare+ panel at the heart of this approach.

Through WaterShare+, customers provide structured challenge, shape key decisions and hold us to account. We also benefitted from the opportunity to participate in Consumer Council for Water's (CCW) WaterVoice accountability sessions, launched this year across the sector, to listen, feed back, and agree actions in respect of three issues raised by customers. The fresh perspective this brought highlighted the need for heightened communication and extensive engagement, and we welcome the opportunity to receive feedback through a different lens, on some familiar themes.

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

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

We also use targeted research to prepare for future challenges. In the SES region, we worked with other southern water companies to understand customer priorities during periods of severe drought, shaping our approach to drought planning, demand management and customer communications.

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

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

Our WaterShare+ model enables customers to hold shares in Pennon Group, giving them direct ownership in their local water company. It also gives all customers the ability to speak directly with and challenge us through our open WaterShare+ customer panel meetings.

This unique model allows customers a greater say in their water company, providing customers with a vital platform to engage directly with us and play an active role in shaping our decisions.

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

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

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



© Newton Abbot Outreach Programme

Your bill explained

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

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

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

Important information about your bill

From 1 April 2026, your water bills will increase. We understand this is never welcome news, but we're here to help.

This leaflet explains:

- 1 Why are bills increasing?
- 2 Our goals to 2030
- 3 How you can find support

1 Why are bills increasing?

We're investing to prepare our region for the future. Speaking to customers from across your area has shaped our priorities:

- Providing reliable, safe water supplies
- Supporting healthier rivers and seas
- Taking action on climate change.

To meet these challenges, the water regulator Ofwat has agreed the cost of water in your area will need to increase from 1 April 2026.

In the last year we have:

- Reduced storm overflow spills with the help of a £760m spending programme
- Invested in renewal of mains pipes, helping to prevent bursts and leaks.

Reduce your overheads by saving water

Simple water-saving tricks can cut your bills and help the environment. For tips and free water-saving devices see southwestwater.co.uk/save-water



Communities

Who they are

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

Why we engage

We are part of the communities we serve, with around 4,000 colleagues living and working locally. We care deeply about the places we call home and are passionate about sustaining and improving them, for our customers, our families and our friends. Through this strong local presence, we actively engage with communities to ensure people have a meaningful voice in shaping the services we provide and the environmental outcomes that matter most to them.



Farm and Country show

How we engage

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

Our award-winning education centre in SES: Flow Zone

Flow Zone, our state-of-the-art education centre at Bough Beech Reservoir, remains the cornerstone of our SES education programme. Led by former primary school teachers, the centre offers free, curriculum-linked school visits from Year three onwards, supporting teachers to bring water, environmental and sustainability learning to life.

Throughout the year, Flow Zone has continued to demonstrate strong demand, high occupancy and consistently positive feedback from schools. In total, 5,478 pupils engaged with our education programme, with over 138 schools supported through on-site visits and outreach activities, including school and nursery visits, Special Educational Needs (SEN) groups and hospital settings.

Now five years old, the centre has become a valued learning resource across Kent and the wider region. Interactive sessions are carefully aligned to the National Curriculum, focusing on topics such as the water cycle, potable water, water efficiency and responsible behaviours.

A typical visit begins in the Flow Zone classroom, where pupils explore the local geography, the journey of water and the history of the reservoir. This is followed by a guided walk through a tunnel beneath the reservoir itself, before a second-stage tour of the water treatment works, allowing learners to see treatment processes first-hand.

Feedback consistently highlights the expertise of delivery staff, their ability to build rapport with pupils and adapt sessions for SEN groups, and the creation of memorable, practical learning experiences that reinforce classroom teaching.

In the wider south west we reached 9,449 pupils in 151 schools. In SES we reached 5,478 pupils in 138 schools.

We also work closely with community partners to deliver nature-based solutions, restore peatlands, protect water quality and improve access to lakes and reservoirs for recreation and wellbeing. Our charitable giving and community funds support projects that deliver social, environmental and health benefits across our regions.

In November 2025, Flow Zone's Learning Outside the Classroom Quality Badge was successfully renewed, reflecting nationally recognised standards of quality endorsed by the Department for Education. Since 2025, the centre has also worked closely with the National Autistic Society to develop as an Autistic Friendly Setting.

Supported by community engagement and promotional activity, Flow Zone continues to play a key role in instilling efficient water habits from an early age.



Flow Zone

“ The whole visit, from start to finish, was exceptional. The information was perfectly pitched for the age group and the access to the processing areas was fascinating.

Teacher, Four Elms Primary School, Edenbridge, Kent

Better Futures Fund

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

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

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

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

Better Futures

to date April 25 – March 26

	SWB	BRL	BMTH	SES
Number of grants	27	16	12	14
Value awarded	£182,193	£111,627	£42,096	£63,872
Number of beneficiaries	31,812	60,438	28,595	20,580

Stakeholder engagement continued



People

Who they are

Across the Group, almost 4,000 colleagues contribute to our work in a wide range of operational and corporate roles. Their commitment underpins everything we do, from maintaining vital water and wastewater services to ensuring our customers receive clean, safe drinking water every hour of the day.

Key highlights

Focused on performance

We rallied all colleagues across our Group to tackle our biggest challenge – reducing storm overflows and pollutions. We introduced a Group-wide ‘challenge’, tailored to different areas of the Group, so that wherever you work you could learn more about this strategic priority and demonstrate your commitment to improving our performance.

‘You Rock’ Awards evening

Celebrated colleagues across our Group who exemplify our values in action.

Launching Teamtailor

A faster, more intuitive and inclusive recruitment process, improving the experience for both candidates and hiring managers.

c.2,300

colleagues now use Viva Engage, our internal communications platform colleagues

Why we engage

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

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

How we engage

Listening and acting on employees’ views

We take our responsibility to listen, to understand and support our employees seriously. Our s172(1) statement on pages 114 to 116 outlines how employee interests are considered in our decision-making.

Speak Up

Our Speak Up whistleblowing policy continued to operate throughout the year, and remains a vital channel for open, safe and transparent communication, helping us build a culture of trust. Colleagues are able to speak up and are supported if they do so. Read more on Speak Up on page 125 in the Corporate Governance report.

Building consistent connection

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

Celebrating colleagues: The ‘You Rock’ Awards

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

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

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

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

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

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



‘You Rock’ Awards 2025

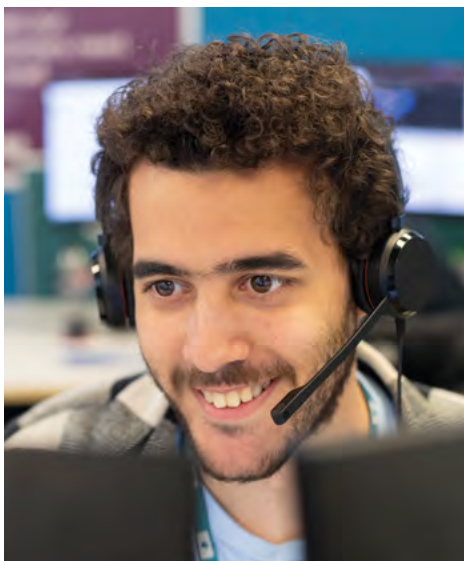


Pennon ‘You Rock’ Awards – Winners

Internal communication activities

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

- Big Chat video calls with the Group Chief Executive Officer and the Executive team are held regularly, and focus on our progress against our strategic priorities, topical business issues and colleague highlights. In response to colleague feedback, we have broadened the group of speakers, involving colleagues from all areas and levels across the Group.
- Senior leader events are held for each business area, bringing together our leaders in person for a range of communication and engagement activities to equip and inform them.
- We've introduced senior leader briefings to make sure our leaders are informed of key business updates ahead of their teams, allowing them to own the cascade of information and be fully prepared to answer any questions from their teams.
- We've strengthened the communications cadence across our Group, making sure we can reach the frontline colleagues in each business unit. This has been built based on the communication preferences and insight within each unit, allowing us to tailor the approach to colleague needs.



Redhill customer Services Team

- Viva Engage, our internal communications platform, continues to grow in popularity, now used by over 2,300 employees.
- Breakfast briefings are now held every six months with our frontline teams; these sessions bring senior leaders on site to recognise the teams who work tirelessly around the clock and to create meaningful two way dialogue, ensuring operational insight and colleague feedback directly shape our priorities.
- We 'Set the Record Straight' on media headlines, creating bespoke briefings for all teams so that they are fully aware of the facts behind the headlines, equipping all colleagues to answer queries from customers, friends and family – and also making sure our colleagues can maintain pride within a difficult external environment.
- WaterWorks, our monthly performance dashboard, continues to keep all colleagues informed on how we are delivering for our customers, communities and the environment, providing clear visibility of progress, priorities and key metrics across the Group.

Employee resource groups

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

Refreshing our engagement survey approach

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

The Great Big Sparkle Challenge

Uniting our business to tackle our biggest wastewater challenges

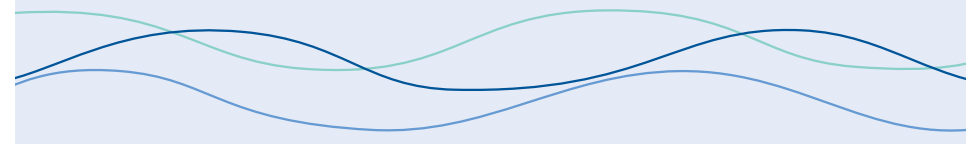
During summer 2025, we committed to tackling storm overflows and pollution through the power of the whole business working together as one team. That commitment became Operation Sparkle — our Group-wide programme aimed at improving environmental performance, strengthening our wastewater network, and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

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

How colleagues took part in the Great Big Sparkle Challenge:

- Visiting storm overflows to better understand local risks and opportunities for improvement.
- Joining Wastewater Afternoon Tea calls to listen, learn and share insights on pollution reduction.
- Submitting innovative ideas to help tackle sewer misuse and support long-term behavioural change.
- Making a Sparkle Pledge, committing personally or as teams to actions that improve environmental performance.
- Bringing Wastewater Services (WWS) performance into team meetings, creating space for open conversations about pollutions, learning, and how each team can contribute.

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



Stakeholder engagement continued



Suppliers

Who they are

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

Why we engage

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

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

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

How we engage

More than 1,000 schemes have already been mobilised through the amplify supply chain partnership and 100% of the AMP8, Year 1 WINEP schemes were completed as of 31 March 2026.

As projects move from design into construction these actions are supporting delivery of the £3.2 billion¹ investment to 2030.

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

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

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

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

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

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

Key challenges and how we are responding

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

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

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

Outcomes, achievements and actions

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

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

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

Key highlights

£3.2bn¹

2025-2030 infrastructure plan

1,000+

schemes already underway

1. In forecast outturn prices.





Investors

Who they are

We have a broad and diverse investor base, including institutional equity investors, retail investors, many of which are customers, and a range of debt providers.

Around 50% of Pennon’s shares are held by UK-based investors including individuals, pension funds, and charities.

Our diverse debt portfolio includes institutional debt investors, lessors and bank debt.

Key highlights

c.80,000

customers are shareholders under WaterShare+

over 1/3

of the Group’s c.4,000 employees are shareholders

Why we engage

As a publicly listed company, access to capital and debt markets is vital to fund our growth and the sustained long-term performance of our business. To maintain investor confidence, we ensure our shareholders and lenders have a clear understanding of our strategy, ambition, performance, and culture.

We provide regular updates on financial and non-financial performance, including environmental, social and governance (ESG) progress, reflecting the growing importance of sustainable investment.

We also maintain a proactive and transparent dialogue with our debt investors, keeping them informed on credit metrics, long-term funding strategies, and ESG initiatives. This approach strengthens investor confidence and ensures ongoing access to a broad range of debt capital markets.

How we engage

We run an extensive investor relations programme to ensure that all investor-related stakeholders are informed of our business, its strategy and prospects.

- Regular engagement via our investor relations team, and regular meetings with our Group Chief Executive Officer, Group Chief Financial Officer, and Group Chair
- Half year and full year results presentations, followed by Q&A sessions and roadshows to meet with investors
- Group and one-to-one meetings with UK and overseas investors
- Engagement with debt investors through regular meetings and investor conferences
- Our Annual General Meeting (AGM), where retail shareholders can ask questions directly to the Board
- Engagement with investor representative bodies, including proxy agencies

Through our unique WaterShare+ scheme, customers can become shareholders in Pennon Group, giving them a stake and a say in their water company. We also work closely with the independent WaterShare+ Customer Advisory Panel to ensure we continuously engage with our customer-shareholders.

Key challenges and how we are responding

In today’s evolving investment landscape, transparency, trust, and long-term value creation are more important than ever. Over the past year, we have responded to various challenges through our continuous engagement with investors. This included; consultation on ESG issues through our ESG Chair, Dorothy Burwell; the retirement of the Group Chief Executive Officer and the subsequent recruitment and transition to a new one; an update on the strategy and regulatory landscape as we moved into the new regulatory period to 2030, and ongoing engagement under our £2.5 billion EMTN programme to support continued issuance activity. In addition, members of the Remuneration Committee met with the Company’s top shareholders as part of our Remuneration Policy consultation.

Outcomes, achievements and actions

Our sustained investor engagement throughout 2025/26 has played a vital role in ensuring investors understand our investment case. Through open and transparent communication, we have provided investors with clear visibility into our strategy, performance, and financial resilience.

The Treasury team delivered a comprehensive engagement programme, holding 104 meetings with banking partners and 58 meetings with investors, across group sessions and targeted bilateral discussions, including key investors in the sterling public bond market.

During 2025/26, the management team met with 83% of our institutional investors (based on issued share capital), holding 96 meetings and calls with existing and prospective investors.



Site survey

Stakeholder engagement continued



Regulators

Who they are

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

Key reform highlights

April 2025

We provided our response to the Independent Water Commission's Public Call for Evidence on industry reform. We welcomed the review, which largely reflected the prior engagement we had with Sir Jon Cunliffe and his team.

July 2025

The Independent Water Commission published their final report, setting a clearer and more coherent long-term direction for how the water system should be planned, regulated, and governed.

Summer – winter 2025/26

We engaged regularly with Defra and regulators, as well as participating in and organising industry working groups, to unpick the practicalities of reform. Through these forums we discussed key themes, such as regional planning and supervision, and our views on the development of PR29.

January 2026

The Government published their Water White Paper outlining their plans to reform the water sector. We were encouraged that their intentions largely reflected the Commission's report and our engagement with Defra and wider stakeholders.

January 2026 to present

We continue to engage with Government, regulators, industry, and wider stakeholders to support the early implementation and long-term delivery of reform.

Why we engage

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

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

How we engage

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

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

Key challenges and how we are responding

The water sector is entering a decisive phase of reform. Expectations on companies have never been higher, and climate driven shocks continue to test our networks. This underlines the importance of delivering our £3.2 billion¹ investment plan to strengthen networks, secure water resources, and improve rivers and seas.

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

1. In forecast outturn prices

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

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

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

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

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

Outcomes, achievements and actions

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



SES Drinking water event

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

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

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

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



Policy makers

Who they are

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

Key highlights

SES Water – Cheam – Luke Taylor MP

Luke Taylor MP visited our £4.5 million upgrade to strengthen resilience at Cheam water treatment works, securing high-quality drinking water for 100,000 people through improvements to filtration, chemical dosing and treated water pumping.

Bournemouth Water – Alderney – Emma Hardy MP

The Water Minister visited our Alderney water treatment works site and welcomed the £113 million modernisation investment, including future-proof technology to deliver more sustainable and eco-friendly water supplies.

South West Water – South Milton sewage treatment works – Caroline Voaden MP

We showcase our major investments through on-site tours, including the upgraded South Milton Sewage Treatment Works.

Bristol Water – Chew Valley Lake – Defra

Defra, the Rivers Trust and West Country Water Resources came together at Chew Valley Lake to discuss catchment partnerships and regional planning, supporting collaborative work on future schemes including the Cheddar 2 reservoir.

Why we engage

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

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

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

How we engage

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

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

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

Key challenges and how we are responding

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

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

Outcomes, achievements and actions

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

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



Leakage detection in Bristol

Pennon delivery framework

Our four strategic priorities underpin and define everything we do.

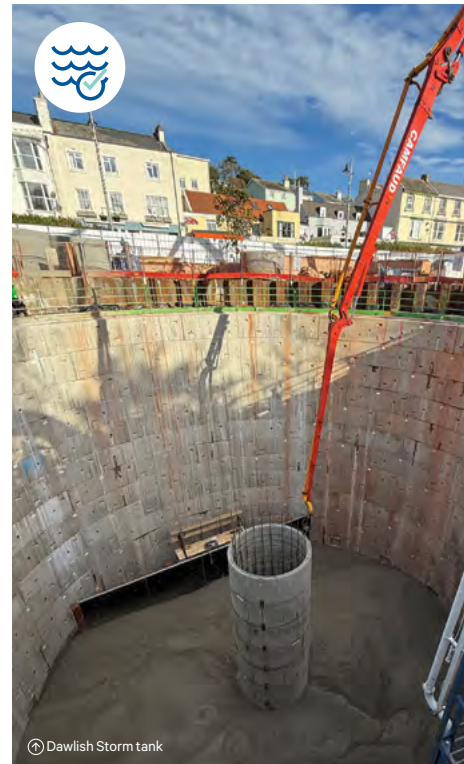
Based on customer priorities, we have structured our delivery plans to 2030 to focus on what matters most, ensuring we are well positioned for long-term success. Our water business is now aligned to these priorities, enabling us to deliver for the environment, meet customer expectations, and fulfil our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



Building water resources, improving water quality

Our purpose is rooted in the sustainable stewardship of water, a resource vital to communities and ecosystems, now and for generations to come.

→ Read more on pages 29 to 35



Tackling storm overflows and pollutions

Tackling storm overflow spills and reducing pollutions is of utmost importance to us, ensuring we protect the environment and respond to the concerns of our customers and communities.

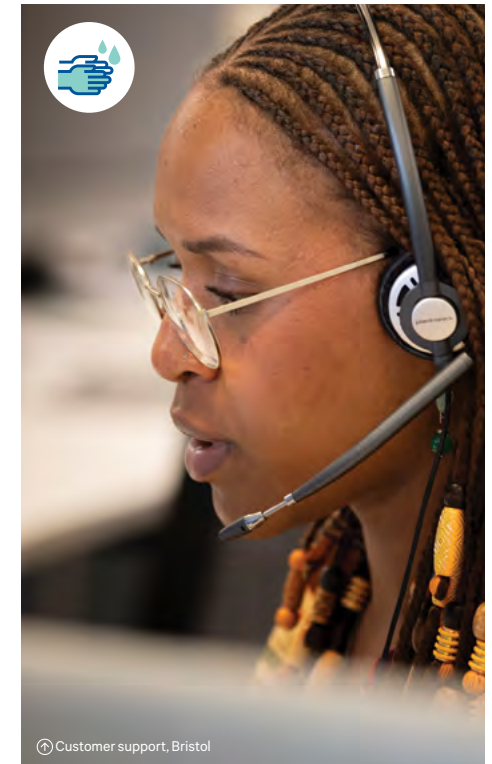
→ Read more on pages 36 to 41



Driving environmental gains and delivering Net Zero

Pennon is proud to be at the forefront of environmental infrastructure, delivering sustainable outcomes for our customers, communities, and ecosystems.

→ Read more on pages 42 to 46



Supporting affordability, delivering for customers

Addressing affordability means focusing on two core priorities: driving efficiency to keep bills as low as possible, and providing meaningful support to those who need it most.

→ Read more on pages 47 to 51



Building water resources, improving water quality

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

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

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

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

£341.3m
capital investment in water services in 2025/26. Delivering a resilient, sustainable, and high-quality water service across our regions.

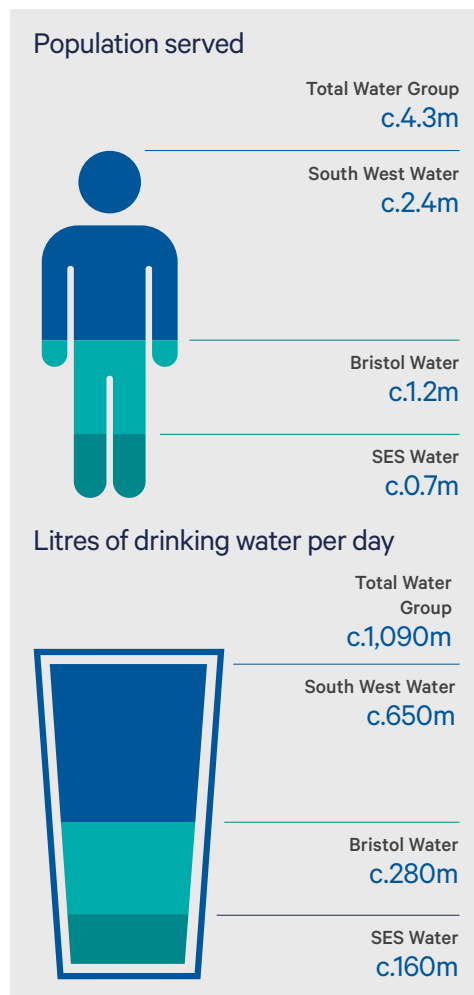
Delivering resilient, high-quality water services across our regions

We supply around 4.3 million customers across all regions. With hot weather comes higher demand for water, and the investment we made following the 2022 drought has seen benefit in the current year, with all our regions, Devon, Cornwall, Isles of Scilly, Bristol, Bournemouth, parts of Dorset, Sutton and East Surrey, operating without temporary use or 'hosepipe' bans despite the high demand in the hot summer period. This achievement underscores our commitment to resilience and reliability, doing the right thing for our assets to maintain their health and strengthen our performance.

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

However, there remains more to do in other areas, as we recognise the impact on customers of incidents when they do cause supply interruptions, and that we have not met our targets in a number of key measures. Targeted capital investment in water services totalling £341.3 million in 2025/26, alongside disciplined asset management and ongoing focus on continuous improvement and learning the lessons of any operational incidents, will enable us to meet these challenges head-on.

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



Pennon delivery framework continued

Building water resources, improving water quality continued

Water quality and resilience: proactive improvements and innovation

Providing safe and reliable drinking water remains our highest priority, serving approximately 4.3 million customers across our regions. Our water quality performance continues to improve year-on-year, as reflected in our water sampling results, which demonstrate improved outcomes year-on-year, a testament to our Quality First approach which integrates preventative maintenance, proactive cleaning, and real-time monitoring, allowing for early detection and resolution of issues and reducing repeat failures.

The Drinking Water Inspectorate measures water quality through its Compliance Risk Index (CRI). Sutton and East Surrey (SES Water) achieved a CRI of 0.00, demonstrating industry-leading compliance whilst South West Water (including Bournemouth Water, 'SWB') maintained a top-quartile CRI of 1.37, reflecting our long-term investments to improve water quality and ongoing operational improvements with respect to tank inspections and maintenance. Bristol Water (BRL) saw a deterioration with a CRI of 3.95, due to an isolated sample failure (equating to a score of 2.93) that was swiftly addressed through daily monitoring and thorough investigation. To further strengthen compliance, we launched a comprehensive treatment process risk review programme in Bristol, targeting sustainable improvements and reducing testing failures at our treatment works.

Strategic investment in Water Treatment Works

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

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

Enhancing customer confidence: taste, smell and appearance improvements

Maintaining customer trust in water quality is essential. Building on our ongoing commitment to water quality and customer satisfaction, we continued to make progress across all regions, as reflected in our performance against Taste, Smell, and Appearance targets. Whilst we have more to do to reach the stretching targets set for AMP8, in the South West, customer contacts regarding taste, smell, and appearance have reduced year-on-year, with performance in 2025/26 reducing to 1.55 contacts per 1,000 customers. This improvement stems from our ongoing focus on process optimisation and proactive engagement across each region. Looking ahead, we remain dedicated to further enhancing water quality and customer experience, implementing region-specific initiatives and leveraging technology to drive continuous improvement.

Bristol Water (BRL) recorded 0.97 contacts per 1,000 customers, compared to the target of 0.76, positioning the company within the top half of the industry. Sutton and East Surrey (SES) achieved 0.74 contacts per 1,000 customers, also above the target of 0.63 but outperforming the industry average of 1.11.

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

Water softening

At SES Water, we are the only water company to soften water before supplying it to our customers. Water is partially softened at five of eight treatment works, producing approximately 80% of the water supplied. Our performance target remains challenging, at zero exceptions allowed; our softening performance is independently assured, with resilience improvements underway to mitigate weather-related risks and reduce customer contacts relating to water hardness.



Alderney

Lead pipes

Around 80,000 lead pipes remain in our South West and Bournemouth (SWB) regional network, with c.120,000 in Bristol (BRL) and c.100,000 in SES Water (SES).

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

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



Alderney build in progress

Water resources, security and climate resilience

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

We activated our drought plans, but did not need to impose any customer supply restrictions or drought orders; by March 2026, the action we took to ensure operational resilience, coupled with rainfall across the winter months, meant that storage levels finished the year well ahead of anticipated needs across the coming summer, with storage recovered to 98% and groundwater levels remaining above average in some areas.

Leakage and network efficiency

Reducing leakage remains central to long-term supply resilience. The year presented significant challenges, particularly in the South West, due to dry ground conditions leading to record soil moisture deficits during late spring and summer 2025. This was followed by several freeze-thaw events and severe storms across the winter period. These conditions increase pressure on our networks and we experienced higher burst frequency across our networks.

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

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

In South West and Bournemouth, the unusual weather conditions hindered significant leakage reduction over the summer, with high volumes of work required to maintain leakage levels across the hot weather period and during the freeze-thaw weather in November and December. Record activity in leak detection and repair was achieved, with more fixes carried out than ever before. Leakage levels of 113.5 MI/d in 2025/26, returned to those of the previous year, but fell short of the in-year

target to close the gap on the rolling average. This will impact on our ability to achieve the regulatory three-year average leakage measure, albeit plans are in place to return to target in the middle year of the current regulatory period.

SES Water delivered leakage performance of 23.4 MI/d in 2025/26, slightly above the three-year rolling regulatory target. We remain focused on further reductions, successfully embedding a new leak detection contractor in early 2026. SES's award-winning DMA Asset Health programme, alongside continued investment in smart network technology – including the use of satellite detection – supports targeted network optimisation and pressure management, contributing to further leakage savings.

Supply interruptions and network reliability

The impact of weather on leakage also had a consequential impact on our supply interruption performance, as a result of an increase in burst pipes. Despite these challenges, our operational teams ensured that around three-quarters of bursts resulted in no impact to customer supply. In SES, supply interruptions including planned maintenance remained at industry leading levels, with total time lost of 2 minutes and 58 seconds, well within the regulatory 5-minute target.

This strong performance is attributed to SES's ongoing resilience programme, which enhanced network connectivity and monitoring technology, enabling faster and more accurate burst identification.

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

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

Isles of Scilly – resilience

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

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

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

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

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



Isles of Scilly

Pennon delivery framework continued

Building water resources, improving water quality continued

Managing demand and ensuring efficiency

Household demand

Reducing household demand remains a strategic objective, balancing affordability and environmental outcomes. The government target is to reduce per capita consumption to 110 litres per person per day by 2050.

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

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

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

Business demand

Reducing non-household water demand continues to be a strategic priority, supporting both our environmental commitments and efficiency objectives. The Government has set a target for a 9% reduction in business consumption by 2038.

Similarly to household demand, the hot, dry summer put pressure on business demand, in particular for agriculture and tourism activities. For agriculture demand was higher from April onwards compared to 2024, and for tourism a similar trend was seen across the Easter holiday period, and then consistently from June through August. This has resulted in our 25/26 business demand for all regions being higher than for 24/25. Despite this, however, the Bristol Water region still delivered on its 3-year ODI target, with SES also on track. Progress in the South West and Bournemouth is more challenging however across the region, and in Bristol, we have been supporting businesses with our free water efficiency visits. 111 visits were completed in the South West and Bournemouth, and 28 in Bristol. The visits prioritise washroom efficiency, including the installation of new tap inserts and shower heads, as well as repairs to leaking taps and toilets.

To further encourage sustainable water use, we launched a dedicated business water efficiency grant fund in February 2026. The fund supports projects that deliver measurable water savings, with a minimum cost benefit of £0.80 per litre saved per day.



④ Bristol mains repairs

Cheddar 2 Strategic Resource Option (SRO)

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

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

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

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



Cheddar reservoir

Pennon delivery framework continued

Building water resources, improving water quality continued

Operational KPIs

Water quality (CRI score)

South West Water (SWB)

2025	1.37
2024	1.19
2023	3.02

Bristol Water

2025	3.95
2024	2.82
2023	7.05

SES Water

2025	0.00
2024	0.00
2023	0.01

The Compliance Risk Index (CRI) is the Drinking Water Inspectorate's (DWI) measure of water quality. For SES Water, 2025 saw another year of CRI of 0.00. This represents another year of industry leading water quality performance reflecting full compliance. For the SWB region, 2025 saw a CRI outturn of 1.38, well within the regulatory deadband and maintaining our top quartile industry performance.

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

Taste, smell and colour (Contact per 1,000 population)

South West Water (SWB)

2025	1.55
2024	1.87
2023	1.66

Bristol Water

2025	0.97
2024	0.95
2023	0.82

SES Water

2025	0.74
2024	0.58
2023	0.58

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

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

For SES, contacts were also 0.74 per 1,000 customers, above the target of 0.63 but better than the industry average of 1.11 per 1,000 customers.

Unplanned outage (%)

South West Water (SWB)

2025	2.39
2024	2.09
2023	1.15

Bristol Water

2025	1.93
2024	1.57
2023	2.58

SES Water

2025	0.33
2024	4.01
2023	0.81

In respect of unplanned outage, Bristol Water comfortably outperformed with a rate of 1.93% against a target of 2.78%. Similarly, SES Water outperformed with a rate of 0.33% against a target of 1.0%. SWB was marginally above its performance target of 2.14% with a rate of 2.39%. 58% of this impact was caused by an unplanned outage of a slow sand filter (SSF) at Bournemouth's Knapp Mill water treatment works. That SSF will be returned to service in 2026/27 and we expect SWB performance to return to underlying levels this year, on or ahead of target.

Note: Non-financial KPIs are calculated on financial year basis, with the exception of: Water quality; Taste, smell and colour; Unplanned outages; Pollution incidents; and Numeric compliance, which are calculated on a calendar year basis.

Supply interruptions (Duration per property per year)

South West Water (SWB)

2025/26	1:09:14
2024/25	00:14:44
2023/24	00:09:18

Bristol Water

2025/26	00:33:42
2024/25	00:07:21
2023/24	00:09:24

SES Water

2025/26	00:02:58
2024/25	00:26:37
2023/24	00:03:36

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

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

SES remains a sector leader, with total supply interruptions of 2 minutes and 58 seconds, well within the target of 5 minutes.

Leakage (3-year average – megalitres per day)

South West Water (SWB)

2025/26	113.3
2024/25	112.8
2023/24	107.1

Bristol Water

2025/26	36.3
2024/25	38.5
2023/24	37.6

SES Water

2025/26	21.4
2024/25	21.2
2023/24	21.5

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

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

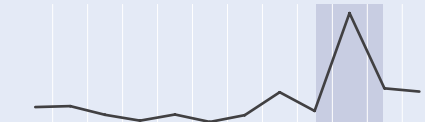
The early months of 2026 were challenging, with five named storms, including Storm Goretti. Following freeze thaw conditions in late 2025, this had a significant impact on our water networks in the south west, with a significant increase in mains bursts, and consequential impacts on both leakage and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

Managing water resilience

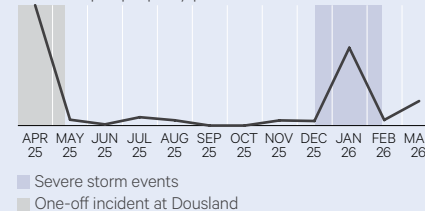
Leakage (megalitres per day)



Burst mains (per 1,000km of main)



Supply interruptions (minutes per property per month)



Mains repairs (Number of repairs per 1,000km)

South West Water (SWB)

2025/26	169.3
2024/25	127.5
2023/24	134.6

Bristol Water

2025/26	150.3
2024/25	121.0
2023/24	124.8

SES Water

2025/26	78.5
2024/25	61.9
2023/24	63.8

Asset health is essential for ensuring a robust supply of water to our customers.

As with leakage, unusual weather conditions impacted on our operational performance with increased numbers of mains repairs required, as we focussed on fixing the impact of storm conditions or hot weather on our network, as well as on driving down leakage across all our regions.

Pennon delivery framework continued



Tackling storm overflows and pollutions

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

During the year, we maintained 100% bathing water compliance¹ for the fifth consecutive year and delivered improved performance, including a reduction in storm overflow spills of

c.17%
and a reduction in pollution incidents of

c.34%
absolute number

c.53%
normalised pollutions

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

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

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

Storm overflows

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

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

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

Alongside our AMP8 programme – targeting investment at all bathing beaches by 2030 – we also focused on targeted interventions at our highest spilling sites.

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

Investment and operational improvements delivered during the year included:

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

Monitoring and transparency

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

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

Bathing waters

Bathing waters across the South West remain among the cleanest in England. In the 2025 annual bathing water assessments, 96.2% of bathing waters were classified as Excellent or Good. South West Water maintained 100% bathing water compliance for the fifth consecutive year¹.

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



St clear

1. Excludes newly designated bathing waters in 2024.

50% spill reduction at the top five spillers

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

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

2024 rank	Spilling overflows	2025 spills
1	Salcombe Regis STW	↓ 36%
2	Abbotsham STW	↓ 40%
3	Roborough STW	↓ 56%
4	Dulford SPST	↓ 53%
5	Payhembury STW	↓ 57%



Payhembury



Salcombe Regis

Pollution incidents

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

Our PIRP in 2025 was underpinned by five pillars:

- People and culture – approximately 50 managers completed dedicated training and over 200 colleagues completed mandatory training covering chemicals and site drainage. A business-wide campaign ‘The Great Big Sparkle Challenge’, received over 1,000 entries to drive improvements across wastewater operations.
- Customer and community engagement – delivery of our sewer misuse campaign, Bin It Don’t Block It, alongside approximately 5,500 visits to misuse hotspots.
- Smarter operations – development of an enhanced catchment-based sewer cleansing programme, with 114km of sewers cleansed, alongside enhanced pumping station maintenance.
- Asset health and investment – targeted investment to address known risks and improve resilience, informed by incident learning and performance data; for example, replacement of a high-risk rising main at Dunkeswell.

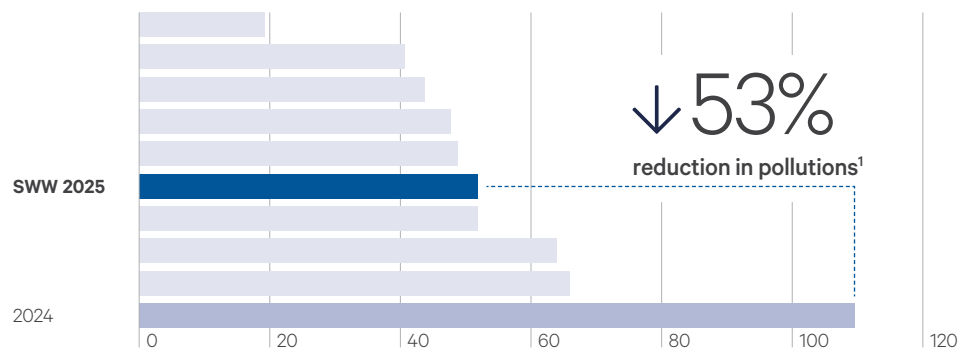
- Data, insight and assurance – improved monitoring, investigation and reporting to support faster interventions and sustained performance improvement. We have seen a 76% success rate using AI driven alerts from 12,000 sewer level monitors, to drive positive and timely interventions in our network.

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

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

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

Industry pollutions per 10,000km



¹ Based on 2025 Draft Industry performance (subject to Environmental Agency Publications) from Pollution Incident Reduction Plan published in March 2025, using the Environmental Agency’s EPA metric reflecting EA recognition of increased sewer length.

Pennon delivery framework continued

Tackling storm overflows and pollutions continued

Operational compliance

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

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



North Petherwin storm tank

Sewer flooding and network performance

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

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

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

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

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



Sidmouth beach

Environment Performance Assessment (EPA) and WINEP delivery

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

Whilst we have made progress in a number of measures monitored by the EPA, disappointingly, the provisional 2025 EPA rating is 1*. This reduction year-on-year results from improving performance against operational measures such as pollutions, although with more to do to achieve amber and/or green status. However, progress against our WINEP capital programme has resulted in a deterioration in the EPA score year-on-year; we achieved 18 out of 19 of our Year 1 deliverables, and delivered 30 wastewater investigations earlier than required. However, to achieve amber status or better, 98% of projects must be delivered, including any outstanding AMP7 programmes. 9 AMP7 projects had dates due for completion by March 2026; we delivered 6 of these, with one completed since 31 March and two deliverables under discussion with the Environment Agency. Any single failure would have resulted in a red metric for the EPA given the relatively low level of projects due for completion and we remain focused on delivering all elements of the programme on time as we progress through the delivery period.

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

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

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



Dawlish

Dawlish – investing to reduce storm overflow spills

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



Dawlish wastewater solution

Investing for the future

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

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

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

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

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

Pennon delivery framework continued

Tackling storm overflows and pollutions continued

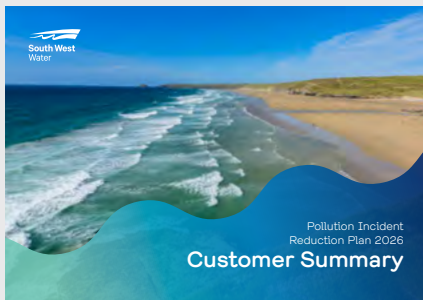
Pollution Incident Reduction Plan

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

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

Looking ahead

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

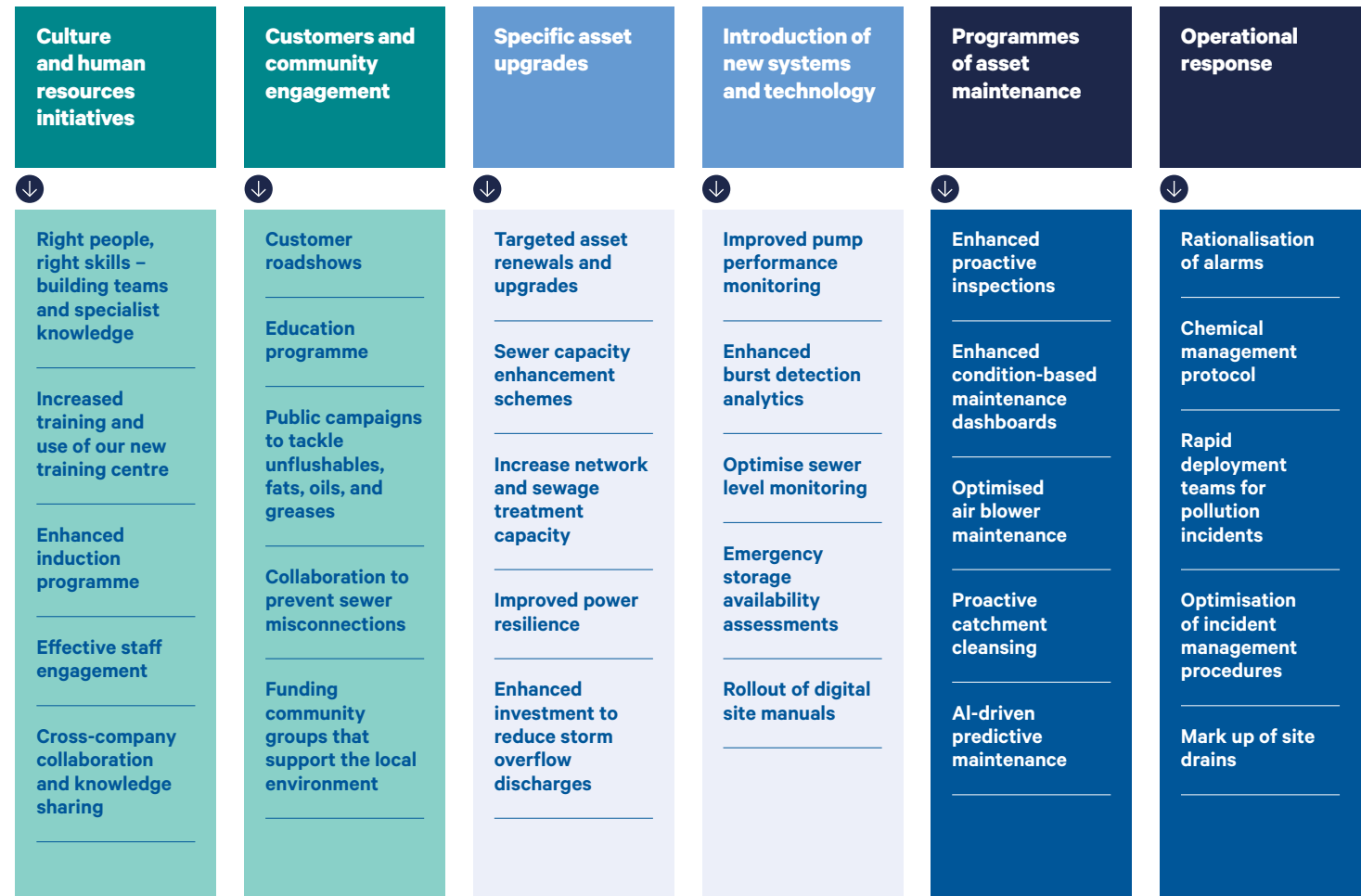


➤ Read more www.southwestwater.co.uk/siteassets/documents/environment/rivers-and-bathing-waters/swb_pirp-customer-summary-200326.pdf

Our plan to reduce pollution – at a glance

Our plan has developed and is now built around six key pillars, designed to tackle pollution from every angle and ensure sustainable improvement.

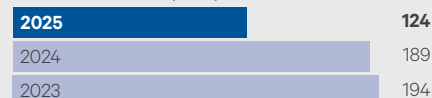
The key initiatives of our PIRP strategic pillars



Operational KPIs

Pollution incidents (Number of wastewater incidents)

South West Water (SWB)



Category 1-3 pollutions is our most challenging area, but we have seen incidents reduce by a third despite the wetter end to 2025. We continue to drive improvements through our Pollution Incident Reduction Plan (PIRP).

Average spills[^]

South West Water (SWB)



During 2025, the average number of spills reduced by 17% with duration down 25%, despite rainfall being 14% above long-term average. South West Water has made interventions at a number of sites during the year to help achieve this reduction.

[^] As per the EA Storm Overflow Return 2025

Internal sewer flooding (Incidents per 10,000 sewer connections)

South West Water (SWB)



External sewer flooding (Number of incidents)

South West Water (SWB)



Sewer flooding is a key area that significantly impacts on customers. In 2025/26 we expect to maintain our industry-leading internal sewer flooding performance, despite an increase in incidents due to the exceptional weather in January and February 2026. We have also delivered further reductions in external flooding incidents.

Sewer collapses (Incidents per 1,000km)

South West Water (SWB)



Sewer blockages

South West Water (SWB)



These measures reflect service impacts to our customers as well as being a lead indicator of asset health. Our performance in respect of sewer collapses has improved again, outperforming the target. Blockages have also reduced with our proactive cleansing programme supporting the reduction this year.

Numeric compliance (%)

South West Water (SWB)

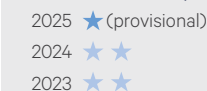


Around half of our wastewater treatment works, and a small number of water treatment works, have permits with measurable numeric conditions governing the final effluent quality discharged to the environment. Performance in this area has been stable year-on-year with six incidents in 2025.

Environmental Performance Assessment

A combination of a basket of measures, the EPA is the Environment Agency's assessment of environmental performance.

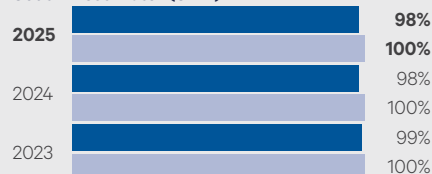
South West Water (SWB)



Bathing waters[^]

■ Good/Excellent (%)
■ Met standards (%)

South West Water (SWB)



[^] Based on Defra public classification

Pennon delivery framework continued



Driving environmental gains and delivering Net Zero

Pennon is proud to be at the forefront of environmental infrastructure, with environmental stewardship central to our success.

Guided by our connection to the water cycle, we are investing for the long-term and taking measurable action to improve water quality, enhance biodiversity and accelerate progress towards Net Zero.

Driving environmental gains

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

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

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

Key metrics

UST active management (ha)	5,138
Peatland restored (ha)	254
Number of BPC units nominated	421
Ofwat Innovation projects	Water Net Gain
Number of trees planted	31,893
Number of stakeholder workshops	4 (c.250 people)

Working in partnership

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

Biodiversity Strategy

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

The Water Special Measures Act (2024) updated the list of statutory duties that water companies are responsible for under the Water Industry Act (1991) to establish greater accountability for sustainability outcomes including climate resilience and biodiversity. Pennon has made measurable progress to meet our Biodiversity Duty, strengthened under the Environment Act (2021), which we plan to build on over AMP8-AMP9, as detailed in our

[🔗 Growing Nature to 2035 Progress Update report \(2026\).](#)

Ofwat's AMP8 Biodiversity Performance Commitment

In 2025/26 each water company began delivery, and enhancement works progressed at scale and pace over the winter, using Defra's metric to baseline and nominate habitat parcels as approved by our Biodiversity Panel. In total Pennon is forecast to deliver a combined target of 393 biodiversity units of positive biodiversity net gain by 2030 across 22 sites between SWB, BRL and SES.

South West Water's £2 million Nature Recovery Fund

In early 2026 we launched the application process to fund community led projects which deliver measurable benefits to nature, water and people. Funded as part of our redress package for customers announced in September 2025, the fund has welcomed significant interest with successful projects awarded in May 2026.

We are committed to supporting the natural environment. From restoring habitats to investing in clean energy, we are helping to build climate resilience and protect the places people love.

£2 million

South West Water's Nature Recovery Fund was launched during the year to fund community led projects which deliver measurable benefits to nature, water and people.

5,138

hectares Upstream Thinking active management

Protected sites and species

Park Pit and Stannon Lake

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

South West Water

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

Bristol Water

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

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

Fish and eels

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

Invasive Non-Native Species (INNS)

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

For our biosecurity programme we appointed specialist contractors to test new methods of removal at Christchurch Harbour and continued large-scale control programmes for American signal crayfish at key reservoirs including Burrator and Roadford. We have also captured and removed over 2,300 invasive fish called ruffe because they displace native fish species and disrupt the food web, preventing them from entering the St Neot and the wider River Fowey system. This is the highest number since the screens were installed three years ago, suggesting a population boom last year.

NatureSafe

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



© Natural Resources Team visiting a Native Crayfish Ark site in Devon (photograph by Marcus Brown)

Pennon delivery framework continued

Driving environmental gains and delivering Net Zero continued

CREWW

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

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

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

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

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

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

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

1. Improving the current approach

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

2. Influencing behaviours

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

3. Better science, better understanding of risk of illness

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

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

Centre for Resilience in the Environment, Water and Waste (CREWW)

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

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

Water Industry National Environment Programme (WINEP)

Improvements

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

Investigations

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



➡ CREWW building

Conservation, access and recreation Bristol Water

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

South West Lakes Trust

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

Innovation

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

Upstream Thinking

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

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

South West Peatland Partnership

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

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

2025 Water Industry Award winners

Natural Capital Initiative of the year South West Water – Upstream Thinking

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



“ This programme celebrates its 15th anniversary this year, but continues to innovate and demonstrate measurable benefits. The judges said the project's evidence-based approach has shown how complex and pioneering collaboration with the local communities and stakeholders can lead to multiple benefits.

Our Net Zero transition

Our commitment to Net Zero goes hand in hand with climate adaptation. We are cutting our emissions through renewable energy, low-carbon infrastructure, and operational efficiency, and have reduced our Scope 1 and 2 emissions across the Group by 41% from our 2021/22 baseline, in-line with our revalidated Science Based Target (SBTs), adhering to the latest climate science and bringing SES Water into our Group boundary.

We are also innovating across our supply chain to tackle scope 3 emissions, having trialled low-carbon materials and processes to reduce embodied emissions. As we look ahead to Net Zero, we will continue to decarbonise our operations, measuring and monitoring the direct real-time emissions of nitrous oxide (N₂O) from our wastewater treatment works, to adjust the treatment processes to minimise emissions across our treatment works.

We will also continue to pursue bioresource energy recovery, using waste to power our own operations, and supporting our supply chain in adopting low-carbon materials and techniques.

➔ [Read more about our progress on our Net Zero transition on pages 78 to 82](#)

Climate adaptation

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

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

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

Pennon delivery framework continued

Driving environmental gains and delivering Net Zero continued

Pennon Power

Pennon Power has been established to deliver our renewable energy ambitions and support our broader Net Zero strategy. Pennon Power plays a central role in driving investment in clean energy, enhancing energy resilience, and reducing exposure to energy market fluctuations, while also delivering sustainable financial returns and contributing to overall Group profitability.

Two solar projects were fully constructed by March 2026, with Aberdeenshire at full generation and Fife energised and in the commissioning stage. Two further sites are on track for energisation and commissioning in 2026/27.

The Aberdeenshire project is a 16MWp solar farm, and the Fife project a 45MWp solar farm, with a 30MW two-hour co-located battery storage system, situated on the site of a former open-cast coal mine.

Once fully commissioned in Q1 2026/27, the annual generation from Fife alone will more than double the size of the Group's renewable energy portfolio. The project in Fife is being commissioned during Q1 2026/27.

The two further projects, in Cumbria and Buckinghamshire, will add a further 87MWp to the portfolio in 2026/27 and once all four sites are operational, Pennon Power will generate enough electricity each year to power c.50,000 homes.

Beyond grid-scale projects, Pennon Power is advancing 'behind the meter' development opportunities, focused on supplying renewable energy directly to operational sites within the Group. These sites will support the UK's wider Net Zero ambitions as well as provide resilience against fluctuations in energy prices directly on-site.

Aberdeenshire

The solar site is built on low grade agricultural land.

It has more than 26,000 solar panels and more than 8km of cabling. It will generate c.14 GWh annually, equivalent to powering 5,000 homes in the UK or offsetting the equivalent of 4% of annual consumption in the Group.

26,000

solar panels

c.14 GWh

generated annually



Operational KPIs

Catchment management (Total hectares)

South West Water (SWB)	
2025	149,258
2024	144,120
2023	126,733

We continue to deliver our award-winning catchment management approach across 95% catchments across the Group. Catchment management protects and improves raw water quality, helping to provide clean, safe drinking water while reducing the need for additional infrastructure. This nature-based approach remains a cornerstone of our environmental strategy, and we sustained strong performance across the 2025/26 year, building on the success of exceeding our targets during the 2020 to 2025 period.

Reduction in GHG emissions from 2021/22 baseline – Scope 1 and 2 (SBT verified) (%)

Pennon Group	
2025/26	41
2024/25	36
2023/24	38

Over recent years, we have continued to make measurable progress in reducing our GHG emissions, supported by targeted operational improvements and ongoing investment in low-carbon solutions. Building on this momentum, this year we have undertaken a revalidation of our science-based targets (SBTs) through the Science Based Targets initiative (SBTi). This process was required to bring SES Water within the scope of the Group's targets. By re-baselining our science-based targets we are reaffirming our commitment to delivering our near-term carbon reductions in alignment with the latest climate science. Our Group GHG inventory is now fully aligned with our science-based targets.

Renewable electricity generated (GWh/year)

Pennon Group	
2025/26	27
2024/25	26
2023/24	28

While in-year generation has been limited by delays in the energisation of new solar capacity, including at our Dunfermline (Fife) site, this represents a short-term phasing impact rather than a change in underlying trajectory. With major assets now constructed and commissioning, we expect a step change in renewable electricity generation as these projects come fully online, and generate throughout 2026/27.

In addition to the growing contribution from grid-scale solar, our hydro generation continues to provide a stable source of renewable electricity, supporting overall performance. Alongside this, we are assessing behind the meter projects across our regulated businesses, to enable on-site generation that reduces grid demand and supports operational energy resilience. Together, these initiatives are broadening our renewable energy mix and strengthening the long-term profile of renewable electricity generated across the Group.

The move to reporting this target in GWh/year further supports transparency and comparability of performance over time, as we scale generation in line with our renewable energy ambitions.

➔ Read more about our progress on reducing GHG emissions and Our Net Zero Transition on pages 72 to 82



Supporting affordability, delivering for customers

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

Keeping bills affordable while delivering essential investment

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

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

Understanding the impact on customers

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

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

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

‘Water Great Summer’ Campaign

We were able to flex our communications across the summer to reflect the regional variations and also the changing impact of weather conditions.

For SES we ran a ‘pause TV’ campaign with ITVX. Using this media allowed us to target customers with a stronger water saving message when temperatures went above 26 degrees. Over the six weeks of the campaign we reached 300,000 viewers, driving awareness of using water wisely.

To support Bristol Water during Drought Level 2, we targeted both household customers and also visitors to the region, reflecting the additional demand on supplies presented in the summer months.

We used out of home media to target visitors at the Gordano M5 service station and Weston Super Mare rail station with a reach of 1.3 million.

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



Pennon delivery framework continued

Supporting affordability, delivering for customers continued

Customer affordability & vulnerability events

Engagement case study: Affordability & vulnerability community drop-ins

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

What we aimed to do:

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

What we delivered:

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

Outcomes

Measure	Result
Number of drop-in sessions delivered	569
Customers directly supported at face-to-face events	3,680
PSR registrations	278
Warm referrals received from community partnerships	2,287



Customer engagement – Boscombe Engagement
(Photograph by Tom Hunt)

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

- knowing about changes early
- receiving clear and simple explanations
- trusting that changes are applied fairly and consistently
- being able to access help easily
- speaking to someone who understands their situation

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

Improving customer service

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

Targeted support and eradicating water poverty

In 2025, we met our pledge to eliminate water poverty in the South West and Bristol, using the definition of affordability as spending no more than 5% of household disposable income on water. This was an important milestone and reflected sustained focus over a number of years. While SES Water does not yet measure affordability using this methodology, we are working to extend the same approach across the Group, building on the progress achieved in our South West and Bristol regions.

We recognise that the bill increases in 2025/26 and 2026/27 mean we must continue strengthening support to prevent customers falling into difficulty.

Over the past year, we significantly expanded affordability support:

- More than c.190,000 customers across the Group are now benefiting from our financial support framework; and
- At South West Water and Bournemouth Water, we set a target to support 75,000 customers through social tariffs by the end of 2025/26. That target was exceeded ahead of schedule, with 79,666 customers benefiting.

Innovative tariff trials

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

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

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

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

Building a platform for the future

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

Supporting our customers through operational challenges

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

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

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

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

Customer affordability

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

Storm Goretti

Overview

On 9 January, Storm Goretti caused significant disruption across Cornwall, including a power outage at Wendron treatment works that lasted until 12 January. As a result, up to 15,960 properties experienced water supply interruptions, including a number needing additional support or who relied on water for critical medical needs. During the incident, all customers with critical needs successfully received deliveries and communication was maintained throughout via text messages, voice messages to landlines, InYourArea, the website, social media and regional media coverage, alongside the establishment of three bottled water stations in Helston, Mullion and Marazion.

Following the event, customers were invited to provide feedback via SMS, with 940 responses received, including 230 Priority Service Register (PSR) customers, representing a 12.8% response rate among those contacted and 5.9% of all affected properties.

Customer feedback

Overall, feedback from customers affected by Storm Goretti reflects a broadly positive view of the response, particularly given the exceptional circumstances.

Many customers recognised the severity of the storm and felt the situation was handled effectively, with strong appreciation for the efforts of frontline teams, especially those supporting bottled water distribution and vulnerable customers. Communications were seen as helpful and reassuring, supported by a range of channels and supplementary information such as video updates.

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

Together, this indicates that while customers valued the efforts, communication and support provided during a complex event, the length of disruption remained a key driver of overall experience.

This feedback was fed directly back into our incident management process for future service and communication improvements.



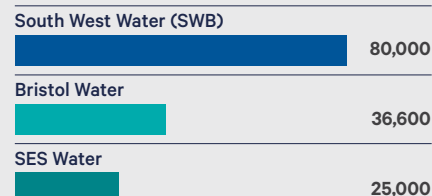
© Flambards bottle station

Pennon delivery framework continued

Supporting affordability, delivering for customers continued

Operational KPIs

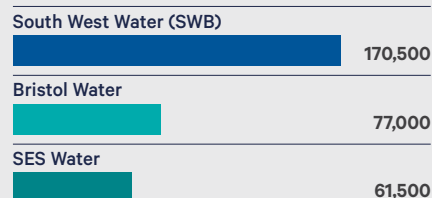
No. customers on social tariffs



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

PSR Volumes at end of March

Current PSR volumes as at end of March 2026 are:



Customer Measure of Experience (C-MeX)¹

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

We have clear C-MeX improvement plans in place, with regular team and Board review, focused on right first time delivery and clearer, more effective communication. This is supported by ongoing reviews of key customer journeys to identify areas we can improve.

To improve performance, we are prioritising a number of critical processes where failure is most visible and repeatable: billing effectiveness, leak management, blockages and operational jobs. We are already seeing service improvements in these areas.

C-MeX performance varies across regions. Bristol Water is a leading performer in the sector, SES Water is improving, whilst South West Water remains a key focus for improvement.

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



Developer Measure of Experience (D-MeX)¹

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



Business Retailer Measure of Experience (BR-MeX)¹

Business customer and retailer measure of experience is Ofwat's measure of how business customers and retailers experience our services. It reflects feedback on service reliability, communication, responsiveness, and overall satisfaction, helping us understand what is working well and where we need to improve.

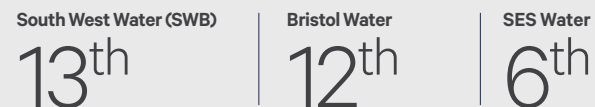
BR-MeX is derived from three components:

- B-MeX (Business Customer Satisfaction Survey), contributing 50% of the score
- R-MeX (Retailer Satisfaction Survey), contributing 25%
- Market Performance Framework (MPF) measures, contributing the remaining 25%

Together, these components generate a total score and relative ranking across the industry, providing a balanced view of customer experience and market compliance.

SWW's BR-MeX performance in 2025/26 reflects a mixed position across its component measures, resulting in a stable but lower quartile overall ranking relative to the industry. BR-MeX scores remained broadly consistent through the year, with a year end score of 69.10 and an overall position of 14th. SES delivered a strong overall BR-MeX performance in 2025/26.

Across the Pennon Group, the focus for 2026/27 is on strengthening BR-MeX performance through coordinated, forward looking actions that will deliver long-term improvements.



1. C-MeX, BR-MeX and D-MeX positions reflect final Q4 performance but remain subject to industry review and validation

Business retail



Pennon Water Services (PWS)

PWS reported a strong financial performance for the year and continued to deliver operationally for its business customers, offering a range of attractive tariffs and value-added services, while also delivering year-on-year improvements in its revenue, EBITDA and profit before tax and customer service metrics.

Serving its customers

PWS maintained its focus upon high-quality customer interactions, resulting in a Trustpilot score of 4.9 out of 5, measured through the independent review platform, comparing favourably to its peers. Its large strategic users of water rated the quality of service from their account team at 4.96 out of 5, demonstrating its ability to provide tailored support services to meet varying business needs. Its customer service teams issued over 300,000 customer bills in the year and answered over 90,000 phone calls, assisting with simple queries as well as complex customer challenges relating to their site and its future requirements. Its focus upon root causes of complaints into its own service and those it recorded against wholesalers have yielded almost a 20% reduction in its volume of complaints year-on-year.

Financial performance and growth

Revenue increased by 21.2%, from £252.4 million in 2024/25 to £305.8 million in 2025/26. This was primarily driven by the increase in wholesale water costs and an increase in customer consumption in our incumbent areas. Revenue has also increased year-on-year due to continued customer growth and low customer attrition.

Operating costs have increased during the year as a result of the pass through of wholesale water costs; other operating costs remain under tight control despite inflationary pressures, leading to stable underlying EBITDA year-on-year.

Since the market opened in 2017, PWS has provided strong customer support and a high-quality of services to maintain a stable market share of c.6% in England and Wales. The market share for the UK is 5.1% including Scotland, serving c.153,000 business accounts (c.95,000 customers) in total.

PWS continued to win new customer contracts across a diverse range of business sectors. This was achieved despite ongoing economic uncertainty.

PWS is continuing to focus on its key strategic initiatives of growing through long-term contracts in targeted business sectors, retaining customers and strong control of operating costs, by investing in IT system improvements, which will ultimately improve customer experience.

As a result, PWS has taken its cumulative position since the market opened to c.55,000 megalitres, the equivalent of c.22,000 Olympic-sized swimming pools. New contracts in the year included AO, Rowe's Cornish Bakers, and The Inn Collection Group.

Whilst growth in new contracts continued, PWS maintained its low levels of customer attrition. Our continued focus on value and service with existing customers ensured we renewed a number of contracts including Heinz, Unite students and Asahi.

Outlook

PWS remains well placed to deliver against its long-term strategic objectives, growing organically and sustainably, investing in its people, systems, processes, and innovative customer solutions.



Water2Business (W2B)

Pennon's 30% shareholding in Water2Business continues to deliver market leading customer service performance, maintaining a high Trustpilot score of 4.8 out of 5 during the year. Further customer growth has seen Water2Business grow to a c.7.3% market share.

Water2Business has continued their strong financial performance during the year, contributing c.£10 million of associated companies' profit after tax to the Group's results, supported by the addition of 6,400 new customers.

During the year, Water2Business maintained its carbon neutral status in line with the Department for Environment, Food and Rural Affairs (Defra) guidelines, continuing to combat climate change and sustain the environment through reducing emissions and offsetting via tree planting projects across the Southwest of England.



SES Business Water

SES Business Water (SES BW) provides water and wastewater retail services to non-residential customers across the UK, whilst delivering year-on-year revenue improvements.

Serving its customers

A materially enhanced customer journey is demonstrated by key metrics. Complaints are down by 42% since 2024/2025 and 55% versus two years ago. First contact resolution continues to improve and call abandonment rates remain low. Customer satisfaction has strengthened significantly, with Trustpilot scores rising from 1.7 to 4.5 stars. Inbound queries and billing mailboxes have also reduced substantially, falling by 74% and 47% respectively. These gains have been achieved alongside a deliberate portfolio cleansing strategy, which naturally increases inbound contact as lower quality or higher risk accounts are addressed. Despite this, the business has enhanced the customer experience and supported customers more efficiently. This progress reflects the commitment of colleagues delivering positive, meaningful customer interactions.

Financial performance and growth

SES BW's revenue increased by 11.8% from £67.9 million in 2024/25 to £75.9 million in 2025/26, marking a significant turnaround as we evolve the portfolio mix. The business remained focused on stabilising operations and prioritising portfolio quality over expansion, consolidating the customer base, improving performance, and strengthening cash recovery. Revenue growth was primarily driven by wholesale price increases rather than acquisition.

As the business continues consolidation during 2025/26, it secured new customers including IW Group Services (UK) Limited and Cairn Group to offset attrition. We also extended key renewals including Ibstock Brick Limited, Splendid Hospitality Group, BH Central Services Ltd, and Rank Leisure Holdings Limited.



Sidmouth

Group Chief Financial Officer's review



Laura Flowerdew
Group Chief Financial Officer

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

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

Underlying EBITDA[^] has increased by 55% year-on-year to £519.2 million (2024/25: £335.6 million) driven by higher revenue and a focus on cost control. Whilst the first year of the five-year cycle results in a step up in the underlying cost base, due to inflationary pressures and regulatory charges, our integration and efficiency programmes have provided benefit and the restructuring of the Group, aligned with our strategic priorities, has allowed increased focus on cost control and driving further efficiencies throughout the business.

Underlying operating profit more than doubled year-on-year to £325.5 million (2024/25: £148.5 million), with EBITDA benefits moderated by modestly increased depreciation charges reflecting the Group's expanding asset base from the ongoing capital investment programme.

Non-underlying costs of £20.7 million were incurred (2024/25: £37.6 million) as a result of ongoing restructuring charges, investment in new technology and costs associated with environmental and legal provisions.

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

As a result, underlying profit before tax[^] was £135.1 million (2024/25: loss of £35.1 million), whilst statutory profit before tax was £114.4 million (2024/25: loss of £72.7 million). Statutory profit after tax was £92.6 million (2024/25: loss of £56.8 million).

Our £3.2 billion¹ investment programme over the five-year AMP8 period is a core focus across the business, to deliver improvements for customers and to ensure we improve the resilience and performance of our assets. We remain focused on delivery, with clear priorities and tight control. This means delivering outcomes effectively, executing the capital programme efficiently and building on the momentum we have created this year. We remain on track to deliver on our Performance Commitment Deliverables (PCDs) over the five-year period, with a net neutral position at the end of year one in terms of delivery incentives.

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

We invested significant levels of capital to deliver network resilience and enhancements and benefits for the environment and our customers. Our Group-wide capital investment was £643.6 million[^] (2024/25: £652.5 million), comprising £588.5 million of investment in our water businesses as we focus on delivering on our AMP8 commitments.

[^] Measures with this symbol are defined in the Alternative performance measure (APMs) as outlined on pages 218 to 220.

1. At forecast outturn prices.

Financial highlights of the year

Revenue

£1,291.4m

(2024/25: £1,047.8m)

Benefiting from tariff increases

Underlying EBITDA[^]

£519.2m

(2024/25: £335.6m)

Reflecting revenue growth and cost discipline

Underlying profit before tax[^]

£135.1m

(2024/25: £35.1m underlying loss before tax)

Return to profitability

Statutory profit before tax

£114.4m

(2024/25: £72.7m loss before tax)

Capital investment[^]

£643.6m

(2024/25: £652.5m)

Investing to deliver on our commitments

Water Group Gearing[^]

61.8%

(2024/25: 61.8%)

Financially resilient

Water Group RoRE[^]

6.7%

(2024/25: 5.1%)

Strong return in year one of AMP8

Dividend per share

29.29p

(2024/25: 31.57p)

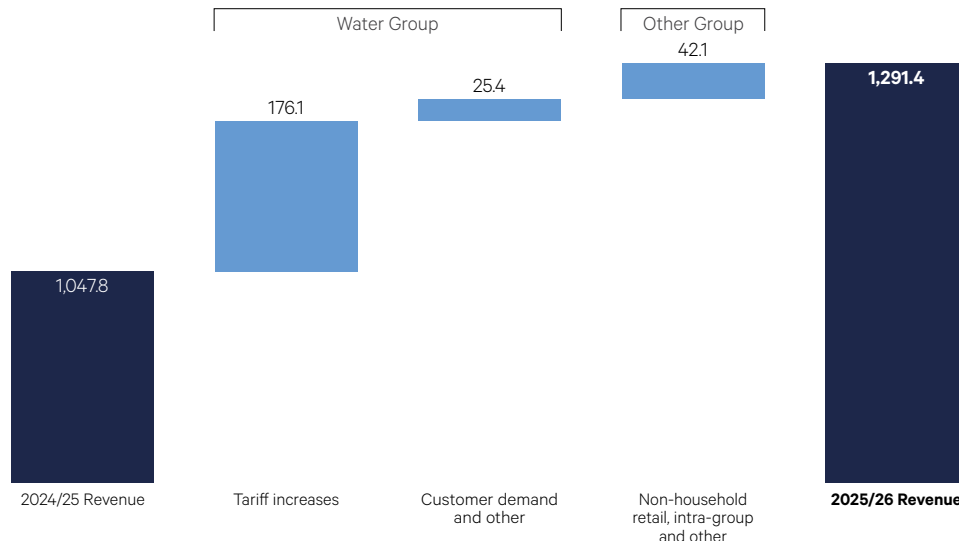
Our expenditure was slightly lower than anticipated as a result of reprofiling of spend, to ensure robust modelling and clear design across our major projects, prior to commencing on-site delivery. Across the water business we have delivered key investments in storm overflow reductions, wastewater treatment and infrastructure, clean water treatment works, network resilience, leakage and metering. Outside of the water business we continue to invest in renewable energy sites, with Pennon Power capital expenditure of £54.1 million in 2025/26.

Our current rate of investment for the Group aligns with that required to deliver our five-year programme of £3.2 billion¹ and which will deliver 34% growth in our regulatory asset base to 2030. To support this growth, we are focused on ensuring we have a strong and resilient balance sheet and we end the first year of the AMP8 period with a Water Group gearing of 61.8%, well within our gearing policy of 55-65% and within our anticipated range of 60-65% to 2030 for our Water Group. The continued strong Water Group performance reflects the benefit of significantly improved operating cash flows in 2025/26, supporting investment in our capital programme.

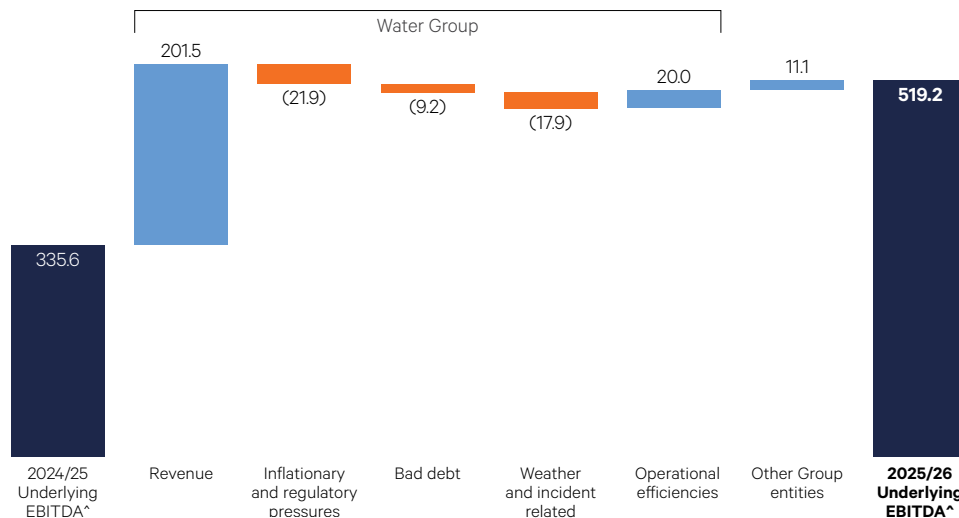
Debt funding is also critical for our growth; both South West Water and SES Water continue to maintain investment-grade credit ratings, enabling access to competitive financing. During the year the Group has raised £640.0 million in additional funds to support the AMP8 capital programme and expects to continue to raise this quantum of debt each year through the AMP8 period.

We continue to outperform the regulatory cost of equity. Our RoRE[^] in 2025/26 reflects a 6.7% real return to shareholders, outperforming the equity return allowed by Ofwat of 5.4% as a result of strong financing and Totex performance in year, and offset by challenging ODI performance, as operational performance was impacted by adverse weather conditions and a step up in targets in the first year of the five-year period.

Revenue £m



Underlying EBITDA[^] £m



CFO's review continued

	Revenue		Underlying EBITDA*	
	£m 2025/26	£m 2024/25	£m 2025/26	£m 2024/25
South West Water	937.8	737.7	481.7	308.6
SES Water	84.2	82.8	29.0	29.6
Total Water Group	1,022.0	820.5	510.7	338.2
Retail	381.7	320.3	9.9	7.5
Other	25.6	12.8	(1.4)	(10.1)
Intra-group	(137.9)	(105.8)	–	–
Group	1,291.4	1,047.8	519.2	335.6

Group performance – summary

Group revenue for 2025/26 was £1,291.4 million (2024/25: £1,047.8 million), reflecting strong growth across the business.

Water revenue increased by £201.5 million (24.6%), primarily driven by the benefit of increased regulatory allowances and higher consumption. This uplift reflects revised tariff structures and enhanced service obligations under the regulatory framework, supporting our long-term investment and service delivery plans.

Non-household retail revenue increased by £61.4 million to £381.7 million, with new contracts outside South West Water regions contributing £10.3 million, in addition to tariff increases. This reflects continued progress in expanding our presence and growing the customer base.

Overall, the Group's underlying EBITDA* has increased 55% from £335.6 million to £519.2 million, driven by higher water revenue and a continued focus on operational efficiency. It also reflects the strength of the business model and the benefits of our investment in transformation, delivered alongside managing inflationary and operational cost pressures.

Cost pressures in the period reflected inflationary costs, coupled with a step up in costs resulting from the new regulatory plan. The impact of both high summer demand and exceptional winter storms on our operations also led to higher in-year costs, as we looked to mitigate the impact on customers and the environment of these conditions, and support and compensate customers – with increased payments – where our service fell short of expectations.

These cost impacts were partially offset by a focus on our efficiency initiatives and integration across our regions and businesses, with greater focus on cost control across our four business units.

Our ongoing commitment to affordability and support schemes for those in need will be critical going forward, both to support our customers and to ensure we maintain a strong collections profile. Despite the step up in revenues, cash collection remained strong across the year. Expected credit loss charges were £19.5 million (1.5% of revenue), slightly higher than the prior year (0.9%) but remaining strong within the sector. Our teams continued to focus on both managing older debt profiles and ensuring effective collection of more recent billings, despite the increase in tariffs.

Our non-household retail businesses saw a 32.0% increase in EBITDA, with increase in tariffs added to by a strong focus on gross margin improvement and cost control.

As a result, underlying profit before tax* was £135.1 million (2024/25: loss of £35.1 million) and statutory profit before tax was £114.4 million (2024/25: loss of £72.7 million) after non-underlying costs of £20.7 million (2024/25: £37.6 million).

Segmental performance – Water businesses

South West Water

South West Water's revenue for 2025/26 was £937.8 million (2024/25: £737.7 million) driven by regulated tariff increases. Underlying operating costs* of £456.1 million (2024/25: £429.1 million) have increased year-on-year by £27.0 million. This 6.3% increase reflects inflationary cost pressures, plus the impact of increased regulatory charges, higher bad debt charges linked to our step up in revenue, increased operational costs resultant from adverse weather and operational incidents, including £5.7 million in customer compensation.

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

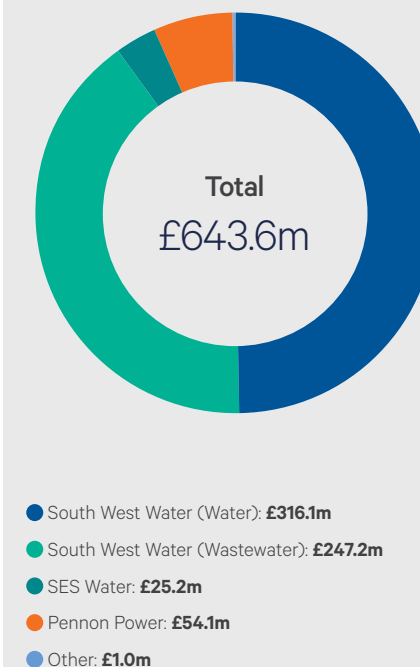
South West Water's underlying EBITDA* increased by 56.1% to £481.7 million. Underlying operating profit has more than doubled, reflecting the strong EBITDA performance, offset by an increase in depreciation charges of £3.7 million compared to last year and in line with our ongoing capital investment programme.

Net finance costs of £170.1 million (2024/25: £170.6 million) reflect an effective interest rate of 5.7%² (2024/25: 5.4%) The year-on-year decrease of £0.5 million was a result of higher capitalised interest partially offset by higher debt to fund the ongoing capital programme.

South West Water's statutory profit before tax was £124.2 million (2024/25: loss of £62.7 million) after non-underlying costs of £15.4 million (2024/25: £32.4 million).

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

Major categories of capital expenditure (£m)^



SES Water

SES Water's revenue for 2025/26 was £84.2 million (2024/25: £82.8 million), EBITDA performance was stable as inflationary cost increases were partially offset by increased revenue and savings from an operational costs efficiency programme.

SES Water's capital investment of £25.2 million has focused on network resilience, leakage detection and repair, lead pipe replacement and metering.

[^] Measures with this symbol are defined in the Alternative performance measures (APMs) as outlined on pages 218 to 220.

² A measure of the mean average interest rate payable on net debt associated with South West Water Limited's group of companies, excluding interest costs not directly associated with net debt.

Segmental performance – Non-household retail

The Group holds interests in two non-household water retailers, Pennon Water Services (80% ownership) and SES Business Water (100% ownership) which are reported as the non-household retail segment. Revenue has increased by 19.2% year-on-year, as a result of tariff increases and new contract wins. Underlying EBITDA increased by 32.0% year-on-year as a result of revenue increases, coupled with a strong focus on margin improvements and cost control within the businesses. The Group also owns 30% of Water2Business, which is reported under the equity method.

Pennon Water Services (PWS)³

Pennon Water Services has delivered a strong financial performance for the year through its continued focus on key strategic initiatives: growing through long-term contracts in targeted business sectors, good customer retention and strong control of operating costs despite additional cost pressures.

Overall revenue increased by 21.2% to £305.8 million (2024/25: £252.4 million) through new contract wins and tariff increases across wholesale water charges.

The business continued to maintain its focus on targeting high-quality, sustainable customers who will benefit from the value-added services that form part of PWS' differentiated service proposition. New business wins contributed £10.3 million additional revenue compared to the prior year.

Operating costs have increased during the year as a result of the pass through of wholesale water costs; other operating costs remain under tight control despite inflationary pressures, leading to stable underlying EBITDA year-on-year.

During the year, Pennon Water Services commenced investment in the implementation of a new billing system to provide improved automation, efficient delivery and better customer self-service. This expenditure will drive efficiencies, support ongoing efficient margins and enable revenue growth. The implementation costs are separately reported as non-underlying costs, given the non-recurring element of this programme of work over time.

PWS's statutory profit before tax was £5.3 million (2024/25: £5.4 million) after non-underlying costs of £1.6 million (2024/25: nil). The underlying profit before tax in 2025/26 was £6.9 million (2024/25: £5.4 million), an increase of 27.8% compared to prior year.

SES Business Water

SES Business Water's revenue increased by 11.8% from £67.9 million in 2024/25 to £75.9 million in 2025/26 driven primarily by wholesale tariff increases, with EBITDA of £0.9 million (2024/25: loss of £0.1 million).

The business continued to focus on stabilising operations, prioritising portfolio quality and strengthening cash recovery.

Segmental performance – Other

The Other segment comprises the results of Pennon Group plc company and other Group businesses, including Pennon Power and the ancillary businesses of SES. The Other segment contributed underlying EBITDA of a loss of £1.4 million (2024/25: loss of £10.1 million) and an underlying loss before tax of £2.6 million in the year (2024/25: loss of £3.8 million) with non-underlying costs of £3.7 million (2024/25: £1.5 million) associated with the restructuring and the closure of an ancillary business acquired as part of the SES Group.

Pennon Power saw an underlying EBITDA increase in 2025/26 of £1.8 million (increase on £0.3 million loss reported in 2024/25). This has been driven by revenue and other income of £2.1 million (2024/25: nil).

Share of post-tax profit from associated companies

The Group has a 30% interest in Water2Business Limited (W2B), a water retailer joint venture with Wessex Water. This investment is accounted for under the equity method and as the financial performance improves as it has gained scale, we have recognised £1.0 million of profit after tax in our 2025/26 results (2024/25: £0.8 million), an increase of 25.0%.

Group finance costs (net)

The £7.0 million increase in finance costs (net) was primarily driven by new and renewed debt facilities (£34.3 million) as we continue to invest record levels of capital in our water businesses, offset by lower interest rates (£8.9 million), increased interest receivable (£6.3 million), higher levels of capitalised interest (£12.8 million), given ongoing investment and other movements amounting to £0.7 million.

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

Non-underlying items

Non-underlying items⁴ for 2025/26 were a net charge before tax of £20.7 million (2024/25: net charge of £37.6 million). Non-underlying items are those that in the Directors' view should be separately identified by virtue of their size, nature or incidence and where they believe excluding these items is considered to provide additional useful information on the performance and the position of the Group as well as enhancing the comparability of information between reporting periods.

The non-underlying charge includes:

- £9.9 million of technological enhancement costs in connection with the implementation of new customer technology platforms in both South West Water and Pennon Water Services
- £6.7 million includes costs of settlement of both the DWI's prosecution in respect of the May 2024 Brixham water quality incident, and the enforcement undertakings agreed with Ofwat in August 2025 in respect of the wastewater investigations, together with associated legal fees
- £4.1 million of costs in connection with ongoing restructuring and reshaping actions

The non-underlying charges in the year give rise to a net tax credit of £4.1 million in relation to the above items.

Group finance costs, net (£m)



3. Pennon Water Services (PWS) – 80:20 joint venture with South Staffordshire.

CFO's review continued

Tax

The overall 2025/26 tax charge for the Group was £21.8 million (2024/25: credit of £15.9 million). On an underlying basis, the tax charge for 2025/26 for the Group of £25.9 million (2024/25: credit of £7.0 million) consisted of:

- Deferred tax charge of £25.3 million (2024/25: credit of £7.8 million). This charge primarily arises in relation to capital allowances in excess of depreciation charged across the Group, largely due to full expensing. This is partially offset by a current year deferred tax credit in relation to tax losses carried forward for utilisation in later periods
- Current tax charge of £0.6 million (2024/25: charge of £0.8 million) predominantly relating to prior year items.

There was also a non-underlying current tax credit in the year of £0.8 million (2024/25: credit of £0.5 million) and a deferred tax credit in the year of £3.3 million (2024/25: £8.4 million) relating to the non-underlying items.

The Group continues to generate tax losses, all of which are carried forward for future relief. These tax losses arise as a result of the enhanced capital allowances available because of full expensing and first year allowances, pension payments made during recent years where tax relief is now due, and capitalised interest, which for tax purposes is deductible in the year incurred.

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

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

Earnings per share (basic and diluted)

The Group has recorded a statutory earnings per share of 19.4 pence per share for the year ended 31 March 2026 (2024/25: loss of 16.1 pence per share). This includes a net non-underlying⁴ charge before tax of £20.7 million (2024/25: £37.6 million) and a net non-underlying⁴ tax credit of £4.1 million (2024/25: credit of £8.9 million).

Our adjusted earnings per share excludes the impact of deferred tax charges and non-underlying⁴ items. For the Group, we have generated basic adjusted earnings per share for 2025/26 of 28.3 pence (2024/25: loss of 10.3 pence).

Movement in net debt

The Group's cash flow from operations for 2025/26 was £529.7 million (2024/25: £233.6 million). Our improved operating cash flows reflect the higher levels of underlying profitability, benefitting from higher tariffs and operational efficiencies, added to by improved working capital management, partially offset by cost pressures from inflation and delivering on our operational performance commitments.

Net interest payments were £154.6 million (2024/25: £132.0 million) with the higher payment in 2025/26 driven by increased debt consequent on our ongoing record levels of capital investment.

Capital investment has resulted in slightly lower cash outflows of £33.9 million to £632.8 million (2024/25: £666.7 million). Capital investment included £54.1 million (2024/25: £40.7 million) for the investment in Pennon Power.

Other significant movements in net debt in 2025/26 include payment of our interim and final dividends for 2024/25 totalling £133.7 million (interim and final dividends for 2023/24: £126.9 million). In addition there was non-cash indexation on our loan instruments totalling £43.3 million (2024/25: £33.4 million).

Movement in net debt

Pennon Group – summarised net debt flow (£m)	2025/26 flows
Net debt excluding other non-cash indebtedness – 1 April	(3,936.2)⁵
Opening balance 1 April	(4,078.2)
Cash generated from operations	529.7
Corporation tax received	1.0
Net interest paid	(154.6)
Capital investment ⁴	(632.8)
Proceeds from dividend forfeiture	1.7
Share issuance transaction costs	(5.6)
Ordinary dividends paid	(133.7)
Non-cash index-linked accretion	(43.3)
Other movements ⁴	6.9
Closing balance 31 March	(4,508.9)
Net debt excluding other non-cash indebtedness – 31 March	(4,379.6)⁵

Net debt and liquidity

The Group's net debt at 31 March 2026 was £4,508.9 million (31 March 2025: £4,078.2 million). This includes fair value adjustments of £96.5 million (31 March 2025: £106.8 million) which are released over the life of the related debt instruments and other non-cash accounting adjustments of £32.8 million (31 March 2025: £35.2 million). The Group's net debt position excluding these adjustments is £4,379.6 million (31 March 2025: £3,936.2 million).

As at 31 March 2026, the Group had £998.3 million of liquidity through a combination of cash and committed facilities (31 March 2025: £1,036.1 million). This consists of cash and cash equivalents and restricted funds of £388.3 million (31 March 2025: £476.1 million) and £610.0 million (31 March 2025: £560.0 million) of undrawn committed facilities.

During the year the Group has secured c.£64.0 million of new debt, through its diverse portfolio, consisting of:

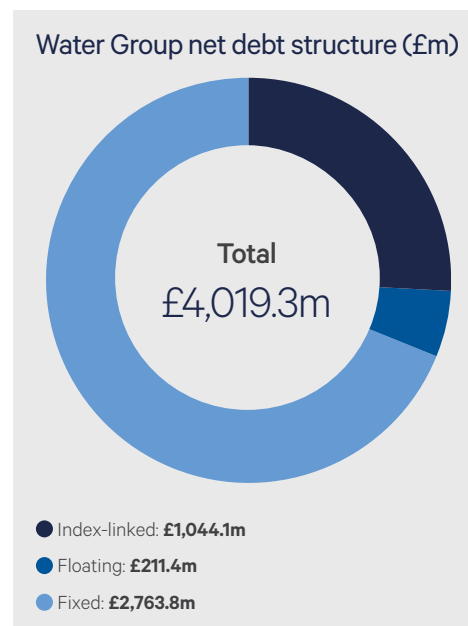
Group debt

Group debt at 31 March 2026 (£m)	Gross debt	Net debt
Pennon Group plc	365.3	364.9
Water Group	4,388.6	4,019.3
– South West Water	4,087.5	3,787.3
– SES Water	301.1	232.0
Other Group companies	233.5	214.9
Intercompany borrowing eliminations	(219.5)	(219.5)
Total adjusted Group (excluding FV and non-cash indebtedness)	4,767.9	4,379.6
Non-cash indebtedness	129.3	129.3
Total Group	4,897.2	4,508.9

⁴ Measures with this symbol are defined in the Alternative performance measures (APMs) as outlined on pages 218 to 220.

⁴ Includes unwind of fair value adjustments and other non cash indebtedness.

⁵ Excluding the carrying value of fair value acquisition adjustments and other non-cash indebtedness.



- £150 million in US private placements with an average maturity of four years
- £300 million through our inaugural public bond issuances under our EMTN⁶ programme
- £190 million of new term loans and leasing with an average maturity of seven years

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

The Group has secured an additional £320 million in new and renewed revolving credit facilities since March 2025.

Resulting from the changes above and drawing of new debt during the year, South West Water⁷ gross debt at 31 March 2026 was £4,087.5 million (31 March 2025: £3,815.9 million). The debt has a maturity of up to 31 years with a weighted average maturity of 12 years.

Water Group net debt at 31 March 2026 is a mix of fixed (£2,763.8 million, 68.7%), floating (£211.4 million, 5.3%) and index-linked borrowings (£1,044.1 million, 26.0%), which reflects our diverse debt portfolio. Where appropriate, derivatives are used to fix the rate on floating rate debt.

At 31 March 2026, the Water Group's net debt to RCV ratio stood at 61.8% (31 March 2025: 61.8%). This reflects a stable position as increasing RCV offsets in year debt funding of our investment programme.

At 31 March 2026 South West Water's⁷ net debt to RCV ratio⁸ stood at 61.9% (31 March 2025: 62.0%). This remains broadly neutral year-on-year as a result of increasing RCV offsetting in year debt funding of our investment programme.

South West Water's cost of finance, with an effective interest rate in 2025/26 of 5.7% (2024/25: 5.4%), reflects higher interest rates and the impact of full year interest charges on new issuances in 2024/25.

SES Water's net debt portfolio predominantly reflects index linked and fixed rate debt, based on the legacy portfolio acquired at the date of acquisition. Subsequent to the equity injections in 2024/25, SES Water's gearing levels relative to RCV remain stable at 60.1%, with recognition from Ofwat of their improving financial resilience as a result of Pennon's ownership.

The effective interest rate on the SES debt book is 9.0%. This is due to the high percentage of indexed-linked debt seen in this water only business. Over a period of time inflation levels will rise and fall, and will directly impact the rate reported. In addition, as the debt book matures, we anticipate it will benefit from being part of the wider portfolio of debt and hedging strategies employed by the Group.

Investment grade ratings

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

SES Water maintains strong credit ratings with Moody's and S&P, Moody's upgraded SES in November 2024, in recognition of the benefit gained from being part of the wider Pennon Group and the subsequent support provided to its balance sheet in the form of new equity.

Ring-fenced borrowing

South West Water's funding is treated for regulatory purposes as ring-fenced. This means that funds raised by South West Water are not available for other areas of the wider Group.

Following its acquisition, SES Water continues to maintain its current Group structure whilst it operates under its own regulatory licence.

Funding for other parts of the Group, including PWS and Pennon Power, is predominantly provided by Pennon Group Plc. Pennon will continue to use funds to support the Group's ongoing operations as appropriate.

Creating economic value in the regulated business

Regulatory Capital Value (RCV)⁹

	31 March 2026
SWB	5,362.6
BRL	756.4
SBB	6,119.0
SESW	386.2
Water Group	6,505.2

The total water business RCV⁹ of £6,505.2 million reflects the inclusion of regulatory reconciling items from the PR24 Final Determination and inflation of 3.5% as at March 2026.

RoRE ⁴	Water Group	SWB	BRL	SESW
Base return	5.4%	5.4%	5.4%	5.2%
Financing	1.4%	1.7%	1.3%	(2.4%)
Totex	2.0%	2.1%	1.1%	3.5%
ODI	(2.1%)	(2.3%)	(2.0%)	(1.0%)
Cumulative RoRE 2025/26	6.7%	6.9%	5.8%	5.3%
Cumulative RoRE 2024/25	5.1%	6.0%	5.1%	4.2%

Return on Regulated Equity (RoRE)⁴

During the year, the water business delivered a RoRE of 6.7% (2024/25: 5.1%), comprised of financing and Totex outperformance, offset by Operational Delivery Incentive (ODI) underperformance.

Cumulative benefits from the structure of the Group's debt portfolio continue to support financing performance, providing higher RoRE returns given higher inflation.

Totex performance reflects lower expenditure in year one of the period than in the allowances, resulting from both efficiencies gained in delivery of the capital programme and timing differences over the five-year period.

ODI performance across South West Water (SBB) in 2025/26 has been materially impacted by the adverse weather and step up in both performance outcomes and penalty rates applied at the start of the new regulatory cycle. RoRE, as calculated above, includes the impact of penalties associated with both operational performance incentives (£42.0 million) and customer measures of experience for both the water and wastewater businesses. Plans are in place to mitigate and minimise these going forward through operational interventions and focused investment.

⁴ Measures with this symbol are defined in the alternative performance measures section of the annual report on pages 218 to 220.

⁶ Euro Medium Term Note.

⁷ Based on South West Water Group, including Bristol Water excl. SES (SBB).

⁸ Based on South West Water Group including Bristol Water (SBB) net debt/RCV.

⁹ Estimated at £11.5 million, subject to final outcomes from Ofwat.

CFO's review continued

Taxation strategy

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



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

Like any successful business, we continue to work hard to be efficient and effective in delivering the best possible results for customers, communities and shareholders. We do not enter into artificial tax arrangements, use tax havens or take an aggressive stance in the interpretation of tax legislation. As a long-term business with a long-term approach to financial management, there have been no changes to the Group's overall tax strategy this year compared to last.

Under our tax strategy we:

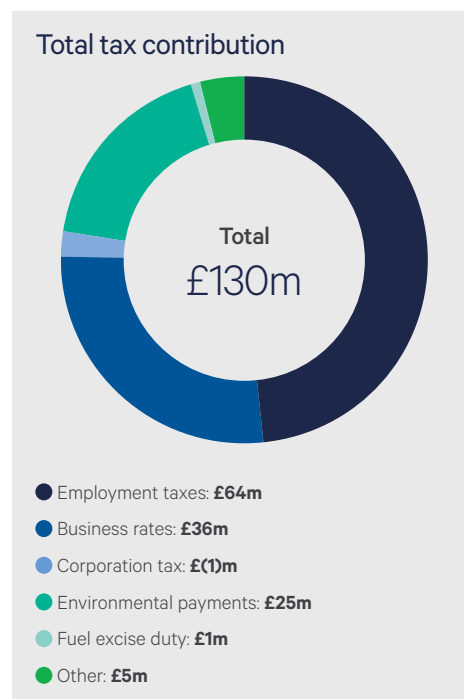
- At all times, consider the Group's corporate and social responsibilities in relation to its tax affairs.
- Operate appropriate tax risk governance processes to ensure that the policies are applied throughout the Group.
- Comply with our legal requirements, file all appropriate returns on time and make all tax payments by the due date.
- Consider all taxes as part of ongoing decisions.
- Do not enter into artificial tax arrangements nor take an aggressive stance in the interpretation of tax legislation
- Do not undertake transactions that are outside the Group's low-risk appetite for tax or not in line with the Group's Code of Conduct.
- Engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real time, such interpretations following both the letter and spirit of the laws.

- Do not have any connections with tax havens unless it is necessary for the purposes of trading within those jurisdictions.

Further details are given in the Group's tax strategy report available on the Pennon Group website www.pennon-group.co.uk

Tax contribution 2025/26 – borne/collected

The Group's total tax contribution (TTC) for 2025/26 amounted to £130 million (excluding £166 million of VAT receipts) (2024/25: £124 million excluding £176 million of VAT receipts). TTC is a standardised measure of a Group's total tax contribution, having been developed by PwC and the 100 Group (FTSE 100 Finance Directors). It is acknowledged as being a fair and comparable representation of total tax cost.



TTC looks at taxes borne, and taxes collected. Taxes borne includes all taxes which are a cost to the Group, such as business rates, corporation tax and employers' National Insurance contributions (NICs). Taxes collected and recovered highlights where the business is collecting tax on behalf of HMRC. Employment taxes totalled £64 million (2024/25: £63 million) including employees' Pay As You Earn (PAYE) and total NICs. The total includes PAYE of £6 million (2024/25: £5 million) on pension payments made by the Group pension scheme.

A net amount of £41 million (2024/25: £44 million) was collected on behalf of the authorities for employee payroll taxes. Business rates of £36 million (2024/25: £35 million) were paid to local authorities. This is a direct cost to the Group and reduces profit before tax.

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

Payments to the Environment Agency and other regulatory bodies totalled £25 million (2024/25: £23 million). This reduces profit before tax.

Fuel excise duty of £1 million (2024/25: £1 million) related to transport costs. This reduces profit before tax.

VAT repayments of £166 million (2024/25: £176 million) have been received by the Group from HMRC. VAT has no material impact on profit and is excluded from the TTC figure to avoid distortions in this.

Contingencies

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

On 2 February 2024, a summons was received by South West Water from the EA in relation to water discharge activity at seven locations with a total of 30 charges.

The EA have since withdrawn six of these charges relating to one site. Sentencing was held on 12 and 13 March 2026, although the value of any fine will not be known until the judgement is handed down on 30 July 2026.

On 23 May 2023, Ofwat announced an investigation into South West Water's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to assurance processes which include independent checks and balances carried out by an external technical auditor. The 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 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.

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

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

Pensions

At 31 March 2026, the overall Group surplus on retirement obligations was £31.9 million (31 March 2025: £31.2 million). The increase in the overall Group surplus in 2025/26 of £0.7 million is mainly due to a £2.2 million increase in the Bristol Water surplus as a result of the buy-out of the scheme, largely recognised in other comprehensive income offset by a £1.7 million decrease in the Pennon Group Pension Scheme (PGPS), recognised in other comprehensive income. Total liabilities have reduced by £100.7 million, largely due to changes in the financial assumptions driven by the increase in the discount rate and the buy-out of the Bristol Water scheme which generated a £92.8 million settlement at the date of buy-out. Total assets have reduced by £100.0 million, driven by the reduction in the value of assets from the prior year and the buy-out of the Bristol Water scheme, which generated a £92.8 million settlement at the date of buy-out. The settlement charge to the statement of profit or loss for the Bristol Water buy-out was £nil. The triennial valuation of PGPS as at 31 March 2025 has been completed and no deficit recovery contributions are required. The ongoing funding requirements for the Company to the scheme are limited to the continuing administration expenses. The Group pension surplus includes a net surplus of c.£9 million (31 March 2025: c.£11.4 million) relating to the Bristol Water section of the Water Companies Pension Scheme (WCPS). The Company and Trustee will shortly complete wind-up deeds after which the surplus will be returned to the Company. The Group pension surplus also includes c.£5 million (31 March 2025: c.£5 million) of surplus in the SES Water section of WCPS (gross of tax).

Dividends

The Group continues to focus on delivering on its commitments to customers, shareholders and stakeholders. Around 50% of Pennon's shareholders are UK-based investors including individuals, pension funds and charities. Over a third of the Group's c.3,500 employees (excluding SES Water) are shareholders and following the second issuance of our unique WaterShare+ initiative, around 80,000 customers are now also shareholders.

In January 2025, the Board announced our dividend policy to 2030 of growing the base dividend in line with CPIH. As a result, it has recommended a final dividend of 20.03 pence per share for the year ended 31 March 2026.

Together with the interim dividend of 9.26 pence per share paid on 1 April 2026 this gives a total dividend per share for the year of 29.29 pence. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

The proposed total dividend for 2025/26 has increased by 3.4% year-on-year to £138.2 million (2024/25: £133.7 million). This reflects an increase in line with CPIH on the 2024/25 dividend. Current year dividends are covered 3.8 times by underlying EBITDA[^] (2024/25: 2.5 times). Pennon Group plc has sufficient retained earnings and a sustainable balance sheet to support its stated dividend policy. The strong fundamentals of its principal operating subsidiary, South West Water Limited, underpin this policy through strong target RoRE[^] and growing RCV[^]. Dividends are charged against retained earnings in the year in which they are paid.

Cost change process

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

The first submission was completed for both South West Water and SES Water in May 2026, with detailed cases and supporting evidence with Ofwat for review. Whilst the Group's submissions amounted to c.£250 million¹⁰ of additional allowances, in-AMP funding was requested as part of that submission. The submissions will be subject to review and scrutiny from Ofwat, and given the nature of certain claims, which are specific to the Group's coastal region, may require ongoing engagement and discussion before agreement. We continue to engage positively with Ofwat in this regard and ensure any additional expenditure is fully supported by our customer research and engagement through our WaterShare+ customer panels.

Financial outlook¹¹

Looking to 2026/27, we anticipate continued strengthening in the Group's profitability. This results from Water Business revenue continuing to increase in line with the Final Determination and inflation, leading to an expected increase of Water Group revenues of c.£50-£70 million. Non-household retail revenues will increase by c.10%-15% driven by sector wide tariff increases and increases in Pennon Power as energy generation increases.

We expect total operating costs across the regulated Water Group to increase broadly in line with inflation, with efficiencies offsetting cost pressures from the growth in the asset base. The non-regulated costs are expected to grow at a faster rate and in line with the wider water tariff increases as this drives up the wholesale costs they face.

The increase in revenue along with the cost increases set out, are expected to result in underlying EBITDA[^] increasing in 2026/27 by 5%-10% compared with 2025/26. It is anticipated the Group will remain in net ODI penalty next year.

Depreciation and amortisation charges are expected to increase by c.5%-10% as a result of the ongoing capital investment programme.

Overall capital expenditure is expected to be in the range of £620-£700 million driven by investment in the water business as projects progress through the delivery cycle, which will deliver benefits to customers and communities across our regions. As the build out of Pennon Power nears completion the investment here will decrease.

Net debt requirements to support our record AMP8 investment programme, both from the full year effect of current year financing and into 2026/27, are expected to increase net finance costs at a Water Group and therefore Group level, leading to an increase in net interest costs of 10-15%.

Laura Flowerdew

Group Chief Financial Officer
10 June 2026

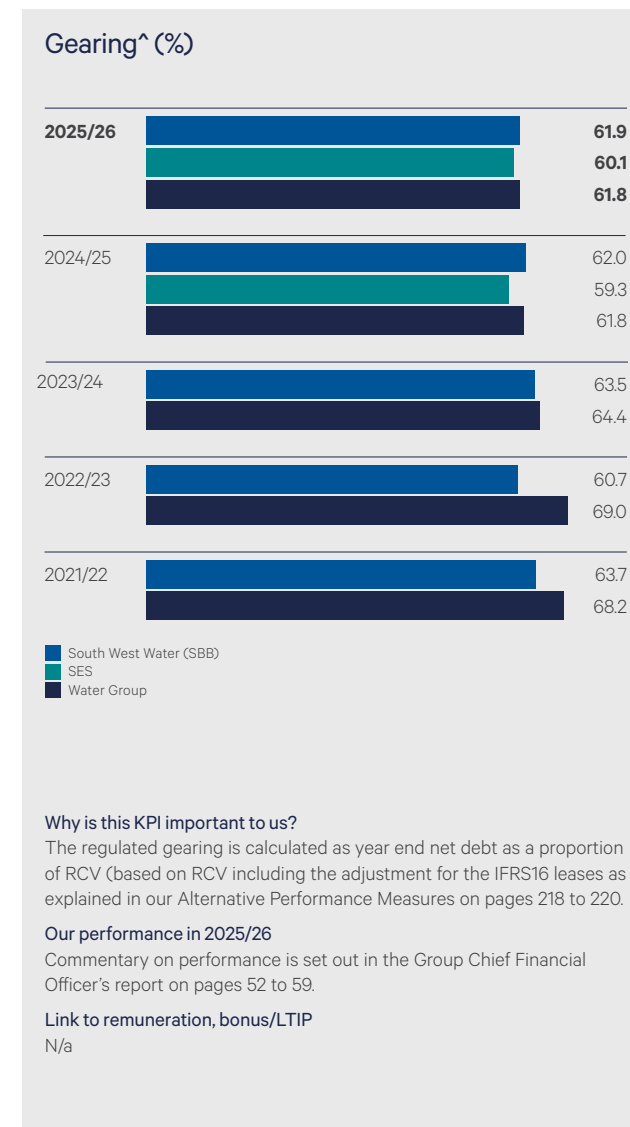
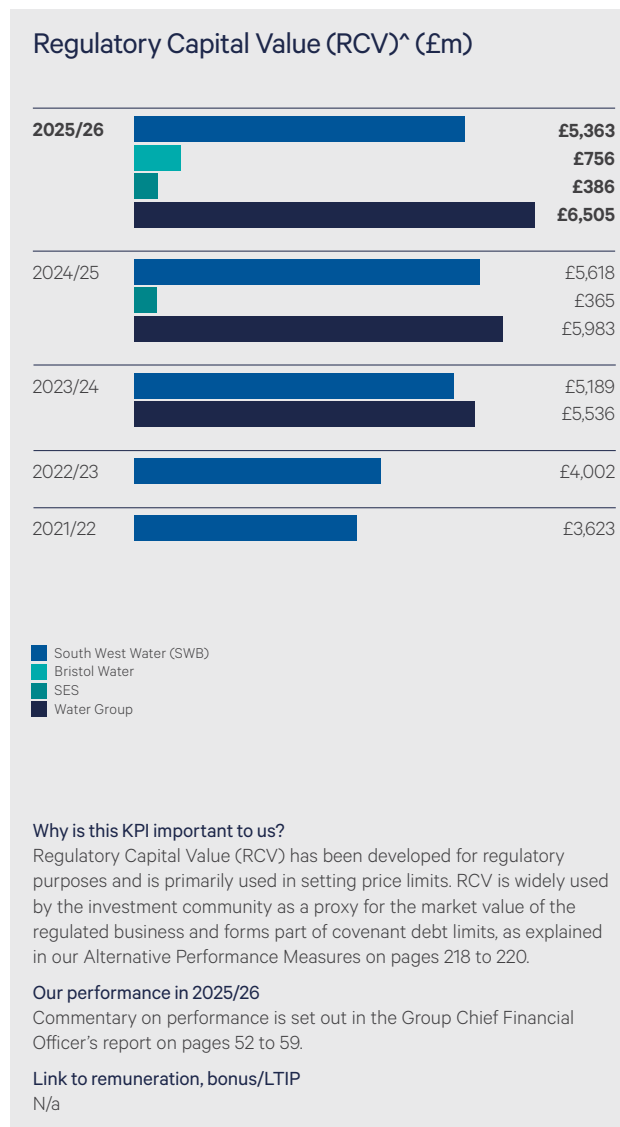
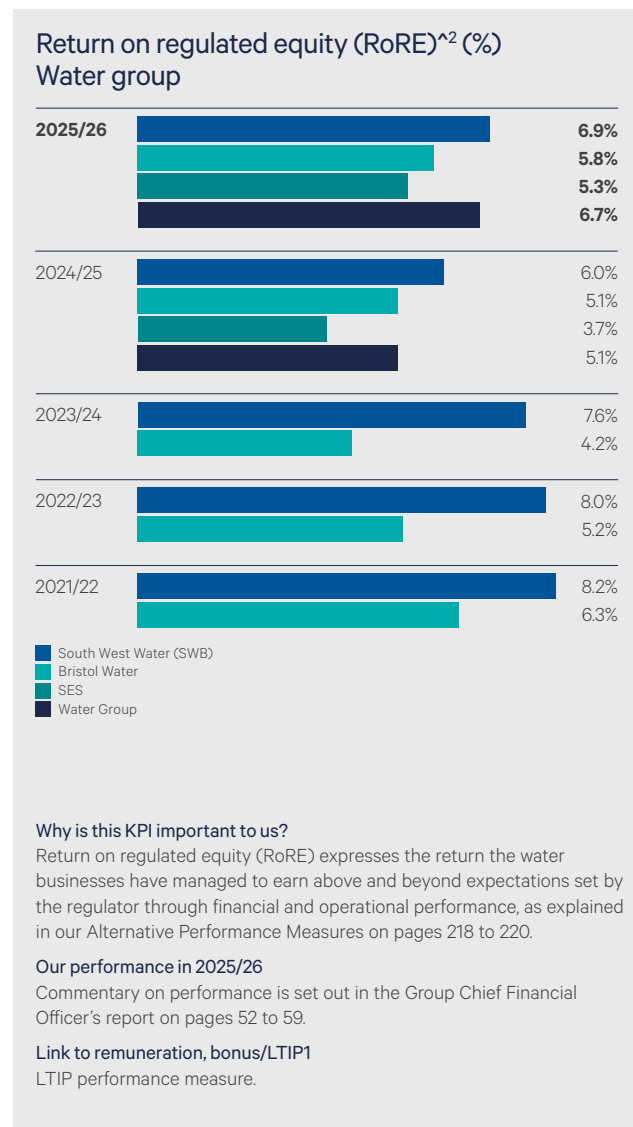
[^] Measures with this symbol are defined in the Alternative performance measures (APMs) as outlined on pages 218 to 220.

¹⁰ In 2022/23 prices.

¹¹ All guidance measured on an underlying basis.

Our financial KPIs

Regulatory measures¹

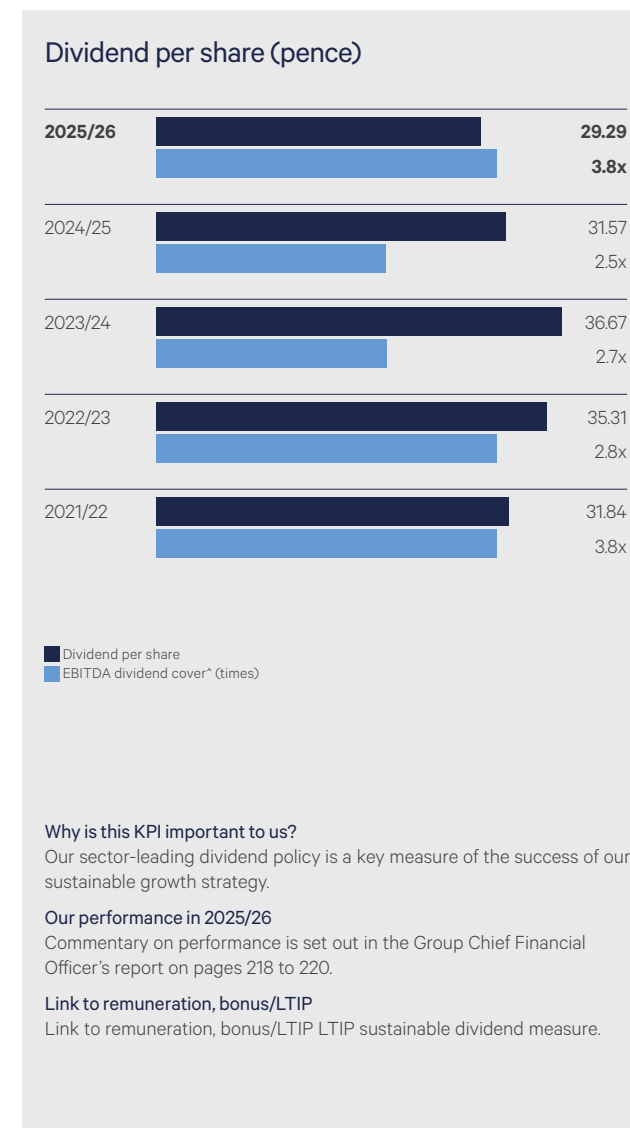
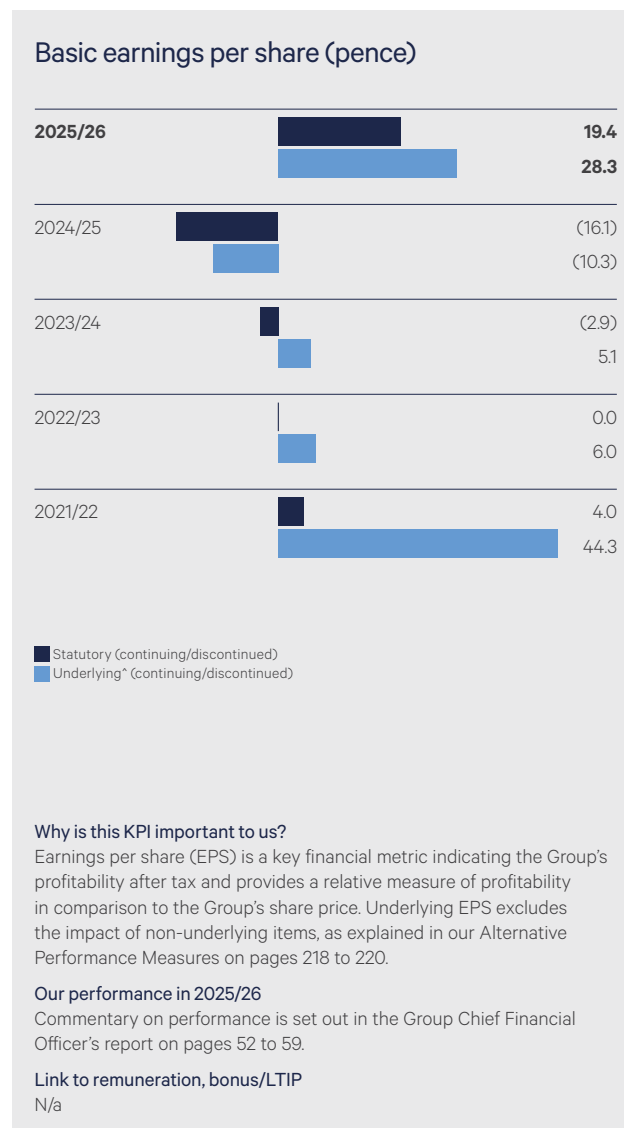
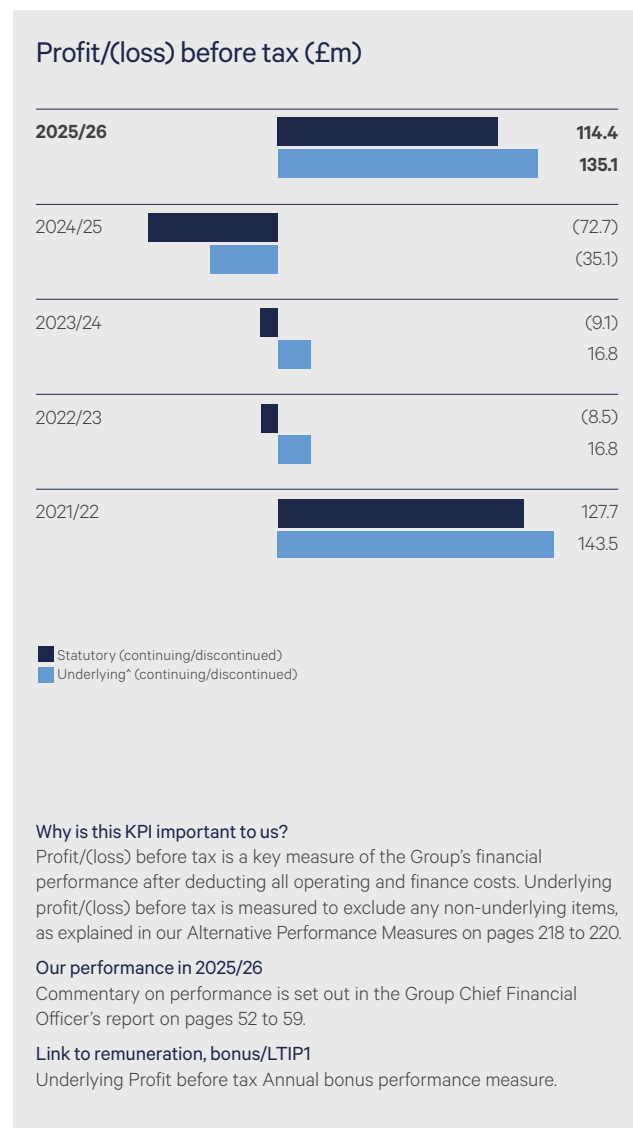


1. For further information on the relevance to Executive Directors' remuneration see page 138 to 140.

2. Cumulative AMP8 measure.

[^] Measures with this symbol are defined in the Alternative performance measures (APMs) as outlined on pages 218 to 220.

Statutory measures



^ Measures with this symbol are defined in the Alternative performance measures (APMs) as outlined on pages 218 to 220.

Our risk management

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

The long-term success of the Group is dependent on the effective management of risks and opportunities and remains a key focus for the Pennon Board and Executive.

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

Pennon's risk management framework

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

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

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

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

Pennon Board

Risk management responsibilities

- Sets the Group's strategic objectives.
- Establishes the Group's risk appetite.
- Determines the Group's principal risks.
- Ensures an effective internal control framework.

Key assurance activities

- Quarterly review of the Group's principal risks against the determined risk appetite.
- Quarterly review of emerging risks and horizon scanning.

Second line

Pennon Executive Committee

Risk management responsibilities

- Ensuring the operation of the Group's risk management and internal control frameworks.
- Quarterly review of the Group's principal risks and mitigation strategies.
- Review of significant bottom-up tactical risks.
- Provides challenge to individual functional areas over the management of their risks.
- Horizon scanning to identify emerging risks and opportunities.

Business units committees and steering groups

Managing Directors have established committees and steering groups that assess, monitor and review risks to feed into the overall Pennon Executive Reviews.

Compliance Committee

Risk management responsibilities

- Performs deep-dive reviews on risk areas relating to data and substantive submissions.

Key assurance activities

- Reviewing, scrutinising and approving data submissions.
- Escalating material issues and risks to the Executive Committee.
- Ensuring the completion of actions to mitigate any risks identified.

Audit Committee

Risk management responsibilities

- Reviews the effectiveness of the Group's risk management and internal control frameworks.

Key assurance activities

- Performs deep-dive reviews on specific principal risks.
- Ensures an appropriate level of assurance coverage over the Group's principal risks.
- Approves the risk-based Group Internal Audit Plan.
- Receives reports on the outcomes of key assurance activities.

Third line

Group Internal Audit

Risk management responsibilities

- Provides independent, risk-based assurance on the effectiveness of the internal control framework.
- Coordination of independent assurance activities.

Key assurance activities

- Quarterly reporting to Audit Committee and Pennon Executive on the effectiveness of internal controls and the outcomes of key assurance activities.

First line

Operational risk management – within the business units

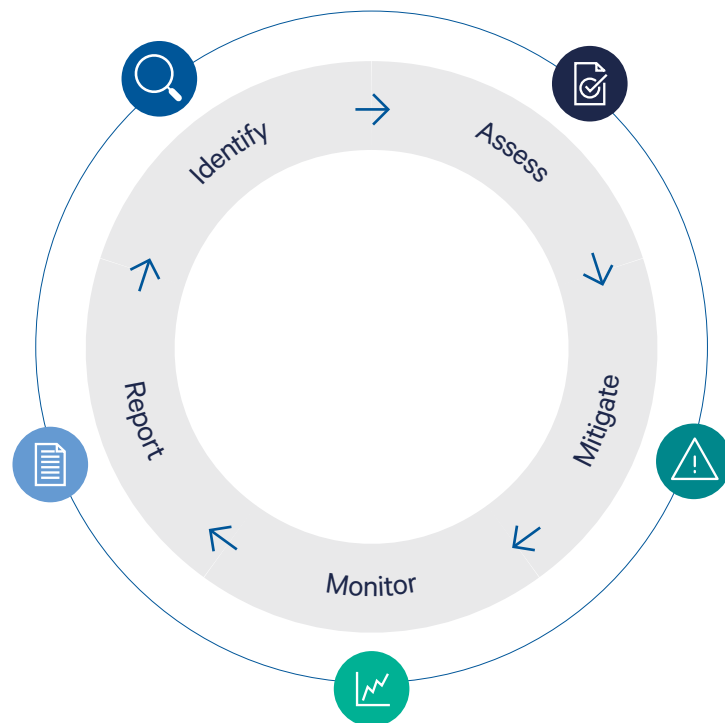
Risk management responsibilities

- Identification, evaluation and monitoring of strategic and tactical risks.
- Maintaining robust internal controls to mitigate key risks.
- Monitoring compliance with internal control framework

Key assurance activities

- Ensure robust first line assurance across key business processes.
- Annual self-assessment and certification of compliance.

Risk management process diagram



A consistent methodology is applied when assessing the Group’s risks and opportunities (including climate-related risks and opportunities), which considers both the likelihood of a risk occurring and its potential impact. Risk impact is assessed across various financial and non-financial categories including: financial, safety, environmental, stakeholder and customer impact, reputation, sustainability, and quality. Likelihood is defined as the probability of a risk event occurring over the next five years under four categories (probable, possible, unlikely or rare) with defined probability thresholds.

Risks are assessed on both a gross basis, before considering existing control measures, and a net basis, after taking account of the effectiveness of those controls. The overall Red, Amber, Green (RAG) rating reflects the combined assessment of impact and likelihood. The resulting net risk position is then compared with the relevant risk appetite to determine

whether further action is required and to prioritise the appropriate management response. Actions to manage risks cover four response types:

- Tolerate: where decisions are taken to tolerate a risk, subject to ongoing monitoring.
- Treat: where actions are taken to manage and reduce risks.
- Transfer: used where possible to transfer risks to other organisations – such as through insurance or through contracting out responsibilities. We recognise it is not possible to fully transfer risks, rather this approach helps to reduce our exposure.
- Terminate: where decisions are taken to stop activities so that we are not exposed to particular risks.

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

Environmental, Social and Governance (ESG) risk management

Our purpose and values recognise the broader societal role that the Group plays within the regions and communities it serves. Consequently, ESG considerations are at the heart of the Group’s activities and how we operate as a responsible business. The identification, assessment and management of ESG risks and opportunities is integrated into the Group’s overall risk management framework and methodology. The delivery of ESG metrics and targets, and the associated risks and opportunities, are monitored through the ESG framework by the ESG Committee. Further detail is provided on pages 126 to 128.

As the owner of water and wastewater companies, the Group acknowledges the fundamental impact that climate change has on the Group’s strategy and priorities and is considered to be pervasive across the Group’s principal risk profile. The assessment of the individual principal risks, as detailed within the table below, has included the consideration of both physical and transitional climate change influences, where relevant, and the mitigating actions being taken.

Further detail on the specific physical and transitional climate change risks and opportunities relevant to the Group, along with mitigating actions being taken, are detailed further within TCFD on pages 83 to 93.

Regulated water and wastewater technical (non-financial) data

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

Continuous improvements to risk management and internal control

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

Management of South West Water and SES Water within the Group’s risk management framework

Pennon manages its risks in such a way that South West Water and SES Water, as regulated companies, are protected from risk elsewhere in the Group. The Group’s principal risks and uncertainties include those Group-level risks that could materially impact on South West Water and SES Water.

Pennon’s risk management and internal control frameworks ensure that it does not take any action that would cause South West Water or SES Water to breach licence obligations. Further, the Group’s governance and management structures mean that there is full understanding and consideration of South West Water’s and SES Water’s duties and obligations under its respective licences, as well as an appropriate level of information sharing and disclosure to give South West Water and SES Water assurance that they are not exposed as a result of activities elsewhere within the Group.

Our risk management continued

Horizon scanning and notable emerging risks

Emerging risks and opportunities are considered to be factors or events which could have a future impact on the achievement of the Group's strategic priorities, but lack the required clarity or certainty in order to adequately assess their impact. Horizon scanning of emerging risks and opportunities is embedded within the risk management process.

Emerging risks are reviewed by the Pennon Executive and Pennon Board as part of their regular assessment of the Group's risk profile. Notable emerging risks are detailed within the table below:

Geopolitical tensions

Comment	Risk category	Time horizon
Increased escalation of conflict in the Middle East combined with the ongoing war in Ukraine could further impact the global economy, heighten energy resilience risks and disrupt key supply chains such as chemicals.	Market and economic conditions	Short to medium term

Artificial intelligence and machine learning

Comment	Risk category	Time horizon
There is a risk that automated artificial intelligence and learning deployed within operational processes develops faster than Government regulations and standards.	Operating performance	Medium term

Quality of water resources

Comment	Risk category	Time horizon
Changes in regulatory requirements over the treatment of micro-plastics, micro-pollutants and 'forever chemicals' (e.g. PFAS) as a result of ongoing research may require significant changes in operational processes in the water treatment process.	Operating performance Business systems and capital investment	Medium term

Changes to demographics within the areas that we serve

Comment	Risk category	Time horizon
Increases in population migration to the South West due to climate change and an increasingly ageing population could place greater demand on our resources and assets.	Operating performance	Medium term

Water sector reform

Comment	Risk category	Time horizon
Reviews of the water industry commissioned by the Government, the Cunliffe Review and the Correy review, could result in significant changes to approach, regulation, and to institutional arrangements.	Law, regulation and finance	Short to medium term

Risk appetite

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

Principal risks and uncertainties

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

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

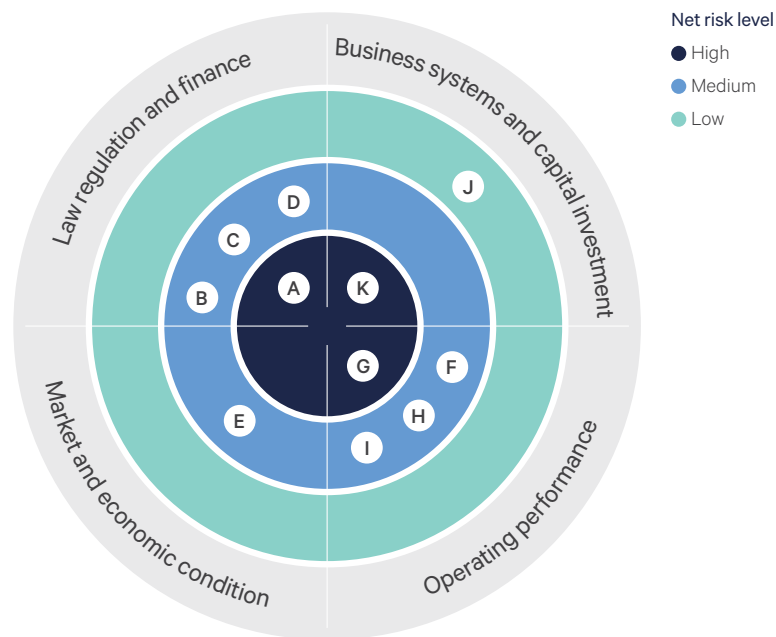
The Board has carried out a detailed review of the Group's principal risks in the context of the Group's strategic objectives and priorities as well as the external environment within which it operates. This has included:

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

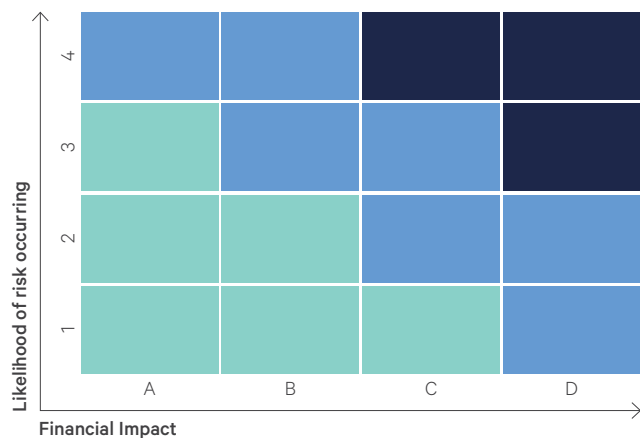
This has resulted in the following material changes to the Group's principal risks compared with those previously reported:

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

Overview of Pennon's principal risk profile



Risk matrix



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

Category	Ref	Strategic priorities	Risk description	Net risk/ Direction of travel
Law, regulation and finance page 66	A		Policy and regulatory change	● ⊖
	B		Non-compliance with laws and regulations	● ⊖
	C		Inability to secure finance and funding within our debt covenants to meet ongoing commitments	● ⊖
	D		Non-compliance or occurrence of avoidable health and safety incidents	● ⊖
Market and economic condition page 67	E		Macro-economic near-term risks impacting inflation, interest rates and power prices	● ⊖
Operating performance pages 67 to 68	F		Failure to secure, treat and supply clean drinking water	● ⊖
	G		Failure to improve wastewater performance results in environmental commitments not being delivered	● ⊖
	H		Failure to provide excellent service or meet the needs and expectations of our customers and communities	● ⊖
	I		Inability to attract and retain staff with the skills to deliver the Group's strategy	● ⊖
	J		Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes which more than doubles during AMP8	● ⊖
Business systems and capital investment page 69	K		Inadequate technological control or cyber attack results in a breach of the Group's assets, systems and data	● ⊖















For information on climate-related and nature-related risks impact see pages 83 to 93.

Directions of travel

- ⬆ Increasing
- ⊖ Stable
- ⬇ Decreasing




Our risk management continued

Law, regulation and finance

Principal risk	Strategic impact	Strategic priorities	Climate change influence	Nature related influence	Mitigation	Net risk/ Direction of travel
A Policy and regulatory change	Changes in Government policy and direction may fundamentally impact our ability to deliver the Group's strategic priorities, impacting investment of £3.2 billion ¹ in the next regulatory period.	   	T	T	The Group actively monitors and responds to emerging policy and regulatory developments through regular engagement with government, regulators and industry bodies, both directly and via Water UK. This is supported by our experienced strategy and regulatory function, regular meetings with key stakeholders, robust consultation response processes, and ongoing horizon scanning, including climate change-related policy developments.	● ⊖
B Non-compliance with laws and regulations	The Group is required to comply with a range of regulated and non-regulated laws and regulations across our businesses. Non-compliance with one or a number of these may result in financial penalties, negative impact on our ability to operate effectively and reputational damage to the Group.	   	T P	T P	The Group mitigates the risk of non-compliance through established legal and regulatory compliance frameworks supported by second line oversight, regular review and assurance, and targeted control enhancements such as the Environmental Permit Assurance Team and its site inspection programme. Compliance with corporate legal obligations is reinforced through Pennon Board-approved policies, oversight by the Legal Compliance function, mandatory staff training, and the Group-wide Code of Conduct. Additionally, a confidential whistleblowing process overseen by the Ethics Management Committee enables timely escalation and investigation of potential breaches.	● ⊖
C Inability to secure sufficient finance and debt covenants, to meet ongoing commitments	Failure to maintain funding requirements could lead to additional financing costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.	   	T P	T P	The Group has well established treasury, funding and cash flow arrangements in place, underpinned by a Treasury Management Policy endorsed by the Pennon Board. The Group's financing commitments and cash flow, funding and covenant compliance are regularly reviewed by the Pennon Executive and Pennon Board.	● ⊖
D Non-compliance or occurrence of an avoidable health and safety incident	A significant health and safety event could result in financial penalties, significant legal costs and damage to the Group's reputation.	 	P	P	The Group has developed HomeSafe 2030 to ensure our plans and strategy are fit for the future and deliver continued improvements throughout AMP8. Established health and safety training, procedures and reporting systems are complemented by site based investment, regular site visits by senior staff, initiatives such as Site Pride and HomeSafe Live as well as a regular programme of wellbeing events. Health and safety performance is monitored by the Pennon Executive and the respective Board and Executive Health and Safety Committees.	● ⊖

Key

Strategic priorities

-  Water quality and resilience
-  Storm overflows and pollutions
-  Net Zero and environmental gains
-  Addressing affordability and delivering for our customers

Climate change and nature-based impacts

- T** Transitional climate change/nature-based influence
- P** Physical climate change/nature-based influence

Net risk level



- High
- Medium
- Low

Directions of travel

- ⊕ Increasing
- ⊖ Stable
- ⊙ Decreasing

1. At forecast outturn prices





Market and economic conditions

Principal risk	Strategic impact	Strategic priorities	Climate change influence	Nature related influence	Mitigation	Net risk/ Direction of travel
<p>E</p> <p>Macro economic near term risks impacting on inflation, interest rates and power prices</p>	<p>Significant changes in inflation, interest rates and power prices could increase the Group's near term cost base.</p>	 	<p>T</p>	<p>T</p>	<p>The Group maintains a manageable debt maturity profile and diverse funding mix with c.25% index-linked which is continuously monitored. Additionally, a significant proportion of the Group's power prices have been hedged for the next 24 months in line with defined levels.</p> <p>The Group's in-house procurement function drives value within strategic contracts and consumables through competitive sourcing and tendering processes.</p> <p>Long-term protection from an increasing inflationary environment is provided through regulatory mechanisms with inflation-linked revenues and RCV growth, along with regulatory true-ups.</p>	<p>● ⊖</p>

Operating performance

Principal risk	Strategic impact	Strategic priorities	Climate change influence	Nature related influence	Mitigation	Net risk/ Direction of travel
<p>F</p> <p>Failure to secure, treat and supply clean drinking water</p>	<p>An inability to secure, produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Group's reputation.</p>		<p>T P</p>	<p>T P</p>	<p>The Group strengthens the reliability and quality of drinking water supplies through diversified water resource planning, routine planned and preventative maintenance works, and continuous asset and network monitoring via the 24/7 Control Centre. Established incident response procedures and root cause analysis support recovery where such events occur, while investment in treatment works, catchment management, mains interventions, lead pipe replacement and monitoring of emerging contaminants helps protect water quality. Resilience is further supported through leakage reduction, demand management, smart metering, water efficiency initiatives, and the development of additional storage and network transfer capability to maintain supplies during periods of stress.</p>	<p>● ⊖</p>

Key

-  Water quality and resilience
-  Storm overflows and pollutions
-  Net Zero and environmental gains
-  Addressing affordability and delivering for our customers

Climate change and nature-based impacts

- T** Transitional climate change/nature-based influence
- P** Physical climate change/nature-based influence

Net risk level








- High
- Medium
- Low

Directions of travel





- ⊕ Increasing
- ⊖ Stable
- ⊙ Decreasing

Our risk management continued

Operating performance (continued)

Principal risk	Strategic impact	Strategic priorities	Climate change influence	Nature related influence	Mitigation	Net risk/ Direction of travel
G Failure to improve wastewater performance resulting in environmental commitments not being delivered	An inability to improve wastewater could result in adverse environment impacts, financial penalties, regulatory enforcement and damage to the Group's reputation.	 	Climate change influence T P	Nature related influence T P	The Group is focussed on improving wastewater performance through clear operational accountability, regular performance oversight and delivery of its Pollution Incident Reduction Plan. This includes targeted storm overflow improvements, proactive asset health checks at key sites and the implementation of a wastewater compliance management system. These actions are supported by the delivery of WINEP and AMP8 investment programmes, wider initiatives to reduce pollution incidents, and continued engagement with the Environment Agency.	● ⊖
H Failure to provide excellent service or meet the needs and expectations of our customers and communities	Failure to meet the needs of both customers and wider stakeholders may result in reputational damage to the Group and lower performance resulting in financial penalties impacting on shareholder value.		Climate change influence T P	Nature related influence T P	The Group continues to enhance and invest in its customer services teams, expanding the channels by which it can interact with and support household and business customers. The Group offers a range of schemes and tariffs to support customers with affordability challenges with a £200 million support package to 2030. During the year both South West and Bristol Water successfully achieved kitemark certification to the vulnerable customer ISO 22458 standard. The Group also undertakes a range of initiatives to engage with the wider communities it serves including community road-show events, Neighbourhood Fund and funding to support water retention and leakage reduction.	● ⊖
I Inability to attract and retain staff with the skills required to deliver the Group's strategy	Failure to maintain a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Group forward.	   	Climate change influence T	Nature related influence T	The Group supports attraction and retention through its People strategy, aligned to the Group's Values, with a focus on building capability, developing talent and aligning resources to customer and business priorities. Regular employee engagement, including pulse surveys, Big Chats for all employees to hear from our Executive, engagement forums, and newsletters, helps identify concerns and respond to feedback. This is reinforced by continued investment in graduate and apprentice recruitment, a strong focus on diversity and inclusion, and leadership development programmes designed to strengthen capability at current and future senior levels.	● ⊖

Key

-  Water quality and resilience
-  Storm overflows and pollutions
-  Net Zero and environmental gains
-  Addressing affordability and delivering for our customers

Climate change and nature-based impacts

- T** Transitional climate change/nature-based influence
- P** Physical climate change/nature-based influence

Net risk level

- High
- Medium
- Low

Directions of travel

- ⊕ Increasing
- ⊖ Stable
- ⊙ Decreasing

Business systems and capital investment

Principal risk	Strategic impact	Strategic priorities	Climate change influence	Nature related influence	Mitigation	Net risk/ Direction of travel
<p>J</p> <p>Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes in AMP8</p>	<p>The inability of our supply chain to support in the delivery of our operational and capital programmes may result in increased costs and delays, detrimentally impacting our ability achieve our change and growth agenda.</p>		<p>T P</p>	<p>T P</p>	<p>The integrated delivery model for AMP8 enables greater flexibility and broadens the number of supply chain partners providing enhanced resilience for the Group. The procurement framework for professional services, and Tier 1 and Tier 2 contractors is in place.</p> <p>The Group also regularly monitors the financial health of key partners, and we work in partnership with our supply chain to identify and manage potential issues and challenges. Where action is required there are established plans and alternative arrangements which provide mitigation and early intervention.</p>	<p>● ⊖</p>
<p>K</p> <p>Inadequate technological control or cyber attack results in a breach of the Group's assets, systems and data</p>	<p>Failure of our technology security, due to inadequate internal processes or external cyber threats, could result in the business being unable to operate effectively and the corruption or loss of data. This could have a detrimental impact on our customers and result in financial penalties and reputational damage to the Group.</p>		<p>N/A</p>	<p>N/A</p>	<p>The Group maintains a dedicated Information Security team with a strong preventive and detective information security framework, aligned to guidance issued by the National Cyber Security Centre (NCSC), supported by regular training and communications, to raise awareness amongst staff. South West Water continues to hold the ISO 27001 accreditation.</p> <p>Enhanced technical controls introduced during the year across the Group's corporate and operational technology sector are informed by best practice and learnings from across sectors. Furthermore, the regulated water business continues to progress actions as part of the roadmap to meet the requirements of the Network and Information Systems Directive (NIS), with activities aligned to the priorities identified by the Drinking Water Inspectorate.</p> <p>The Group also maintains established disaster recovery plans which are subject to regular review and testing.</p>	<p>● ⊖</p>

Key

- Water quality and resilience
- Storm overflows and pollutions
- Net Zero and environmental gains
- Addressing affordability and delivering for our customers

Climate change and nature-based impacts

- T** Transitional climate change/nature-based influence
- P** Physical climate change/nature-based influence

Net risk level

- High
- Medium
- Low

Directions of travel

- ⊕ Increasing
- ⊖ Stable
- ⊙ Decreasing

Viability statement

The Directors of Pennon Group plc are responsible for ensuring the long-term viability of the Group. The Directors need to ensure the resilience of the Group by identifying, managing, avoiding or mitigating risks which may impact viability.

The Board's consideration of the longer-term viability of the Group is an extension of the Group's strategic planning, which is managed through regular long-term modelling and monitoring of key measures including gearing, debt covenant headroom and liquidity. The Board is supported in this by the review of the Audit Committee. The resilience of the business and viability measures are appropriately assessed by a number of mechanisms including a robust risk management assessment, sensitivity analysis and stress tests of financial performance.

The overall market context is a cornerstone of the viability assessment. The Group's main subsidiaries South West Water and SES Water account for the majority of the Group's earnings, with both businesses characterised by five-year regulatory settlements for allowed expenditure programmes and associated revenue streams.

The viability assessment has been made with reference to the Group's long-term strategy and consideration of the ongoing volatility in global energy and commodity markets and risk associated with climate change. The impact of climate risks have been assessed in detail as set out in the Task Force on Climate-related Financial Disclosures (TCFD) section on pages 83 to 93. The Group's strategic business plan includes the expected investment identified at this stage to meet climate-change adaptation.

Period of assessment

The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Group's viability should be maintained at seven years, which recognises the longer-term nature of the regulatory environment for the water business, looking beyond the term of the current regulatory settlement period to March 2030, and the other non-regulated investments undertaken by Pennon. The Group assumes that a continuation of the need for significant capital investment across the water sector will form part of the regulator's approach beyond 2030.

Risks

The Pennon Board and Executive review the Group's emerging and Principal Risks throughout the year and assess the likelihood and impact of risk occurrence in the context of the preventative risk management actions in place. This assessment and the financial implications are taken into account in setting the stress testing for the viability assessment.

Current position

As set out in the Group Chief Financial Officer's Report on pages 52 to 59, the Group has a strong liquidity and funding position with £998.3 million of cash and committed facilities as at 31 March 2026 with a mixture of fixed, floating and index-linked debt with the Group's largest subsidiary South West Water having a weighted average debt maturity of 12 years. Future financial performance is based upon the budget for 2026/27 and the Group's strategic plan over a seven-year period to 31 March 2033, based on the Final Determination through to March 2030, and taking into account the impact of revenue adjustments for operational performance, through the regulatory Outcome Delivery Incentive (ODI) mechanism, where there is an appropriate degree of certainty.

Stress testing

The Group's strategic plan has been stress-tested using both individual sensitivities and combined scenarios with regard for the Group's Principal Risks.

Covenants and key metrics

The Group assesses its financial viability through considering the impact of stress testing on debt Covenants, defined as capacity limits based on a percentage of RCV for each of the two water business and for the Group as a whole.

In addition, credit metrics and key ratios are considered, in particular the key ratios for each of the two water businesses are: gearing measured as net debt to Regulatory Capital Value (RCV); Adjusted Interest Cover Ratio (AICR); and Funds From Operation (FFO)/net debt.

The Group, through the water businesses, maintains two investment grade credit ratings with Moody's and Fitch that consider financial ratio performance, alongside other company-specific and industry considerations. There is ongoing engagement with the agencies to review the performance of the water businesses and in instances of underperformance, as implied by the stress tests, would engage regarding mitigations available and timeliness of recovery plans to support the ongoing credit rating.



The table below summarises the stress tests undertaken that support the long-term financial viability of the Group.

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

Stress-testing evaluation and mitigations

Through this testing, it has been determined that the stress tests performed, including principal risks where either tested individually or in aggregate when weighted by likelihood, do not compromise the Group's viability over the seven-year period.

Whilst mitigations were not required in any of the above individual sensitivities or the combined scenarios to ensure that the Group was viable, additional mitigations could be deployed to reduce gearing and increase covenant headroom. These include:

- Reduction in discretionary operational expenditure.
- Deferral of capital expenditure and/or cancellation of non-essential works.
- Working capital management e.g. re-negotiating credit terms
- Raising equity finance; and
- Restriction of dividends.

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

In addition, more extreme combined scenarios were considered, including an absolute worst case that assumes all Principal Risks occur, that compromise the Group's viability measures over the seven-year assessment period. The Board considered the likelihood of these scenarios on the Group's viability over the seven-year viability period as remote, concluding that the Group remains viable. Mitigations as noted above could also be deployed over the period if deemed necessary.

In making its assessment of the Group's viability, the Directors have taken account of the Group's strong capital solvency position and its ability to raise new finance. In assessing the prospects of the Group, the Directors note that, as the Group operates in a regulated industry which potentially can be subject to non-market influences, such assessment is subject to uncertainty, the level of which depends on the proximity of the time horizon. Accordingly, the future outcomes cannot be guaranteed or predicted with certainty.

As set out in the Audit Committee's report on pages 120 to 125, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of the stress testing performed.

Viability assessment conclusion

The Board has assessed the Group's financial viability and confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a seven-year period, the period considered to be appropriate by the Board in connection with the UK Corporate Governance Code.

Our ESG approach

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

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

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

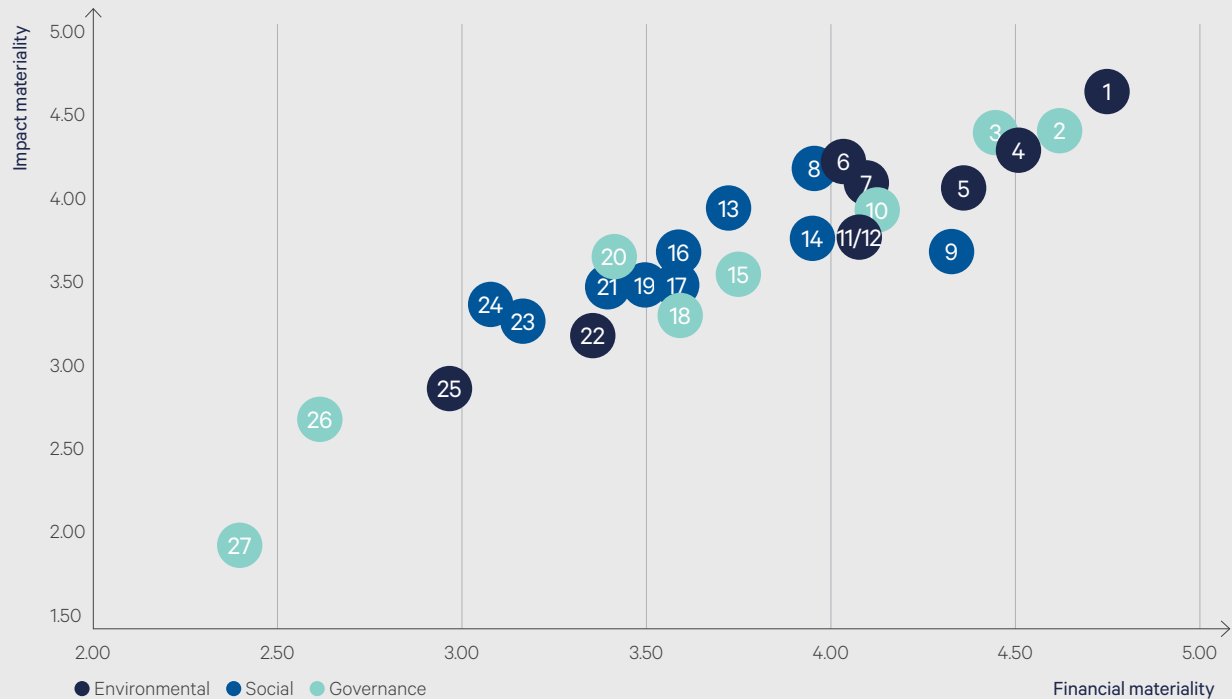
With a strong governance framework and our core values guiding us, we are building our approach to keep Pennon at the forefront of sustainability leadership in our industry.

Double Materiality Assessment (DMA)

Conducting our first Double Materiality Assessment (DMA), marked a significant step in strengthening how we identify and prioritise ESG issues most important to our stakeholders and organisation. This assessment reaffirmed the long-standing relevance of our core priorities, including water quality, climate resilience, freshwater stewardship and transparency, and provided focus to support our strategy and targets to 2030 and beyond. We remain committed to embedding these outcomes across our decision-making, risk management and disclosures, ensuring our approach continues to reflect stakeholder expectations and evolving regulatory requirements. This assessment was reviewed during the year and remains current. Full details of the methodology and results of our DMA are set out in the Annual Report and Accounts 2025.

The following Materiality Matrix presents the quantitative results of our double materiality assessment (DMA), highlighting the ESG topics that stakeholders consider most material. The matrix visualises each topic based on two dimensions: impact materiality (Y-axis), reflecting the significance of Pennon Group's impact on people and the environment, and financial materiality (X-axis), indicating the potential influence of each topic on our business operations and financial performance. Topics are colour-coded and listed below by ESG themes to provide a clear and structured view of our priority areas.

Double Materiality Matrix



Key

1	Water pollution	10	Management of relationships with suppliers	19	Working conditions
2	Regulation and compliance	11	Climate change mitigation	20	Responsible marketing practices
3	Disclosure and reporting	12	Waste	21	Adequate wages
4	Water use	13	Equal treatment and opportunities for all	22	Circular economy
5	Climate change adaptation	14	Secure employment	23	Measures against violence and harassment in the workplace
6	Energy	15	Corporate culture	24	Gender equality and equal pay
7	Biodiversity	16	Social dialogue	25	Air pollution
8	Health and Safety	17	Training and skills development	26	Forced labour
9	Affected Communities	18	Corruption and bribery	27	Child labour

UN Sustainable Development Goals (SDGs)

We engage with the UN Sustainable Development Goals (SDGs) to shape our ESG approach and evaluate our impact on global sustainability outcomes. As we progress against our ESG targets for 2025-2030, we have mapped each target to the SDGs it most directly supports, ensuring our strategy aligns with international priorities. Our most significant contribution continues to be to SDG 6: Clean Water and Sanitation, which reflects our core purpose as a water and wastewater services provider. This commitment is further reinforced through our Double Materiality Assessment, which ensures our targets focus on the ESG topics most material to both our stakeholders and our business.

UN Global Compact

In support of the SDGs, we continue to commitment to the UN Global Compact, the world's largest corporate sustainability initiative.

We communicate throughout the report on upholding the Compact's Ten Principles across human rights, labour, environment, and anti-corruption. As part of this commitment, we commit to continuing to report annually on our progress, reinforcing our ambition to lead with integrity, build trust, and enhance transparency.



ESG targets 2025–2030

Our ESG targets for the 2025–2030 period were developed following the findings of our DMA and are intended to drive meaningful progress across the environmental, social and governance issues most material to Pennon and our stakeholders, above and beyond our regulatory targets and performance commitments.

2025/26 represents the first year of delivery against this refreshed set of targets. Overall, performance has been positive, with 12 of our 14 targets on target, reflecting strong progress in embedding our reaffirmed priorities across the Group. Where performance is off track, remediation plans are in place. This includes renewable electricity generation, which has been off target due to delays in energising our large-scale Solar PV site in Dunfermline. This has now come online and performance is forecast to return to target from next year. Additionally, where achieving our ambitious Lost Time Injury Frequency Rate (LTIFR) target remains a clear Group priority, supported by enhanced leadership focus and operational controls through our HomeSafe programme.

During the year, we have also undergone a revalidation of our science-based targets through the Science Based Targets initiative (SBTi). This process involved re-baselining our greenhouse gas (GHG) emissions to reflect our updated Group emissions inventory with SES Water included and the latest climate science, reaffirming our commitment to a science-led pathway for emissions reduction. In line with this revalidation, we have reset our interim GHG reduction targets to ensure continued alignment with our long-term ambitions and revised science-based targets. We have also refined our renewable electricity target by converting it to a GWh per year metric, strengthening transparency in how our performance is tracked and reported, while maintaining the same overall level of targeted output.

Our ESG targets provide a clear, measurable framework for action. They are embedded within our governance structures with progress reviewed by the ESG Committee regularly to ensure they meet performance, ambition and relevant stakeholder expectations. Progress against each target is reported throughout the following section and will continue to inform our decision-making as we work towards our 2030 objectives and beyond.



Wimbleball Dam Camera Crayfish Survey

Our ESG performance

Reduction in GHG emissions from 2021/22 baseline – Scope 1 and 2 (SBT verified) (%)



2025/26 performance	41
2025/26 target	40
2030 target	54

By re-baselining our science-based targets we are reaffirming our commitment to delivering our near-term carbon reductions in alignment with the latest climate science. We have reset our interim ESG targets to reflect these changes, with our Group GHG inventory now fully aligned with our science-based targets and with our interim targets. Additional targets relating to our Scope 3 emissions, are detailed in Our Net Zero Transition pages.



To continue driving progress against these stretching GHG reduction targets, controlling the direct process emissions of nitrous oxide (N₂O) from our wastewater treatment works is essential. This year we initiated our programme to directly monitor and control N₂O emissions at some of our wastewater treatment sites. We are expecting the improved visibility of emissions from our direct monitoring activity to allow us to begin to more precisely control processes to reduce the formation of N₂O.

➔ [Read more about our progress on reducing GHG emissions on pages 78 to 82](#)



Countess Wear WWTW Himalayan Balsam Training

Renewable electricity generated (GWh/year)



2025/26 performance	27
2025/26 target	50
2030 target	155

Whilst our performance was off-track across the financial year due to delays in energising our Dunfermline site, Pennon Power's new solar farm, built on former mining land, marks a major shift towards renewable energy. The 100-acre site has 80,000 solar panels and a large battery storage system. This historical shift, together with a further 26,000 panels now energised at another site in Cullerlie, near Aberdeen, are delivering the equivalent energy requirements for 20,000 homes each year. With generation now on-track for subsequent years, these projects are supporting the UK's wider efforts towards Net Zero ambitions and demonstrate our long-term commitment to renewable energy. This year, we have also converted the unit used in this target to GWh/year, to drive accountability and transparency in performance.

➔ [Read more about Pennon Power's progress on page 46](#)

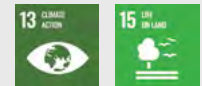


Dunfermline – Battery Energy Storage System



Planting trees

Tree planting (Number, cumulative)



2025/26 performance	421,199
2025/26 target	400,000
2030 target	500,000

The Group's tree planting programme has now planted over 400,000 trees to date, contributing to progress towards our landscape restoration and biodiversity across our regions. One example is our transformational habitat management initiative at Blagdon Lake, near Bristol. This effort specifically tackles ash dieback through targeted tree felling and the introduction of a wide variety of new species, while traditional hedgerow rejuvenation and coppice restoration support both local heritage and nature. Any tree waste from these activities is reused creatively, including being fed to animals at a local zoo, contributing to the circular economy. Collectively, these actions strengthen the ecosystem surrounding Blagdon Lake as part of our ongoing commitment to tree planting and habitat enhancement.

➔ [Read more about our biodiversity impact on pages 42 to 43](#)

Peatland restoration (Hectares, cumulative)



2025/26 performance	5,158
2025/26 target	5,054
2030 target	5,184

Our peatland restoration is delivered by the South West Peatland Partnership as part of Upstream Thinking, our long-standing catchment management programme, which marked 15 years since its launch in 2010 this year, building on pioneering projects dating back to 2006. Working collaboratively with farmers, landowners, conservation bodies and local partners across our catchments, Upstream Thinking demonstrates the power of prevention and working with nature at scale. Restoring degraded peatlands helps to protect and improve raw water quality, stabilise water flows, reduce sediment and nutrient losses, enhance biodiversity and store carbon, all whilst increasing our combined resilience to climate change and flooding. By tackling shared challenges together across our regions, peatland restoration delivers lasting benefits for nature, communities and customers, while supporting healthier rivers from source to sea.

[Read more about Upstream Thinking on page 45](#)



Peatland restoration on Bodmin Moor

Increase in Social Impact from Community Investment (%)



2025/26 performance	37.5
2025/26 target (baseline)	0
2030 target	10

This year we launched our £5 million Better Futures Fund to support customers and communities across all our regions. The fund provides hardship grants and supports community groups focused on physical activities, education, health and wellbeing and positive environmental outcomes. Through the fund, we have supported over 140,000 individuals so far this year, demonstrating the tangible social impact we have created through our approach to community investment, as calculated and independently verified by Business for Societal Impact's (B4SI) community investment framework.

One funded project we supported this year was a canoe-based litter pick and recycling initiative on the Plym Estuary. The project brought together volunteers for a hands-on river clean-up, whilst helping participants better understand how waste accumulates in tidal environments. The following week, the group took part in a community recycling workshop, transforming recovered plastic into new products using people-powered machinery. Feedback showed participants felt proud of their contribution, developed new skills and felt more connected to both nature and their local community, with many keen to continue as part of a regular clean-up team.

Customer affordability (%)



2025/26 performance	99.5
2025/26 target	95
2030 target	100

Customer affordability is one of our four key and strategic priorities as a Group, with our pledge of zero water poverty across our regions. Against a backdrop of industry-wide bill increases and cost of living pressures, we remain focused on fair charging and targeted support for those most in need. Despite doubling our investment programme in AMP8, we are committed to keeping bills as low as possible, delivering our largest ever affordability package and expanding schemes such as smart metering to help customers better manage their water use and bills. While affordability pressures remain challenging, our performance this year reinforces our commitment to having zero customers in water poverty.

[Read more about supporting affordability and delivering for customers on pages 47 to 51](#)

Diversity of workforce (%)



2025/26 performance	34
2025/26 target	33
2030 target	35



This year, we have been recognised by FTSE Women Leaders as a leader for Women on Boards across the FTSE 250. We continue to strengthen our inclusive culture, including through the launch of two new employee network groups: our Professional Women's Network, which supports career development, visibility and progression for women across the Group, and the Men's Health Group, which promotes open conversations, wellbeing and the reduction of stigma around mental and physical health.

5% Club accreditation status (Grade)



2025/26 performance	Platinum
2025/26 target	Platinum
2030 target	Platinum

We continue to invest in long-term skills and careers and have again been recognised with Platinum membership of the 5% Club. We have delivered over 680 apprenticeships and graduate placements towards our target of 1,000 by 2030.



[Read more about our people on pages 14 to 17](#)

Our ESG performance continued

Glassdoor score (Average score)



2025/26 performance	3.4
2025/26 target	3.2
2030 target	3.8

Employee feedback, including on Glassdoor, helps us identify strengths and areas for improvement as we continue to invest in engagement, development, and retention across our workforce.

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

[Read more about Our People on pages 14 to 17](#)

Lost Time Injury Frequency Rate (LTIFR) (Number per 100,000 hours worked)



2025/26 performance	0.39
2025/26 target	0.20
2030 target	0.20

Our HomeSafe programme continues to place the safety and wellbeing of our people at the centre of everything we do, underpinned by four key cornerstones covering process safety, occupational safety, occupational health and wellbeing, and security. Through a continued focus on leadership, engagement and strengthening our safety culture, we have made progress in improving risk management and building greater awareness across the Group. While overall injury levels remained stable, we saw an increase in lost time incidents during the winter period, primarily linked to slips and trips, resulting in a rise in our LTIFR. We have refreshed our approach to re-engage teams and reinforce the importance of HomeSafe, with a continued focus on reducing harm and ensuring everyone goes home safe every day.

[Read more about HomeSafe on page 17](#)



ESG rating (Sustainalytics) (Score percentile)



2025/26 performance	Top 1%
2025/26 target	Top 10%
2030 target	Top 10%

We are ranked 1st out of 46 companies scored for ESG risk in the Water Utilities sub-industry by Sustainalytics, reflecting our commitment to ESG performance and disclosure. This is reinforced by our inclusion on CDP's 2025 Climate A-List, recognising the strength of our climate strategy, governance and transparency.

[Read more about ESG ratings on page 77](#)



Funding raised through Sustainable Financing Framework (£millions)



2025/26 performance	490
2025/26 target	400
2030 target	2,000

Pennon's Sustainable Financing Framework (SFF) embeds our ESG approach into how capital is raised and deployed, aligning funding with eligible ICMA green and sustainable categories to support water quality, resilience, Net Zero and affordability outcomes. A growing proportion of our debt instruments are now linked to sustainability performance targets, embedding accountability and transparency into how we fund and deliver change.

ESG criteria included in tender evaluations (%)



2025/26 performance	95
2025/26 target	75
2030 target	100

ESG criteria are embedded within Pennon's tender evaluation processes, ensuring these are assessed alongside cost and quality when selecting suppliers. This approach is supported by our Sustainable Procurement Policy, onboarding processes and Code of Conduct for Supply Chain Partners, which set clear expectations for ethical behaviour, responsible practices and environmental stewardship across our supply chain. We're also stepping up how we work with our suppliers, recognising the key role they play in delivering our science-based targets for GHG emissions, and our wider sustainability. This means setting clear expectations and supporting suppliers to improve their sustainability performance over time. By taking this approach, we're not just focusing on our own targets, but helping to build a stronger, more sustainable and resilient supply chain.

Supply Chain Sustainability School (Membership grade)



2025/26 performance	Gold
2025/26 target	Silver
2030 target	Gold



Through our Supply Chain Sustainability School (SCSS) partnership, we are focused on helping our people and suppliers build practical sustainability knowledge and skills. This year, this included our Carbon Literacy Day lunch and learn session and training pathway, to encourage colleagues to build their carbon literacy and prepare for our climate transition.

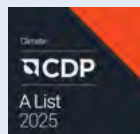
ESG ratings

Our ESG approach continues to drive positive change, embedding sustainability at the core of our business. This commitment is reflected in our leading performance across key ESG ratings, improving our scores across these key assessments as an industry leader for ESG.

This year, we achieved inclusion in CDP's Climate A List, whilst maintaining or improving scores across each of our material ESG ratings.

Our Sustainalytics assessment places Pennon Group 1st out of 46 Water Utilities assessed globally and earning us Sustainalytics 'ESG Top Rated' industry and regional badges for 2026.

These results reflect our unwavering commitment to sustainability, strong governance, and proactive risk management, demonstrating our leadership in ESG performance across the industry.



A and A-

CDP Climate and Water
(Previous rating: A- and A-)


This year, we achieved inclusion in CDP's Climate A List for the first time, marking a significant milestone and recognising our leadership in climate action and disclosure. This places us in the top c.4% of organisations globally for CDP Climate, reflecting the quality, completeness and transparency of our reporting alongside the actions we are taking to manage climate-related risks and opportunities.

This progress is underpinned by continued development in our approach to reducing our emissions, supported by robust governance, disclosure and performance across the business. We also achieved a leadership rating for CDP's Supplier Engagement badge, recognising our work with suppliers to address sustainability challenges in our value chain, and maintained our strong CDP Water Security score.


Latest external assessment scores (as of 31 March 2026)

MSCI  **AA**
MSCI ESG Indexes
(Previous rating: AA)

 **10.1** low
ESG risk
(Previous rating 11.7 low)

 **ESG management: 87.8**
(Previous rating: 84.5)

S&P Global **50**
S&P Global's Corporate Sustainability Assessment (CSA)
(Previous rating: 47)

 **3.8/5**
FTSE4Good ESG Score
(Previous rating: 3.8/5)

 **Prime (B+)**
ISS corporate rating
(Previous rating: Prime, B+)



 Roadford reservoir

Our Net Zero Transition

Our Net Zero Transition

Across Pennon, we recognise the urgent need to transition to a low carbon, climate resilient economy, aligned with the goals of the Paris Agreement and a 1.5°C pathway.

This year and for the start of AMP8 we have reviewed our strategic ambition to become a Net Zero organisation, setting our near-term focus on achieving our emissions reduction goals through our near-term science-based targets and developing our longer-term strategy through a Climate Transition Plan, to be published in the upcoming financial year.

Whilst our regulated businesses have made significant progress, achieving a 45% reduction in emissions towards their operational Net Zero ambition last year, we are cognisant of the shortcomings of that commitment, covering only operational greenhouse gas (GHG) emissions within our regulated businesses, with over 73% of the Group's emissions occurring in our value chain, in other words, the Group's scope 3 GHG emissions.

Building on the progress we are making as a Group against our near term GHG reduction targets, which have been revalidated by Science Based Targets initiative (SBTi) in April 2026, our Group's Climate Transition Plan sets out our pathway to achieving Net Zero across all three emissions scopes by 2050 across the Group, aligned with the latest climate science and in reference to the SBTi Net Zero Standard.

Our plan will build on our current decarbonisation strategy to provide greater transparency on the levers, dependencies and milestones required to achieve Net Zero, ensuring we remain accountable to our stakeholders while contributing to a resilient and low-carbon future.

Our GHG targets

Science-based targets

As a Group we have committed to near-term Science-Based Targets (SBTs), giving us Scope 1, 2 and 3 emissions reduction targets to aim for by 2032/33. Our targets were initially validated and approved by the Science Based Targets Initiative (SBTi) in May 2024, and this past year we have reaffirmed our commitment to the SBTi, by rebaselining these targets to include SES Water, ensuring our SBTs remain relevant across our Group.



SES EV charger

SBTs provide a clearly defined pathway for companies to reduce greenhouse gas emissions. Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels.

Our 'rebased' SBTs are set out below. These apply across the whole Pennon Group, including SES Water.

- The Group commits to a 63% reduction in absolute Scope 1 and market-based Scope 2 emissions by 2032/33 from a 2021/22 base year.
- The Group commits to reduce absolute Scope 3 GHG emissions by 30% from fuels and energy-related activities, wastes generated in operations, business travel, employee commuting, upstream leased assets and use of sold products over the same timeframe.
- The Group commits that 60% of its suppliers by emissions covering purchased goods and services, capital goods and upstream transportation and distribution will have science-based targets by FY 2027/28.
- The Group commits to increase annual sourcing of renewable electricity to 100% by 2030/31.

GHG performance commitments

Our South West Water (including Bournemouth Water), Bristol Water and SES Water regulated businesses also have five GHG related performance commitments (PCs) reportable to our regulator Ofwat.

Four of the performance commitments relate to operational GHG's where the measure is based on Scope 1 and 2 emissions and a subset of Scope 3 emissions that relate only to our operational activities.

Our operational GHG performance commitments are measured using the location-based GHG accounting methodology where our purchase of renewable electricity from suppliers does not count towards our emissions reduction, whereas our Group science-based targets use the market-based greenhouse gas accounting methodology which does account for our renewable electricity purchase.

The fifth performance commitment is an embodied carbon measure that relates to activity under our capital investment programme and is a measure of tonnes of CO₂ embodied in our investment in our capital projects as a proportion of our spend on those projects.

These performance commitments are all measured against the baseline values we calculated and forecast as part of our PR24 (2025-2030) business plan.

Our 2025/26 performance

Our performance against these headline GHG targets is presented below.

Our GHG performance in the year reflects strong progress at Group level, with further action required on our regulated businesses PCs as we move through AMP8. We have continued to deliver against our SBTs, supported by our decarbonisation strategy. However, performance against our regulatory GHG performance commitments highlights the challenges of transitioning at pace whilst delivering our largest programme of capital investment to date.

These results, provide a foundation for improvement as we move through the AMP period and beyond to Net Zero 2050, reinforcing the need for continued action to achieve sustained progress against all of our GHG commitments.

GHG target	Company scope	2025/26 Performance	2025/26 Target
63% Scope 1 & market-based Scope 2 reduction by 2032/33	Pennon Group	41%	40%, ESG target
30% Scope 3 absolute emissions reduction across categories 3, 5, 6, 7, 8 & 11 by 2032/33	Pennon Group	-2%	7%, internal target
60% of suppliers by emissions to be committed to SBTs by 2027/28	Pennon Group	33%	40%, internal target
100% renewable electricity purchase by 2030/31	Pennon Group	92%	80%, internal target
Drinking Water Operational GHG PC	South West Water	-5%	0.2% Ofwat PCL
Wastewater Operational GHG PC	South West Water	-1%	0.1%, Ofwat PCL
Drinking Water Operational GHG PC	Bristol Water	-13%	0.3% Ofwat PCL
Drinking Water Operational GHG PC	SES Water	-15%	6%, Ofwat PCL
Embodied Carbon GHG PC	South West Water	38%	0.9%, internal target

Our decarbonisation strategy

Our strategy for reducing our GHG emissions relies on having a strong understanding of the sources of all our emissions alongside a robust carbon accounting process. We use the UK water industry Carbon Accounting Workbook to calculate our greenhouse gas emissions.

Our key priorities include:

- Reducing emissions through changes to our operational practice, such as increasing our energy efficiency, switching to lower carbon fuel sources and transitioning to electric vehicles
- Maximising generation from our own renewable energy assets
- Where we cannot generate enough electricity to meet our needs ourselves we will purchase electricity from renewable sources
- Meeting our commitments to reduce leaks and help customers to use less water
- Where possible reversing carbon emissions from our core activities
- Supporting the development of innovative solutions and using whole life carbon assessments to help us switch to lower carbon solutions

Decarbonisation levers

Energy efficiency

We continuously improve our energy efficiency by ensuring our assets are operated efficiently and are maintained in optimal condition. Our programme of pump testing, repair and replacement included replacement of pumps at some of our largest water treatment works this year, ensuring ongoing efficient and reliable operation for future years.

We also replaced some of our aeration assets this year with new blowers installed at some of our wastewater treatment works: these new machines benefit from the latest developments in blower technology, are more appropriately sized for the duty they need to perform and contribute to a more efficient wastewater treatment process.

Amongst our most notable energy efficiency projects this year was the refurbishment and replacement of one of our largest pumps at our Restormel water treatment works in Cornwall, which is the site that uses the most energy in our South West Water region. We also replaced another of our largest pumps at our Roadford Dam water pumping station site in Devon, with plans to continue to replace more pumps at this site in 2026/27.

We have continued to concentrate our efforts this year on ensuring our largest energy consuming assets consistently operate as efficiently as possible. We have invested in new real-time efficiency metering as well as in new monitoring devices that use innovative methods to detect where energy is being wasted.

We are compliant with the UK Government's Energy Saving Opportunity Scheme (ESOS) aimed at improving energy efficiency and reducing carbon emissions for large businesses. Our energy action plans have been submitted via the Government's MESOS online portal and we report on our progress against these plans on an annual basis.

Our South West and Bournemouth Water businesses maintain their certification to the Energy Management Systems Standard ISO 50001, ensuring we operate to a high standard of energy management and providing an auditable framework to our energy management activity.

Renewable energy

South West Water (including Bournemouth Water) and SES Water have continued to source 100% renewable electricity backed by Renewable Energy Certificates (since 2022), representing over 92% of the Group's electricity consumption. For our Bristol Water electricity needs we are transitioning to 100% renewable electricity, towards meeting our science-based target for 100% renewable electricity sourcing for the Group by 2030/31.

During 2025/26 we have added to our portfolio of on-site renewable electricity by completing a new 206kW Solar PV scheme at our St Cleer water treatment works, as well as developing our plans to construct new Solar PV at further sites before 2030.

Although not part of our regulated water businesses, the Pennon Group's commercial energy company Pennon Power has continued delivery throughout the year of new large Solar PV schemes, and the first two of these were energised in 2025/26. This remains a major step towards meeting the Group's ambitions to own and control its own renewable energy assets. Progress with our Pennon Power Solar PV projects is featured in more detail on page 46.

Fuel switching

We have conducted a review of our stand-by generators to determine which assets are suitable for using diesel replacement fuels such as HVO (Hydrotreated Vegetable Oil), made from waste oil, to reduce GHG emissions.

Many of our newer generators are 'HVO ready' and are suitable for diesel replacement with HVO as a 'drop-in fuel'. Where this has been confirmed by our review we are using HVO to fuel these assets.

Our older generating plants may not be immediately suitable for switching to HVO usage and we have continued to use diesel fuel to ensure some of these older assets can continue to provide a resilient service.

Our diesel generator replacement programme ensures all new replacement generators are HVO ready and as a result we plan to transition to using HVO as a diesel replacement across all our generator fleet over a period of time.

Our longer-term plan includes exploring other alternatives to fossil fuels for our stand-by generation; we are actively looking at options to switch to using battery back-up where possible, as well as looking at hydrogen as a potential future solution to providing power resilience at our operational sites.

Transport

Our planned transition away from fossil fuelled vehicles towards electric vehicles continues, with over 219 of our company cars and 112 of our company vans now fully electric.

Alongside our electric vehicle fleet we are also transitioning some of our fleet vehicles to petrol-electric hybrid vehicles with 39 hybrid cars and vans already on our fleet.

As part of our strategy to transition to electric vehicles we are also deploying our own vehicle charging infrastructure on our key operational sites and this year we added to our charging infrastructure by installing new chargers at our Hayle wastewater treatment works in Cornwall.

Process and fugitive emissions

Process and fugitive emissions, mainly in the form of methane (CH₄) and nitrous oxide (N₂O), arise from our wastewater treatment processes.

We are exploring ways of measuring fugitive emissions of CH₄ at our wastewater treatment works that use anaerobic digestion of sludge as part of the on-site process.

Following the latest climate science, N₂O has now become a much greater proportion of our direct Scope 1 emissions following a change to N₂O emissions factors this year to align with the most recent emissions factors published by the IPCC (Intergovernmental Panel on Climate Change).

This effectively increases the volume of our N₂O emissions by 7.2 times the emissions we reported in previous years, making our efforts to increase our monitoring and control of these emissions a much more significant component of our Net Zero plans, and we have made significant progress this year with our initiatives for monitoring and controlling these emissions (see 'Monitoring and controlling our process and fugitive emissions' on the next page).

Our Net Zero Transition continued

Our Green First approach

Our carbon emissions extend beyond our daily operations. Embodied carbon are emissions associated with the construction, repair, and maintenance of our physical assets. These emissions account for a significant proportion of our Group's total emissions.

Through AMP8, our Green First Framework is embedding carbon considerations in how we plan, design and deliver our investments by prioritising lower carbon and nature-based solutions at the earliest stages of the design process. This approach is key to addressing these embodied emissions.

We are working collaboratively with our supply chain to identify the best tools and techniques for whole life carbon accounting, as well as in developing strategies to help drive down emissions from our capital investment programme.

Our bespoke embodied carbon performance commitment supports the delivery of our wider carbon reduction goals. Embodied carbon accounting is foundational to this effort, enabling us to better understand and actively manage emissions across our capital programme and our supply chain.

Through closer collaboration with suppliers, we are advancing the use of whole life carbon assessment methodologies, alongside identifying practical opportunities to reduce emissions. While this represents important progress, further work is required to scale these approaches and drive consistent reductions in embodied carbon across our investments.



Wimbleball reservoir

Nature-based solutions

Our Upstream Thinking catchment management programme, delivered to improve raw water quality, includes on farm interventions of improved soil management, wetland creation, buffer strips, tree planting and other nature-based solutions.

We have also pioneered a collaborative partnership approach to peatland restoration across the region, continuing to develop best practice and build capacity to scale up into the future.

Over time these interventions store more carbon in the landscape and reduce loss to the atmosphere, whilst retaining water upstream to improve long-term resilience.

Looking forward, we are increasing adoption of nature-based solutions in the planning and delivery of our AMP8 Business Plan in 2025-2030 for the multiple benefits they provide for the environment.

We have triaged all our wastewater investment solutions to assess the suitability for delivering a nature-based solution as an alternative to a 'hard engineering' solution.

Monitoring and controlling our process and fugitive emissions

Measuring and monitoring the direct real-time emissions of N_2O from our wastewater treatment works is the first step towards controlling these Scope 1 emissions; without it, we cannot establish the effectiveness of our reduction initiatives.

Once we have established an annual baseline of N_2O emissions at our sites we can then use the real-time data outputs to adjust the treatment processes to minimise the formation of emissions and begin to take control of N_2O emissions reduction across our wastewater treatment works.

This year we moved on from the initial pilot of our measuring approach at our Countess Wear (Exeter) wastewater treatment works and embarked on a new programme of direct on-site N_2O monitoring at our Dawlish and Sidmouth wastewater treatment sites as part of our wider five-year emissions monitoring, optimisation and control strategy.

This pioneering initiative uses a mix of fixed and mobile monitoring equipment taking high-granularity 15-minute data readings, enabling us to not only measure N_2O emissions but also dissolved oxygen, redox, ammonia, nitrate, nitrite, airflow, energy and temperature.

In the coming years between 2026 and 2030 we intend to roll out this technology to many more of our wastewater treatment works and we are expecting this approach to enable us to begin to reduce our Scope 1 process and fugitive emissions towards meeting the Group's near-term Scope 1 and 2 science-based target by 2032/33.



Direct N_2O monitoring equipment at our Dawlish wastewater treatment works

Embedding a carbon reduction culture

We recognise that achieving our Net Zero goals will be a collaborative effort between all our stakeholders, which is why we are working towards creating a working environment in which colleagues, customers, and suppliers are motivated to help us accelerate our transition to Net Zero emissions.

To improve the 'Carbon Literacy' of our own employees and our supply chain partners we have joined the Supply Chain Sustainability School.

This online learning platform provides access to a vast range of learning materials which will help to upskill our workforce and our delivery partners.

We have developed a robust communication and engagement plan, supported by an effective governance structure, working with internal stakeholders at all levels to ensure carbon emissions and our Net Zero goals are adequately considered in decision-making.

This is further corroborated by data, and our benefits realisation work, where we quantify and monitor the greenhouse gas consequences of our Net Zero initiatives.

➔ **Further details of how we are integrating climate into our business and preparing for a low-carbon future can be found in our Task Force on Climate-related Financial Disclosures (TCFD) on pages 83 to 93.**

Streamlined Energy and Carbon Report (SECR)

Pennon Group plc GHG Emissions.

	2025/26		2024/25 ³	
	market-based	location-based	market-based	location-based
Direct emissions from burning of fossil fuels	10,899	10,899	9,101	9,101
Process and fugitive emissions	67,435	67,435	67,233	67,233
Transport: Company owned or leased vehicles	5,639	5,639	5,915	5,915
Total Scope 1 GHG emissions (tCO₂e)	83,974	83,974	82,248	82,248
Scope 2 GHG emissions (tCO ₂ e)	16,563	81,968	26,717	89,295
Total gross Scope 1 & 2 GHG emissions (tCO₂e)	100,537	165,941	108,965	171,543
Scope 3 GHG emissions ¹ (estimated)	273,444	273,444	294,145	294,145
Total gross Scope 1, 2 & 3 GHG emissions (tCO₂e)	373,982	439,386	403,110	465,687
GHG emissions removals through purchases of Renewable Energy Guarantees of Origin (tCO ₂ e)	Included in scope 2	Included in scope 2	Included in scope 2	Included in scope 2
GHG emissions saved by exporting self-generated electricity (tCO ₂ e)	–	(2,069)	–	(1,837)
Total annual net GHG emissions (tCO₂e)	373,982	437,317	403,110	463,850
Energy consumption used to calculate Scope 1 and 2 GHG emissions (MWh)	567,877	567,877	534,221	534,221
GHG emissions intensity measure: (Gross Scope 1 and 2 tCO ₂ e/£100,000 revenue) ²	7.8	12.9	10.4	16.4
Biogenic GHG emissions outside of Scopes (tCO ₂ e)	1,557	1,557	2,871	2,871

Notes:

Pennon Group plc total Scope 1 (83,974 tCO₂e), Scope 2 market-based (16,563 tCO₂e), Scope 2 location-based (81,968 tCO₂e) GHG emissions, market-based GHG emissions intensity measure (7.8 tCO₂e) (gross Scope 1 and 2/£100,000 revenue), and location-based GHG emissions intensity measure (12.9 tCO₂e) (gross Scope 1 and 2/£100,000 revenue). These figures have been independently assured by Jacobs.

Scope 1 (direct GHG emissions): GHG emissions activities owned or controlled by our organisation that release emissions straight into the atmosphere. For Pennon, primary Scope 1 GHG emission sources during 2025/26 include GHG emissions from stationary plant, fugitive emissions from air conditioning plant and wastewater treatment, transport-related GHG emissions from our own vehicles, and fleet Scope 2 (indirect GHG emissions) GHG emissions released into the atmosphere associated with our consumption of imported electricity. Scope 3 (other GHG indirect emissions) GHG emissions as a consequence of our actions, which occur at sources which we do not own or control.

GHG emission figures are expressed in tonnes of carbon dioxide equivalents (tCO₂e) whereby emissions of carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), and the fluorinated gases (HFC, PFC, SF₆) are shown in terms of the equivalent emissions from CO₂. A breakdown of emissions by GHG is available in our ESG Databook available on our website: www.pennon-group.co.uk/reportsandpresentations

1. Estimated GHG emissions for relevant Scope 3 categories calculated for 2025/26 are provided in our ESG Databook available on our website: www.pennon-group.co.uk/reportsandpresentations

2. Based on relevant Group revenue for 2025/26.

3. Process and Fugitive Emissions have been restated for 2024/25 to align with the updated accounting methodology adopted by the UK Water Industry for N₂O process emissions from wastewater treatment aligned to the latest IPCC guidance. Emissions relating from the spreading of waste water sludges to land have been restated for 2024/25 aligning to a new methodology adopted by the UK Water Industry aligned to the latest UKWIR research and ratified by the Water UK Carbon Network. We have restated our 2024/25 emissions relating to Bristol Water Holdings companies which have been removed from our Scope 1 & 2 emissions as these are now included within Scope 3 Category 15 (investments). Our Scope 3 2024/25 emissions relating to long term hire vehicles have been restated as we are now reporting them under Scope 3 Category 8 (Upstream Leased Assets) so Well-to-Tank emissions are no longer included.

Operational Pennon Group plc GHG emissions by business

	South West Water	Bristol Water	SES Water	Group total ¹
Scope 1 GHG emissions (tCO ₂ e)	73,610	9,002	949	83,974
Scope 2 GHG emissions (market-based) (tCO ₂ e)	581	15,587	12	16,563
Total gross Scope 1 & Scope 2 GHG emissions (tCO₂e)	74,191	24,589	961	100,537
Scope 1 & 2 Operational intensity measure (kgCO ₂ e/ MI) – Water ²	18.82	235.42	15.50	n/a
Scope 1 & 2 Operational intensity measure (kgCO ₂ e/ MI) – Wastewater ³	286.92	n/a	n/a	n/a

1. Group total includes 796 tCO₂e (total gross Scope 1 & 2 GHG emissions) from Pennon Water Services Limited, Pennon Power Limited, Advanced Minerals Limited, Allmat (East Surrey) Limited and Group shared services.

2. For 'Water' measure, MI = measured water into supply.

3. For 'Wastewater' measure, MI = full measured flow treatment.

Change in Scope 1 and 2 emissions

As noted elsewhere in this section, the emissions factors associated with N₂O process emissions have been amended to follow the latest climate science, this means that direct Scope 1 process emissions are now a much greater proportion of the Group's GHG inventory, this new methodology has been applied to both current and prior year emissions and is part of our 'rebased' SBT methodology.

Under this updated methodology, Operational Scope 1 and 2 emissions (market-based) for the Group decreased by c. 4% since the previous year. This has been driven by increased renewable electricity purchase in the Bristol Water part of the business driving market-based Scope 2 emissions down. This decrease in Scope 2 emissions outweighs the 2% rise in Scope 1 emissions due to the use of alternative power sources at operational sites used to support our water supply needs following the dry weather within the year.

Change in Scope 3 emissions

Scope 3 categories were evaluated for relevant categories in line with the reporting guidance. The Group is reporting on categories 8 (upstream leased assets), 11 (use of sold products) & 15 (investments) for the first time.

The emissions for Scope 3 categories 1 and 2 are calculated using a spend-based approach, with category 1 emissions from purchased chemicals calculated using the Water Industry's Carbon Accounting Workbook. Category 7 emissions are calculated based on activity data, and emissions for all other relevant Scope 3 categories are also calculated using activity data.

The estimated Scope 3 emissions of the Group have reduced from 294,215 tCO₂e in 2024/25 to 273,444 tCO₂e in 2025/26. A breakdown of our estimated Scope 3 GHG emissions is provided in our ESG Databook, published on our website (www.pennon-group.co.uk/reportsandpresentations).

Our use of sold products emissions relate to the sale of sludge to third parties for the use of soil enhancement. The methodology used to calculate these sludge emissions has changed since the previous year in line with latest UKWIR research and was included within the Carbon Accounting Workbook v20 after being recently ratified by the Water UK Carbon Network. This has led to a reduction in the estimated methane emissions from sludge spread to land in both current and prior year emissions and is part of our 'rebased' SBT methodology.

Our Net Zero Transition continued

GHG reporting methodology

Our approach follows the UK Government's Environmental Reporting Guidelines, including Streamlined Energy and Carbon Reporting guidance (2019) and the Greenhouse Gas Protocol Corporate Standard including the Scope 3 Calculation Guidance (collectively referred to here as the reporting guidelines). In calculating our emissions, we have used the 2025 UK Government conversion factors for GHG reporting.

Organisational boundary and scopes

The GHG emissions listed here cover 100% of the Group's companies, each of which uses the financial control approach, to report GHG emissions. We report our Scope 1, 2 and 3 GHG emissions where relevant. A breakdown of Scope 3 GHG emissions categories is provided in our supplementary ESG Databook online at www.pennon-group.co.uk/reportsandpresentations.

Market and location-based methodology

We report both market-based and location-based Scope 2 GHG emissions. For our market-based emissions accounting where our supply is backed by Renewable Energy Guarantees of Origin (REGOs), this qualifies as zero carbon market-based emissions. Where supply is not REGO backed, in accordance with the reporting guidelines, we have used our electricity suppliers' specific published Fuel Mix Disclosure emissions factors to report our Scope 2 market-based emissions. Where Fuel Mix Disclosure emissions factors are not available, we have used the residual grid mix emissions factor.

Self-generated renewable energy export

In accordance with the reporting guidelines, we may report an emissions reduction in our reported net CO₂e figure for any renewable electricity we have generated and exported to the national grid or a third party.

External assurance statement

Group Scope 1 and 2 GHG emissions and energy use, together with selected Scope 3 GHG emissions, have been independently assured by Jacobs. The assumptions, methods and procedures that are followed in the development of the reported data have been tested and the data audited for accuracy and consistency. Assurance statements can be found at www.pennon-group.co.uk/sustainability.

Offshore emissions

All of Pennon Group's energy usage is within the UK, and the Pennon Group had no offshore GHG emissions or energy usage in the reporting period.

Energy usage

Including self-supplied energy, the Group used 567,877 MWh of energy in 2025/26. The increase in energy has been driven by weather related impacts, with a drier summer followed by increased rainfall experienced in January and February 2026. Our Bristol Water business has been recovering from drought conditions and since the summer period which resulted in having to use more energy intensive raw water sources. In our South West Water business we needed to increase our usage of our raw water pumping stations to support our reservoir levels across the region. Energy usage for the wastewater part of our South West Water business remained similar to the previous year despite the addition rainfall volumes during the early part of 2026. A breakdown of Group energy usage and associated data assessment methodologies is shown above.

➤ **Further details and previous years' data are provided in our ESG Databook, which can be found at www.pennon-group.co.uk/sustainability.**

Energy usage

	2025/26 (MWh)	2024/25 (MWh) ⁵	Methodology
Imported grid electricity ⁴	462,338	430,657	Primarily based on billed electricity consumption except a small part of consumption which is estimated by electricity supplier
Imported private wire electricity (renewable)	6,580	6,138	Metered & Billing Data
Self-supplied renewable electricity	8,387	10,841	Metered data
Self-supplied heat	3,577	6,625	Estimated that 60% of heat generated by sewage gas CHP is beneficially used, the rest (40%) is released to atmosphere
Natural gas ⁴	44,516	43,018	Primarily based on billing data, some estimates is billing data
Liquid fuels (for stationary applications) ⁴	13,914	6,739	Estimated based on fuel use/spend and vendor data
Energy used by fleet transport ⁴	28,565	30,203	Estimated based on fuel use/spend and mileage data ²
Total energy usage¹	567,877	534,221	
Intensity measure: MWh/£100,000 revenue ³	44.04	51.03	

Energy usage data notes:

1. Total energy usage (567,877 MWh) by has been independently assured by Jacobs.
2. Hire car fuel usage and grey fleet (use of private vehicles on company business) are included in these SECR volumes – as per SECR guidance.
3. Based on relevant Group revenue for 2025/26.
4. Energy consumption used to calculate Scope 1 and 2 GHG emissions.
5. We have restated our 2024/25 energy consumption to remove energy consumption relating to Bristol Water Holdings companies, this aligns to the control boundary used for our Greenhouse Gas accounting.



④ Our 100-Acre Pennon Power Solar PV at Dunfermline in Scotland

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD)

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

We operate in a changing environment where the impacts of climate change and biodiversity loss are increasingly evident. To remain resilient, we monitor climate risks, assess their implications, and embed these insights into our strategic planning and investment decisions. Our disclosures under the TCFD and TNFD frameworks reflect our commitment to transparency, accountability, and continuous improvement. Our regulated water business is the focus of our TCFD and TNFD disclosures, with most of our assets, revenues, and expenditures related to this area of our business.

TCFD recommendations

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

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

TNFD recommendations

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

Our approach to managing climate and nature risks

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

➤ **Read our Climate Change Adaptation Report:** https://www.southwestwater.co.uk/siteassets/documents/environment/climate-change-adaptation-report_2024.pdf

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

We are investing £3.2 billion¹ into our services and infrastructure across 2025-2030, focusing on four strategic priorities: water quality and resilience, storm overflows and pollution, Net Zero and environmental gains, and addressing customer affordability. These investments will strengthen our management of climate and nature risks, and enable us to deliver opportunities which benefit our customers and the regions we operate in.

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

We've demonstrated our commitment to action on climate change and nature through our transparency in voluntary reporting to CDP since 2013. We have been recognised on CDP's A List for Climate in 2025, placing us at the leadership level and in the top 4% of disclosers globally. You can read more about our work to enhance resilience on pages 78 to 80, and about our Net Zero performance on page 81.

As a UN Global Compact signatory, we embed its principles on human rights, labour, environment, and anti-corruption into our ESG approach and report progress annually.

We recognise that climate change, the nature emergency, and the transition to Net Zero influence several of the Group's principal risks (see our Principal Risks report on pages 62 to 69). Principal risks are reviewed as part of our audit governance processes.

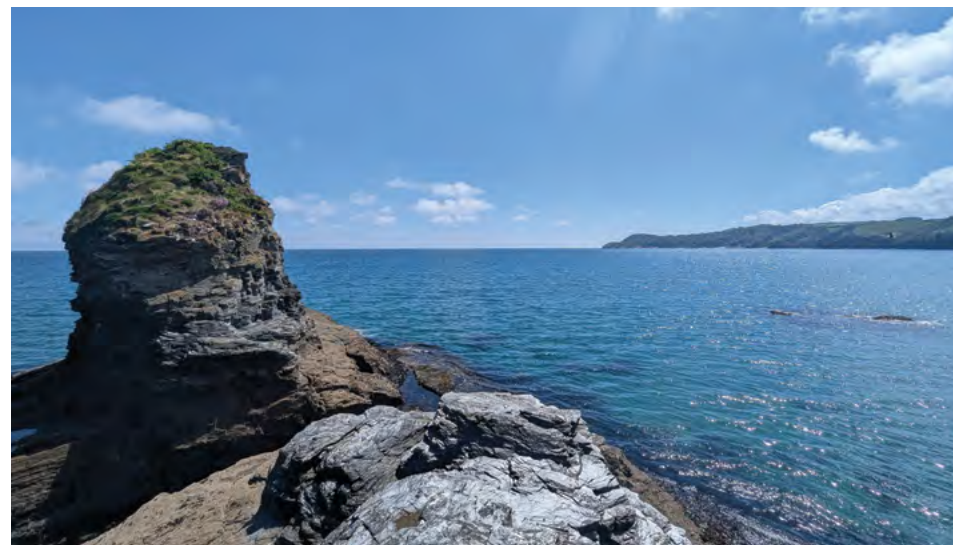
South West Water and SES Water have their own boards, which report to the Pennon Group Board. The boards oversee climate- and nature-related risks within their operations. New board members are briefed on key climate-related and nature-related risks, for example through site visits and strategic discussions. For more information see our Corporate Governance report on pages 96 to 159. Further information on Board Committees and ESG skills can be found on page 96 and pages 117 to 132.

Management's role

Our C-suite Executives play a key role in identifying, assessing, and managing climate-related and nature-related risks and opportunities, including through relevant Executive committees. We have also appointed a Chief Sustainability and Natural Resources Officer (CSNRO), who is accountable for climate and nature policies and targets. Our business is divided into four business units:

Clean Water, Wastewater, Pennon Power, and Retail; all supported by our Corporate Functions. Management within each business unit are responsible for identifying, assessing, and managing climate-related and nature-related risks in their business units – including risks related to water resources, wastewater, regulation, procurement, engineering, natural resources/biodiversity, and finance.

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



Charlestown Beach

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Climate and nature-related governance

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

Board oversight

The Group has a strong governance structure in place to oversee the effective operation of our business and to manage all risks, including climate-related and nature-related risks and opportunities. Overall ownership and responsibility for risks, opportunities, and mitigation actions rests with the Pennon Group Board, which regularly reviews principal risks as part of its risk management processes.

The Board considers climate-related and nature-related risks and opportunities throughout its duties – including when considering the Group's strategy and objectives, monitoring business and operational performance, business planning and annual budget setting, reviewing major capital expenditures and existing investments, and in considering acquisitions/divestitures. Several Board Committees support this oversight.



ESG Committee

The ESG Committee provides the platform for discussion of the Group's ESG agenda, environmental performance and related climate and nature risks and opportunities, as well as setting and reviewing key metrics relating to ESG targets and goals.

→ **ESG Committee report pages 126 to 128**



Audit Committee

The Audit Committee oversees risk management and internal controls and monitors the Group's financial reporting, including how the impacts of climate and nature risks are accounted for in financial statements. The Committee also reviews key risks and opportunities (including climate-related risks) and challenges and tests the Group's internal control processes including risk management and internal audit.

→ **Audit Committee report pages 120 to 125**



Remuneration Committee

The Remuneration Committee considers the Group's objectives and responsibilities and advises the Board on the framework of executive remuneration for the Group and for the wider workforce, including mechanisms to incentivise achievement of the Group's objectives related to climate change, Net Zero, and sustainability goals.

→ **Remuneration Committee report pages 130 to 132**



Nomination Committee

The Nomination Committee supports Board composition and succession planning, including consideration of ESG and climate-related expertise. It considers competencies related to climate-related risks and opportunities when reviewing the structure, size, and composition of the Board and senior executives across the Group.

→ **Nomination Committee report pages 117 to 119**



Health and Safety Committee

The Health and Safety Committee monitors risk across all areas of health and safety – including areas impacted by climate-related risks such as extreme weather events. The Committee also reviews the effectiveness of the Group's procedures for Health and Safety reporting and performance.

→ **Health and Safety Committee report page 129**

Pennon Executive Board (PEX), headed by Group Chief Executive Officer

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

Climate-related strategy

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

Climate scenario analysis

In alignment with the TCFD guidance, we have assessed the risks and opportunities associated with climate change and the transition to a Net Zero climate-resilient economy. We have used plausible contrasting scenarios to explore the potential range of impacts in the future and in turn the possible range in our strategic responses required to mitigate risks and build adaptive capacity in an uncertain future.

Our **physical risk scenarios** are informed by the IPCC's Representative Concentration Pathways (RCPs) from the IPCC's 5th assessment (2014), including a high and a low emissions scenario, which were also used as the basis for planning by Ofwat as part of the PR24 methodology and align with Ofwat's climate change principles published in February 2026.

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

For our scenario analysis, the following assumptions were made:

- Scenarios focus on the UK policy and regulatory context and are semi-independent of global action and temperature pathways.
- It is assumed energy prices remain high throughout the next decade.
- The Government's ambition around environmental protection and conservation remains high, regardless of the pace of transition.
- No significant change to Pennon Group's business activities.
- Population increases across the regions we serve, however overall water demand remains unchanged from today (due to leakage reduction and water efficiency measures), and overall volume of wastewater treated remains unchanged from today (due to actions taken to reduce surface water flows to sewers).

Short, medium and long-term horizons for climate risks

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

Short-term: 1-10 years

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

Medium-term: 10-25 years

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

Long-term: 25 years and beyond

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

Physical climate risk scenarios:

<2°C RCP2.6 – Lower Physical Impacts:
Less than 2°C warming by the year 2100 – corresponding to a low emissions 'optimistic' scenario.

4°C RCP8.5 – High Physical Impacts:
Up to 4°C warming by the year 2100 – corresponding to a high emissions 'business-as-usual' scenario, which is appropriate to use when considering high risks.

Transition climate risk scenarios:

<2°C Net Zero 2050: The UK puts in place strong policies and actions to mitigate climate change and keep warming to under 2°C by 2100, aligned with the Paris Agreement. Supportive policies are introduced quickly and smoothly, enabling rapid technology and system change.

4°C Current Policies: The UK makes incremental progress to mitigate climate change, but no major policies change, resulting in limited action to keep warming below 4°C by 2100, and missing the targets of the Paris Agreement. Technology and system change is slow and stalls.








Countess Weir WWRW

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Scenario analysis – physical climate risks continued

Our key physical climate risks

Principal risk	Time horizon	Current risk rating and trend	Key impacts of physical climate risks
 Chronic: Increasing frequency and intensity of droughts	Short, medium and long-term	● ⊖	<ul style="list-style-type: none"> • Climate impacts will affect our ability to provide reliable services to customers. Climate change will impact water resources and pose greater risks of supply shortages, as well as to our water and wastewater treatment and networks. Without adaptation, this would result in increased service disruptions and reduced outcomes for customers and the environment. For example, climate change is driving increases to rainfall which could contribute to greater storm overflows if left unmanaged and pose risks of flooding and damaging our assets.
 Chronic: Increasing average and high temperatures	Short, medium and long-term	● ⊖	<ul style="list-style-type: none"> • Investment required is high, but the cost of inaction is much higher. Our risk assessment clearly shows long-term significant risks if the impacts of climate change are not mitigated. For example, we have 36 major sites/assets at high-risk of coastal flooding and erosion. We operate over £7 billion of assets, the majority of which relate to water and wastewater and will be impacted by climate change in some way. Drought in the South West in 2022 cost the Group around £20 million, and following this we have continued to invest to enhance resilience.
 Chronic: Increasing frequency of heavy rainfall and floods	Short, medium and long-term	● ⊕	<ul style="list-style-type: none"> • Unmitigated risks would have material impacts on our business. This would include additional expenditure (Opex and Capex) to recover from service interruptions and repair or replace deteriorated assets, and would result in more frequent and greater ODI penalties.
 Chronic: Rising sea levels and coastal erosion	Short, medium and long-term.	● ⊖	<ul style="list-style-type: none"> • Impacts are worse with every bit of additional warming. Impacts would increase over each time horizon as extreme weather events increase in frequency and magnitude and are compounded by chronic climate change. Additionally, the natural environment which we are dependent on would also decline over time, creating greater costs and impacts for us (e.g. reducing water quality and quantity).
 Acute: Increasing frequency of extreme weather events, heatwaves and storms	Short, medium and long-term.	● ⊖	

Key

Risk ratings

- High
- Medium
- Low

Risk trend

- ⬆ Increasing
- ⊖ Stable
- ⬆ Decreasing

Our strategic responses to physical climate risks

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

-  Adapt to climate change
-  Enhance resilience
-  Innovate
-  Become more efficient
-  Collaborate
-  Balance investment over time

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

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

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

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

We have developed adaptive investment programmes which: 1) fulfil immediate and most probable future needs; 2) respond to external pressures in the future with alternative investment options that are triggered under specific conditions; and 3) identify low and least-regret investments that enable future options or return benefits under the broadest range of potential futures. Subsequently, our strategies for mitigating climate risks and building adaptive capacity are similar under the high and low emissions scenario in the short to medium-term, however, additional options will be required under the high emissions scenario, or options may need to be implemented earlier than the low emissions scenario over the long term.

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

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

Impacts on financial planning

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







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

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

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Scenario analysis – climate transition risks

Our key climate transition risks

Transition risk	Time horizon	Current risk rating and trend	Key impacts of transition risks
 Regulation and policy: Challenges balancing trade-offs in regulation in the water sector between agendas of infrastructure delivery, Net Zero, climate resilience, environmental enhancement, and other objectives, posing the risk of increasing costs and carbon	Short and medium-term	● ↗	<ul style="list-style-type: none"> • The cost to our business of achieving our Net Zero target rises, and there is less ability to recover costs through the regulatory pricing system. Misalignment in policies and low incentives make reaching Net Zero more costly and impose greater investment risks to our business. Additionally, our supply chain could also lag in decarbonising, impacting our Scope 3 emissions.
 Regulation and policy: Regulatory funding risk for achieving Pennon's Net Zero ambitions and adapting to climate change	Short and medium-term	● ↗	<ul style="list-style-type: none"> • Current UK policies are not sufficient to deliver the necessary carbon emission reductions. Therefore, meeting our Net Zero targets would require greater use of carbon offsets or we would be at risk of missing targets. Low readiness and capacity could stall our progress to reduce emissions and realise opportunities. This could result in higher costs for access to low-carbon technologies and related skills (due to the UK's previous under-investment), and increased costs related to both our own renewable energy generation, and the purchasing of green electricity from external suppliers.
 Technology: Capacity and readiness of technology, employees and supply chain to achieve Net Zero	Short and medium-term	● ↘	<ul style="list-style-type: none"> • Environmental targets require additional energy use. New guidance on targets for both nutrients and storm overflows will require a significant increase in energy use and associated capital and operational carbon. While nature-based solutions will form part of the solution (our Green First Principle), there will be significant reliance on engineered solutions due to potential inflexibility in regulation and deadlines to improve outcomes. The increased energy and carbon use compounds impacts above.
 Market: Increased costs of energy and materials due to the transition to Net Zero, impacts of climate change, and wider factors	Short and medium-term	● ↘	<ul style="list-style-type: none"> • Reputational risks are significant and require careful management. Some of our customers and stakeholders may have differing priorities and preferences for actions to meet our climate targets. Some may be highly sensitive to affordability, and increasingly scrutinise our investment choices.
 Reputational: Negative public and stakeholder relations due to Pennon failing to be seen as a leader in environmental sustainability	Short and medium-term	● ↗	<ul style="list-style-type: none"> • Current UK policies and markets are not sufficient to enable us to realise some of our climate-related opportunities. Low incentives and low-maturity markets reduce opportunities for our business relating to resource efficiency, carbon sequestration, bioresources etc.
 Reputational: Customer affordability and fairness concerns for achieving Net Zero and adapting to climate change	Short and medium-term	● ↘	

Key

Risk ratings


- High
- Medium
- Low

Risk trend

- ↗ Increasing
- ↔ Stable
- ↘ Decreasing

Scenario analysis – climate transition opportunities

Our key climate-related opportunities

Climate-related opportunities	Time horizon	Current opportunity rating and trend	Key impacts of climate-related opportunities
 Resilience: Enhancing resilience across Pennon’s operations, asset base, and supply chain to avoid costs and enhance value	Short and medium-term	● (↗)	<ul style="list-style-type: none"> • Costs to our business of achieving our Net Zero targets could be reduced. With greater regulatory support towards the step-change in investment required, the cost and availability of technologies, skills, and resources could be reduced. We are already benefiting from reducing our energy costs through investment in renewable energy. • The regulatory environment may be more favourable for nature-based solutions (NBS) which can also sequester carbon. More stringent carbon management requirements across the economy and more mature carbon/biodiversity markets would provide more incentives for NBS. • Our reputation could benefit from realising climate opportunities, provided we support customers in need. Fairness in the distribution of the costs of the UK’s transition to Net Zero is a key concern among stakeholders. Increased support to some customers may be required, and our investments will need to be carefully planned and phased to ensure they are efficient and avoid sudden price impacts. • We can increase our revenue and decrease our operating costs. A more favourable enabling environment would mean that our climate-related opportunities are enhanced and easier to realise. Investing and innovating on energy and resource efficiency can reduce our operating costs, and delivering SROs and bioresources could enhance our revenues.
 Energy source: Reducing carbon and enhancing energy resilience and revenue by using and generating renewable energy	Short and medium-term	● (↗)	
 Markets: Generating value and reducing our financing costs through sustainable financing	Short and medium-term	● (↗)	
 Resource efficiency: Saving water, energy, materials, and carbon by enhancing efficiency, using low-carbon and nature-based solutions, and reducing emissions across Pennon’s supply chain	Short and medium-term	● (↗)	
 Products and services: Enhancing revenue through providing resilient water solutions, bioresources, and expertise to other water companies	Short, medium, and long-term	● (↗)	

Key

Risk ratings

- High
- Medium
- Low

Risk trend

- ↗ Increasing
- ↔ Stable
- ↘ Decreasing

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Our strategic responses to climate transition risks and opportunities

Although there are important differences in the impacts between the different transition scenarios we've considered, there are a number of common elements which will require us to implement a common strategic response. The relative importance of each, and specific elements within the response, will vary across the scenarios, but we have identified six key focus areas which will enhance resilience to transition risks, and better position the Group to take advantage of opportunities:



Investing in efficiency.

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



Enhancing our resilience.

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



Enhancing our access to green economy resources.

Skills and resources across key areas of the green economy will continue to be in high demand. To ensure our access, we will diversify our supply chain of low-carbon suppliers, and invest in a programme of internal capacity-building to ensure access to the skills needed. We will also work with partners across the industry and engage with peers, regulators, and Government to enable rapid investment in the skills and capacity needed to support Net Zero.



Engage with regulators on environmental targets and trade-offs.

New ambitious targets on nutrients and storm overflows will require increased energy use and new infrastructure, and subsequently higher operational and capital carbon. There is a trade-off between action to meet these targets and action on decarbonisation, with implications for the balance between nature-based and engineering solutions. We will engage in ongoing regulatory consultations on environmental targets and strategies for meeting them, and seek clear guidance on managing different trade-offs. We will advocate for policies which enable flexibility and time to scale up nature-based solutions so we can maximise co-benefits for our customers and the environment.



Enhance our stakeholder and customer engagement.

There are significant reputational risks associated with different climate scenarios, although the balance of concerns will vary. We will develop plans for enhanced programmes of engagement and communication with our customers and stakeholders, in particular focusing on explaining the costs and benefits of the investments we are making, potential trade-offs and synergies between Net Zero and other environmental targets, and affordability.



Pursue opportunities to deliver more value for customers and shareholders.

We will continue to pursue opportunities to reduce costs and enhance sustainability. This includes reducing our financing costs through our sustainable finance framework, investing in our environmental programme which includes restoring ecosystems to capture carbon, and working with partners and suppliers to enhance our resilience and reduce carbon emissions across our supply chain. We will also continue to explore opportunities to enhance our revenue through water resource options, selling renewable energy, and markets for bioresources and natural capital.

Impacts on financial planning

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

Impacts from mitigating risks and delivering opportunities

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

Statement of resilience

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

- Higher costs in the short and medium term to meet our Net Zero targets under the 'Current Policies' scenario.
- Higher costs in the short, medium, and long term under the RCP8.5 Higher Physical Impacts scenario.

Several of the strategic responses outlined above are already included in our strategic plans and business plan. We have confidence that our Group has a range of strategic options to manage the impacts and take advantage of opportunities, in order for us to remain resilient under the different climate scenarios considered.

We will need to invest more to improve our resilience to climate change and deliver Net Zero. Assets are likely to require additional protection, and planning for new assets will require a greater level of embedded climate resilience and sustainability. Significant action and investment will be required by our Group, as well as action by our supply chain partners and wider actors (eg government, local authorities, major landowners/users, and other providers of infrastructure and services).

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

Nature-related strategy

Our nature-related impacts and dependencies

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

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

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

- In early 2024, our Board approved a pilot programme of bespoke, evidence-based 'Natural Catchment Management Plans' (NCMPs) at selected catchments in Devon and Cornwall. These will create a blueprint for some bathing water catchments from this year onwards, primarily in relation to bathing water quality issues.
- We have used remote-sensing technology to determine a baseline condition assessment of habitats on our landholdings. This information will be used to help us target positive biodiversity interventions.

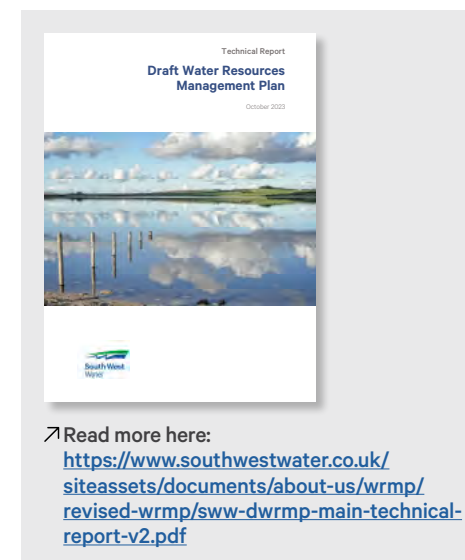
Our nature-related strategies

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

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



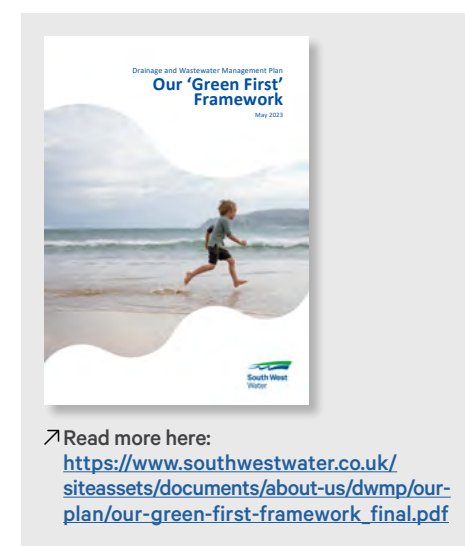
➤ Read more here: https://www.southwestwater.co.uk/siteassets/documents/environment/biodiversity-strategy-report_2023.pdf



➤ Read more here: <https://www.southwestwater.co.uk/siteassets/documents/about-us/wrmp/revised-wrmp/sww-dwrmp-main-technical-report-v2.pdf>



➤ Read more here: <https://www.southwestwater.co.uk/siteassets/documents/about-us/dwmp/our-plan/dwmp-our-plan.pdf>



➤ Read more here: https://www.southwestwater.co.uk/siteassets/documents/about-us/dwmp/our-plan/our-green-first-framework_final.pdf

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Key actions to manage nature impacts and risks

We are carrying out many actions to enhance nature recovery, manage our dependencies on nature sustainably, and limit our negative impacts. Key examples include:

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

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

Going forward

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



 Bough Beech Nature Reserve

Climate and nature-related risk management

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

The Group's risk management framework is explained in detail on pages 62 to 64, including the methodology for assessing risks.

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

Furthering our progress, the Group has identified several principal risks which are impacted or influenced by physical and transitional climate and nature risks and opportunities, and as such we are increasingly cognisant that climate and nature risk management is integral to the performance and resilience of our business and strategy. The link between climate-related and nature-related risks and opportunities on our principal risks is shown on pages 66 to 69.

Risks have been assessed by senior managers across Pennon Group using Pennon's risk assessment methodology (see risk management framework is explained in detail on pages 62 to 64).

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

For the climate-related risks that have been identified, a desired 'target' net risk level is documented within the Group's risk framework. This target risk level or tolerance level reflects the acceptable level of risk by the Group and also stands as a target and equitable measure for alleviatory measures to approach the risk going forward. We seek to minimise risks on operational activities within the regulatory environment. Climate-related risks are approached with a minimal level of appetite, and this is subject to Board approval where all appetite levels are established. Environmental compliance requirements are high, so our risk appetite for environmental impacts is low. Where there is no risk to regulatory compliance, we are willing to take more risks to innovate (eg Nature Based Solutions).

The appropriate action then follows from the level of difference between the net risk and the desired risk appetite. Actions to manage risks cover four response types:

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

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

Climate and nature-related metrics and targets

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

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

We continue to disclose comprehensive data relating to our GHG emissions and energy consumption (SECR report on pages 81 to 82). We report on all Scope 3 categories which are relevant and material to our business (ESG Databook). Our TNFD-aligned metrics and SASB disclosures are reported in the ESG Databook. We report on progress against our ODIs, performance commitments and WINEP delivery in our Annual Performance Report. All material data for TCFD compliance is in this TCFD report.

Access our ESG Databook

<https://www.pennon-group.co.uk/investor-information/financial-reports-and-presentations>

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

Climate-related transition risks are moving in the right direction, including improved affordability in SES Water. Climate-related opportunities are being realised, with Pennon Power now operational and contributing to renewable generation, and a step-change in performance expected next year.

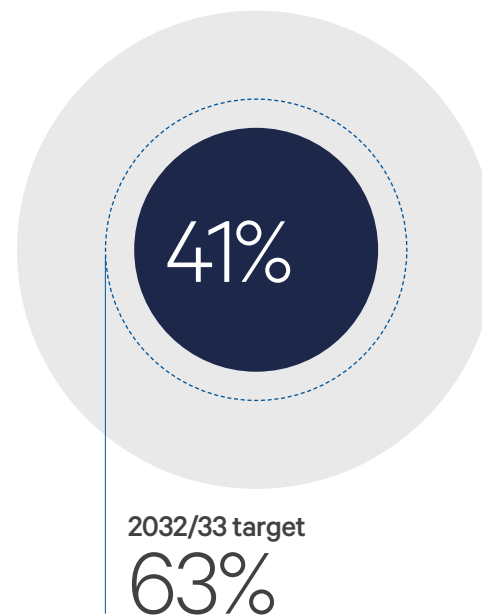
For capital deployment, remuneration and internal carbon value, progress is being made in embedding climate considerations into business decision-making, including directing investment towards Net Zero and environmental outcomes, linking incentives to ESG performance, and applying an internal carbon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

	2025/26	2024/25
GHG metrics¹		
Scope 1, 2 and 3 GHG emissions (in tCO ₂ e).	373,982	403,110
Reduce Scope 1 and 2 GHG emissions by 63% by 2032/33 from a 2021/22 base year (science-based target).	41%	36%
Reduce absolute Scope 3 GHG emissions from fuels and energy-related activities, wastes generated in operations, business travel, employee commuting, upstream leased assets and use of sold products by 30% by 2032/33 from a 2021/22 baseline (Science Based Target).	-2%	4%
Climate-related physical risks metrics		
Number of major sites/assets at high-risk of coastal flooding and erosion.	36	36
Pollution incidents (Number of wastewater incidents, calendar year).	124	189
Annual average number of spills from each storm overflow (number per calendar year).	34.0	41.3
Climate-related transition risks metrics		
Risk of increased energy costs: Proportion of our operational expenditure on electricity (%).	12.7%	14.6%
Managing transition risk in our supply chain: 60% of suppliers by emissions covering purchased goods and services, capital goods and upstream transportation and distribution will have science-based targets by 2027/28 (Science Based Target).	33%	35%
Risk of customer affordability in achieving Net Zero and adapting to climate change: our customer affordability measure.	99% SWB 100% BW 99.7% SESW	100% SWB 100% BW 91.6% SESW
Climate-related opportunities		
Renewable Electricity Generation (GWh/year)	27	26
The Group commits to increase annual sourcing of renewable electricity to 100% by 2030 (Science Based Target).	92%	85%
Value (£) of finance raised through our sustainable financing framework	£490m	£800m
Capital deployment		
Investment deployed on Net Zero and environmental gains	£13.3m	£13.5m
Remuneration		
Proportion of our management incentive schemes linked to ESG outcomes, including climate change.	28.6%	27.4%
Internal carbon value		
Value of carbon used in business cases and whole life carbon assessments (£/tCO ₂ e)	Ofwat Performance Commitment Price £188/tCO₂e	£294/tCO ₂ e (Sensitivity testing: Low: £147/High: £442)

1. Emissions restated for 2024/25, see page 93 for details on the Group's GHG emissions and restatements.

Reduction in GHG emissions

Scope 1 and 2 GHGs from 2021/22 baseline (Science Based Target)



Reduction in GHG emissions for Scope 1 and 2 (from a 2021/22 baseline, science-based target) has strengthened year-on-year, with a 41% reduction now achieved, up from 36% in the previous year. This improvement reflects reduced market-based Scope 2 emissions, driven by increased renewable electricity procurement, despite a modest increase in Scope 1 emissions linked to operational responses to dry weather conditions.

Performance is reported on a rebaselined methodology aligned to the latest climate science, which increases the relative contribution of Scope 1 process emissions.

➔ **Read more in Our Net Zero Transition on pages 78 to 82**

Non-financial and sustainability information statement

The following information and the sections referenced, represent our non-financial and sustainability information statement which is required by sections 414CA and 414CB of the Companies Act 2006.

The table below outlines our policies under the sections defined under the non-financial and sustainability information statement, as well as where further information in this report can be found. A full list of the Group's policies, including our business model on page 8, can be found online at <https://www.pennon-group.co.uk/about-us/policies>.

	Time horizon		Read more	Related policies
Climate and environment	Our ambition is to achieve Net Zero across the Group, supported by the development of our Group's Climate Transition Plan that sets out a clear, credible pathway to decarbonisation. We are strengthening how we identify and manage climate-related risks and opportunities and are embedding a more structured approach to reducing emissions across our operations.	This includes continued focus on innovation and the actions needed to decarbonise our activities, working collaboratively with partners and our supply chain.	<ul style="list-style-type: none"> ➔ Approach to ESG – pages 72 to 73 ➔ Our Task Force on Climate-related Financial Disclosures – pages 83 to 93 ➔ Our Net Zero transition – pages 78 to 82 	<ul style="list-style-type: none"> • Biodiversity Policy • Water Management Policy • Environmental Policy
People	As a purpose-led business, we recognise that the best way to deliver for customers is to focus on our people to enable them to deliver their best. We continue to foster a culture built on our purpose and one that reflects our values and business plans.	We operate a safety-first mindset to working across the business with our HomeSafe health and safety approach which is embedded in the day-to-day working culture of our business. We encourage continuous learning and development, providing opportunities for all employees. We are building a diverse and inclusive workforce.	<ul style="list-style-type: none"> ➔ Our people and culture – pages 14 to 17 ➔ Stakeholder engagement – People pages 22 to 23 	<ul style="list-style-type: none"> • Health, Safety and Security policy • Code of Conduct • Workplace Policy • Diversity, Respect and Inclusion Policy • Board Diversity Policy
Social matters	We work closely with our customers, communities and partners on the things that matter most to them and have regular engagement with them. Supporting our customers is a priority. Not only providing safe, clean drinking water, but supporting them financially when it matters most. We are committed to keeping bills as low as possible.	Our approach to community relations and investment enables strong and clear governance, making positive community investments which create value, and benefits both the community and the business. Through our Better Futures Fund, we are supporting local projects that enhance wellbeing, protect the environment, and strengthen communities across the South West, Bournemouth, Bristol, and SES Water regions.	<ul style="list-style-type: none"> ➔ Stakeholder engagement – Customers page 19 to 20 and Communities page 21 ➔ Supporting affordability, delivering for customers – pages 47 to 51 ➔ s172(1) – pages 114 to 116 	<ul style="list-style-type: none"> • Community Relations and Investment Policy
Human rights	We are committed to promoting and maintaining the highest level of ethical standards in relation to how we do business. We uphold internationally recognised human rights standards in all our operations consistently throughout the Group. Our policies help prevent and address any human rights impacts on our business activities and relationships.	We obligate all of our partners and suppliers to comply with our policies, which include our Code of Conduct and Anti-Modern Slavery and Human Rights Policy through our supplier terms and conditions. Our Modern Slavery Statement identifies the activities we conduct annually and our Code of Conduct for Supply Chain Partners further aligns our supply chain to the standards we expect of ourselves and others.	➔ Modern Slavery Statement – foot of homepage at www.pennon-group.co.uk	<ul style="list-style-type: none"> • Anti-Modern Slavery and Human Rights Policy • Code of Conduct • Code of Conduct for Supply Chain Partners
Anti-corruption	We have a zero tolerance policy towards financial crime and we're committed to implementing and enforcing effective systems to counter them. We require everyone who works for us, to act honestly and with integrity at all times. We will not tolerate anyone employed by us, or associated with us, regardless of location or position to be involved in any level of financial crime.	Anyone who works with or for the Group must comply with our consolidated Anti-Financial Crime Policy and is encouraged to report any breaches to Group Legal Compliance or through the Pennon whistleblowing reporting Speak Up portal which is provided by a third party to enable completely anonymous reporting of concerns.	<ul style="list-style-type: none"> ➔ Code of Conduct – page 124 ➔ Anti-financial crime and corruption – page 124 	<ul style="list-style-type: none"> • Whistleblowing Policy • Anti-Financial Crime Policy • Code of Conduct • Gifts and Hospitality Policy

Due diligence processes	Policy outcomes	Principal risks	KPIs	
<ul style="list-style-type: none"> Governance framework in place led by the Board and its Committees External assurance 	<ul style="list-style-type: none"> External ESG benchmarking 	<ul style="list-style-type: none"> Minimising our impact on the environment Meeting our regulatory commitments Net Zero 	<ul style="list-style-type: none"> Failure to secure, treat and supply clean drinking water Failure to improve wastewater performance, resulting in environmental commitments not being delivered Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes in AMP8 	<ul style="list-style-type: none"> Renewable Electricity Generation (GWh/year) % reduction in Scope 1 and 2 GHG emissions from a 2021/22 baseline (science-based target) Tree planting Catchment management (hectares)
<ul style="list-style-type: none"> Regular all-colleague Culture Amp surveys Health and Safety Steering Group overseeing targets, performance monitoring and interventions 	<ul style="list-style-type: none"> Employee representative groups, including Employee Network Groups and trade unions relations Change the Race Ratio 	<ul style="list-style-type: none"> Reduced workplace accidents and improved employee wellbeing Board diversity target achievements Sustainability target Code of Conduct compliance 	<ul style="list-style-type: none"> Non-compliance or occurrence of an avoidable health and safety incident Difficulty in recruiting and retaining staff with the skills required to deliver the Group's strategy 	<ul style="list-style-type: none"> LTI number % REACH recruitment % female employees 5% Club achievement
<ul style="list-style-type: none"> Community engagement plan in place led by the Regulatory and Customer teams 		<ul style="list-style-type: none"> Having a positive impact on our local communities through our business activities and investments Foster an environment that encourages employee engagement with communities and provides opportunities for volunteering and establishing community partnerships 	<ul style="list-style-type: none"> Failure to provide excellent service or meet the needs and expectations of our customers and communities 	<ul style="list-style-type: none"> £ community investment % priority services register (PSR) – customer satisfaction C-MeX D-MeX BR-Mex
<ul style="list-style-type: none"> Modern Slavery Statement <p>www.pennon-group.co.uk</p>		<ul style="list-style-type: none"> An open dialogue with our stakeholders on human rights issues 	<ul style="list-style-type: none"> Non-compliance with laws and regulations 	<ul style="list-style-type: none"> % of instances of modern slavery detected in Pennon or supply chain
<ul style="list-style-type: none"> Ethics Management Committee Gifts and Hospitality and Conflicts of Interest procedures Bribery and Fraud Risk Assessment Workshops 	<ul style="list-style-type: none"> Group-wide anti-financial crime mandatory training contained in new interactive Code of Conduct module Supplier due diligence process Speak Up portal 	<ul style="list-style-type: none"> Seeking to prevent, detect and report financial crime, including instances of bribery and corruption Maintaining an ethical approach to business and adhering to our Code of Conduct 	<ul style="list-style-type: none"> Non-compliance with laws and regulations 	<ul style="list-style-type: none"> Number of cases reported through Speak Up portal

Approval of the Strategic Report

Our Strategic Report on pages 1 to 95 has been approved by the Board of Directors and signed on behalf of the Board by:

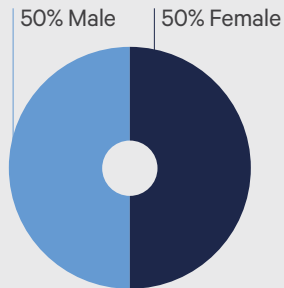
Andrew Garard

Pennon General Counsel and Company Secretary
10 June 2026

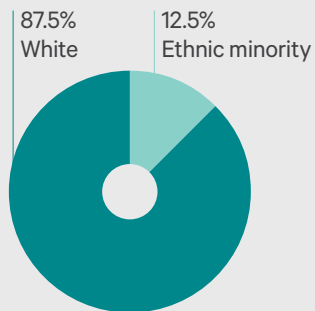
Governance at a glance

Board composition as at 31 March 2026

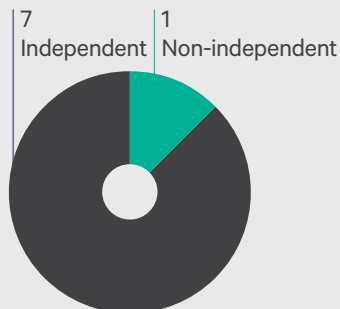
Gender representation



Ethnic representation



Board independence



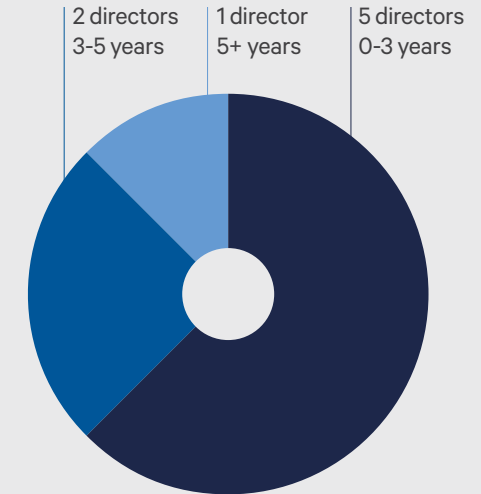
As at the date of this report, there are six independent Directors and two non-independent Directors.

Board skills matrix and meeting attendance during the year

	Chair	Executive Director			Non-Executive Director					
	David Sproul	Keith Haslett ¹	Laura Flowerdew	Susan Davy ²	Sir Andrew Haines ³	Andrea Blance ⁴	Dorothy Burwell	Jon Butterworth	Lorraine Woodhouse	Iain Evans ⁵
Board skill										
Water sector		●	●	●						●
Regulation	●	●	●	●	●	●	●	●	●	●
Finance and accounting	●	●	●	●	●	●	●		●	
Strategy	●	●	●	●	●	●	●	●	●	●
Transformation	●	●	●	●	●	●	●	●	●	●
Health, safety and wellbeing		●	●	●	●			●		
ESG incl. climate change	●	●	●	●	●	●	●	●	●	●
Enterprise risk management	●	●	●	●	●	●	●	●	●	●
Data, technology and digital		●	●	●	●		●	●		
People	●	●	●	●	●		●	●	●	
Governance	●	●	●	●	●	●	●	●	●	●
Remuneration	●	●	●	●	●	●			●	
Board meeting attendance	6/6	0/0	6/6	4/4	3/3	6/6	6/6	6/6	6/6	6/6

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

Board of Directors tenure



Board meetings

There were six scheduled Board meetings during the year with a number of ad hoc meetings taking place when necessary.

2025

May

Board and Committee meetings

July

AGM, Board and Committee meetings

September

Board and Committee meetings

November

Board and Committee meetings

2026

January

Board and Committee meeting

March

Board and Committee meetings

Board changes

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

➔ **Read more on Andrea, Andrew and Keith's experience in their biographies on pages 100 to 101**

Key focus areas for the Board in 2025/26

Customer affordability

Delivery of capital projects

Delivery of AMP8

Investment programmes

Storm overflows and eliminating pollutions

Water quality and resilience

Incident management

Cyber security

➔ See pages 109 to 110 for more information

Compliance with the UK Corporate Governance Code 2024 and other requirements

Pennon firmly believes that good corporate governance is essential to enable us to deliver our purpose for all of our stakeholders and it remains a top priority for the Board. We are committed to the principles of the UK Corporate Governance Code 2024 which is published on the Financial Reporting Council (FRC) website. For the year ended 31 March 2026, we were compliant with all provisions of the Code, with the exception of Provision 24, which is explained further on page 120.

	Page
1. Board leadership and Company purpose	
A: Board of Directors	100 to 101
B: Purpose, values and culture	104
C: Governance structure and framework	105
D: Stakeholder engagement	111 to 112
E: Workforce policies and practices	108
2. Division of responsibilities	
F: Role of the Chair	106
G: Division of responsibilities	106
H: Role of the Non-Executive Directors	106
I: Board policies, processes, information, time and resources	107 to 108
3. Composition, succession and evaluation	
J: Appointments to the Board	113
K: Board skills, experience and knowledge	96
L: Board evaluation	119
4. Audit, risk and internal control	
M: Independence and effectiveness of internal and external auditors	123
N: Fair, balanced and understandable assessment	123
O: Risk and internal control	124 to 125
5. Remuneration	
P: Alignment to purpose, values and long-term success	133 to 136
Q: Remuneration policy	150 to 155
R: Independent judgement and discretion	130 to 132

1st

top ten best performer in FTSE 250 Women Leaders Review, and 11th in the utility sector.

A rating

A rating for climate, earning a place on CDP's prestigious A-List and putting Pennon in the top 4% of companies worldwide. Pennon received an A score for water, recognising the Board's strong leadership in protecting water quality and the natural environment.

Chair's introduction



David Sproul
Pennon Chair

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

Dear Shareholder

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

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

Review of the year

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

The table on page 97 will help you to navigate our reporting and evaluate our performance against the principles of the Code. As we explain below, we also have processes and procedures in place to safeguard the independence of decision-making by the Board of South West Water and Sutton and East Surrey Water plc.

➔ **More information on the Board's activities can be found on pages 109 to 110**

Changes to the Board

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

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

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

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

In July 2025, we announced the retirement of Susan Davy as Group Chief Executive Officer. During her 11 years as a member of the Board, Susan successfully led the affairs of the Group through a period of substantial development and growth. I would like to thank Susan for her service to the Group and our stakeholders. Effective 1 April 2026, we welcomed Keith Haslett as the Group Chief Executive Officer, whom I look forward to working with.

➔ **The details of the process of his recruitment can be found on page 113**

➔ **Biographies of Andrea Blance and Sir Andrew Haines can be found on pages 100 to 101**

“ We pay particular attention to our Group culture, ensuring it fully aligns with our shared purpose, values and strategy.

Promoting diversity

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

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

➔ **More information on our D&I initiatives can be found on page 15 and is in the Nomination Report on page 118**

Engaging with our stakeholders

Engaging with all our stakeholders has never been more essential, particularly in view of the national and global issues we are facing. All companies in the water sector face much scrutiny around their environmental impacts, so it is vital that we listen to and respond to our stakeholders' views. We make sure to carefully consider all decisions and their likely impacts on our stakeholders.

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

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

We continue to foster an open and transparent feedback culture within the business. All colleagues have the opportunity to share feedback with the Executive team and Board in several ways, including the Big Chat initiative, our employee surveys and Be the Future Forums.

➔ **You can read more on how we engage with our stakeholders on pages 111 to 112 and in our Section 172(1) statement on pages 114 to 116**

Culture

As a Board, we pay particular attention to our Group's culture, ensuring it is fully aligned with our shared purpose, values, and strategy. We continue to monitor these essential properties and receive regular reports from management on the work being done to ensure their continuous improvement. During the year, the Board was delighted to see the development of the Group's values, which reflect the views of our wider stakeholders and culture.

Role of the Board and its effectiveness

It is my view that the Board continues to be highly effective with a deep understanding of the opportunities available to us and the threats facing the business.

The results of the Board and Committee performance reviews support this view: see page 119 for further detail. We keep all identified threats to the future success of the business under constant review. Please see our risk report on pages 62 to 69 for a description of the risks we identify and review.

Board independence – Pennon, South West Water and SES Water

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

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

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

Looking ahead

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

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

David Sproul

Pennon Chair
10 June 2026

“ Our system of governance remains effective, and continues to support the delivery of our strategy.

Our Board

Committee key for Board:

- A** Audit Committee
- E** ESG Committee
- H** Health & Safety Committee
- N** Nomination Committee
- R** Remuneration Committee
- Committee Chair



David Sproul

Group Chair

N

Date of appointment to the Board
1 July 2024 and became Pennon Chair on 24 July 2024.

Current external appointments
Chair of Starling Group plc and Starling Bank Limited, Non-Executive Director of Safanad Limited and Director of Pension Protection Fund. David is also a senior adviser to Bridgepoint Europe, and he sits on the Board of Governors as Chair of the University of Hertfordshire.

Skills and experience

David is a Chartered Accountant who has spent the majority of his career in professional services with Deloitte and, prior to that, Andersen, serving a diverse range of UK and international clients.

He concluded his executive career at Deloitte in summer 2021 as Global Deputy CEO having previously been elected for two terms as Senior Partner and Chief Executive of Deloitte UK and Northwest Europe from 2011 to 2019. During his leadership, the firm became the largest and most profitable professional services firm globally and, in the UK, driven in part by significant investments in technology services, as well as differentiating itself as the Audit quality leader with a strong inclusive culture.



Keith Haslett

Group Chief Executive Officer

E H

Date of appointment to the Board
1 April 2026.

Current external appointments
None

Skills and experience

Keith brings more than 25 years of experience in the UK water sector, with a strong track record of leading complex and regulated utilities. Prior to joining Pennon, he served as CEO of Affinity Water, where he delivered improvements in business performance and customer outcomes. Earlier in his career, Keith held senior leadership roles at Northumbrian Water Group and United Utilities, overseeing large-scale water and wastewater operations and multi-billion-pound capital investment programmes. His experience spans engineering, operational delivery, environmental performance, and the transformation of asset management and organisational structures.

Keith is a Chartered Civil Engineer and holds an MBA from Queen's University Belfast.



Laura Flowerdew

Group Chief Financial Officer

E H

Date of appointment to the Board
10 July 2024.

Current external appointments
None

Skills and experience

Laura was appointed as Group Chief Financial Officer of Pennon Group in July 2024. Laura held previous positions as Chief Customer and Digital Officer of Pennon Group and Chief Financial Officer of Bristol Water plc from October 2018. Laura previously worked in a number of senior executive positions in UK utilities, international natural resources and listed companies, including Anglo American plc, De Beers, Tribal Group plc and Bristol Energy. Prior to that she worked with Deloitte and trained with Arthur Andersen. She is a Fellow of the Institute of Chartered Accountants for England and Wales.



Sir Andrew Haines OBE

Senior Independent Director

A H N R

Date of appointment to the Board
1 November 2025.

Effective 1 April 2026, Sir Andrew took over as Senior Independent Director and became a member of the Health and Safety Committee, Audit Committee and the Remuneration Committee.

Current external appointments

Chair of DfT Operator Limited, Chair and Pro Chancellor, Cranfield University.

Skills and experience

Andrew retired from his role as Chief Executive and Board Member of Network Rail in October 2025 after 7 years. During this time, he successfully led a regulated utility business of £9 billion annual turnover with a capital programme of circa £4-5 billion per annum and achieved an outperformance of the regulatory efficiency targets in the control period as well as best ever safety performance. Prior to this, Andrew was Chief Executive of the Civil Aviation Authority, the UK's aviation regulator, which he joined following nine years as a Managing Director in private sector train companies. He was awarded the OBE in 2016 and knighted for services to transport and the economy in 2025.

Board changes 2025/26:

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

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



Andrea Blance

Independent Non-Executive Director

A N R

Date of appointment to the Board
8 April 2025.

Current external appointments

Non-Executive Director and Risk Committee Chair at Aviva plc.

Skills and experience

Andrea brings extensive risk and regulation expertise gained within the financial services sector and works with businesses to develop customer focused commercial strategies.

Andrea spent her executive career at Legal & General Group plc where she held a range of senior leadership roles including Group Chief Risk Officer and Strategy & Marketing Director. More recently, Andrea has been Risk Committee Chair at Hargreaves Lansdown plc, Senior Independent Director and Remuneration Committee Chair of Vanquis Banking Group plc, Senior Independent Director and Audit Committee Chair of ReAssure plc, and Risk Committee Chair of Scottish Widows plc and Lloyds Banking Group Insurance.



Dorothy Burwell

Independent Non-Executive Director

E N R

Date of appointment to the Board
1 December 2022.

Current external appointments

Partner and Global Partnership Board member of FGS Global and Non-Executive Director at Post Holdings Inc.

Skills and experience

Dorothy has over 20 years' experience in banking and communications, specialising in natural resources and advising clients around issues of sustainability, strategy, and corporate communications. She is well known for driving substantive diversity and inclusion agendas. Between 2002 and 2006, Dorothy held analyst and senior roles at Goldman Sachs in the investment banking division, in both London and New York, as well as in the firmwide Strategy Group, where she focused on proprietary mergers and acquisitions and new business development. Dorothy graduated from the Florida Agricultural and Mechanical University, USA with a Bachelor and Master of Business Administration, Finance and Management.



Jon Butterworth MBE

Independent Non-Executive Director

E H N

Date of Appointment to the Board
8 July 2020.

Current external appointments

Chief Executive Officer at National Gas. Major in the British Army Reserves. UK Emergency Energy Co-ordinator for HMG. Chair of the National Gas Museum Trust.

Skills and experience

Jon has a distinguished track record and an immense depth of experience and knowledge within infrastructure and utilities. Jon began his career as an apprentice at British Gas over 47 years ago working in Europe, the USA and the UK on major infrastructure. Currently as the CEO of National Gas PLC, Jon is responsible for the primary energy supply into the UK and the operation of the system.



Loraine Woodhouse

Independent Non-Executive Director

A E H N

Date of Appointment to the Board
1 December 2022.

Current external appointments

Senior Independent Director and Chair of the Audit Committee for the British Land Company plc, Non-Executive Director for Associated British Foods plc and a Trustee and Audit Committee member at the Zoological Society of London.

Skills and experience

Loraine is an experienced finance executive, with her experience focused in the retail and consumer sector, and more recently in real estate and infrastructure through her roles with Intu Properties plc and British Land Company plc.

Loraine was the Chief Financial Officer of Halfords Group plc until June 2022, before which she spent five years in executive and senior finance roles within the John Lewis Partnership, including Waitrose. Prior to that, Loraine was Chief Financial Officer of Hobbs, Finance Director of Capital Shopping Centres Limited (subsequently Intu Properties plc) and Finance Director of Costa Coffee Limited.



Andrew Garard

Group General Counsel and Company Secretary

Date of Appointment to the Board
1 December 2022.

Current external appointments

Non-Executive Director at Zinc Media Group plc, where he is chair of the Remuneration Committee, co-founder and Chair of the Board of Trustees of the Social Mobility Business Partnership.

Skills and experience

Andrew is a very experienced General Counsel, having joined from Meggitt plc, where he was Group General Counsel and Director of Corporate Affairs, and a member of the group executive responsible for legal, commercial, trade compliance, government relations, ethics and contract management. Previously, he was Group General Counsel and Company Secretary at ITV plc where he was a member of the executive board and led a global team responsible for legal and business affairs, secretariat, compliance, insurance, health & safety, rights management and corporate responsibility. Prior to this, he was Group General Counsel and Company Secretary at Cable & Wireless plc and Global Head of Legal at Reuters Group plc.

Pennon Executive Board



Keith Haslett

Group Chief Executive Officer

➔ See biography on page 100



David Harris

Managing Director of Water Services

David joined the Group as Group Drought and Resilience Director in 2022. He was appointed as Managing Director, Water Services (National) in July 2024.

With over 25 years of executive experience, he has successfully led the performance and growth of large infrastructure businesses, in both the regulated water market and the competitive energy market in Australia. David brings experience from his time leading one of Australia's largest and fully vertically integrated water companies through the worst droughts in the country's history, ensuring a constant supply of water and the building of additional water resources.



Richard Price

Managing Director of Wastewater Services for South West Water

Richard was appointed Managing Director, Wastewater Services in July 2024. Previously, he held the position of Group Chief Engineering Director from 1 September 2022, having joined Bristol Water in February 2018.

Richard is a Chartered Civil Engineer and Fellow of the Institution of Civil Engineers and Institute of Water. Richard has over 30 years' experience in engineering, constructing and operating water and wastewater infrastructure, having previously held senior roles at other water companies. Richard was instrumental in the transformation of Bristol Water as Chief Operating Officer. He is passionate about safety and customer excellence, embedding leading practices whilst transforming operating and delivery functions.



Ian Cain

Chief Executive Officer of Retail and Customer Markets

Following the acquisition of SES Water on 10 January 2024, Ian transitioned to the Pennon Group and, in July 2025, assumed the role of Chief Executive Officer (CEO) of Retail and Customer Markets. He now oversees the Group's strategic interests in the Business Retail water market, alongside responsibility for all customer service operations across Pennon's brands. He leads Pennon's customer strategy and governance, ensuring clarity, accountability and a strong alignment to regulatory expectations, customer insight and industry good practice.

Ian became CEO of SES Water in February 2020, bringing extensive experience from senior leadership roles in the UK utilities and service sectors. Before joining SES Water, Ian was CEO of iSupplyEnergy. Prior to that, Ian held other senior roles in leading water and energy utilities including Managing Director for Retail and Group Customer Service at Thames Water and Managing Director of British Gas Energy, where he led major transformation in customer propositions, service solutions and customer experience, digitisation and operational effectiveness.



Paul Ringham

Managing Director of Pennon Power

Paul joined the Group as Managing Director of Pennon Power, the Group's renewable energy division, in September 2024.

Paul qualified as an accountant at Coopers & Lybrand and is a member of the Institute of Chartered Accountants of England and Wales. Earlier in his career, Paul was the Director of Corporate Finance for BT plc and later became the Commercial Director of BT Global Services, the group's international division. In 2014, Paul joined Viridor Waste Management Limited as Commercial Director and worked closely with the Pennon Executive team during the sale of the business to the US global investment company, Kohlberg Kravis Roberts & Co (KKR) in 2020. He then spent 24 months working with KKR to restructure the business. Following the completion of this divestment program, Paul worked with the new owner of Viridor's landfill and landfill gas division to develop its renewable energy strategy.



Laura Flowerdew

Group Chief Financial Officer

➔ See biography on page 100



Andrew Garard

Group General Counsel and Company Secretary

➔ See biography on page 101



Ian Christie
Group Chief Asset Officer

Ian joined Pennon Group as Chief Asset Officer in May 2026.

Ian brings extensive experience across asset management, operational delivery and system planning. His expertise will be instrumental in strengthening the Group's focus on asset health and reliability, and in supporting the successful delivery of current and future business plans.

Prior to joining Pennon, Ian Christie was the Managing Director at Welsh Water, leading various directorates on their Executive Committee. Ian also served as the Head of Potable Water Service at United Utilities and with a background in civil engineering, Ian also has a wealth of experience in delivering construction and asset investment programmes for a number of utility providers.



Graham Murphy
Chief Engineering Officer

Graham joined South West Water in 1991 and has held a number of positions within engineering, operations and HR. He was appointed to his current role as Chief Engineering Officer in July 2024 and has full responsibility for the timely and efficient delivery of the South West Water's capital investment programme. Prior to joining South West Water, he undertook a variety of operational management roles within British Gas.

Graham will retire from the Group on 30 June 2026 and we thank Graham for his commitment and significant contribution to South West Water over his career.



Sarah Heald
Chief Strategy & Regulatory Affairs Officer

Sarah was appointed Chief Strategy, Regulatory Affairs, and Investor Relations Officer of Pennon Group in July 2025.

Sarah is an experienced executive with over 17 years' experience spanning corporate strategy, stakeholder engagement, sustainability and investor relations across regulated industries including the water sector, infrastructure, and financial services.

She leads Pennon's strategy, regulatory and external affairs, and investor relations functions, shaping the Group's direction and positioning amid the most significant re-examination of the water sector.

Previously, Sarah served on the Executive Committee at Aberdeen plc, where she led sustainability, corporate affairs, marketing, and investor relations. She chaired Aberdeen's executive sustainability committee, the Charitable Foundation, and was a Non-Executive Director of the Aberdeen Financial Fairness Trust.

Prior to that, Sarah was Corporate Affairs and Investor Relations Director at Pennon Group 2015 – 2020 and was on the Executive Leadership Team that sold Viridor to KKR in July 2020. Earlier in her career, Sarah worked at FGS Global and she started her career in investment banking at Bank of America Merrill Lynch.



Carolyn Cadman
Chief Sustainability and Natural Resources Officer

Carolyn has recently been appointed Chief Sustainability and Natural Resources Officer, having joined South West Water as Director of Natural Resources in May 2022.

Carolyn's team are delivering projects to lower carbon emissions, increase nature recovery efforts and improve the sustainability of operations across the Group, including mainstreaming nature-based solutions. Carolyn's team lead the Upstream Thinking catchment management programme, the South West Peatland Partnership and are part of the South West Invasives Forum.

Prior to joining South West Water, Carolyn was Chief Executive of Cornwall Wildlife Trust, and has served in national roles for Natural England and the Marine Management Organisation, and in the South West region for Cornwall Council.

Carolyn is a Director of South West Water's partnership with Exeter University, the Centre for Resilience, Environment, Waste and Water, which undertakes innovative research in catchment management, microplastics, peatland restoration, AI, engineering and water management. Carolyn sits on the Board of the Devon Local Nature Partnership and she chairs the Cornwall Catchment Partnership.

Executive Board changes 2025/26:

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

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

Monitoring purpose and culture

Purpose, values and culture

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

We want our values and our behaviours to be the golden thread across Pennon Group – all businesses within our Group to have the same values and therefore the same way of being.

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

Our purpose

Bringing water to life – supporting the lives of people and the places they love for generations to come.

Our values:



How the Board monitors culture

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

Area assessed	How the Board monitors the culture
Employee engagement	<p>Appointment of a designated Non-Executive Director for workforce engagement – The Board approved the appointment of the designated Non-Executive Director, giving the employees a meaningful voice and representation in Board discussions.</p> <p>Site visits – the Board attended a number of site visits and other office locations to meet operational colleagues in their day-to-day environment to hear from them.</p> <p>Big Chat and Be the Future Forum – The Executive team engages with all employees on all business topics and ensures that their views and opinions are shared with the Board.</p>
Workforce policies and practices	<p>The Board formally reviews the Group's workforce policies and practices to ensure these remain consistent with the Group's purpose and values and support for the Group's long-term sustainable success.</p> <p>Gender and ethnicity pay gap – The Board monitors the culture on gender and ethnicity pay through review, assessment, and approval of the Gender and ethnicity pay gap report.</p> <p>Diversity Respect and Inclusion Policy – The Nomination Committee monitors diversity and inclusion through regular updates, and the Board fosters the Group's culture on diversity and inclusion through the review and approval of the Group Diversity, Respect and Inclusion Policy.</p> <p>General pay conditions – The Remuneration Committee ensures that reward and pay arrangements support a culture that is transparent, fair, and consistent to ensure that employees' trust is maintained and that talent is attracted and retained.</p>
Whistleblowing	<p>Speak Up – Employees raise concerns anonymously without fear of reprisal. Any significant concerns, following formal investigation, are shared with the Audit Committee through the Ethics Management Committee and ultimately shared with the Board.</p>
Health & Safety	<p>HomeSafe – This remains a standing agenda item at every Board meeting in 2025/26. The regular updates on safety initiatives adopted for the achievement of the Group's 2025 strategic plan to be health and safety leaders in the water sector. The Board also conducted an assessment and approval of the HomeSafe strategic plan to 2030.</p> <p>Lost time injuries – Updates on efforts to reduce injuries of our staff across all Group companies are assessed at every Executive meeting and further presented for assessment at the Health and Safety Committee.</p>
Remuneration	<p>The Remuneration Committee is regularly provided with feedback from shareholder consultations and customer engagement which helps the Committee and the Board to monitor the culture on wider workforce pay, and Executive and CEO remuneration.</p> <p>The Committee reviews and approves the wider workforce Group Reward Framework and relevant policies and ensures that incentives and rewards align with culture.</p> <p>CEO pay ratio – The Board ensures that the CEO pay ratio is fair, balancing stakeholder expectations while rewarding leadership success.</p>

Board leadership

Governance structure and framework

Pennon Group plc – Board of Directors

The Board's role is to foster the long-term success and sustainability of the Group, while establishing value for all its stakeholders, including its shareholders, customers, employees and the communities it serves, by providing robust leadership and effective direction to the business as a whole.

It sets the Group's strategy and sustainability strategy, considering stakeholders, while maintaining a balanced approach to risk within a framework of effective controls for the mutual benefit of customers, shareholders and employees. It has also established the Group's purpose and values and monitors culture to ensure alignment. It sets the tone and approach to corporate governance and is responsible for the overall financial performance of the Group.



Board Committees

The Chair of each Committee formally reports to the Board and meets three or more times a year as necessary. Committee members have the essential skills and experience to execute the specific area of focus delegated by the Board.

Demonstrating accountability for Committee recommendations by reporting to the Board and ensuring the Board has oversight of Committee matters. The terms of reference for each Committee are agreed by the Board and can be found at www.pennon-group.co.uk/about-us/board-committees.

Audit Committee

Ensures the quality and integrity of the Group's financial reporting, assesses the application of accounting policies given underlying standards, probes and tests the accounting judgements made in preparing financial reporting and evaluates whether the presentation of the Group's activities is fair, balanced and understandable.

Reviews and challenges the ongoing effectiveness of the internal control environment and the scope and adequacy of risk management processes across the Group.

➔ **Audit Committee Report pages 120 to 125**

Nomination Committee

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

➔ **Nomination Committee Report pages 117 to 119**

Remuneration Committee

Ensures remuneration is aligned with the Group's strategy and reflects the values of the Group.

Advises the Board on the framework of executive remuneration for the Group and for the wider workforce.

➔ **Remuneration Committee Report pages 130 to 132**

ESG Committee

Ensures robust scrutiny of key aspects of Environmental, Social and Governance (ESG) performance and oversees Pennon's performance against its ESG strategy and strategic sustainability objectives.

➔ **ESG Committee Report pages 126 to 128**

Health and Safety Committee

Provides a 'review and challenge' function to support the Board and the Executive on all matters connected to health and safety including the deployment of the health and safety strategy, resilience and process safety.

➔ **Health and Safety Committee Report page 129**



Group Chief Executive Officer and Pennon Executive Board (PEX)

Responsible for framing and navigating the business objectives to achieve delivery of the Group's strategy. To the extent of the authority delegated by the Board, ensuring the proper and prudent management of Group resources to create and maximise shareholder value while protecting the interests of the wider stakeholder group.

Chaired by the Group Chief Executive Officer, the Pennon Executive Board meets regularly to receive reports from the management committees and to ratify recommendations to be presented to the Board.

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



Disclosure Committee

Draws up and maintains procedures, systems and controls for the identification, treatment and disclosure of inside information and for complying with other disclosure obligations falling on the Group. Monitors compliance with the disclosure procedures and keeps the adequacy of those procedures under review.

Ethics Management Committee

Oversees the ethics culture of the Group and its commitment to ethical business and integrity, including the creation, maintenance and execution of the Group's approach to anti-financial crime, modern slavery, whistleblowing and grievances.

Division of responsibilities

The Chair and the Group Chief Executive Officer have a clear separation of responsibilities, divided between managing the Board and the business, while maintaining a close working relationship.

All Directors are equally accountable for the proper stewardship of the Group's affairs and have specific roles, which include those set out on this page.

Group Chair: David Sproul

- Lead the Board and promote a healthy culture of openness and debate to facilitate constructive Board relations and effective contribution from all Non-Executive Directors.
- Ensure the Board holds itself to the highest standards of good and effective governance through integrity and credibility.
- Maintain a 'fit for purpose' Board through ongoing skills assessment and training as required and proactively aligning Board composition, performance, and succession planning with future strategic needs.
- Setting the agenda and ensuring the timely dissemination of information to the Board to ensure all relevant information is provided in a timely manner before constructive discussion and decision-making.
- Exhibit the high standards and values of the Group and make certain that the views of all stakeholders are understood and considered.
- Provide advice, support and guidance to the Group Chief Executive Officer thereby facilitating an open relationship.

Group Chief Executive Officer: Keith Haslett

- Manage the Group and provide executive leadership.
- Develop, propose and implement the Group strategy as agreed by the Board and in line with the strategic framework.
- Lead on all regulatory and policy decisions.
- Lead the Group in accordance with the decisions of the Board.
- Ensure financial and operational leadership.
- Collaborate with the Chair on important and strategic issues of the Group and provide input to the Board's agenda.
- Contribute to succession planning and implement the organisational structure.
- Lead on acquisitions, disposals, and business development.
- Develop and manage relations with all stakeholders

Senior Independent Director: Sir Andrew Haines

- Assist the Chair with shareholder communications and being an additional point of contact for shareholders.
- Be available to other Non-Executive Directors if they have concerns that are not satisfactorily resolved by the Chair.
- Ensure an annual performance evaluation of the Chair, with the support of the other Non-Executive Directors, and ensure effective succession planning for the Board.

Group Chief Financial Officer: Laura Flowerdew

- Manage the Group's financial affairs and support the Group Chief Executive in providing executive leadership and implementing the Group strategy.
- Report accurate and detailed financial information to the Board on performance and developments across the business.
- Manage and balance relationships with areas of the Group, such as investor relations, finance and treasury, as well as external stakeholders, such as investors, lenders and Pension Trustees.

Non-Executive Directors:

Jon Butterworth, Loraine Woodhouse, Dorothy Burwell, Andrea Blance

- Critically review the strategies, operational performance and financial reporting proposed for the Group.
- Evaluate proposals from management and constructively challenge its recommendations.
- Contribute to corporate accountability and good governance through being active members of the Committees of the Board.
- Play a key role in succession planning of the Board and the annual Board and Committee evaluations.

Group General Counsel and Company Secretary: Andrew Garard

- Support the Chair, Chief Executive Officer and the Board in ensuring all policies, processes, information, and resources are in order to ensure the Board can operate effectively and efficiently.
- Advise and keep the Board updated on any changes to Listing and Transparency Rules and best corporate governance practices.
- Facilitate a comprehensive induction for newly appointed Directors that is tailored to the Group's industry and strategy.
- Co-ordinate the annual Board and Committee evaluations in conjunction with the Chair and Group Chief Executive Officer.
- Provide advice and services to all Directors, as needed.

An effective Board

How the Board operates

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

Benefiting from a diverse skill set, independence of thinking and experience of the Directors as demonstrated by their biographies on pages 100 to 101, decisions reached by the Board are fair, focused and balanced and they demonstrate that constructive debate has occurred. The best possible outcomes for the mutual benefit of our shareholders, customers, employees, and the communities we serve are at the heart of the Board decision-making process.

The culture of the Board is one of openness and constructive dialogue with the senior management team. Regular and effective flow of information between the Non-Executive Directors and senior management, both in and out of the Boardroom, ensures that there is good understanding of the Group's business. As detailed on page 106, there is a clear division of responsibilities between the roles of the Chair and Group Chief Executive Officer; however, to ensure that their responsibilities are discharged effectively, there is consistent communication on all areas of the business between them.

The Board held six scheduled meetings during the year, with additional meetings held during the year to consider pertinent issues, including matters requiring timely consideration. Directors' attendance at scheduled Board meetings held during the year is set out on page 96. The Board also approved a number of matters during the year by written resolution.

The governance framework for the Board is clearly documented in the Pennon Group plc Articles of Association, Division of Responsibilities, Schedule of Matters Reserved to the Board and Terms of Reference for each Committee, which are all available on our website.

Board and Committee meeting agendas are prepared in advance by the Company Secretary in conjunction with the Chair and the Group Chief Executive Officer. Agenda items are aligned with the annual Board and Committee cycle programme, with other items and updates added for consideration in response to matters of importance to the business at the time. For each scheduled Board meeting there are a number of standing items such as the monthly performance reports from the Group Chief Executive Officer and Group Chief Financial Officer, operational reports, detailed reviews, and legal and governance updates. All matters are given due consideration by the Board and are reviewed at the appropriate point in the regulatory and financial cycles. Flexibility is retained in the programmes to include additional items requested by the Board, Committees, or senior management. The key activities of the Board can be found on pages 109 to 110 and the key activities of the Committees during the year can be found in the Committee Reports.

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

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

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

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

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

Schedule of Matters Reserved to the Board

The Board maintains oversight of the areas material to the delivery of the Group's strategy and purpose, and acts as the main governing body for the purpose of oversight of the Group, with additional supervision of the regulated business of South West Water and Sutton and East Surrey Water plc provided by the boards of South West Water and Sutton and East Surrey Water plc. The Board undertakes a review of the Matters Reserved to the Board on a periodic basis.

Committees

In accordance with the Code, the Board delegates certain responsibilities to its core Committees, which monitor various subject matters in depth and gain greater understanding in detail. The Committees' responsibilities and mode of operation are guided by their respective terms of reference which have been agreed by the Board and are available to view on our website and also are summarised on the Committee Report pages below. In addition, each Committee considers its calendar of business at every meeting to ensure responsibilities continually remain clear. Each Committee Chair provides an update on matters discussed at each Board meeting, reporting on decisions taken, and where appropriate provides a recommendation to the Board on matters requiring its approval. The reports from each Committee of the Board can be found on pages 117 to 132.



An effective Board continued

Strategy

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

Pennon Executive Board

The Pennon Executive Board meets on a monthly basis and is responsible for executing the Group's strategy and the day-to-day management of the Group's operations. Responsibilities and processes are designed to ensure effective management and oversight of Group affairs. Governance policies and terms of reference are reviewed in accordance with the demands of the business, changing regulation and emerging best practice. The Pennon Executive Board is led by the Group Chief Executive Officer. The biographies of the Executive Board can be found on page pages 102 to 103.

During the year, Susan Davy resigned as Group Chief Executive Officer on 31 December 2025. To support an orderly succession, the Board approved an interim arrangement covering the period between Susan stepping down from the Board and Keith Haslett joining the Board on 1 April 2026.

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

Workforce engagement

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

To further enhance the Board's approach to workforce engagement, the periodic employee engagement surveys (including related management feedback sessions) and continuous employee feedback through our own in-house forums, such as 'Be the Future Forums' and the 'Big Chat', hosted on a fortnightly basis by the Executive team would continue to function. These forums not only give employees access to important up-to-date information on key business events, they also provide the opportunity to hear from the Directors, give feedback and ask questions.

The Board believes these chosen approaches are an effective way of communicating with employees and gathering essential feedback from across the business. This empowers the Board to consider the interests of all employees in its discussions and decision-making. You can find further information on employee engagement on page 111.

Stakeholder engagement

In delivering our strategy and ensuring the sustainable, long-term success of the Group, the Board places utmost importance on the interests of our stakeholders in its decision-making process. Further details on how the Board has fulfilled its duties under section 172(1) of the Companies Act 2006, to consider all stakeholders in its discussions and decisions and that each decision reached is in line with the Group's purpose and culture, are set out on pages 114 to 116; and an explanation as to how we engaged with our different stakeholders during the year can be found on pages 111 to 112.



CEO meets redhill staff

Workforce policies and practices conflicts of interests

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

This duty is in addition to the duty owed to the Group to disclose to the Board any interest in a transaction or arrangement under consideration by the Group. A register of Directors' conflicts is maintained and reviewed at each Board meeting. Authorised conflicts disclosed on the register currently involve cross-directorships with Pennon Water Services Limited and the trustee board of the Group's defined benefit pension scheme.

Whistleblowing

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






























Key activities of the Board

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



[Bournemouth site visit](#)


































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

Activity	Outcome	Stakeholders considered	See page(s)
Strategic			
2025 Sharesave plan Reviewed and approved a new Sharesave plan which introduced a matching element to the SIP scheme.	The implementation of the matching element to the SIP scheme providing one free share for every three shares purchased will not only ensure affordability but give colleagues a higher stake in the Company.	  	134
Delivery of capital programme Reviewed and approved the delivery of the AMP8 capital programme in line with the business delivery plans and framework model for delivery.	Successfully deliver the capital programme for the benefit of all stakeholders and foster long-term relationships with our suppliers.	    	28
Strategy Day Attended Strategy Day to drive focus for the next steps for growth.	Organic and inorganic growth opportunities were presented and considered.	    	108
Operational			
ODI improvements Monitored our ODI improvements to meet regulatory requirements, ongoing regulatory/innovation initiatives were monitored via ESG and Health and Safety reports and plans were adapted where needed.	Successful regulatory outcomes, safe customer and employee experience, enhancing day-to-day operations.	    	29 to 50
Storm overflows and pollutions Reviewed and assessed measures tackling storm overflows at bathing waters and reduced spill rates across our sites and within our communities.	Delivery against our objective to ensure continuous supply of safe and clean water to our customers.	   	36 to 41
Water quality and resilience Approved projects to upgrade treatment works and expand reservoir capacity across the regions.	Successfully maintain bathing water quality all year round. Reduction in pollution levels to industry-leading low levels.	   	29 to 35
Financial			
2024/25 Annual Report and Accounts Reviewed and authorised the Annual Report and Accounts.	Delivery against objectives to return capital where appropriate.		7
Final dividend payment/AGM Approved the final dividend and held the Annual General Meeting.	The payment of a final dividend and the holding of a successful Annual General Meeting.	 	56

Key to stakeholder groups

-  Customers
-  Regulators
-  People
-  Suppliers
-  Investors
-  Policy makers
-  Environment
-  Communities

Key activities of the Board continued

Activity	Outcome	Stakeholders considered	See page(s)
Environmental			
Net Zero strategy plan, green recovery investment programmes Implementation and alignment of plans with our strategic priorities by engaging in, for example, Upstream Thinking investments to enhance water quality while also contributing to Net Zero.	Accelerate delivery of our Net Zero plans to achieve a more sustainable future for all.	    	78 to 82
Pollution Incident Reduction Plan 2026 Reviewed and approved our plan to improve the environment and reduce pollution risk across all aspects of our operations – and especially with regard to our wastewater operations.	Ensure that our waterways and water consumption remain safe for our customers and for communities that we serve.	    	40
Ofwat delivery plan Reviewed and approved the submission of our Final Delivery Plan to highlight the planned investments over the 2025-2050 period.	Foster our commitment to the long-term sustainable growth of the UK's environmental infrastructure.	    	38
Social			
Supporting customers on low income Monitored customer service levels and plans to deliver improved diversity mix and adapted where needed.	Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny.		47 to 51
Workforce engagement Considered and approved the appointment of a workforce engagement non-executive director.	Create employee voice within the Boardroom to enhance decision-making that considered the interest of our people.	  	108
Investments in job opportunities and apprenticeships for local communities Reviewed and approved investments for the benefit of the communities.	Create job opportunities and improve the careers of our people and retain talent.	  	14 to 16
Risk			
Mitigation of key risks Ongoing focus on key risks, with detailed reviews at Audit Committee meetings.	Continued alignment of plans to ensure appropriate risk mitigation.	 	65
Deep dive on cyber security risk Reviewed our information security systems and assessed mitigating measures to avoid cyber-attacks.	Continued protection of sensitive data of our customers and our people and ensured business preparedness to tackle this risk.	     	69
Compliance, governance, legal and regulatory			
Regular updates on Corporate Governance and key legal developments during the year.	Continued alignment of plans to ensure appropriate compliance/best governance practice.	  	107

Key to stakeholder groups



Customers



Regulators



People



Suppliers



Investors



Policy makers



Environment



Communities

How the Board engages with stakeholders

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

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

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



Engaging with our customers and communities

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

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

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



Engaging with our people

The Board receives regular updates on our people from the Group Chief Executive Officer and Group Chief People Officer at its meetings.

Feedback from employee surveys, the Big Chat and Be the Future Forums was provided to the Board to ensure that the decisions made consider employee interests and include what is of priority to our people. Further details on the engagement with our people can be found on pages 22 to 23.



Engaging with our shareholders and investors

Shareholders are one of our key stakeholder groups and we continued to manage a comprehensive engagement programme with them throughout the year.

Pennon Group has a stable shareholder register, of which around half are UK-based investors. Members of the management team met with 83% of our institutional investors (based on issued share capital) during 2025/26, holding over 90 meetings with current and prospective investors, through roadshows, events and conferences in London and overseas.

The AGM is an opportunity for our shareholders to meet the Board and receive updates on the Group. This year's AGM is to be held at 10am on 8 July 2026 at Bristol Water plc, Bridgwater Road, Bristol, England BS13 7AT and will be convened as a physical meeting. Shareholders who wish to pose questions to the Board should submit their questions, in writing, in advance of the AGM; these can be submitted to companysecretarial@pennon-group.co.uk.

Full details of the resolutions being tabled for shareholder approval can be found in the Notice of Meeting on our website. The voting results of each AGM are fully disclosed to the London Stock Exchange and are available on our website.



Engaging with our regulators and policy makers

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

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

How the Board engages with stakeholders continued



Engaging with environmental organisations

During the year, the Board received regular updates on environmental performance, regulatory engagement and partnership activity through the Group Chief Executive Officer, informed by the Chief Sustainability and Natural Resources Officer. In this role, responsibility for environmental and biodiversity strategy, Net Zero, catchment management and environmental stakeholder relationships sits centrally.

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

Through our attendance at Catchment Partnerships and our close collaboration with local authorities, local nature partnerships, landowners, and community groups across the region, we continue to promote nature-based solutions and shared environmental stewardship across the region. Our Upstream Thinking programme and leadership of the South West Peatland Partnership remain central to this approach, working with farmers and our NGO delivery partners to improve raw water quality and sustainability of supply at source. This catchment management approach enhances biodiversity and reduces treatment risk and demand.

Our Green First approach to managing asset risk has been progressed through the development of natural catchment management plans that bring all stakeholders in water management in a catchment together. These are a critical tool in understanding where we can apply nature-based solutions to managing excess water flows, and we are now progressing to the next stage of working with partners in trial catchment such as the Bidwell brook to progress nature-based flood risk solutions.

The Chief Sustainability and Natural Resources Officer has throughout the year convened a Let's Talk Water Stakeholder Forum. Since 2022 when the Forum was established, meetings have normally been held online, however in September 2025 stakeholders from across the region headed to Roadford reservoir to discuss a range of themes, including Cycle 2 of the Drainage and Wastewater Management Plan and criteria for a nature recovery fund.



Engaging with our suppliers

The Board receives updates at Board meetings on our engagement with suppliers that is conducted through a formal Request for Proposal process and periodic supplier review meetings to ensure that our suppliers deliver outcomes that benefit all our stakeholders.

The Board is regularly informed and involved through the stages of tender processes which are undertaken to ensure that suitable and experienced suppliers are contracted to deliver our capital projects.

The Executive team are actively engaging the wider industry supply chain directly and indirectly through organisations such as British Water, Future Water and the Civil Engineering Contractors Association to both understand and influence emerging trends and mobilise the best suppliers and innovation for the benefit of the Group. Updates are regularly provided to the Board.

Shareholder and investor engagement calendar

2025



June

- Announcement of 2024/25 Results
- 2024/25 London Roadshow
- 2024/25 Geneva Roadshow
- RBC Utilities & Infrastructure Reverse Roadshow
- 2024/25 Numis PCIM Roadshow
- 2024/25 Australian Roadshow



September

- Citi's Utilities Field Trip
- Bank of America's Utilities & Infrastructure Field Trip
- Morgan Stanley's European Utilities & Energy Summit



November

- Announcement of half year 2024/25 Results
- Half year 2024/25 London Roadshow

2026



January

- Citi's European Utilities Conference
- Bernstein's Virtual Utilities Conference



February

- ESG Chair Engagement Roadshow



March

- ESG Chair Engagement Roadshow
- Barclays' Water Splash Summit
- UBS' Global Energy & Utilities Conference
- Bank of America's Energy, Utilities & Infrastructure Conference



Littlehempston Water treatment works

Composition, succession and evaluation

Board support and training

In the discharge of its statutory duties, the Board has been supported by the advice and services of the Company Secretary and other relevant functions of the business. An established procedure whereby Directors can seek independent professional advice at the Group's expense to fulfil their duties is in place.

The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors and the Committees and between senior management and Non-Executive Directors.

As part of the Board effectiveness review process, the training needs of Directors are discussed and an action plan for delivery considered. Training may include attendance at external courses organised by professional advisers and internal presentations from senior management.

During the year, updates were provided to the Board and Committees via the Group General Counsel and Company Secretary and/or the Group's external advisers. These included updates on mandatory reporting and recent legal or governance changes. Specifically, the Board received updates on the Water (Special Measures) Act, the Cunliffe Review, directors duties' under the Companies Act 2006 and identity verification for directors under the Economic Crime and Corporate Transparency Act 2023.

Pennon Board composition, independence, and experience

The Board comprises the Pennon Chair, five Non-Executive Directors, two Pennon Executive Directors and the Group General Counsel and Company Secretary. As at 31 March 2026, female representation on the Board was at 50%, exceeding the Board's target of 33% and the target of the FTSE Women Leaders Review and the Listing Rules.

All of the Non-Executive Directors are considered by the Board to be independent and are subject to re-election each year.

All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on page 101 demonstrate collectively a broad range of business, financial and other relevant experiences.

Lorraine Woodhouse is Chair of the Audit Committee and, in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1A, has recent and relevant financial experience and competence in accounting and auditing (as set out in her biography on page 101). The Board is satisfied that the Audit Committee has financial literacy and competence relevant to the sector in which the Group operates.

Board appointment and succession planning

The Nomination Committee frequently reviews the size and structure of the Board. The Committee regularly reviews the succession plan for Non-Executive Directors and the Executive team at Pennon, with consideration for diversity, skill and experience at the forefront of their minds. External search consultancy firms, Heidrick & Struggles and Russell Reynolds Associates supported the Board during the process of recruitment of Sir Andrew Haines and Keith Haslett as Board Directors. Both firms have no connection with the Company or with any individual Directors. Both firms are signatory to the Voluntary Code of Conduct for External Search Firms.

The Board is aware of the Ofwat's new fitness and propriety rule which ensures that candidates being considered for directorship or senior management roles within the sector meet stringent standards of honesty and integrity, knowledge and experience, and financial soundness before they can be offered their role. The Board ensured that the necessary background checks in line with the rules were conducted during the recruitment process of the CEO and reports submitted to Ofwat.

Time commitment

All Non-Executive Directors are required to devote sufficient time to meet their Board responsibilities and demonstrate commitment to their role. During the year, the Nomination Committee considered the time commitment of all the Non-Executive Directors and was satisfied that the required time dedicated by each of them remains appropriate.

External appointments

All Directors are required to consult with the Chair and obtain Board approval before taking on any additional appointments. Executive Directors are not permitted to take on more than one non-executive directorship of a FTSE 100 company or other significant appointment. As part of the selection process for any new Board candidates, any significant external time commitments are considered before an appointment is agreed.

Further information on the other business commitments of the Pennon Chair and Pennon's Non-Executive Directors is on pages 100 to 101.

Board Inductions

Newly appointed Directors receive a formal, tailored induction coordinated by the Group General Counsel and Company Secretary. The programme goes through the below process:

Introductions

Introduction meetings with key stakeholders in the business and an outline of the Board and its Committees.



Information

Presentations from Executive Directors to provide key information on Finance, Remuneration, Health and Safety, Legal, Regulatory, Risk, Environmental and other key Group matters.



Engagement

Newly appointed Directors are invited to visit different operating facilities across the Group and to meet with employees in order to better understand key processes and systems.



Board performance review

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. Having carried out an internal evaluation in 2024/25, with feedback currently being implemented, the Board was due to undertake an external evaluation this year. However, given the significant changes to the Board during the year, including a new Group Chief Executive Officer, retirement of the Senior Independent Director, and addition of two Non-Executive Directors, the Board took the decision to commence the evaluation process in May 2026.

Recommendations from the review process will be disclosed in the 2026/27 Annual Report and Accounts.

Section 172(1) statement

All of the Board's decisions are considered against the importance of acting in a sustainable, ethical and collaborative way, understanding the views of our different stakeholders and weighing their competing interests, whilst being mindful of the regulatory obligations owed by Pennon Group's regulated subsidiaries. Our Board leads and sets the tone by carefully noting the priorities of our stakeholders during its discussions and when it takes decisions. We also know the importance of continually assessing the long-term impacts of our decisions, not only at Board level, but across the Group; this is embedded as part of our culture. This helps us live our purpose and our values as a responsible, trusted and sustainable business acting in a way which benefits all our stakeholders as much as possible. Properly understanding the impact of what we are doing has become part of how we operate, and it permeates everything we do at Pennon.

Each Director has a duty under section 172 (1) of the Companies Act (s.172), to act in a way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of members and stakeholders as a whole, and in doing so, must have regard to a range of broader issues. Therefore, in performing their duties during the year, the Directors had regard to each of the s.172 matters set out on pages 114 to 115.

s.172 duties	Read more	Pages
The long-term consequences of our decisions	Strategic Report	2 to 95
	Our business model	8 to 9
	Principal risks	62 to 69
	Our ESG performance	74 to 77
	Our Net Zero transition	78 to 82
	Viability statement	70 to 71
The interests of our employees	Key activities of the Board	109 to 110
	Strategic Report	2 to 95
	Investing in our people	14 to 17
	How we engage	22 to 23
	Diversity, equity and inclusion	15 to 16
	Whistleblowing policy and Speak Up	108
The importance of having excellent business relationships with suppliers, customers and anyone else who we impact	Purpose and culture	104
	Our values	104
	Our operational review	28 to 51
	How the Board engages with stakeholders	18 to 27
The impacts our operations have on our communities and our environment	Our ESG performance	74 to 77
	Our Net Zero transition	78 to 82
	How we engage	21
	TCFD and TNFD disclosures	83 to 93
	ESG Committee report	126 to 128
Ensuring we maintain our reputation for the highest standards of business conduct	Non-financial information statement	94 to 95
	Purpose and culture	104
	Our values	135
	Modern Slavery	158
	Anti-financial crime framework	124
	Whistleblowing Policy and Speak Up	108
The need to act fairly between our shareholders	Stakeholder engagement	111 to 112
	Voting at the AGM	111

How the Board fulfils its s.172 duty

To be able to fulfil its s.172 duty when making decisions, the Board is supported in carefully considering all relevant factors to ensure the long-term success of the Group.

Board information

All Board papers contain a s.172 information section to enable the Board to consider stakeholder interests as part of their discussions and decision-making.

Our Board directly and indirectly engages with our stakeholders.

[➔ Read more on pages 111 to 112](#)



Board strategic discussion

s.172 factors are considered in the Board's discussions on strategy, including how they underpin the Group's long-term success.

The Group's culture helps ensure there is proper consideration of the impact of Board decisions on our stakeholders and the Board considers the quality of information it has received and seeks assurance where appropriate.






Board decision

Outcomes of each Board decision are assessed and further engagement with stakeholders is undertaken, where appropriate.

As a result of the Board's engagement, the necessary actions are taken.

Key strategic decisions considered by the Board

Below are some of the key strategic issues considered, and decisions made, by the Board during the year and an explanation of how the Board considered the matters in Section 172(1) (a) – (f) when taking those decisions and how they link to our strategy.

Key decision	Board discussion and s.172 considerations	Outcome	Link to strategy
Appointment of Workforce Engagement Non-Executive Director	<p>Our People The Board assessed the impact of the appointment on promoting effective monitoring of the culture and engagement within the Group and escalating our colleagues' views to support informed decision-making.</p> <p>Our Regulators The Board discussed the UK Corporate Governance Code 2024.</p>	In January 2026, the Board appointed a designated Workforce Engagement Non-Executive Director.	
AMP8 Capital Programme	<p>Our Customers and communities The Board considered the proposed capital delivery programme against regulatory and strategic priorities. In addition, consideration was given to the long-term benefit of a resilient asset base on affordability of services.</p> <p>Our Investors The Board assessed the capital investment programme against a number of criteria including forecasts, investor expectations, improvement to the Company's asset base, financial resilience and in the ability to support sustainable returns.</p> <p>Our Regulators The Board considered the structure of the capital delivery programme to meet regulatory commitments.</p> <p>Our Environment The Board assessed the investments on various grounds including sustainability, water resources, natural habitat and healthier rivers and seas.</p>	The Board approved the AMP8 capital programme.	
Ofwat delivery plan	<p>Our Customers The Board considered the impact of the Company's largest ever investment programme against customer expectations and needs.</p> <p>Our Investors The Board assessed potential performance against the delivery plan from the perspective of our investors considering, amongst other things risks, progress monitoring and reporting.</p> <p>Our Regulators The Board carefully considered the expectations of our regulators in respect of the PR24 business plan and its delivery.</p>	In August 2025, the Board approved the submission of the Ofwat delivery plan.	

Strategic priorities



Building water resources, improving water quality



Driving environmental gains and delivering Net Zero





Tackling storm overflows and pollutions



Supporting affordability, delivering for customers

Section 172(1) statement continued

Key decision	Board discussion and s.172 considerations	Outcome	Link to strategy
Customer experience platform – Project Fusion	<p>Our People The Board considered the impact of the proposed customer experience platform on our colleagues and their experience at work.</p> <p>Our Customers The Board assessed the platform against customer experience and service quality.</p> <p>Our Investors The Board considered the investment in the platform from a value creation perspective and assessed its impact on operational performance, long-term costs and delivery of the Group's strategic objectives.</p> <p>Our Regulators The Board carefully considered the expectations of our regulators in rolling out the new platform in particular with regard to transparency and customer commitments.</p>	The Board approved the additional expenditure on Project Fusion.	
Interim dividend declaration	<p>As part of its discussion, the Board considered our stakeholders and the importance of dividends for the long-term success of the Company.</p> <p>Our Investors The Board considered investor expectations and the considerations of investors who view dividend payments as an important element of their investment at Pennon.</p> <p>Our People and Customers The Board considered the benefit to those employees and customers who participate in the Company's share schemes and WaterShare+ scheme respectively.</p>	In November 2025, the Board approved the payment of an interim dividend of 9.26p per ordinary share.	

Strategic priorities



Building water resources, improving water quality



Driving environmental gains and delivering Net Zero



Tackling storm overflows and pollutions



Supporting affordability, delivering for customers

Nomination Committee report



David Sproul
Chair of the Nomination Committee

Committee members	Date of appointment to Nomination Committee	Attendance
David Sproul (Chair)	July 2024	● ● ●
Andrea Blance ¹	April 2025	● ● ●
Iain Evans ²	September 2018	● ● ○
Jon Butterworth	July 2010	● ● ●
Dorothy Burwell	December 2022	● ● ●
Loraine Woodhouse	December 2022	● ● ●
Andrew Haines ³	November 2025	●

Three additional Nomination Committee meetings were held during the year.

1. Appointed 8 April 2025
2. Resigned 31 March 2026
3. Appointed 1 November 2025

The Nomination Committee continues to play a pivotal role in shaping the Board’s long-term leadership, ensuring its composition remains aligned with Pennon’s strategic direction.

Role of the Nomination Committee

- Regularly review the structure, size and composition (including skills, knowledge, independence, diversity and experience) required of the Board.
- Consider succession planning for the Board and senior management, overseeing the development of a diverse pipeline.
- Identify and nominate candidates to fill Board vacancies.
- Assist in the annual Board evaluation process to assess performance and effectiveness of the Board and its Committees.
- Evaluate the balance of skills, knowledge, independence, diversity and experience on the Board.
- Review the leadership needs of the Group, both Executive and Non-Executive, with a view to ensuring the continued success of the Group.
- Review the Group’s policy on Diversity, Respect and Inclusion (see www.pennon-group.co.uk/about-us/governance-and-remuneration), including gender, and the progress against objectives.
- Review membership of the Board Committees.

The Committee’s focus for 2025/26

- Ensured that the Board has the appropriate mix of skills, experience and diversity and oversaw the effectiveness of the Board’s succession plan.
- Continuously reviewed the development and evolution of the Executive leadership team and succession planning.
- Conducted the annual review of Board effectiveness and Board composition.
- Supported the Board in managing the CEO succession process.
- Oversaw the recruitment and selection of a new CEO, Keith Haslett, who joined the Company in April 2026.
- Oversaw the annual review and approval of the Group policy on Diversity, Respect and Inclusion and the Group’s progress on diversity in line with the Parker Review, including the outcome of the FTSE Women Leaders Review and the Group’s position on gender and ethnicity pay.

most recently as Chief Executive of Network Rail from 2018 to 2025. Sir Andrew’s appointment forms an important element of our planned transition as Iain Evans retired from the Board at the end of the financial year. We thank Iain for his wise counsel and significant contribution and wish him well for the future.

The Committee has also devoted significant attention to ensuring a smooth and well-managed transition following Susan Davy’s decision to retire as CEO. We are pleased to have completed a comprehensive recruitment process (supported by Russell Reynolds) and to be welcoming Keith Haslett, who brings extensive industry experience and joined the Group at the beginning of April. The Committee is confident that Keith’s leadership will support the continued delivery of Pennon’s strategic ambitions.

The Committee held three scheduled meetings during the year and held a number of ad-hoc meetings, in person and by Teams call, to fulfil the duties set out in its terms of reference.

Committee meetings are attended by its members, with other senior leaders invited as appropriate. During the year, regular attendees included the Group Chief Executive Officer, the Group General Counsel and Company Secretary, and the Group Chief People Officer. Committee members do not take part in discussions relating to their own roles or succession.

David Sproul
Chair of the Nomination Committee
10 June 2026

Dear Shareholder

I am pleased to present the Nomination Committee’s report for the year ended 31 March 2026. Over the course of the year, the Committee has continued to focus on ensuring strong and sustainable leadership across the Board and Executive team and welcomed Andrea Blance who joined the Board on 8 April 2025.

As part of our ongoing succession planning and with the support of Heidrick and Struggles, we were delighted to welcome Sir Andrew Haines to the Board in November 2025, bringing with him extensive leadership experience from across the UK’s transport and regulatory sectors,

Nomination Committee report continued

Board diversity

Fostering a diverse and inclusive culture remains a core priority for Pennon. The Committee continues to monitor the Group's progress in promoting diversity across gender, ethnicity and social mobility, regularly reviewing the composition of both our workforce and our leadership teams. We have seen how bringing together a broader range of perspectives has strengthened our culture, helping us to evolve into a more caring, considerate organisation with a strong focus on wellbeing.

As of 31 March 2026, female representation on the Board stood at 50%. In the 2026 FTSE Women Leaders Report, Pennon was ranked 1st in the FTSE 250 for female representation on boards, a significant achievement that reflects our continued commitment to diversity and inclusion. The report, independently conducted and supported by the Government, provides strong external validation of the progress we are making in advancing gender equality across the organisation. We are exceptionally proud of this recognition and the powerful message it sends to our female colleagues about the opportunities for leadership and progression within Pennon.

The Group is an advocate of Sir John Parker's review of ethnic board diversity, meeting the external targets required of a responsible and inclusive business ahead of the required dates. For the third year running, in line with our commitment to the Change the Race Ratio campaign, we have also voluntarily published our ethnicity pay gap of 13.6% (mean). The Committee will continue to monitor pay gaps. Building our representation across the Group is a focus, given the area we serve has lower representation than the national average, where ethnic representation is around 6%. Our Group ethnic diversity has increased slightly in the year to 3.6%.

Board Diversity, Respect and Inclusion Policy

The Board requires the Committee to review and monitor compliance with the Board's Diversity, Respect and Inclusion Policy and to report annually on progress against the associated targets. The Policy was last reviewed in March 2025.

The Policy reaffirms the Board's commitment to ensuring that all Board and senior leadership appointments are made on merit, assessed against objective criteria, and supported by a search process that actively promotes diversity of gender, social background and ethnicity.

In line with this commitment, the Board continues to work towards – and maintain – the following targets:

- A minimum of 33% female representation on the Board.
- At least one racially or ethnically diverse Board member.
- A minimum of 33% female representation at Group senior management level.
- Assurance that succession planning for the Board and senior management delivers an appropriate balance of skills, experience and independence, while supporting the progressive refresh of the Board.

The Group-wide approach to diversity and inclusion – detailed on page 137 – applies equally to the Remuneration, Audit and Nomination Committees. As each Committee is composed of Board members, the principles and expectations of the Board's Diversity, Respect and Inclusion Policy apply consistently across all three Committees. We can confirm that we currently exceed all Policy targets.

To support monitoring and statutory reporting, including FCA Diversity disclosures and our gender and ethnicity pay gap reporting, colleagues – including the Board and senior leadership – are invited to provide personal data relating to protected characteristics. This information is collected during recruitment and onboarding, with colleagues encouraged to review and update their data periodically. All information is held securely on the Group's HR management systems and forms the basis of the reporting reflected in the table below. Participation remains entirely voluntary.

FCA diversity disclosure table

The Committee is pleased to report against the FCA's diversity disclosure requirements, as set out in the table below. At Pennon, 'executive management' is defined as the Pennon Executive Board. The figures in the table are stated as at 31 March 2026 and have been calculated based on diversity data provided upon employment.

The ethnic representation of our Board and leadership

	Number of Board members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
White, British or other White (incl. minority white groups)	7	87.5%	3	10	100%
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	–	–	–	–	–
Black/African/Caribbean/Black British	1	12.5%	–	–	–
Other ethnic group including Arab	–	–	–	–	–
Not specified/prefer not to disclose	–	–	–	–	–

The gender representation of our Board and leadership

	Number of Board members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
Men	4	50%	2	6	60%
Women	4	50%	1	4	40%
Other categories	–	–	–	–	–
Not specified/prefer not to disclose	–	–	–	–	–

Board performance review

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and identify opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

2025 Board performance review process, action points and recommendations

The evaluation was carried out in March 2025 via questionnaires created internally by the Group General Counsel and Company Secretary in consultation with the CEO and Chair.

The questionnaires focused on the ongoing effectiveness of the Board during the year in setting the Group's strategy for the next AMP, the Board dynamics, ensuring that the Board has a clear understanding of the views of its shareholders and other stakeholders, ensuring the Board takes the lead in promoting a strong health and safety culture throughout the Group, and ensuring the Board has an appropriate level of focus on risk appetite and the internal control framework, and ensuring that the processes are in place to identify risks.

The review concluded that:

- There is an appropriate current focus on the Group's operational performance with the agenda developing to reflect the current stakeholder environment.
- The Board dynamics are developing but work well, with open, effective debate and appropriate challenge and good meeting preparation. There is good support for the Executive and a feeling that the Board functions best when being totally transparent about the challenges the organisation is facing.
- The Board Committees are well run and have sufficient independent membership to ensure that they can make high-quality decisions that address the diverse customer and stakeholder needs of the Group.

- The 2025 Board and Committee performance reviews identified several recommendations and action points for the Board to consider, which were presented to the Board for discussion at its meeting in May 2025.
- As part of its succession planning, the Board should consider candidates with infrastructure experience. (This was enacted with the appointment of Sir Andrew Haines.)
- Members of the Board would appreciate deeper dives into the business and more site visits. (Deep dives are now part of Board and Committee agendas and members have individually and collectively made a number of site visits.)
- The Board would appreciate an upweighting in the principal controls. (A new Director of Internal Audit has been appointed and KPMG have been assisting with the review of the internal controls environment).
- There could be better linkage between KPIs and strategic delivery, knowledge of senior management and the resources required to enable effective and efficient delivery. (A KPI pack has been developed and deep dives have taken place on talent).
- The Board would value the 'outside-in' perspective from stakeholders. (A weekly corporate affairs report is sent to the Board).
- The length of Board papers should be reviewed. (Further instructions have been sent out on the composition of Board papers).

2026 Board performance review

This review is currently under way now that Keith Haslett has joined the Company. It is being conducted by Chris Saul Associates and will comprise a combination of interviews with members of the Board and Pennon Executive, meeting observation and a report to be prepared in consultation with the Chair, Group Chief Executive Officer and Group General Counsel and Company Secretary.

The outcome will be reported in the 2026/27 Annual Report and Accounts. In accordance with Provision 21 of the UK Corporate Governance Code 2024, the Board confirms that Chris Saul Associates is an independent third party and has no other commercial relationship with the Company or any of the Directors.



Site visit to Bude with Loraine Woodhouse

Audit Committee report



Loraine Woodhouse
Chair of the Audit Committee

Committee members	Date of appointment to Audit Committee	Attendance
Loraine Woodhouse (Chair)	December 2022	●●●●
Iain Evans ¹	September 2018	●●●○
Andrea Blance ²	April 2025	●●●●

Sir Andrew Haines became a member of the Audit Committee effective 1 April 2026.

For the period between 1 April 2025 and the appointment of Andrea Blance on April 8 2025, the committee composition was not in compliance with Provision 24 of the UK Corporate Governance Code 2024. However, there were no committee meetings held or decisions made during the relevant period.

The Audit Committee is focused on ensuring sound financial and risk management to support the Group's strategy.

Role of the Audit Committee

- Monitor and review the effectiveness of the Group's risk management and internal control framework, including financial, operational, reporting and compliance controls.
- Monitor the integrity of the Group's financial and regulatory reporting, including significant reporting judgements.
- Oversee the effectiveness and independence of Internal Audit and the adequacy of the Group's assurance framework.
- Review key Group policies within the Committee's remit, including Risk Management, Treasury, Tax and the Delegated Authorities Schedule.
- Oversee the external audit process, including auditor appointment (as appropriate), audit quality and independence, and approval of non-audit services.
- Review the effectiveness of arrangements for whistleblowing and fraud risk management.

The Committee's focus for 2025/26

- Strengthen oversight of the Group's risk management and internal control framework, including targeted deep dives.
- Challenge key financial reporting judgements.
- Oversee external assurance, including audit scope, key risks, materiality, independence and approval of non-audit services, as well as regulatory assurance on the Annual Performance Report.
- Review Internal Audit findings, monitor delivery of management actions, and approve the audit plan.
- Support readiness for the UK Corporate Governance Code reforms, including Provision 29 requirements for audit, risk and internal controls.

Dear Shareholder

I am pleased to present the Audit Committee's report for the year ended 31 March 2026. This was an important year for the Group, reflecting the start of the AMP8 regulatory period, evolving reporting requirements and a change in Group Chief Executive Officer.

This report describes how the Committee discharged the responsibilities delegated to it by the Board, including monitoring the integrity of the financial statements and related disclosures, reviewing the effectiveness of the Group's risk management and internal control systems, and supporting the Board's assessment that the 2025/26 Annual Report is fair, balanced and understandable.

We have focused on the following key priority areas:

- Internal controls and risk: Development of the Group's risk management and internal control framework, including deep dives on incident management, cyber security, and wastewater processes and controls.

- Financial reporting and FBU (fair, balanced and understandable): Challenge key financial reporting judgements (including climate-related considerations) and support the Board's assessment that the Annual Report is fair, balanced and understandable.
- External audit: Oversee the work of PwC as Group External Auditor, including audit scope, key risks, materiality, independence and approval of non-audit services.
- Assurance and internal audit: Review Internal Audit findings, monitor delivery of management actions, and ensure the audit plan remains aligned to principal and emerging risks.
- Resilience, regulatory and governance readiness: Oversee going concern and longer-term viability work, regulatory reporting/assurance activity (including AMP8 regulatory assurance), and preparations for UK Corporate Governance Code reforms including the programme of work to support the Board's future Provision 29 declaration on material internal controls.

The Committee provided robust challenge to management's key judgements and the related disclosures, supported by the External Auditor and specialist assurance providers. Following PwC's appointment as External Auditor for the 2024/25 financial year (after a competitive tender in 2023/24), we oversaw audit delivery, monitored independence (including non-audit services approvals) and assessed the effectiveness of the audit process.

1. Resigned 31 March 2026
2. Appointed 8 April 2025

The Committee advised the Board on its statement that the 2025/26 Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. In doing so, we considered the effectiveness of the verification and review processes supporting the Annual Report and challenged management to improve clarity and balance where needed. The key financial reporting judgements considered by the Committee are summarised later in this report (see page 122).

Our work programme is aligned to the annual reporting cycle and the Committee's terms of reference, enabling timely review of matters as they arise and appropriate challenge ahead of key Board decisions.

We reviewed the effectiveness of the Group's risk management and internal control systems through regular reporting on the operation of the risk framework, the outcomes of key assurance activity and the work of the independent Internal Audit function.

Additionally, the Audit Committee undertakes risk deep dives focused on aspects of the Group's principal risks. During 2025/26, the Committee performed deep dives on the following areas:

- Incident management – in particular following incidents arising during the current or prior year to ensure that lessons are learned and embedded in the processes and systems operating across the Group.
- Cyber security – as one of our principal risks, this has been a key focus for the Committee, including updates on our cyber-resilience plans at each Audit Committee meeting, as well as cyber exercises taking place during the year, including involvement from the Board.
- Wastewater processes and controls – the effectiveness of our controls, monitoring and reporting processes in wastewater are critical, and we recognised the historic challenges across the sector in offering Enforcement Undertakings in August 2025 in response to legacy issues (see also page 38). The Audit Committee has undertaken a risk deep dive into the wastewater processes and controls, as well as having received updates from Internal Audit on the implementation of the action plan agreed in response to the 2024 Environment Agency prosecution.

More detail on our risk management processes, principal risks and their associated mitigation can be found on pages 62 to 69.

The Committee received regular updates on preparations for the 2024 UK Corporate Governance Code reforms, in particular Provision 29 and the strengthened expectation for the Board to make a declaration on the effectiveness of material internal controls. During the year we progressed the identification and confirmation of material controls across financial and non-financial areas, with a plan being finalised for testing across 2026/27.

The Committee also reviewed the Group's financial resilience throughout the year. On behalf of the Board, we considered the going concern assessment over a 15 month 'look-forward' period aligned to the Group's liquidity policy, and reviewed the Group's longer-term viability over seven years. This assessment considered projections and scenarios reflecting the external environment, including economic uncertainty, inflation and the potential impact of regulatory incentives and penalties on our water businesses.

The Board has maintained the seven-year period for the viability assessment. In the current year, this includes the four years remaining of AMP8 alongside longer-term forecasts informed by early AMP9 projections. The viability statement is set out on pages 70 to 71.

I would like to thank Iain for his significant contribution to the Committee over many years, and I am pleased to welcome Sir Andrew Haines to the Committee following his appointment to the Board during the year.

Lorraine Woodhouse

Chair of the Audit Committee
10 June 2026

Audit Committee composition

All members of the Committee are Independent Non-Executive Directors of the Board. In accordance with the UK Code, the Board is satisfied that Lorraine Woodhouse, Iain Evans and Andrea Blance, who served on the Committee during the year under review, have recent and relevant financial experience and, in accordance with FCA Rule 7.1.1A R of the FCA's Disclosure Guidance and Transparency Rules, have competence in accounting or auditing.

Only members of the Committee have the right to attend Committee meetings. Other regular attendees at meetings, at the invitation of the Committee, include the Chair of the Board, the Group Chief Executive Officer, the Group Chief Financial Officer, the Group General Counsel and Company Secretary, Director of Risk and Assurance, Group Financial Controller and the External Auditors.

The Committee regularly holds private discussions with the External Auditor and the Director of Risk and Assurance without management present. Further, the Committee Chair regularly communicates with the Group Chief Financial Officer, the External Auditor and with Committee members outside of the meetings to better understand any issues or areas of concern.

Matters of significance for 2025/26

	Financial reporting	External Auditor
	<ul style="list-style-type: none"> • Reviewed and discussed reports from management on the financial statements, considered management's significant accounting judgements and the policies being applied, and assessed the findings of the statutory audit in respect of the integrity of the financial reporting of full and half-year results. • Reviewed the internal assessment of going concern and longer-term viability on behalf of the Board. 	<ul style="list-style-type: none"> • Reviewed in detail the 2025/26 Annual Report and advised the Board that the presentation of the 2025/26 Annual Report is fair, balanced and understandable in accordance with reporting requirements, including the consideration of climate risk in the preparation of the financial statements, and recommended the Board gives approval for publication. • Reviewed and approved the non-audit services and related fees provided by the External Auditor for 2025/26.
	<ul style="list-style-type: none"> • Oversaw the 2025/26 statutory audit, including the key audit risks and level of materiality applied by the External Auditor. • Agreed the statutory audit fee for the year ending 31 March 2026. 	

Audit Committee report continued

Internal controls and risk management	<ul style="list-style-type: none"> Reviewed the effectiveness of the Group's risk management framework and its integration into Board and Committee reporting. Reviewed the Group's Risk Appetite Statement prior to making a recommendation to the Board. Monitored fraud reporting and whistleblowing activity, including the effectiveness of the Group's Speak Up arrangements and oversight of themes arising and management actions taken. No material issues were identified. Reviewed the Group risk register as part of the Annual Report process and considered appropriate areas of focus and prioritisation for the internal audit work programme for the financial year. 	<ul style="list-style-type: none"> Reviewed internal assurance reports and recommendations, and undertook deep dives at Committee meetings on principal risk areas, tracking agreed actions to completion (for details, see above). Approved the Internal Audit Charter in line with latest guidance and updated standards. Advanced the programme of work in preparation for the Board's future declaration under UK Corporate Governance Code Provision 29, including identification and confirmation of material controls and planning for assurance and testing. The Committee will oversee the assurance/testing plan through 2026/27 to support the Board's declaration. Reviewed updated Legal Compliance Policies to progress for approval.
Governance	<ul style="list-style-type: none"> Considered and approved Group accounting policies and judgements used in the preparation of the financial statements, including any required alignments of accounting policies. Reviewed and considered internal financial policies. Reviewed the governance statement disclosures and confirmed the basis for compliance with the UK Corporate Governance Code (on a comply or explain basis), including consideration of any areas requiring enhanced explanation. 	<ul style="list-style-type: none"> Held regular meetings with the External Auditor without members of management being present. Reviewed progress against UK Corporate Governance Code reforms, including governance reporting expectations and the staged implementation of Provision 29 (material internal controls), and agreed the Committee's oversight approach. This will include oversight of the testing approach in 2026/27.

The UK Corporate Governance Code requires the Committee to describe the significant matters it considered in relation to the financial statements and how those matters were addressed. The significant areas of judgement considered for the year ended 31 March 2026 are set out in the table to the right, together with the Committee's actions and conclusions. We also considered presentational and disclosure matters, including the use of non-underlying performance measures and ensuring a fair presentation of statutory and non-statutory performance.

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

Area of focus	How the matter was addressed by the Committee
Revenue recognition	Given the nature of the Group's revenue, the key areas of income statement judgement for South West Water, Pennon Water Services and SES Water continue to be in respect of revenue recognition relating to income from water services. The Committee undertook a deep dive into the measured income accrual to ensure a robust and accurate position in the current year, as well as a further streamlining of the methodologies and judgements applied. The Committee continues to scrutinise the track record of accuracy by comparing actual outturns with accruals at previous year ends to form a judgement about the quality of decision-making and to ensure any learnings are further embedded in the calculation to improve accuracy going forward. The Committee also closely considered the work in respect of these areas at year end by the External Auditor as well as reviewing disclosures around revenue recognition accounting policies.
Expected credit losses	Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly across the Group against historical standards and compared to the track records of other companies in the relevant sectors. The Committee was particularly mindful of the ongoing impacts of affordability on the assessment of expected credit losses in determining the bad debt provision, noting the significant increases in inflation arising from macroeconomic developments. At the year end, the External Auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for expected credit losses were reasonable.
Going concern basis for the preparation of the financial statements and viability statement	<p>A report from the Group Chief Financial Officer on the financial performance of the Group, including forward-looking estimates of covenant compliance and funding levels under different scenarios, including inflationary scenarios, is provided to the Committee on a periodic basis.</p> <p>Rolling seven-year strategy projections, and the resultant headroom relative to borrowings, are also regularly reviewed by the Committee, including the application of scenarios to enable the Committee to better understand the potential range of outcomes.</p> <p>At the end of each six-month period the Committee receives for consideration a report focusing on the Group's liquidity over the 15-month period from the date of signing of either the Annual Report or half-year results. The Committee also reviewed a report on the Group's financial viability over an appropriate period, in connection with the UK Corporate Governance Code's requirement for a viability statement to be given by the Board. The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Group's viability remains unchanged at seven years, which recognises both the longer-term visibility in the regulatory environment of the water business and the corporate activity, including acquisitions and other non-regulated investments, undertaken by Pennon. Similarly, this report also considered the viability of the Group, taking into account the potential manifestation of other adverse events modelled from the Group's principal risks and resultant sensitivity scenarios. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Group to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on pages 70 to 71.</p>

Effectiveness of the external audit process

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to carefully monitor the effectiveness of our External Auditor as well as their independence, while recognising there may be an occasional need to use our External Auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The External Auditor produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditor in delivering the timely audit of the Group's Annual Report and which was shared with, and discussed by, the Committee in advance.

The effectiveness review of the External Auditor is considered as part of the Committee's annual performance evaluation, which also examines the relationship and communications between the Committee and the External Auditor. No issues were raised during that review. The Committee concluded that the auditor was effective during the year and that the relationship and communications were open and constructive.

The Committee Chair has also met privately with the External Auditor to discuss key matters.

Auditor independence

The Committee regards independence of the External Auditor as critical in safeguarding the integrity of the audit process and takes responsibility for ensuring the three-way relationship between the Committee, the External Auditor and management remains appropriate.

The External Auditor reported on its independence during the year, and again since the year end, confirming to the Committee that, based on its assessment, it was independent of the Group.

Provision of non-audit services

The Committee adopts a robust policy for the engagement of the External Auditor's firm for non-audit work. The Committee receives a regular report covering the auditor's fees including details of non-audit fees incurred.

Recurrent fees typically relate to assurance regarding annual regulatory reporting obligations to Ofwat and the half year review: work which is most efficiently and effectively performed by the statutory auditor. The Committee's policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee Chair to approve all non-audit work performed by the statutory auditor.

The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditor's firm to carry out such work, and only grants approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be safeguarded. If another accounting firm could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the External Auditor.

The level of non-audit fees payable to the External Auditor for the past year is 27% of the audit fee, which is within the Group's 70% non-audit fee limit.

The Group Chief Financial Officer regularly reports to the Committee on the extent of services provided to the Company by the External Auditor and the level of fees paid. The fees paid to the External Auditor's firm for non-audit services and for audit services are set out in note 7 to the financial statements on page 184.

External auditor reappointment and statement of compliance with CMA order

The Group complies with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

We last undertook a formal comprehensive audit tender process for statutory audit services in 2023/24. The current External Auditor, PricewaterhouseCoopers LLP (PwC), were appointed following a comprehensive audit tender process and approval by shareholders at the Company's 2024 AGM. PwC commenced their appointment as auditor and presented their first report to shareholders for the year ended 31 March 2025. The lead audit partner must change every five years. Colin Bates, has held the role since 2024/25.

Internal audit

The internal audit activities of the Group are a key part of its internal control and risk management framework. At Group level there is a long-standing and effective centralised internal audit team which supports the Committee in delivering its responsibilities and has continued to operate effectively. The internal audit charter was reviewed and approved by the Committee during the year. The Group Internal Audit Plan is set on a rolling six-month basis and was approved in March 2025 and September 2025, following a thorough review to ensure it provided adequate coverage over the Group's key risks for the year ahead and was sufficiently flexible to respond to emerging risks. In developing the plan, account is taken of the principal risks, the activities to be undertaken by the External Auditor, and the Group's annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Group.

The Group Director of Risk and Assurance reported regularly through the year to the Committee on the outcomes and findings of internal audit activity. There were regular discussions, correspondence and private meetings between the Director of Risk and Assurance and the Committee Chair. The Committee continues to monitor the performance of the internal audit function as part of its annual assessment of the effectiveness of the function. As required by IIA standards, the next cyclical external review of the internal audit function will take place before the end of 2026/27 (the last having been undertaken in 2021/22).

Fair, balanced and understandable assessment

To enable the Committee to advise the Board in making its statement that it considered the Group's Annual Report to be fair, balanced and understandable (FBU) on page 159, the Committee applied a detailed FBU review framework that takes account of the Group's well-documented verification process undertaken by management in conjunction with the preparation of the 2026 Annual Report. This was in addition to the formal process carried out by the External Auditor to enable the preparation of the independent auditor's report, which is set out on pages 160 to 164.

In preparing and finalising the 2025/26 Annual Report, the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the Pennon Executive. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Looking forward

During the forthcoming year, the Committee will remain focused on the responsibilities delegated to it by the Board, ensuring that standards of good governance are maintained and that appropriate assurance is obtained across the business. Particular focus will be given to the Group's principal risks, the internal control environment and financial reporting. The Committee will also oversee the programme of work to support implementation of the revised UK Corporate Governance Code, including the identification, assurance and testing of material controls to support the Board's future declaration under Provision 29.

Audit Committee report continued

Audit risk and internal control

Risk management and the Group's system of internal control

The Board is responsible for maintaining the Group's system of internal control to safeguard shareholders' investments and the Group's assets, and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the year and up to the date of the approval of this Annual Report and Accounts and was last reviewed by the Board at its meeting in March 2026.

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

The Board confirms it applies procedures in accordance with the UK Corporate Governance Code and the FRC Internal Control Guidance, which bring together elements of best practice for risk management and internal control by companies. The Board's risk framework described on pages 62 to 69 of the Strategic Report provides for the identification of key risks, including ESG risks, in relation to the achievement of the business objectives of the Group, monitoring of such risks and ongoing and annual evaluation of the overall process. Key performance indicators are in place to enable the Board to measure the Group's ESG performance on pages 74 to 76 and a number of these are linked to remuneration incentives on page 140.

The Audit Committee reviews the Group's internal control systems and receives updates on the findings of internal audit's investigations at every meeting. During the year, work has been undertaken to document the operation of existing internal controls over financial reporting. Internal control systems over financial reporting are the responsibility of the Group Chief Financial Officer, with the support of the financial control team and the internal audit team. During the year the internal controls over financial reporting were reviewed with refreshed risk and control matrices produced. Confirmation that the controls and processes are being adhered to is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work, which the Committee approves each year.

As part of the review evaluating the system of risk management and internal control under the Group risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Group procedures.

We have assessed the internal control systems alongside our own view arising from the ongoing regulatory investigations into operational aspects. Noting where we have had non-compliances, we have action plans in place and have continued to assess this during the year, and we have supplemented this with other aspects of investigation and remediation as required.

The Group's processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout the Group and that the Group is able to react appropriately to new risks as they arise. New and emerging risks are identified in further detail in the risk management section on pages 62 to 69.

Changes in the UK Corporate Governance Code relating to risk management, specifically the pending requirements of Provision 29, have been considered throughout the year with a programme put in place to ensure readiness for the enhanced requirements that come into effect in 2026/27.

Code of Conduct and policies

The Code of Conduct and related policies set out Pennon's commitment to promoting and maintaining the highest ethical standards. Areas covered in the Code of Conduct and related policies include our impact on the environment and our communities, our workplace, and our business conduct.

The Code of Conduct sets out the values and principles by which we operate and provides a framework for ethical business practices. It is further supported by several policies that guide our workforce and suppliers, so that we can identify and deal with suspected wrongdoing, fraud or malpractice, maintain the highest standards of compliance, and apply consistently high standards of ethics. We aim to maintain a culture that fosters the reporting of any concerns, and trust and confidence that we will act upon them.

Training on our Pennon Code of Conduct is mandatory for all employees, with training for new joiners and annual employee refresher training

Our Code of Conduct and other key compliance policies can be found here: <https://www.pennon-group.co.uk/about-us/policies>

Anti-Financial Crime Policy

The Anti-Financial Crime Policy outlines the requirements of Group companies to comply with relevant legislation, ethical standards and best practice on preventing financial crime (including acts of bribery, fraud, money laundering and tax evasion) and provides information and guidance to those working for and on the Group's behalf on how to spot 'red flags' that could indicate a risk of financial crime.

The policy is at the heart of the Pennon Code of Conduct. The Code of Conduct is supported by a bespoke interactive e-learning module which steps employees through different financial crime scenarios, asking the learner to identify red flags which are set out in the policy. The e-learning is mandatory for all employees and is delivered through the Group's learning management platform to track completion. Employees are obliged to complete an annual refresher, and the course is part of the induction of all new employees, irrespective of job function or business area.

The Group Legal Compliance function ensures compliance with the policy and Code of Conduct in line with our risk-based approach by conducting ad hoc checks on completion of the mandatory training set out above, providing specific training to areas of potential higher risk as part of our Bribery and Fraud Risk Assessment programme (e.g. Procurement and Commercial & Estates), and carrying out detailed investigations into allegations of potential wrongdoing (whistleblowing reports) received from employees, customers and suppliers.

The potential consequences for colleagues and the Group itself are clearly set out in the policy, as are the processes for raising concerns. Any breaches or failure to adhere to the Group's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Group. All employees are required to report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Group's confidential whistleblowing service Speak Up.

A financial crime risk assessment framework is in place and is complemented by the regular review of corporate policies relating to financial crime prevention.

Allegations of financial crime are reported to the Audit Committee together with investigation outcomes and details of any action taken, which are disclosed to our external auditors. There were no confirmed cases of bribery, corruption, fraud, business ethics, money laundering, insider trading, conflicts of interest, or notifiable breaches of customer privacy data violations during the year.

Training and communications

Our comprehensive programme of training and internal communications continues with targeted messaging and interactive training sessions. This programme addresses the business's key compliance risk areas and has been designed to increase resilience, heighten awareness, and promote a culture of doing the right thing. Colleagues are required to complete refresher compliance training (focused on the Code of Conduct which signposts to all Group policies) on a yearly basis to ensure that continuous knowledge and understanding of our policies is maintained.

Whistleblowing Policy – Speak Up

The Pennon Speak Up service encourages employees and our suppliers to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how any such concerns should be raised and ensures that employees and suppliers are able to do so without fear of reprisal. The Whistleblowing Policy specifically encourages the reporting of:

- Endangering someone's health and safety
- Anything that is against the law
- Stealing or fraud
- Corrupt or dishonest activity
- Damage to the environment
- Covering up wrongdoing
- Abuse of authority
- Intentionally misreporting to a regulatory body
- Bullying, harassment and/or victimisation
- Tax evasion or the facilitation of tax evasion.

The Speak Up service comprises telephone and web-based reporting channels operated for Pennon by independent provider People in Touch B.V. trading as SpeakUp.

The investigation process is overseen by the Ethics Management Committee and is undertaken without fear or favour and thoroughly by appropriately trained investigators, with strict confidentiality being maintained at all stages of the investigation.

After each investigation, a confidential review is undertaken by the Group Deputy General Counsel to identify any lessons learnt, or organisational improvements or training requirements.

Other improvements identified are always acted upon, while ensuring the paramount requirement of operating a whistleblowing process that protects the identity of individuals and the independence and integrity of the process.

Our whistleblowing process is designed to support our staff, reflect shared responsibility, promote a positive culture and provide unique insights, and is central to our system of checks and balances.

To emphasise our commitment to transparency and continuous improvement, we continue to chair the Water Industry Whistleblowing Best Practice Forum consisting of 12 water and waste companies across England and Wales.



© Countess Weir Wastewater Treatment Works

ESG Committee report



Dorothy Burwell
Chair of the ESG Committee

The ESG Committee (the Committee) supports the Group’s ongoing commitment to environmental stewardship, social responsibility, and good governance, ensuring that sustainability remains embedded across the Group.

Committee members	Date of appointment to ESG Committee	Attendance
Dorothy Burwell (Chair)	December 2022	●●●●
Jon Butterworth	July 2020	●●●○
Laura Flowerdew	July 2024	●●●●
Loraine Woodhouse	April 2025	●●●●
Susan Davy ¹	March 2018	●●●

Keith Haslett became a member of the ESG Committee effective 1 April 2026.

Role of the ESG Committee

The ESG Committee supports the Board in overseeing the Group’s Environmental, Social and Governance (ESG) strategy, performance and disclosures, ensuring sustainability considerations are embedded across the business.

- Review the policies, management, initiatives and performance of the Group with respect to environmental, social and governance matters, including climate-related and nature-related risks and opportunities.
- Review the overarching environmental performance of the business, including progress against ESG targets, climate transition plans and environmental improvement programmes, ensuring a focus on key areas of improvement.
- Review the actions of the Group to determine the suitability of environmental and social policies and practices, including those of key suppliers and contractors.
- Monitor workforce, culture, customer and community matters, including employee engagement and wellbeing, diversity and inclusion, customer service and support for vulnerable customers.
- Review the extent and effectiveness of the Group’s ESG reporting and assurance and its participation in relevant external benchmarking assessments.
- Regularly report to the Board and advise the Audit Committee of any material non-financial risks.

The key successes of the Committee’s focus for 2025/26

During the year, the ESG Committee made progress against its focus areas for 2025/26, supported by regular performance oversight and targeted deep dives across environmental, social and governance priorities.

- Oversaw delivery of the Group’s refreshed ESG targets for 2025–2030, with 12 of 14 achieving or exceeding target, supported by remediation plans for remaining areas.
- Strengthened ESG governance and leadership through the appointment of a new Committee Chair and the creation of the Chief Sustainability and Natural Resources Officer role.
- Enhanced the Group’s approach to climate and nature risk, becoming a Taskforce on Nature-related Financial Disclosures (TNFD) adopter and completing the first stages of a LEAP assessment, progressing a 1.5°C-aligned Climate Transition Plan following revalidation of the Group’s science-based targets (SBTs) to include SES Water.
- Maintained a focus on social priorities through deep dives on workforce engagement, culture, wellbeing, diversity and customer outcomes, informing continued enhancements to the Group’s social strategy.
- Continued embedding ESG priorities across the Group and supply chain, including through the Supply Chain Sustainability School.
- Achieved leading ESG ratings and benchmarking performance, including CDP Climate A List recognition, awards as an ESG Industry and Regional Leader by Sustainalytics, ranking 1st out of 46 water utilities assessed globally, and recognition as a FTSE Women Leaders company for Women on Boards across the FTSE 250.
- Achieved continued progress against strategic priorities, including emissions reduction and improvements in water quality and resilience.
- Supported continued integration of ESG risks and performance through regular reporting to the Board, including advising the Audit Committee on material non-financial risks.

1. Resigned 31 December 2025

Dear Shareholder

I am pleased to report on the work of the ESG Committee during 2025/26, my first year as Chair of the Committee. I am supported by a committed and experienced Committee, and I would like to thank fellow members and management for their engagement and contribution throughout the year.

The Committee has maintained its focus on the effective governance and integration of environmental, social and governance considerations across the Group, supported by regular performance oversight, a programme of targeted deep dives and increased involvement in workforce engagement. Throughout the year, the Committee's work reflected the focus areas set out in last year's report, including embedding refreshed ESG targets, strengthening our social approach, advancing the Group's approach to climate and nature, responding to evolving reporting requirements, and ensuring ESG remains fully integrated across the business.

These priorities have been supported by strengthened leadership arrangements, including the appointment of Carolyn Cadman to the newly created Chief Sustainability and Natural Resources Officer role, enhancing executive accountability and expertise across sustainability, climate and nature.

The year also marked an important step forward in embedding climate-related and nature-related risk within governance and decision-making, with the Group becoming an official Taskforce on Nature-related Financial Disclosures (TNFD) adopter and completing the first stages of a LEAP assessment.

The Committee also reviewed external ESG assessments and benchmarking results, with the Group continuing to lead across key ESG ratings, including recognition on CDP's Climate A List and designation as an ESG Industry and Regional Leader by Sustainalytics for 2026. These outcomes provide assurance over the Group's progress and help inform our ongoing reporting focus.

The Committee has continued to challenge and support management throughout the year, ensuring ESG risks and opportunities are appropriately considered in decision-making and that progress against commitments remains transparent and robust.

ESG Performance

The ESG Committee received regular updates on ESG performance throughout the year, enabling it to monitor progress against the Group's refreshed ESG targets for the period 2025-2030 and to challenge areas requiring additional focus.

As of 31 March 2026, Pennon has achieved or exceeded 12 out of 14 ESG targets, representing a solid first year of delivery against the Group's refreshed targets, with remediation plans in place for the remaining two areas targeted for improvement as we move into 2026/27. Overall performance reflects effective embedding of the Group's reaffirmed ESG priorities across the business, supported by regular oversight from the ESG Committee and targeted management actions.

Performance remains on track against the Group's key science-based targets (SBTs), for greenhouse gas (GHG) emissions reduction. This follows the revalidation of the Group's SBTs through the Science Based Targets initiative (SBTi). This process included re-baselining the Group's emissions inventory to reflect the inclusion of SES Water and the latest climate science, reaffirming our commitment to a science-led pathway for emissions reduction. Progress against this target builds the foundation for our Group's Climate Transition Plan, due to be published in 2026/27.

Strong performance has also been observed across several social and governance targets, underpinned by deep dives on workforce engagement and culture, wellbeing, talent, recruitment and diversity, customer matters, and key incidents relating to sites at Dousland and Menagwins. These sessions enabled the Committee to assess performance against objectives, understand underlying drivers and ensure that delivery remains aligned with stakeholder expectations.

Where performance was off track at year end, the Committee reviewed the position in detail and ensured that remediation plans were in place. This includes renewable electricity generation, where performance was below target due to delays in energising a large-scale Solar PV site in Dunfermline. This site has now been energised, and renewable electricity generation is forecast to return to target from the next reporting year.

In addition, health and safety remains a clear Group priority, with the ambition to achieve a stretching Lost Time Injury Frequency Rate (LTIFR). While this target was not met during the year, enhanced leadership focus and strengthened operational controls, including the continued rollout of the HomeSafe programme, are in place to support improved outcomes in 2026/27.

The Committee remains satisfied that the Group's ESG targets provide a clear, measurable framework for action and are embedded within governance processes. Progress against each target is reviewed regularly by the ESG Committee, ensuring appropriate challenge, accountability and transparency as the Group continues to work towards its 2030 objectives and beyond.

Climate and nature

Climate and nature remained central to the Committee's agenda during the year. The Committee oversaw the continued development of the Group's climate strategy, including progress towards publication of a 1.5°C aligned Climate Transition Plan.

During the year, the Group revalidated its near-term science-based targets in line with the latest climate science, including bringing SES Water into scope, and continued to embed climate considerations into policies, performance monitoring and decision-making.

The Committee also enhanced its oversight of nature-related risks and opportunities by supporting the Group's decision to become a Taskforce on Nature-related Financial Disclosures (TNFD) adopter and overseeing completion of the first stages of a LEAP assessment, helping to strengthen the integration of climate and nature risk into governance processes.

Reporting and assurance

The ESG Committee recognises that high-quality reporting and assurance are essential to maintaining trust and confidence in the Group's ESG performance and disclosures. During the year, the Committee continued to take an active role in overseeing how ESG information is reported, assured and communicated, ensuring it remains robust, transparent and meaningful for stakeholders.

ESG disclosures are integrated throughout the Annual Report and Accounts and supported by the ESG Databook, providing greater visibility of performance and progress.

The Committee also oversaw the continuation of limited independent assurance over selected ESG metrics, providing additional confidence in the accuracy and reliability of reported information. This assurance focuses on the systems, processes and governance that underpin ESG data and is complemented by wider non-financial assurance activity across the Group's regulated businesses. The Committee works closely with the Audit Committee to consider assurance findings and ensure that any material issues are appropriately addressed and escalated.

Looking ahead, the Committee is considering the implications of emerging reporting requirements, including the UK Sustainability Reporting Standards (UK SRS) published in February 2026 and currently under consideration by the Financial Conduct Authority (FCA). The Committee will continue to monitor regulatory developments closely to ensure the Group remains well-prepared and its reporting continues to meet both regulatory and stakeholder expectations as standards evolve.

ESG Committee report continued

Benchmarking

External ratings and benchmarking remain an important element of the ESG Committee's oversight, providing independent insight into the effectiveness, credibility and ambition of the Group's ESG performance. These assessments help the Committee understand relative performance, identify emerging best practice and ensure that external reporting remains relevant, decision-useful and aligned with stakeholder expectations.

During the year, the Committee reviewed ratings across a range of independent ESG rating assessments and benchmarks, using these to inform discussions on ESG performance. The Group continued to demonstrate leading performance across key ESG ratings, including recognition on CDP's Climate A List and being awarded as an ESG Industry and Regional Leader by Sustainalytics for 2026, ranking 1st out of 46 water utilities assessed globally. Additionally, the Group's Board was recently recognised as a FTSE Women Leaders company for Women on Boards across the FTSE 250.

These results provide independent validation of the Group's progress and performance throughout the year and it is encouraging to see the Group move from strength to strength across these ratings, reflecting the hard work to embed ESG priorities across the Group.

Focus areas for 2026/27

Looking ahead, the ESG Committee will continue to focus on the following priorities:

- Oversight of delivery against ESG targets for 2025-2030, ensuring sustained progress, appropriate challenge and remediation actions are in place where required.
- Continued development of the Group's social approach, including assessing the Group's current approach to social impact and value delivery and outcomes for customers and communities.
- Deepening oversight of workforce and customer engagement, including continued focus on employee experience, culture, and support for customers in vulnerable circumstances.
- Publication and oversight of the Group's formal Climate Transition Plan in 2026/27, aligned to a 1.5°C warming pathway, and continued monitoring of delivery against carbon commitments and science-based targets.
- Further embedding of climate-related and nature-related risk into governance and decision-making, including expansion of the scope and maturity of the Group's LEAP assessment.
- Ongoing review of ESG reporting and regulatory developments, including conducting a gap analysis against the UK SRS and preparing for future implementation requirements.
- Continued review of external ESG benchmarking and rating assessments, using insights to inform performance.
- Continued integration of ESG considerations across the Group, supported by effective reporting to the Board and engagement with other Board Committees.

Dorothy Burwell

ESG Committee Chair
10 June 2026



Dragonfly Monitoring, Ockerton Court, Dartmoor

Health and Safety Committee report



Jon Butterworth
Chair of the Health and Safety Committee

The Health and Safety Committee (the Committee) promotes a culture of safety within the Group.

The Committee's focus for 2025/26

During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Half-yearly comprehensive reviews of the Group's Health and Safety performance.
- A review of the tactical interventions to deliver in-year improvements in incident reduction.
- A review and challenge of high potential near-miss events within our strategic supply chain to ensure themes are identified and pragmatic solutions implemented.
- Visiting sites to engage with front-line colleagues and the wider Health and Safety teams.

Dear Shareholder

I am pleased to provide an update on the Health and Safety Committee's activities during the year.

At Pennon we are passionate about health and safety. Everyone is empowered to take responsibility for both safety and wellbeing, feeling able to call out anything that makes us better. Safety is about taking accountability and brave leadership, which leads to the journey of a world-class culture. The Board is particularly proud of our Pennon Water Services division who, for the sixth year, have had no lost time injuries.

HomeSafe, our flagship initiative to drive enduring and sustained change, continues to drive the overall approach and the Board Committee has robustly reviewed the 2030 strategy and implementation of the four cornerstones. As ever, leadership sets the tone and the Board has dedicated time to visit operational sites, discuss and review performance, offer support, encourage learning, and meet department and site leaders and employees from across the business.

The Board Committee recognises the improvements across the four cornerstones of the HomeSafe 2030 strategy and supports the focus on risk management and reduction.

The Board Committee also acknowledges the increase in personal lost time injuries across the winter period and has reviewed these in detail. The Board is satisfied the response is proportionate and that there can be periods where low impact injuries fluctuate, this does not change the overall strategic direction of HomeSafe, however does serve as a timely reminder that the focus on HomeSafe has to be consistent and persistent.

During the year the Board reviewed two significant incidents within the supply chain and was satisfied the investigations and subsequent actions were appropriate and that wider learning, particularly around supervision was adopted across the Group.

Committee composition

From 1 April 2026 membership of the Health and Safety Committee will be Jon Butterworth, Sir Andrew Haines, Loraine Woodhouse, Keith Haslett and Laura Flowerdew.

Reporting

In addition to the regular Board report by the Group Chief Executive Officer, detailed performance is reviewed quarterly by the Executive team, and six-monthly by this Committee, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health, critical safety controls and working environment.

The Committee will continue to review and challenge plans and performance to support our HomeSafe ambitions.

Jon Butterworth

Chair of the Health and Safety Committee
10 June 2026

Committee members	Date of appointment to Health and Safety Committee	Attendance
Jon Butterworth (Chair)	November 2020	● ●
Iain Evans ¹	November 2020	● ●
Loraine Woodhouse	April 2025	● ●
Susan Davy ²	November 2020	● ●
Laura Flowerdew	July 2024	● ●

Keith Haslett and Sir Andrew Haines became members of the Health and Safety Committee effective 1 April 2026.

1. Resigned 31 March 2026
2. Resigned 31 December 2025

Remuneration Committee report



Andrea Blance

Chair of the Remuneration Committee

Committee members	Date of appointment to Remuneration Committee	Attendance
Andrea Blance (Chair)	April 2025	●●●●
Iain Evans ¹	September 2018	●●●●
Dorothy Burwell	December 2022	●●●●

Sir Andrew Haines became a member of the Remuneration Committee effective 1 April 2026.

Three additional Remuneration Committee meetings were held during the year.

Evolving remuneration in a changing environment.

Role of the Remuneration Committee

The Remuneration Committee is responsible for making sure pay and rewards across the Group are fair, competitive, and support the company's goals. Specifically, it:

- Ensures pay is aligned with the Group's strategy and reflects its values.
- Sets and reviews the overall pay policy, considering shareholder views and best practice, so the company can attract, retain and motivate senior leaders.
- Advises the Board on how executive pay should be structured.
- Decides the pay levels for the Chair, Executive Directors and senior executives, and keeps an eye on pay across the wider workforce.
- Approves how performance-related pay schemes are designed and sets the targets for them.
- Reviews performance outcomes and decides how much should be paid under incentive schemes.

The Committee's focus for 2025/26

During the year the Committee focused on:

- Reviewing pay and terms for the Executive Directors, the Chair, senior executives and the wider workforce.
- Considering long-term incentive plans for the next three to five years, engaging with stakeholders as appropriate.
- Setting challenging but realistic performance targets that align with the Group's strategy, values and best practice.
- Reviewing the Remuneration Policy to ensure it continues to support delivery of the Group's strategy.
- Looking at pay arrangements for the incoming Group Chief Executive Officer.

Dear Shareholder

I am pleased to present our 2026 Remuneration Report.

As a leading company in the UK water sector, we focus on long-term responsibility and sustainability. We recognise the impact we have on many groups, including our customers, local communities, the environment, our employees and our investors.

These considerations guide the Committee's decisions. We aim to act responsibly while also encouraging strong performance to deliver the significant investment needed for the future of the business.

Pay for senior executives in our sector is under close public scrutiny, and we understand the need to rebuild trust. At the same time, we operate in a complex and highly regulated environment, providing essential water and waste water services to millions of households.

We have an ambitious investment plan for the AMP8 period, with £3.2 billion being invested across our regions. This includes major projects such as reducing storm overflows, upgrading major water treatment works, replacing ageing infrastructure, and supporting nature recovery. Our teams are also dealing with ongoing challenges such as affordability for customers, population growth, and reducing environmental impact.

Given the scale and complexity of these challenges, it is essential that we attract and retain highly capable leaders. We compete with other large organisations for senior talent, both within and beyond the water sector. To do this, our pay levels must remain competitive with similar companies, including utilities, infrastructure businesses, and the wider FTSE market.

Pay plays an important role in attracting, motivating and retaining the right people. Having a strong leadership team is critical to delivering our long-term strategy and meeting the expectations of all our stakeholders.

Business context

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

The Group has returned to profitability during the year, with underlying EBITDA increasing by 55% year-on-year to £519.2 million, driven by higher water revenue and a continued focus on operational efficiency. RoRE of 6.7% outperformed the regulatory cost of equity, reflecting benefits from financing and Totex performance more than offsetting the impact of ODI penalties.

The year has once again demonstrated how rapidly the operating environment for water infrastructure is changing. Conditions during the year ranged from one of the driest springs on record to intense storms and exceptional rainfall later in the year.

These extremes, and the impact on our performance, highlight the increasing volatility created by climate change and reinforce the need for sustained investment in resilient infrastructure. We know we have further to go, but our Pollutions Incident Reduction Plan is delivering measurable improvements with a c.34% reduction year-on-year in pollutions.

There was also a c.17% reduction in storm overflow use year-on-year, and a 25% reduction in average spill duration. Disappointingly, one event resulted in a Category 1 incident – although our overall Category 1 and 2 pollutions reduced year-on-year to three. In addition, our provisional assessment for the 2025 EPA rating is 1* given that whilst underlying operational performance saw improvement, we still did not achieve the high standards required across a number of measures, and in the current year, four projects within our broader WINEP programme were not finalised by March 2026, and therefore further impacted the EPA scorecard.

On 2 June 2026, South West Water was fined £1.9 million in respect of the Brixham cryptosporidium incident arising in May 2024. We recognise the impact both on our customers from this incident, and we recognise that we must do more to live up to the expectations of the customers and communities we serve.

Supporting customers and communities remains central to Pennon's purpose. The start of the new regulatory period saw bill increases across the sector reflecting record levels of investment in infrastructure and environmental improvements. We remain mindful of affordability for many households, and will aid customers through our £200 million support package across this five-year period coupled with our affordability toolkit. Our £3.2 billion investment programme over the five-year AMP8 period is a core focus across the business, to deliver improvements for customers and to ensure we improve the resilience and performance of our assets. In the first year of AMP8, we have continued to focus on delivering on our four strategic priorities through our business units, and to focus on efficiency opportunities across our integrated structures and operations. We invested record levels of capital (£643.6 million) to deliver network resilience and enhancements and benefits for the environment and our customers.

Further detail regarding our operating performance is set out in the Strategic Report. Many of the key aspects of our performance were captured in the scorecards that we use for senior executive incentives.

Wider workforce remuneration

We continue to prioritise fair and competitive pay for our front-line colleagues, particularly at a time when the financial environment remains challenging. We believe this is the right approach, both for our people and for the long-term success of the business.

We are proud to be an accredited Living Wage Foundation employer, with the majority of our workforce covered since 2021. In 2026, most colleagues received a pay increase of 4.5%, and our minimum hourly rate has increased to £13.95 around £1,000 per year higher than the Real Living Wage. This reflects our ambition to remain an employer of choice.

Our overall approach to reward continues to evolve alongside the Group. As the business has grown through acquisitions and now operates across more locations, we have focused on ensuring our reward offering remains relevant, competitive and inclusive. This year, we have:

- Refreshed our reward and recognition programmes
- Enhanced our all-employee share plans by introducing matching shares
- Increased flexibility in benefits, giving colleagues more choice over options that suit their lifestyles

We also continue to offer strong pension provision and enhanced life assurance benefits.

We are committed to ensuring that performance-related pay is meaningful and clearly linked to outcomes. This means rewarding colleagues when they deliver for our customers, communities, shareholders and the environment all aligned with our Group values. For senior managers, there is also a continued focus on building share ownership, strengthening alignment with the long-term success of the business.

Encouragingly, our share scheme remain popular, with around 42% of colleagues participating in either ShareSave or our enhanced share incentive plan, ExtraShare.

Incentive outcomes

Our incentives are designed to provide a rounded assessment of performance across a range of key metrics. In line with Ofwat guidance, the majority of our incentives are linked to delivery of stretching objectives in relation to our customers, communities and the environment.

Our stretching business plan for AMP8 was agreed with Ofwat and was rated as outstanding. The targets that we set for our incentive plans are directly linked to this business plan which takes into account the expectations from the regulator and our various stakeholders. The bonus and LTIP awards for the Executive Directors are funded at the Group level, ensuring incentives are not funded by customers.

The annual bonus for 2025/26 is structured to provide a clear link to the performance of SWW and SES, which reflects feedback previously provided by Ofwat. In proportion, 90% of the award is weighted to the regulated water business (70% SWW; 20% SES), with the balance linked to PWS and Pennon Power objectives. Within these elements, financial, customer and environmental measures are embedded. This basket of measures seeks to capture areas of focus across a diverse range of stakeholders.

Based on a formulaic assessment of performance, the outturn of the 2025/26 bonus was 40.3% of maximum. The Committee thereafter considered events which could trigger Ofwat's performance-related executive pay prohibition rules, including the review of certain matters which have not been fully concluded at the time of decision-making. On the assumption that the incident at Menagwins in June 2025 (see page 37 for further information) will be classified as a Category 1 event, and that the provisional EPA score of 1* will be confirmed later in the year, the Committee concluded that no bonus would be paid in respect of SWW. As 70% of the 2025/26 bonus was linked to SWW performance, this reduced the Group outturn for the Executive Directors from 40.3% to 17.5% of maximum. In the event that both the Menagwins incident is downgraded to a Category 2 event and the EPA is improved to 2*, the Committee would reconsider whether either of the Executive Directors should be eligible for a bonus in respect of SWW performance. The impact of the Brixham water quality incident has already been reflected in directors' remuneration, through the cancellation of the annual bonus for relevant directors in respect of the 2023/24 financial year.

The 2023 LTIP was subject to stretching targets relating to RoRE, operational water quality measures and a basket of customer measures. This is the first award to include additional goals relating to water quality following feedback from Ofwat. RoRE targets for the final year of the performance period were adjusted to reflect the Group's allowed rate of return, as determined by Ofwat, over AMP8.

The adjusted targets were calibrated so that they maintain comparable stretch as when targets were set (based on allowed rate of return in AMP7), ensuring that performance is assessed on a like-for-like basis. Customer performance was expanded to include assessment of SES, which was acquired following grant. The customer metrics also included affordability and social value measures following feedback from EFRA Committee members at a sector wide Select Committee in January 2025.

The vesting level for the 2023 LTIP is 35.4% of maximum. Based on Ofwat guidance, this award is not subject to the performance-related executive pay prohibition rules as the award was granted prior to the implementation of the Act. However the Committee noted that the vesting assessment specifically took into account metrics related to environmental performance. Although this award vests in 2026, all vested shares are subject to a further two-year holding period and therefore awards are not eligible for release until 2028.

Our incentives are structured to provide a rounded measure of performance, incorporating metrics related to customers, operations, water quality and financial resilience. The stretching performance targets mean that full payouts are dependent on strong delivery. Where targets had not been achieved, this is already reflected in the performance assessment. The Committee undertook a holistic review of both the annual bonus and LTIP outcomes, and concluded that the outcomes for the year were supported by the performance achieved.

Full details of both incentives are set out in the main body of the Remuneration Report.

In addition, the Committee is mindful that the in-flight 2024 and 2025 LTIP awards are subject to Ofwat's pay prohibition rules. The Committee will consider how the rules should be applied and any impact on payment of each of these awards following the end of the relevant performance period.

Board changes

Susan Davy stepped down from the Board and retired as Chief Executive Officer on 31 December 2025. Remuneration arrangements in relation to Susan's departure were determined in accordance with our Remuneration Policy and have been detailed on page 142.

We were delighted to appoint Keith Haslett as our new Group Chief Executive Officer (CEO) – with Keith joining the Group on 1 April 2026.

Keith is a seasoned leader in the UK water sector, bringing over 25 years of experience across regulated utilities, with a strong track record of delivering for customers by driving operational excellence, delivering complex capital programmes, and increasing shareholder value. He most recently served as the CEO of Affinity Water and also held senior executive roles at Northumbrian Water Group and United Utilities.

For some time the Committee recognised that our previous approach to remuneration had fallen significantly behind competitive market practice. As noted in last year's Remuneration Report, the pay for the previous CEO was in the bottom 10% of the FTSE 250. The unsustainable market positioning was emphasised when recruiting our CFO in 2024, as many credible external candidates had pay expectations that far exceeded the pay levels of our previous CEO. Prior to Susan's decision to retire from the business, the Committee had already held initial discussions with some of our investors regarding a potential reset to her salary.

When setting salary levels for the new CEO, the Committee took into account FTSE 250 and sector pay levels, Keith's experience in the sector and outstanding leadership skills, the size of our business, our record capital investment plans, and the complexity of operating in the water sector. While the size and complexity of the CEO role at Pennon is significant, we have not sought to match pay levels in large global companies. In addition to published market data, the Committee was also able to very clearly verify the live market rate for the role by reflecting on the pay expectations of various external candidates.

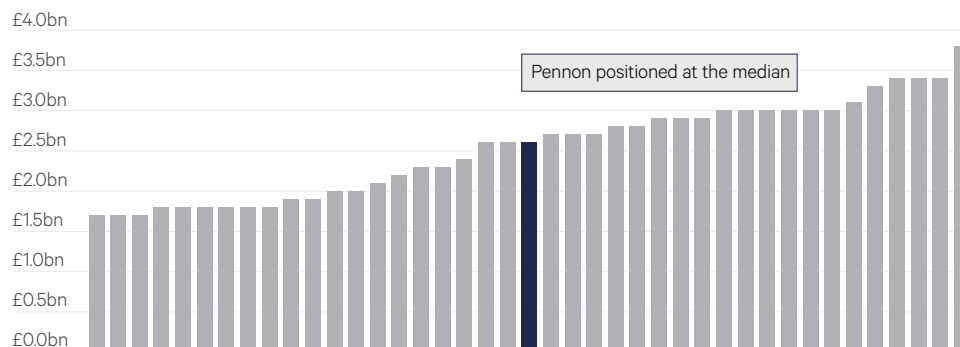
Keith's salary has been set at £800,000 which is broadly in line with median FTSE-listed companies of a similar market capitalisation to Pennon. Total target and maximum remuneration remain in lower quartile practice and are positioned at around the 20th percentile in this group. Therefore the overall package remains modest compared to broader industry practice.

The charts shown overleaf set out the positioning for the CEO versus this group, which comprises FTSE-listed companies with a market capitalisation of c.£1.5 billion to £3.5 billion. As shown overleaf, Pennon's market capitalisation is at the median of this group.

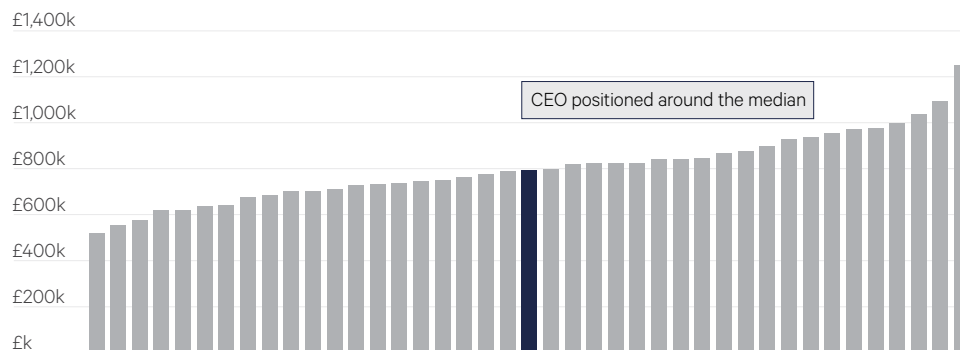
When pay is compared to the broader FTSE 250, where Pennon is positioned amongst the largest 15% of companies, total remuneration is positioned at around median.

Remuneration Committee report continued

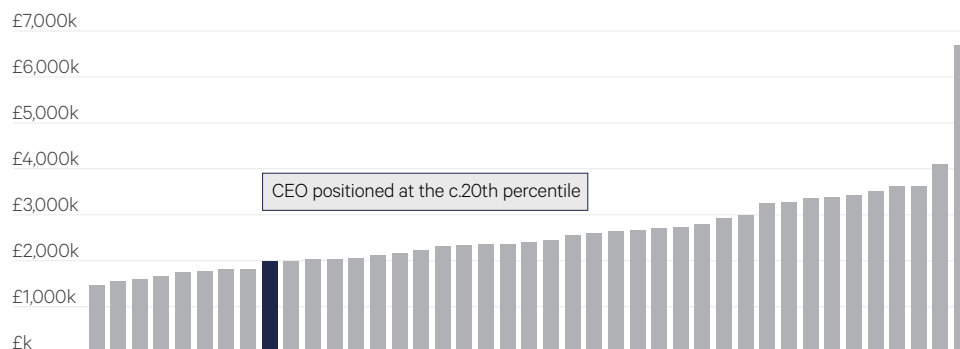
Market capitalisation



Salary



Total target compensation



We also reviewed pay relative to water and utility peers. It is recognised that there are a wide range of pay models operated by peers and there is also variance in disclosure levels, reflecting the different ownership models which apply across the sector. These variations make direct comparison of pay levels challenging. However, the Committee remains comfortable that the package for the incoming Group Chief Executive Officer was competitive and appropriate when taking into account the scale and complexity of the Pennon Group. As noted above, we were also able to obtain live insight into pay expectations in the talent market as part of the recruitment process, and this further corroborated the fair market rate for the role.

Following this reset and correction in salary for the Chief Executive Officer role, we would expect future salary increases to be capped in line with the rate for wider employees.

Buyout awards will be granted in connection with awards forfeited upon leaving his former employer. Whilst all of these legacy awards were due to be delivered in cash, it was considered appropriate to deliver the majority of these in Pennon shares to provide alignment with shareholders in line with best practice.

Further details of Keith's joining arrangements are set out on page 14.2.

In the three-month period between Susan stepping down and Keith joining the business, David Sproul was appointed as Executive Chair, supported by an Operating Committee, including Laura Flowerdew, with delegated executive authority to run the business and progress delivery of Pennon's strategy. To partially recognise the additional responsibilities and time commitment associated with assuming this role, David was paid an additional fee of £4,000 per month for this period. For the avoidance of doubt, David was not entitled to participate in any incentive arrangements during his tenure as Executive Chair.

An equivalent salary supplement of £4,000 per month was also paid to Laura during this period to reflect additional responsibilities taken on.

Remuneration Policy review

Our current Remuneration Policy was last approved at our 2023 AGM, with 94% of votes in favour. This policy includes a number of best practice features, with modest incentive opportunities when compared to FTSE market norms.

In line with the normal triennial cycle, we will be required to seek approval for our Policy again at the upcoming 2026 AGM.

Although the Committee has debated how pay arrangements could be best structured to support the delivery of Pennon's ambitious strategy and the interests of our various stakeholders, the Committee concluded that implementing major changes was not appropriate in the context of the Chief Executive Officer transition.

Therefore the policy presented to shareholders at the 2026 AGM is largely rolled forward from the previous policy approved by shareholders.

Following the AGM we will initiate a more holistic review of our approach to remuneration. In line with our normal practice we will engage with our major shareholders regarding any material changes that are proposed in response to this review. We will also consider evolving guidance from Ofwat and market practice in the sector as part of our review.

In light of the above, our current expectation is to operate the policy for 2026/27 consistent with prior years.

The salary for the Group Chief Financial Officer for 2026/27 has been increased by 3%, below the average increase awarded to the wider workforce. Whilst incentive opportunities are unchanged, following Keith joining the business in April 2026, we are currently undertaking a review of our performance metrics for 2026/27, with the intention of simplifying and refining our scorecards to better reflect our strategic priorities. Scorecards will be finalised over the coming months, with details disclosed in the 2026/27 report.

Summary

The Committee continues to be mindful of the scale of the challenges facing the water sector and the need to be able to incentivise the delivery of long-term, sustainable performance that delivers value to all our stakeholders.

For the sector to deliver improved performance for all stakeholders, it is essential that we are able to attract and retain high-quality talent to the sector.

As always, we have sought to take a measured and pragmatic approach to remuneration as we navigate these challenges in a time of unprecedented change. The main body of the report provides further details on our key decisions.

Andrea Blance

Chair of the Remuneration Committee
10 June 2026

Directors' Remuneration report

Structure of executive pay



Safeguards in place

Robust performance conditions

Variable pay linked to a rounded assessment of performance against stretching targets

Review framework

Holistic review of performance to consider if formulaic incentive outcomes are fair and appropriate

Deferral and holding periods

Bonus (50%) and LTIP awards are deferred for a further period to provide long-term alignment

Malus and clawback

Provisions in place for variable pay to safeguard against payments for failure

Investing to deliver on our commitments

£643.6m

including investment in renewable energy generation of

£54.1m

Group liquidity of nearly

£1bn

Strong return to profitability – Underlying EBITDA[^]

£519.2m

[^] Measures with this symbol are defined in the Alternative performance measures (APMs) as outlined on pages 218 to 220.

1. Customers have benefited from one or more of our affordability initiatives since 2020.

Capital investment in Water Services in 2025/26 of

£341.3m

In-year reduction in storm overflow spills of

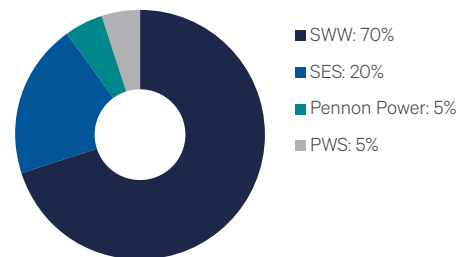
c.17%

Customers benefiting from our financial support framework

c.195,000¹

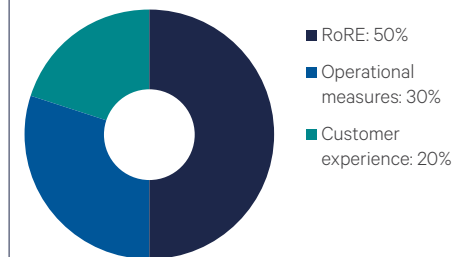
2025/26 bonus measures

Performance outcome = 17.5% of max
Prior to reduction the formulaic outturn was 40.3%



Vesting 2023 LTIP measures

Performance outcome = 35.4% of max
Legacy LTIP award – granted before new legislation and guidance developed



Remuneration outturns for 2025/26



Directors' Remuneration report continued

Annual report on remuneration Oversight of remuneration for the wider workforce

The Remuneration Committee considers oversight of remuneration for the wider workforce as a key element of its remit and considers this when making decisions regarding remuneration for the Executive Directors. The Committee reviews a report on employee remuneration twice a year, either through a pay dashboard, which contains information on elements of financial and non-financial reward, the wider labour market, demographics and pay statistics across the organisation or through a subject specific paper. This detail provides important context to ensure that a consistent approach is adopted across the Group workforce including the Executive Directors.

Developments in the financial and non-financial elements of the employee proposition are reviewed regularly, as well as share scheme participation and emerging reward trends. The Committee reflects on the position of our gender and ethnicity pay. Feedback to the Committee from colleagues is through the employee engagement survey results, the 'Be The Future' forum – our employee engagement forum and through interactions direct with colleagues at events, such as site visits.

Our Reward Strategy and approach for the wider workforce

Our well-established People Strategy across the Group is centered around talented people doing great things for customers and each other and creating the best place to work. The Reward Strategy and framework which was established in 2019 was reviewed and updated during 2023/24. The framework reflects our changed Group composition, our latest business strategy and plans, and changing employee expectations. The Group values (see page 135) are incorporated into our reward philosophy and frameworks. The framework will continue to set our approach for future developments in the reward landscape for colleagues.

Pennon's Group Reward Strategy continues to have three aims:

Rewarding our colleagues

- | | |
|--------------|--|
| Aim 1 | Ensure reward decisions will support: <ul style="list-style-type: none"> • Our business strategy for delivering to customers and communities, and promoting long-term sustainable growth • Our People Strategy and values • Our alignment to stakeholder expectations (e.g. investors and regulators) |
| Aim 2 | Ensure the reward package offered to employees is: <ul style="list-style-type: none"> • Designed and delivered fairly • Set up to enable the business to attract and retain the talent that it needs to be successful • Supports employee engagement and motivation • Allows employees to share in Group success |
| Aim 3 | Clearly communicate to relevant stakeholders our employee reward and recognition principles and framework |

Salary increases for the wider workforce

The 2025 pay award concluded for colleagues covered by collective bargaining after the publication of last year's Annual Report. A two-year deal was secured which continued to focus on front-line roles with an average increase valued at 4.1% for colleagues, and for senior managers this was reduced to 3.6%. For 2026 the award was 4.5% for eligible colleagues, this is based on November CPIH plus 1% which was agreed in the 2025 pay award and confirmed to colleagues at that time. We are proud that our employees will earn a minimum of £13.95 per hour (with the exception of apprentices who are on a formal training plan), which not only aligns with, but exceeds the real living wage by almost £1,000 annually, underscoring our objective of being an employer of choice.

We will continue to evaluate work patterns for the mutual benefit of customers, colleagues and operational needs during 2026/27.

Wider workforce bonus arrangements

All colleagues across the Group are eligible to participate in variable pay schemes. Senior bonus arrangements utilise the same broad framework as for the Executive Directors. For the wider workforce, variable pay has been aligned with the Group values, and has stretching targets which support delivery of our business plan for 2025–2030, focusing on water quality and resilience, storm overflows and pollution, our Net Zero agenda and customer service and affordability. The scheme maintains a measure for our imperative of all colleagues going HomeSafe each and every day.

Financial wellbeing and wider benefits

We offer a comprehensive range of benefits which have been extended over the past few years to include the roll out of a financial well-being and education partner for colleagues and their families. This includes an ill-health income protection policy which has provided support to a number of colleagues in 2025/26. We continue to operate a range of discounts, green initiatives and services to enhance our employee proposition.

Saving for the future

We know that our colleagues value our responsible approach to pension contributions where we offer a generous matching element. We are pleased that despite the ongoing cost-of-living increases, 95% of colleagues continue to participate in the defined contribution schemes.

Our ShareSave scheme was again opened for applications in 2025, continuing to support our belief that employees should have a stake and say in the business. The ShareSave sits alongside our evergreen Share Incentive Plan providing employees with monthly share purchase from pre-tax salary. In 2025 we launched ExtraShare for colleagues, which introduced a matching element for colleagues, so for every three shares bought, the Company purchases one extra share for colleagues. The 2025 ShareSave scheme received strong support from our colleagues, with around 20% of colleagues joining the scheme, and we will continue the promotion of ExtraShare to increase SIP membership.

Living Wage Foundation

We continue to pay above the Living Wage Foundation rates for all roles excluding those colleagues who are on our apprenticeship arrangements. We are proud that we are an accredited Living Wage employer, with the largest part of our business having been accredited since 2021. We continue to focus our pay spend on lower paid roles.

Wider workforce remuneration overview

In accordance with the 2024 UK Corporate Governance Code, the Committee reviews the level of information provided on pay matters in the wider organisation. The wider workforce papers provide the Remuneration Committee with an overview of the approach to pay across the Group, supplemented with topic specific papers:

- Helps support the Committee in reviewing workforce remuneration and related policies which continually evolves to provide greater insight.
- Provides an overview of pay arrangements across the business and key statistics on pay in different areas of the business.
- Updates on progress on our Reward Strategy implementation.
- Has oversight of the wider remuneration landscape to provide external context and industry specifics to inform on our benefits.
- Provides information on workforce demographics, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas.

The Committee intends to keep the content of the overview under review to ensure it remains suitable.

Our Group People Strategy

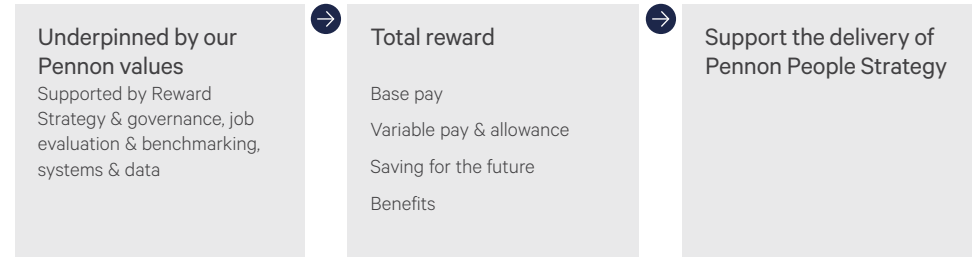
We have an approved people strategy which outlines our priorities and aspirations.

The role of reward underpins our people strategy, proactively supporting our ambition to be an employer of choice, able to retain top talent and drive business success, rather than a stand-alone strategic element.



Total reward

Our people strategy is supported by our reward principles, which deliver our overall total reward framework:



Our values



Be You

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



Be Rock Solid

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



Be the Future

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

Directors' Remuneration report continued

Our reward framework supports our People Strategy.

Pillar	Highlights
Base pay	<p>The Group's overarching principles for basic pay are as follows:</p> <ul style="list-style-type: none"> • Base pay should reflect the level of skills, responsibilities and accountabilities of the job, plus the market and region in which the business area operates. • We should maintain a market competitive edge to attract and retain talent. Market benchmarking against recognised surveys is conducted regularly. • We should maintain our status as an accredited Real Living Wage employer, guaranteeing base pay at or above the Living Wage Foundation rates. • We should review pay annually with any resulting award being subject to affordability and business performance. • We should engage with Be the Future Forum, and recognised trade unions on pay decisions. • We should undertake equal pay and gender/ethnicity pay analysis from time to time to ensure we comply with current equality legislation and provide equal total reward opportunities for roles of equal value.
Variable pay	<p>The Group operates variable pay schemes, including annual bonus and incentive arrangements and all employees and temporary workers are eligible to participate. Throughout variable pay schemes, there is strong correlation in the targets, which align the whole organisation on goals linked to customer, communities and the environment. The maximum bonus levels are based on seniority and level of responsibility. At leadership level a portion of the bonus is deferred into shares for three years.</p> <p>Long-term incentive share awards are available to senior executives and Executive Directors, consistent with market practice. Our front-line teams receive overtime, call-out and standby payments, ensuring that when workloads are high, employees are fairly compensated. We remain mindful of the need to balance working hours, customer demand and available resource against the health, safety, wellbeing of our colleagues and following a successful pilot earlier in the year, our overarching principles on variable pay are as follows:</p> <ul style="list-style-type: none"> • Provide every colleague with the opportunity to earn an element of variable reward using appropriate mechanisms for different colleague populations, as agreed by each business area. • Have clear communication on rationale, purpose, performance measures, pay-out calculation and other rules for the variable pay schemes, to ensure colleagues fully understand their total reward opportunities. • Ensure the performance measures included in the balanced scorecard are aligned to our business strategy, values and take into consideration the views of shareholders, customers, regulators and other key stakeholders. • Encourage colleagues to have share ownership delivered through variable pay. • Remuneration Committee or relevant Executive Committee can apply appropriate discretion to bonus outturn, considering the 'how' as well as the 'what'.

Pillar	Highlights
Saving for the future	<p>We offer highly competitive retirement benefits to our employees, which include additional life assurance protection. Membership of the Group pension scheme remains high with a 95% participation rate in our Defined Contribution (DC) scheme. As part of our Saving for the Future, all employees can participate in our HM Revenue and Customs-approved ShareSave and Share Incentive Plan, with a strong emphasis on employee buy-in and ownership. Not only do our share schemes provide a mechanism for sharing in the long-term success of the Group but mean that colleagues and customers have a say and stake in the business.</p> <p>Our overarching principles on Saving for the Future are as follows:</p> <ul style="list-style-type: none"> • Provide every colleague with the opportunity to build up share ownership. • Clearly communicate and promote the existing share schemes to ensure maximum participation. • Ongoing exploration of HMRC-approved tax advantaged share scheme opportunities for broader offerings. • Provide every colleague with the access to our Defined Contribution pension scheme with the choice of employee/employer contribution levels. • Provide company matching in our Defined Contribution pension scheme to further support our colleagues saving for retirement. • Provide access to a fully interactive pension administrative platform and drop-in sessions to ensure employees understand the offering and implications to make informed decisions. • Comply with the government required pension enrolment requirements.
Benefits	<p>We operate a range of benefits of which the majority are available to all colleagues. These are selected for their ability to enable colleagues to get the best value from their salary such as discounts, to ensure a work life balance which supports both family life and outside interests through generous holiday entitlements or those designed to bring financial security such as income protection or life assurance. A range of advisory services are available to support colleagues on occasions where additional support is needed, including financial support, health and wellbeing, legal advice and a range of employee-led support groups. From time to time, there may be necessary exceptions that apply to our core benefits, reflecting TUPE transfers or preserved contractual benefits. The principles for our benefits are as follows:</p> <ul style="list-style-type: none"> • Operate a set of core Group-wide benefits for all colleagues, and a wide range of other additional offerings to enable colleagues to select the most appropriate benefits tailored to their needs. • Ongoing evaluation of the effectiveness of the benefits offering, ensuring we take full advantage of our Group-wide purchasing power with benefits providers, and we are aligned with our Fair Tax Strategy and HMRC guidelines. • Actively engage with employees to understand their needs to continue shaping our benefits proposition. • Adopt technology to enable easy access to our benefits from home or work. • Continue to focus on developing our wellbeing and flexible working provisions and explore additional benefits provision opportunities to support our broader ESG agenda (e.g. green voluntary benefits, volunteering days etc.).

Gender and ethnicity pay reporting

We recognise our duty to contribute positively to society by cultivating an environment that promotes social mobility, prioritises diversity and inclusion, and ensures equitable treatment for all employees. Our aspiration is to become the Employer of Choice across our region, where trust is paramount, and every individual is valued for their contributions. Transparency lies at the heart of our commitment to diversity and inclusion. Reporting serves as a vital instrument in our journey towards openness, allowing us to candidly assess the gender and ethnic diversity of our workforce. Moreover, it enables us to share the proactive measures we have implemented and will continue to pursue to enhance diversity across all levels and roles within our organisation. We understand that fostering an inclusive workplace is imperative not only for attracting talent but also for retaining our valued colleagues and because it is the right thing to do.

We have voluntarily published our Ethnicity Pay Gap data since 2023. The results reflect our journey in building representation of ethnic minority groups and gender diversity across Pennon, noting that the South West, where a large proportion of our business is based, has a lower diversity mix than other parts of the UK. Our ethnicity pay gap is 13.6%. Across the Group we have been working hard to attract a greater number of ethnically diverse candidates to apply for job vacancies, and we offer dedicated support to new employees through our graduate programme and support the 10,000 Black Interns Programme. We will continue to work to progress our diversity actions to build greater representation.

Our Group gender pay gap has reduced from 3.9% to 2.4%. This reflects the improvements we have made in increasing representation of females in the upper middle and upper quartiles through targeted development and inclusive succession planning.

During the year we have been recognised for our progression in gender equality by external bodies. Our placement as number one in the 2026 FTSE 250 Women Leaders Review reflected our high number of female Board members.

We are committed to deliver on our ambitions to build diversity and inclusion across the Group and the water industry.

Our Group values

Our Group values were launched in 2023 and underpin our Reward Strategy as well as our culture and will be reflected in individual and team remuneration, recognising and rewarding colleagues who showcase the Group values, helping us to deliver what matters most to our customers and communities in the regions we serve.

Colleague engagement

Across the Group we have Employee Network Groups that provides a two-way dialogue for all colleagues across the Group. These are regularly attended by senior leaders and the forums provoke healthy debate and discussion on areas that matter to colleagues including reward. We will be strengthening representation to ensure that the issues that matter the most are raised. We want these groups to be a key source of dialogue and employee views for shaping future reward developments.

We hold regular meetings with the recognised trade union representatives, keeping them informed of business developments, the People Strategy and recognising their role for colleague feedback and the insights they can provide on behalf of their members on a wide range of topics. Across the Group we consult on the pay of all colleagues. This will either be through the collective bargaining agreement in place with the recognised trade unions or through our 'Be the Future' forum for those outside of these arrangements.

HomeSafe

Making sure our colleagues and contractors get home safe every day is fundamentally more important than remuneration. However, how we measure our performance, reward colleagues living by our values and the culture we create has a direct influence on the health and safety of each other and we will continue to support this important initiative through our wider workforce remuneration principals and Executive Remuneration Policy.

Single total figure of remuneration table (audited)

	Current Executive Directors		Former Executive Director	
	Laura Flowerdew ¹ (£000)		Susan Davy ² (£000)	
	2025/26	2024/25	2025/26	2024/25
Base salary	487	319	398	511
Benefits ³	18	14	75	50
Pension ⁴	49	32	40	51
Total fixed pay	554	365	513	612
Annual bonus ⁵	106	190	87	270
LTIP – deferred reinvestment of shares ^{6,7}	71	51	273	215
Total variable pay	177	241	360	485
Total fixed and variable pay	731	605	873	1,098

- The LTIP figure disclosed for Laura Flowerdew relates to awards granted before she became an Executive Director. 2025/26 figures for Laura Flowerdew include an additional salary supplement of £12,000 paid to reflect additional responsibilities during the CEO transition period.
- Remuneration for Susan Davy relates to the period ending 31 December 2025, when she retired from her role and left the Group.
- Benefits comprise a car allowance, fuel allowance, medical insurance, and income protection. Following a risk assessment of personal security for Susan Davy, the Committee determined that additional security measures were necessary. To facilitate this, the Committee approved a personal security related allowance to be paid in two installments, the first tranche of which (£50,000) is included above.
- See page 141 for further information on retirement benefits.
- As disclosed in the 2025 Annual Report and Accounts, the Committee determined a formulaic outturn of 42.4% of maximum would apply to the 2024/25 bonus. However, the Committee opted not to approve these payouts and to delay payments to the Executives until there was further clarity on how the Water (Special Measures) Act would be operated in practice. Following further guidance being published by Ofwat, in July the Committee determined it would be appropriate to release these payments to the Executives, and these amounts have been included in the 2024/25 single figure totals. Half of Laura Flowerdew's 2025/26 bonus was deferred into shares for three years.
- For 2025/26, the 2023 LTIP has been valued based on the average share price during the three-month period to 31 March 2026 of 553p, together with an estimate of the accrued dividends payable on the vesting shares. In line with the plan rules, this award has been adjusted to reflect the rights issue. None of the award value is due to share price appreciation.
- For 2024/25, the 2022 LTIP has been restated to reflect the adjusted share price upon vest (486p). This value includes accrued dividends over the vesting period. These LTIP awards are subject to a two-year holding period.

Notes to the single figure table

Fixed pay

As noted in the Chair's statement, the CFO received a modest salary supplement of £4,000 per month for three months to reflect additional responsibilities taken on prior to Keith Haslett joining the business. This supplement ceased in March 2026.

Variable pay

In line with our previous approach, following guidance from Ofwat, all performance-related pay for Executive Directors is funded to the Group level and therefore not funded by customers.

Our incentives are designed to provide a rounded assessment of performance across a range of key metrics. In line with Ofwat guidance, the majority of our incentives are linked to delivery of stretching objectives in relation to our customers, communities and the environment.

Due to the way the incentives are structured, where targets are not achieved, this directly reduces the outcomes that Executives can achieve. Incentive outcomes under both the annual bonus and LTIP are also subject to a final discretionary assessment by the Committee to ensure they remain reflective of overall performance and the experience of our wide range of stakeholders including our customers, the communities in which we operate, the environment, our colleagues and our investors. The review considers performance from a number of different perspectives, with the framework set out overleaf. Further details can be found on page 141.

Directors' Remuneration report continued

How does the Committee ensure incentives are linked to stretching targets?

Rounded assessment – incentive metrics linked to a basket of measures including financial, operational, customer and environmental measures. This means that full payouts require outperformance across all aspects of performance.

Link to Ofwat approved business plans – incentive targets linked to the regulated entities are derived from the stretching business plans approved by Ofwat. For AMP8, Ofwat once again rated our business plan as 'outstanding'.

Combination of absolute and relative measures in addition to the absolute operating metrics, the customer related metrics in the LTIP are assessed on a relative basis, with full vesting requiring upper-quartile performance.

Financial resilience – financial metrics are essential as they enable the Group to invest in the future and deliver robust and sustainable performance for all of our stakeholders. Full payouts on financial metrics require delivery of stretching goals.

Annual bonus outturn for 2025/26

Consistent with prior years, the bonus is based on a rounded assessment of performance. In line with regulatory guidance, more than 60% of the bonus is linked to delivery of stretching objectives in relation to our customers, communities and the environment. Profit measures for the individual businesses are included in the bonus to ensure that the Company maintains a focus on financial resilience, enabling us to invest in the future and deliver robust and sustainable performance for all of our stakeholders.

Consistent with our 2024/25 bonus, following direct feedback from Ofwat, the Pennon annual bonus for 2025/26 is structured to provide a clear link to the performance of SWW and SES. In proportion, 90% of the award is weighted to the regulated water business (70% SWW; 20% SES), with the balance linked to PWS and Pennon Power objectives. Within these, financial, customer and environment measures are embedded. This basket of measures ensure that the experience of our diverse range of stakeholders are captured in our bonus outcomes.

Other than profit measures for SWW and SES, targets for 2025/26 were binary. This simple structure ensured that any shortfall in performance relative to our stretching targets resulted in no bonus being paid in respect of that element.

For future years, we expect to review this binary structure and instead set target ranges for metrics where appropriate.

The performance under the different elements of the bonus (including performance against the scorecard for each area of the business) is summarised in the tables below. As shown below, the formulaic outcome of the annual bonus was 40.3% of maximum.

In line with requirements, the Committee considered whether there were any events in the year which would trigger Ofwat's performance-related executive pay prohibition rule, including certain events for which assessments by external bodies had not been fully concluded at the time of decision-making.

On the assumption that the incident at Menagwins in June 2025 (see page 37 for further details) will be classified as a Category 1 event, the Committee concluded that no bonus would be paid in respect of SWW. As 70% of the 2025/26 was linked to SWW performance, this reduced the Group outturn for the Executive Directors from 40.3% to 17.5% of maximum. In the event that both the Menagwins incident is downgraded to a Category 2 event and the EPA is improved to 2*, the Committee would reconsider whether either of the Executive Directors should be eligible for a bonus in respect of SWW performance.

In addition, enforcement undertakings agreed in August 2025, related to Ofwat's wastewater investigation and the guilty plea lodged in respect of the Environment Agency prosecutions arose in periods when Laura Flowerdew was not an executive director of SWW and therefore the prohibition rules would not apply. However the former CEO, Susan Davy was an executive director at the time of some of these events and these have already been taken into account with the relevant performance related pay outcomes for 2025/26. The Committee also noted that the Brixham water quality incident resulted in the cancellation of the 2023/24 bonus.

Based on Ofwat guidance, there were no triggers for cancellation of performance-related pay at SES, and therefore outcomes under this element were based on the scorecard. Similarly, bonuses for Pennon Power and PWS which do not relate to the regulated water entities, will be based on the scorecard outcome.

Consistent with our normal approach, the Committee also undertook a holistic assessment of performance to determine whether the bonus outturn remains appropriate in the context of broader performance. See page 141 for further details of this assessment.

Summary of annual performance outcomes

	Pennon Power	PWS	SWW	SES	Total
Weighting	5%	5%	70%	20%	100%
Outturn	80%	78.2%	32.6%	47.8%	
Total	4%	3.9%	22.8%	9.6%	40.3%
Adjusted for Prohibition	4%	3.9%	0%	9.6%	17.5%

Formulaic outcome +

Holistic performance assessment

Culture and conduct

Focus on significant health and safety, culture and operational events

Consideration of external environment

Including the shareholder, employee and wider stakeholder experience

Broader financial, operating and strategic performance

Including impact of exceptional and one-off events

Sector best practice principles and regulatory guidance

Assessment versus best practice principles developed by sector

Alignment with customers, communities and the environment

Including customer experience, water quality and resilience, pollution incidents/EPA and emissions reduction

Input from other Board Committees

Including ESG and Health and Safety Committees, HR, Compliance, Internal Audit and WaterShare + panel

Determination of performance outcome

Measure	Sub-weighting	Target	Actual	Outcome
SWW (70%)				22.8%
Financial resilience – PBT	20%	£157.6m	£139.6m	0.0%
Customer & Environmental measures	65%			
<i>Wastewater</i>				
Discharge permit compliance	2.6%	99%	98.1%	0.0%
Internal flooding (per 10k cust.)	2.6%	1.54	1.20	2.6%
External flooding	2.6%	15.29	18.04	0.0%
Sewer collapses	2.6%	13.00	5.06	2.6%
Bathing water quality	2.6%	100%	100%	2.6%
Normalised pollutions – category 1-3	2.6%	25.02	51	0.0%
Storm overflow – average spills per overflow	2.6%	20	34	0.0%
Biodiversity	2.6%	On Track	On Track	2.6%
<i>South West Water – Water Services</i>				
Water resources	2.6%	90%	97%	2.6%
CRI	2.6%	1.83	1.37	2.6%
Water quality contacts	2.6%	1.33	1.55	0.0%
Leakage (3-year rolling average)	2.6%	104.5	113.3	0.0%
Supply interruptions	2.6%	05m00s	1hr9m14s	0.0%
Mains repairs (per 1,000km)	2.6%	141.3	169.3	0.0%
Unplanned outage	2.6%	2.14%	2.39%	0.0%
PCC (3-year rolling average)	2.6%	143.7	147.7	0.0%
<i>Bristol</i>				
Water resources	2.6%	90%	95%	2.6%
CRI	2.6%	1.50	3.95	0.0%
Water quality contacts	2.6%	0.79	0.97	0.0%
Leakage (3-year rolling average)	2.6%	35	35.2	0.0%
Supply interruptions	2.6%	05m00s	33m42s	0.0%
Mains repairs	2.6%	140.2	149.6	0.0%
Unplanned outage	2.6%	2.78%	1.93%	2.6%
PCC (3-year rolling average)	2.6%	0	148.3	0.0%
Capital programme				
PCD delivery	2.6%	100%	<100%	0.0%
ESG measure	15%	see overleaf	11.8%	11.8%
Overall total				32.6%^{1,3}
Impact of prohibition				0.0%

Measure	Sub-weighting	Target	Actual	Outcome
SES (20%)				9.6%
Financial resilience – PBT	20%	£3m	£(76)m	0.0%
Customer & Environmental measures				
Water resources	7.2%	90%	100%	7.2%
CRI	7.2%	1.83	0	7.2%
Water quality contacts	7.2%	0.64	0.74	0.0%
Leakage (3-year rolling average)	7.2%	20.9	21.4	7.2%
Supply interruptions	7.2%	05m00s	2m58s	7.2%
Mains repairs (per 1,000km)	7.2%	68	78.5	0.0%
Unplanned outage	7.2%	2.14%	0.33%	7.2%
PCC (3-year rolling average)	7.2%	141.3	147.5	0.0%
PCD delivery	7.2%	100%	<100%	0.0%
ESG Measures	15%	see overleaf	11.8%	11.8%
SES Total				47.8%^{2,3}

Measure	Sub-weighting	Target	Actual	Outcome
PWS (5%)				3.9%
PBT	20%	£5.3m	£5.7m	20%
<i>Customer & Service metric</i>				
Revenue growth	9.3%	20%	211%	9.3%
Revenue attrition	9.3%	6.0%	7.0%	0.0%
Debt reduction (collection / billing)	9.3%	101%	98.8%	0.0%
CCW written complaints (response within 10 days)	9.3%	100%	100%	9.3%
Abandoned rates	9.3%	7%	6%	9.3%
MPS ⁴	9.3%	92%	93%	9.3%
Trustpilot score	9.3%	4.8	4.95	9.3%
ESG measures	15%	see overleaf	11.8%	11.8%
PWS Total				78.2%

- The definitions of these key ODI measures are contained within the SWW Annual Performance Report and with ESG measures in the ESG Databook.
- The definitions of these key ODI measures are contained within the SES Annual Performance Report.
- All water metrics will be validated and out-turns ratified prior to any decision to award in line with the regulator.
- MPS reflects final December score, measure currently revised with only three months performance

Measure	Weighting	Target	Actual	Outcome
			Review of delivery against milestones considered to warrant an outturn of 80% for this element ¹	
Pennon Power	5%	Delivery against milestone events		4%

- Project milestones included Fife and Aberdeenshire complete and energised, Buckinghamshire on track for delivery in 2026/27 and two behind the meter projects ready for or in construction.

Directors' Remuneration report continued

ESG Measure	Sub-weighting	Target	Actual	Outcome
Environment, Social & Governance				
Renewable electricity (%)	1.07%	16.10%	8.6%	0.00%
Reduction in GHG emissions (%)	1.07%	49%	52%	1.07%
Tree Planting	1.07%	400,000	421,199	1.07%
Peatland Restoration (Ha)	1.07%	5,000	5,158	1.07%
Diversity of workforce	1.07%	33%	34%	1.07%
5% Club accreditation status (Grade)	1.07%	Platinum	Platinum	1.07%
Glassdoor Score (average)	1.07%	4.0	3.5	0.00%
Lost Time Injury (LTIFR)	1.07%	0.2	0.39	0.00%
ESG rating (Score)	1.07%	Top 10%	Top 1%	1.07%
Sustainable Financing (£m)	1.07%	£400m	£490m	1.07%
ESG Tender Evaluations (%)	1.07%	75%	95%	1.07%
Supply Chain (Grade)	1.07%	Silver	Gold	1.07%
Customer affordability	1.07%	95%	99.40%	1.07%
Increase in social impact	1.07%	£1m	£1.2m	1.07%
ESG Total				11.8%

Long-term incentive outturn for 2025/26 (audited)

Consistent with Ofwat guidance the performance-related executive pay prohibition rules do not apply retrospectively to the 2023 LTIP award. LTIP awards are funded at the Group level and are therefore not funded by customers.

The 2023 LTIP award was subject to stretching targets relating to RoRE, operational water quality measures and a basket of customer metrics.

RoRE targets were set in 2023 based on performance during the AMP7 period and were calibrated based on our allowed rate of return which is set by Ofwat. The performance period for the 2023 awards (2023/24 to 2025/26) spans the AMP7 and AMP8 periods. On this basis, RoRE targets for 2025/26 (the first year of AMP8) were adjusted taking into account the Group's updated allowed rate of return as set by Ofwat for AMP8. The adjusted targets were calibrated so that they maintain a comparable level of stretch as when targets were set and ensuring that performance is assessed on a like for like basis. No changes have been made to the RoRE targets for years one and two of the LTIP performance period which remain aligned to the AMP7 cycle.

Following the acquisition of SES in January 2024 and feedback from Ofwat, customer measures were updated to include metrics which relate directly to SES. These customer measures are assessed on a relative basis and the same stretch is required as for our existing businesses. At the sector wide Select Committee in January 2025, EFRA Committee members challenged the absence of metrics relating to affordability and the approach to vulnerable customers in incentive arrangements. Therefore, similar to the approach taken for the 2022 LTIP, we have included metrics which relate to these areas within our basket of measures.

The table below provides an overview of performance against the targets set:

Measures	Threshold ¹ (25% of maximum)	Maximum (100% of maximum)	Achievement	Vesting outcome ² (% of maximum)
RORE (50% of award)				
AMP7 – average over 2023/24 and 2024/25 (33.3%)	6%	8%	6.3%	12.1%
AMP8 – 2025/26 (16.7%)	4.6%	7%	6.7%	15.1%
Operational measures (30% of award)				
EPA rating (cumulative stars over period)	9	12	5	0%
Pollutions Cat 1-3 (normalised reduction – final year)	-20%	-50%	-17%	0%
Pollutions Cat 1-2 (absolute)	6	0	9	0%
Storm overflow reduction (final year)	-15%	-30%	1%	0%
Basket of Customer measures³ (20% of award)				
C-MeX SWW (3.6%)	9	4	14.3	0%
BRL(1.1%)	9	4	5.0	0.9%
SES (0.4%)	9	4	12.0	0%
R-MeX SWW (0.7%)	9	4	8.3	0%
BRL (0.2%)	9	4	7.3	0%
SES (0.1%)	9	4	10	0%
D-MeX SWW (0.7%)	9	4	6.7	0.4%
BRL (0.2%)	9	4	5.7	0.2%
SES (0.1%)	9	4	12.5	0%
MPS PWS (0.7%)	9	4	5.3	0.6%
W2B (0.2%)	9	4	4.0	0.2%
SESBW (0.1%)	9	4	7.0	0%
Trustpilot score PWS (0.7%)	4.5	5	4.9	0.6%
W2B (0.2%)	4.5	5	4.9	0.2%
SESBW (0.1%)	4.5	5	2.9	0%
Affordability – water poverty SWW (0.7%)	98%	100%	99.1%	0.5%
BRL (0.3%)	98%	100%	100%	0.3%
Social Impact (5%)	£1.0m	£1.5m	£1.2m	2.8%
WaterShare (5%)	Maintain	Maintain + 10%	Maintain	1.3%
Overall vesting outcome				35.4%

1. For below-threshold performance for any of the performance conditions, 0% vests in respect of that performance condition.

2. Straight-line vesting between points.

3. C-MeX, R-MeX, D-MeX, MPS, Trustpilot score and Affordability metrics based on average performance of the three-year performance period.

The vesting of the LTIP award is subject to an 'underpin' relating to overall Group performance. This was considered as part of the Committee's holistic assessment of overall performance – see overleaf.

Holistic assessment of overall performance

Our incentives are structured to provide a rounded measure of performance, incorporating metrics relating to customers, operations, water quality and financial resilience. This means that areas of under or over performance are reflected in the scorecard outcomes.

As mentioned previously, as it does every year, the Committee undertook a holistic assessment of performance to ensure that both the bonus and LTIP outcomes are appropriate in the context of broader performance the stakeholder experience. The framework used is set out on page 138. For 2025/26, the Committee also noted the impact of the Water (Special Measures) Act on bonus outcomes.

This year, the Committee considered the following:

- The Group's return to profitability, with underlying EBITDA increasing by 55% year-on-year to £519.2 million, driven by higher water revenue and a continued focus on operational efficiency.
- RoRE of 6.7% outperformed the regulatory cost of equity, comprising financing and Totex outperformance, partially offset by the in-year impact of operational performance challenges from weather extremes, such as Storm Goretti in the South West.
- Record levels of capital investment (£64.36 million) to deliver network resilience and enhancements and benefits for the environment and our customers.
- Whilst we know we have further to go, this year our Pollution Incident Reduction Plan delivered measurable improvements with a c.34% reduction year-on-year in pollutions, with normalised pollutions reduced by c.53%.
- Delivery of environmental gains, having restored peatlands, engaged communities in events and driving gains in clean energy within Pennon Power.
- The 9% year-on-year increase in the number of our customers benefitting from our affordability toolkit and support available, with 316,400 customers also now registered under our Priority Services Register.

The Committee specifically considered the EPA rating of South West Water when considering incentive outturns.

The Committee noted that a portion of the LTIP is directly linked to EPA ratings over the three-year period, with a four-star average required for maximum payout. This element of the 2023 LTIP lapsed in full, and therefore the outcomes were already amend to reduced to zero based on the EPA ratings achieved.

The bonus and LTIP also include several other environmental metrics which comprise a significant proportion of our incentives, demonstrating our commitment to the environment beyond the EPA framework and ensuring that our overall environmental performance is reflected in outcomes.

Taking all of this into account, the Committee determined that the overall outcomes for the annual bonus and LTIP were at the modest end of the spectrum and represent a fair reflection of overall Group performance over the relevant periods of assessment.

As noted above, vested 2023 LTIP awards granted to Executive Directors will not be released in 2026. Instead, awards will remain subject to a two-year holding period to ensure participants remain invested in the longer-term performance of the business.

Awards are also subject to malus and clawback provisions. Consistent with guidance provided by Ofwat, these awards to Executive Directors are funded at the Group level, rather than being recharged to the individual water companies, and will therefore not be funded by customers.

Retirement benefits and entitlements (audited)

Details of the Directors' pension entitlements and pension-related benefits during the year are as follows. Effective from 1 August 2020, the maximum pension contribution made by the Company is 10% of salary.

	Company contributions to defined contribution arrangements (£000)	Cash allowances in lieu of pension (£000)	Total value for the year (£000)	Age and date of retirement (for pension purposes)
Susan Davy	8	32	40	65 (17 May 2034)
Laura Flowerdew	–	49	49	65 (5 February 2041)

Executive Directors are eligible to join the Defined Contribution Company Pension Scheme.

Directors' Remuneration report continued

Arrangements for the incoming Chief Executive Officer (audited)

Keith Haslett was appointed as the new Chief Executive Officer and joined the Group on 1 April 2026. Keith is a seasoned leader in the UK water sector, bringing over 25 years of experience across regulated entities, with a strong track record of driving operational excellence, delivering complex capital programmes, and increasing shareholder value. He most recently served as the CEO of Affinity Water and having held senior executive roles at Northumbrian Water Group and United Utilities.

Details regarding the salary for the incoming CEO are set out in the Remuneration Committee Chair's statement. The other core elements of Keith's package have been set in line with the Remuneration Policy and at the same levels provided to the previous CEO. For 2026/27, Keith will be eligible for a maximum bonus opportunity of 125% of salary, and an LTIP opportunity of 150% of salary.

Keith was granted buyout awards in connection with awards forfeited upon leaving his former employer on a broadly like for like basis. Whilst all of these legacy awards were due to be delivered in cash, it was considered appropriate to deliver the majority of these in Pennon shares to provide alignment with shareholders in line with best practice.

Buyouts include awards in respect of performance-related remuneration from his previous employer, the value of which is yet to be confirmed at the time of this report. Full details of these buyouts will be disclosed in next year's report.

Keith will also receive a buyout award in respect of his 2025/26 retention award. This award will be delivered in shares with value of £165k. In line with the original terms of the award, no performance conditions will be attached to the award.

Awards are subject to malus and clawback provisions.

Consistent with the Remuneration Policy Keith will receive retirement benefits of 10% of salary consistent with benefit levels available to wider workforce. He will also be provided with role-appropriate benefits including car and fuel allowance, medical insurance, and income protection. Keith was also eligible for a one-off allowance in line with our Policy to facilitate relocation, up to a maximum of £75k for one year.

Arrangements for the outgoing Chief Executive Officer (audited)

Susan Davy retired from the Board as Chief Executive Officer on 31 December 2025. All remuneration arrangements relating to Susan's departure were consistent with the Directors' Remuneration Policy and the Company's incentive plan rules.

Susan received a payment in lieu of notice in respect of salary, benefits and pension for her contractual notice period of 12 months, as well as accrued but untaken holiday (capped at 60 days), totalling £735k. For the 12-month period she will continue to be entitled to (or receive a payment in lieu of) health care and car-related benefits. She also received a security related allowance of £50k, as previously agreed by the Committee prior to her departure. She received a contribution towards legal costs related to her departure and an allowance related to outplacement assistance capped at £60k. For the purposes of her legacy defined benefit pension (which ceased further accrual in 2021), she will be treated as a retiree.

Susan was eligible for an annual cash bonus in respect of 2025/26, pro-rated for time employed. Outstanding deferred bonus awards will continue to vest in accordance with their original timescales.

In line with the Remuneration Policy Susan was treated as a good leaver for the purpose of outstanding Long-Term Incentive Plan awards, which will be pro-rated for time and subject to performance assessed at the end of the relevant performance period. All awards will remain subject to malus and clawback provisions.

Susan is also subject to the post-employment shareholding requirement for two years following cessation of employment.

There were no other payments to any past Directors or payments for loss of office during 2025/26.

Non-Executive Directors' remuneration Single figure of remuneration (audited)

	2025/26			2024/25		
	Fees (£000)	Taxable benefits (£000)	Total fees (£000)	Fees (£000)	Taxable benefits (£000)	Total fees (£000)
David Sproul ¹	312	0	312	187	0	187
Iain Evans	95	0	95	93	0	93
Jon Butterworth	75	0	75	73	0	73
Loraine Woodhouse	86	0	86	84	0	84
Dorothy Burwell ²	84	0	84	67	0	67
Andrea Blance ³	83	0	83	–	–	–
Sir Andrew Haines ⁴	29	0	29	–	–	–

1. David Sproul received an additional £12,000 due to taking on the role of Executive Chair from 1 January 2026 to 31 March 2026 during the period of CEO transition.

2. Dorothy Burwell was appointed as ESG Chair on 1 April 2025.

3. Andrea Blance was appointed as Remuneration Committee Chair on 8 April 2025.

4. Sir Andrew Haines was appointed to the Board on 1 November 2025.

Non-Executive Directors' fees and benefits

During the year, the fees for Non-Executive Directors were reviewed and increased with effect from 1 April 2026. Non-Executive fees were increased by 3% which is below the average increase awarded to the wider workforce. The table below sets out the fee structure in full.

Non-Executive Director fees

	From 1 April 2026	From 1 April 2025
Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Group's strategy.		
Chair fee ¹	£309,000	£300,000
Basic Non-Executive Director fee	£71,359	£69,280
Additional fees		
Senior Independent Director	£11,788	£11,445
Chair of Audit Committee	£17,677	£17,162
Chair of Remuneration Committee	£15,333	£14,887
Chair of ESG Committee	£15,333	£14,887
Chair of Health and Safety Committee	£5,894	£5,722

1. When appropriate for the efficient carrying out of duties, the Chair is provided with a driver and a vehicle. The Chair is entitled to expenses on the same basis as for other Non-Executive Directors.

Directors' service contracts and letters of appointment

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown below.

Executive Directors	Date of appointment	Notice period
Keith Haslett	1 April 2026	12 months
Laura Flowerdew	11 July 2024	12 months
Non-Executive Directors	Date of initial letter of appointment	Expiry date of appointment
David Sproul	1 July 2024	30 June 2027
Iain Evans	16 June 2018	31 August 2027
Jon Butterworth	1 August 2020	31 July 2026
Lorraine Woodhouse	1 December 2022	30 November 2027
Dorothy Burwell	1 December 2022	30 November 2027
Andrea Blance	8 April 2025	7 April 2028
Sir Andrew Haines	1 November 2025	30 October 2028

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side. The contract has a normal retirement age of 67, except where otherwise agreed by both the Executive Director and the Company.

The policy is for Non-Executive Directors' letters of appointment to contain a three-month notice period from either side. All Non-Executive Directors are subject to annual re-election and letters of appointment are for an initial three-year term.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown above.

Outside appointments

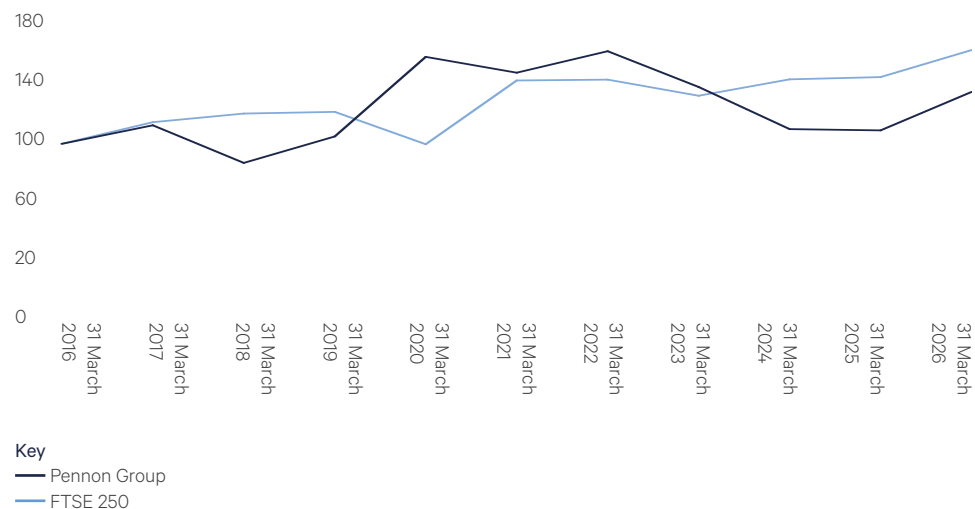
Executive Directors may accept one board appointment in another company. Board approval must be sought before accepting an appointment. Fees may be retained by the Director. Susan Davy remained a Non-Executive Director of Restore plc throughout 2025/26. Laura Flowerdew does not hold any additional appointments. No other outside company appointments are held by the Executive Directors other than with industry bodies or governmental or quasi-governmental agencies.

Additional contextual information

Historical TSR

The graph below shows the value, over the 10-year period ended on 31 March 2026, of £100 invested in Pennon Group on 1 April 2016 compared with the value of £100 invested in the FTSE 250 Index. The FTSE 250 Index is a broad equity market index of which the Company was a constituent until the end of the period.

Total shareholder return – since April 2016 Value of £100 invested on 31 March 2016



Directors' Remuneration report continued

Historical Chief Executive Officer remuneration

The table below provides a summary of the Chief Executive Officer's single figure remuneration over the past 10 years, as well as the payout and vesting levels of variable pay plans in relation to the maximum opportunity.

	2016/17	2017/18	2018/19	2019/20	2020/21	2020/21 ¹	2021/22	2022/23 ²	2023/24 ³	2024/25 ⁴	2025/26 ⁵
	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Susan Davy	Susan Davy	Susan Davy	Susan Davy	Susan Davy	Susan Davy
Single figure of remuneration (£000)	1,318	1,153	1,351	2,135	1,337	1,930	1,527	543	812	1,098	873
Annual bonus pay-out (% of maximum)	84.0	87.0	91.0	78.0	79.2	78.1	30.7	0.0	0.0	42.4	17.5
LTIP vesting (% of maximum)	20.4	0.0	32.0	86.6	89.9	89.9	88.2	0.0	60.2	41.1	35.4%

- Chris Loughlin stepped down as Chief Executive Officer on 31 July 2020 and was succeeded by Susan Davy. Consistent with the single figure, the figures for Susan Davy relate to the whole of 2020/21, including the portion of the year when she was Chief Financial Officer. The LTIP award for Chris Loughlin was pro-rated to reflect service within the performance period.
- For 2022/23, Susan Davy recommended that her bonus and 2020 LTIP were forgone. An equivalent value was diverted for a future issuance under the Company's WaterShare+ scheme.
- For 2023/24, in recognition of the current external environment, the Committee determined that no bonus would be paid to Executive Directors in respect of the year. This was consistent with management's recommendation for a zero bonus outturn.
- For 2024/25, the single remuneration figure has been adjusted from the figure published in the 2024/25 remunerations due to an annual bonus paid to Susan Davy after the Committee reviewed Ofwat guidance, and the actual valuation of Susan Davy's 2022 LTIP award based on the adjusted price on the date of vesting, being 486p.
- Susan Davy retired from the Board on 31 December 2025 and remuneration is included to this date. The bonus outturn of 17.5% of maximum follows application of Ofwat's performance related pay prohibition rules.

Percentage change in Directors' remuneration

	2021/22			2022/23			2023/24			2024/25			2025/26		
	Salary/ Fees	Benefits	Bonus	Salary/ Fees	Benefits	Bonus	Salary/ Fees	Benefits	Bonus	Salary/ Fees	Benefits	Bonus ⁷	Salary/ Fees	Benefits	Bonus
Executive Directors															
Susan Davy ¹	4%	-23%	-58%	0%	-27%	-100%	3.5%	0%	0%	0%	134.4%	-	-22%	51%	-68%
Laura Flowerdew ²	-	-	-	-	-	-	-	-	-	-	-	-	53%	34%	-44%
Non-Executive Directors															
David Sproul ³	-	-	-	-	-	-	-	-	-	-	-	-	66%		
Iain Evans	1%	-	-	3%	-	-	12%	-	-	10.3%	-	-	2%		
Jon Butterworth	35%	-	-	3%	-	-	3.5%	-	-	4%	-	-	3%		
Lorraine Woodhouse	-	-	-	-	-	-	25%	-	-	13.4%	-	-	3%		
Dorothy Burwell ⁴	-	-	-	-	-	-	3.5%	-	-	4%	-	-	25%		
Andrea Blance ⁵	-	-	-	-	-	-	-	-	-	-	-	-	-		
Sir Andrew Haines ⁶	-	-	-	-	-	-	-	-	-	-	-	-	-		
All employees															
Pennon Group plc	3%	-28%	-11%	4%	-30%	-73%	12.8%	-39%	-3.4%	7.1%	33.8%	-70.8%	27%	-26%	972%
UK employees	2%	-19%	-14%	4%	-20%	-45%	6%	-21%	-2.2%	4.2%	29.3%	78.8%	0%	-8%	27%

- Susan Davy retired and stepped down from the Board on 31 December 2025 so figures only show 9 out of 12 months' information. The increase in benefits is attributed to her security allowance paid in 2025/26.
- Laura Flowerdew was appointed to the Board as Chief Financial Officer on 11 July 2024. The increase in her salary reflects the full year, her salary increase for 2025/26 and her salary supplement during three months of 2025/26.
- David Sproul was appointed to the Board as Chair Delegate on 1 July 2024, and assumed the role on 24 July 2024. He also received an additional fee of £12,000 for being Executive Chair from 1 January 2026 to 31 March 2026, in the absence of a CEO.
- The percentage change for Dorothy Burwell for 2025/26 reflects her appointment as ESG Committee Chair on 1 April 2025.
- Andrea Blance was appointed to the Board and became Remuneration Committee Chair on 8 April 2025.
- Sir Andrew Haines was appointed to the Board on 1 November 2025.
- A bonus was paid in 2024/25 after the publication of the Annual Report and Accounts, the percentage change isn't noted as the bonus was nil in 2023/24.

Relative importance of spend on pay

	2024/25 (£ million)	2025/26 (£ million)	Percentage change
Overall expenditure on pay ¹	151.1	131.3	-13.1%
Distributions to ordinary shareholders	126.9	133.7	5.4%
Purchase of property, plant, and equipment (cash flow)	666.7	632.8	-5.1%

1. The 2024/25 figure has been updated for late adjustment made in note 13 in the 2024/25 Annual Report and Accounts. Excludes non-underlying items.

The above table illustrates the relative importance of spend on pay compared with distributions to equity holders. The purchase of property, plant, and equipment (PPE), as per the Cash Flow Statement (purchase of PPE and intangible assets less proceeds from sale of PPE), has also been included as this was the most significant outgoing for the Company in the past financial year.

Chief Executive Officer pay ratio

Our CEO pay ratio stands at 20:1 for the median employee for 2025/26. The ratio is slightly lower than in 2024/25 due to differences in the annual bonus payout due to the Water (Special Measures) Act prohibition and her stepping down from the Board on 31 December 2025. It continues at this lower level than the ratio in preceding years, partially due to our strategy of developing pay for front line roles including our commitment to paying above the Real Living Wage, which has led to an increase in median pay.

Year	Method	25th percentile (P25) pay ratio	Median (P50) pay ratio	75th percentile (P75) pay ratio
2025/26	A	26:1	20:1	16:1
2024/25 ¹	A	35:1	27:1	20:1
2023/24	A	27:1	21:1	16:1
2022/23 ²	A	20:1	16:1	12:1
2021/22 ³	A	59:1	44:1	36:1
2020/21	A	95:1	69:1	55:1
2019/20	A	87:1	68:1	50:1

1. The 2024/25 single figure has been updated as a result of reflecting the actual valuation of the closing share price on the date of vesting of the LTIP award and the bonus payment that was awarded for FY2024/25 after the Committee considered the Ofwat feedback relating to the Water (Special Measures) Act.

2. For 2022/23, the CEO recommended that her bonus and 2020 LTIP award were forgone. An amount of the equivalent value was to be diverted into a future issuance under the Company's WaterShare+ scheme. The CEO pay ratio for this year therefore does not include any variable incentive pay.

3. The CEO ratio for 2021/22 is lower than previous years, partially due to the lower salary and pension benefit received by Susan Davy, compared to her predecessor. The total single figure used in the ratio in 2020/21 was a combined total single figure pro-rated to reflect the change in CEO mid-year.

Option A has been used for the calculations as it is the most statistically accurate approach. The employees at the lower quartile, median and upper quartile (P25, P50 and P75 respectively) have been determined based on a calculation of total remuneration for the financial year 1 April 2025 to 31 March 2026. The calculations were performed delete and replace with using employee data as at 31 March 2026.

Base salary for part-time employees and new joiners within the applicable period has been converted to full-time equivalents for the purpose of the calculations.

For 2025/26 the total remuneration for the employees identified at P25, P50 and P75 is £33,060, £43,722 and £56,120 respectively. The FTE base salary of 2025/26 for the employees identified at P25, P50 and P75 is £30,569, £26,337 and £42,236 respectively. Further detail on our approach to pay in the wider organisation is set out on page 131. As the Committee spends a considerable amount of time on matters relating to remuneration arrangements for the wider workforce, we are comfortable that the median pay ratio is consistent with our wider policies on pay, reward and progression and reward for the Group as a whole.

Directors' Remuneration report continued

Share awards and shareholding disclosures

Share awards granted during 2025/26 (audited)

The table below sets out details of share awards made in the year to Executive Directors.

Executive Director	Type	Basis of award	Face value £000	Percentage vesting at threshold performance	Performance/restricted period end date	Holding period end date
Susan Davy	LTIP – conditional award	150% of salary	797	25% of maximum	31 March 2028	30 September 2030
Laura Flowerdew			713		31 March 2028	30 September 2030
Susan Davy	Deferred Bonus Shares – nil cost options	50% of bonus awarded	135	n/a	26 August 2028	26 August 2028
Laura Flowerdew			95			

LTIP awards were calculated using the share price of 458p for all participants, being the average closing price over the five dealing days preceding the normal date of grant for the 2025 LTIP, which was 1 October 2025. LTIP awards are also subject to an additional two-year holding period. The targets for the 2024 and 2025 LTIP awards are aligned to the targets for the 2023 LTIP, as shown on page 140. The deferred bonus award used a share price of 493p for participants.

Directors' shareholding and interest in shares (audited)

The Remuneration Committee believes that the interests of Executive Directors and senior management should be closely aligned with the interests of shareholders.

To support this the Committee operates shareholding guidelines of 200% of salary for both the Chief Executive Officer and Chief Financial Officer. Deferred bonuses and LTIP awards subject to a holding period only may count towards the guidelines on a net-of-tax basis. Shareholding requirements are noted on page 133.

The beneficial interests of the Executive Directors in the ordinary shares of the Company as at 31 March 2026 together with their shareholding guideline obligation and interest are shown in the table below.

	Share interests (including connected parties) at 31 March 2026*	Vested LTIP awards in holding period ¹	Deferred bonus shares ¹	SAYE	Performance shares (subject to performance conditions)	Shareholding guideline	Shareholding guideline met?
Susan Davy ²	365,749	90,337	27,505	2,744	131,104	200%	Yes
Laura Flowerdew ³	3,692	8,466	21,631	0	312,425	200%	No

1. These shares awards are not subject to further performance criteria and may therefore count towards the guideline on a net-of-tax basis.
2. Susan Davy's shareholding and interest in shares is shown as at her last day of employment, 31 December 2025.
3. Laura Flowerdew was appointed on 11 July 2024. It is therefore expected that her shareholding will be built up over the course of her tenure.

* This includes any exercised shares.

Since 1 April 2026, 119 additional ordinary shares have been acquired by Laura Flowerdew as a result of her direct participation in the Company's Share Incentive Plan and reinvestment of dividends under that Plan via the Dividend Reinvestment Plan (DRIP). There have been no other changes in the beneficial or non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2026 and 31 May 2026.

Executives are subject to shareholding guidelines, which also apply post-employment, further details can be found on page 152 of the Remuneration Policy.

Non-Executive Directors' shareholding (audited)

The beneficial interests of the Non-Executive Directors, including the beneficial interests of their spouses, civil partners, children, and stepchildren, in the ordinary shares of the Company are shown in the table below.

Director	Shares held at 31 March 2026	Shares held at 31 March 2025
David Sproul	4,635	–
Iain Evans	–	–
Jon Butterworth	2,054	2,054
Lorraine Woodhouse	3,389	3,389
Dorothy Burwell	3,389	3,389
Andrea Blance	2,000	–
Sir Andrew Haines	–	–

There have been no changes in the beneficial interests or the non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2026 and 31 May 2026.

There is no formal shareholding guideline for the Non-Executive Directors; however, they are encouraged to purchase shares in the Company.

Shareholder dilution

The Company can satisfy awards under its share plans with new issue shares or shares issued from treasury up to a maximum of 10% of its issued share capital in a rolling 10-year period to employees under its share plans. Within this 10% limit the Company can only issue (as newly issued shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans. The percentage of shares awarded within these guidelines and the headroom remaining available as at 31 March 2026 is as set out below:

	Awarded	Headroom	Total
Discretionary schemes	1.03%	3.97%	5%
All schemes	2.18%	7.82%	10%

Directors' Remuneration report continued

Details of Directors' share awards (audited)

The following table provides the outstanding share interests of Director's granted under the share schemes.

	Year of grant	Options outstanding as at 31 March 2025	Granted in year	Lapsed in year	Exercised in year	Options outstanding as at 31 March 2026 ⁴	Exercise price	Earliest nominal exercise date ³
Susan Davy	July 2021 LTIP ¹	54,430				54,430		30/06/2026
	June 2022 LTIP ¹	87,366		51,459		35,907		12/06/2027
	July 2023 LTIP	131,368		10,509		120,859		20/07/2028
	July 2024 Sharesave	2,744				2,744	405p	01/09/2027
	July 2024 LTIP ²	151,047		63,439		87,608		17/07/2029
	July 2025 Deferred Bonus Plan		27,505			27,505		26/08/2028
	October 2025 LTIP ²		173,983	130,488		43,496		30/09/2030
Laura Flowerdew	June 2022 LTIP ¹	20,599		12,133		8,466		12/06/2027
	July 2022 Sharesave ⁶	1,075		1,075			668p	01/11/2025
	July 2023 LTIP	31,303				31,303		20/07/2028
	July 2023 Deferred Bonus Plan	2,380				2,380		17/07/2026
	July 2024 Sharesave ⁶	2,744		2,744			405p	01/09/2027
	July 2024 LTIP ²	125,555				125,555		17/07/2029
	July 2025 Deferred Bonus Plan	–	19,251			19,251		26/08/2028
	October 2025 LTIP ²	–	155,567			155,567		30/09/2030

1. The performance measures applicable to the LTIP awards are detailed in the Annual Report in the year of grant, or subsequently on the Company's website if the performance measures are finalised after the Annual Report.

2. The performance criteria applicable to the 2024 & 2025 LTIP awards are disclosed on page 140 of this Annual Report.

3. Awards are subject to an additional two-year holding period.

4. For Susan Davy, the options outstanding are shown as at her last day of employment, 31 December 2025.

Malus and clawback

Details of malus and clawback provisions are set out in the Directors' Remuneration Policy.

The Committee has not applied any action under the provisions of malus and clawback during 2025/26.

The Remuneration Committee and its advisors

Andrea Blance, Iain Evans and Dorothy Burwell were members of the Remuneration Committee through the year, with Iain Evans stepping down on 31 March 2026. David Sproul, Jon Butterworth and Susan Davy attended by invitation as required. During the year, the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from the Pennon Chief People Officer, and from Deloitte LLP.

During 2018/19, Deloitte LLP was reappointed directly by the Committee with a refreshed advisory team, following a comprehensive re-tendering process. Deloitte LLP's fees in respect of advice which materially assisted the Committee during 2025/26 were £208,800 (arrived at from an hourly rate basis of charging). During the year, Deloitte LLP also provided broader reward and forensic, and regulatory advisory services to the Group. Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte LLP has been objective and independent.

Statement of voting at general meeting

The table below sets out the voting by the Company's shareholders on the resolutions to approve the Directors' Remuneration report at the 2025 AGM and the Remuneration Policy at the 2023 AGM, including votes for, against and withheld.

Annual report on remuneration (2025 AGM)	
For % (including votes at the Chair's discretion)	99.06%
Against %	0.94%
Withheld number	9,390,744
Remuneration policy (2023 AGM)	
For % (including votes at the Chair's discretion)	93.63%
Against %	6.37%
Withheld number	48,501

A vote withheld is not counted in the calculation of the proportion of votes for and against a resolution.

Directors' Remuneration report compliance

This Directors' Remuneration report has been prepared in accordance with the provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (as amended). It also complies with the requirements of the Financial Conduct Authority's Listing Rules and the Disclosure and Transparency Rules. The UK Corporate Governance Code also sets out principles of good governance relating to directors' remuneration, and this report describes how these principles are applied in practice. The Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions. The above regulations also require the External Auditor to report to shareholders on the audited information within the annual report on remuneration which is part of the Directors' Remuneration report. The external auditor is obliged to state whether, in its opinion, the relevant sections have been prepared in accordance with the Companies Act 2006.

The External Auditor's opinion is set out on pages 160 to 164 and the audited sections of the annual report on remuneration are identified in this report. On behalf of the Board:

Andrea Blance

Chair of the Remuneration Committee

10 June 2026

Remuneration Policy 2026

Introduction

The previous Directors' Remuneration Policy was approved by shareholders at the 2023 AGM on 20 July 2023 with a 94% vote in support. In line with the normal three-year renewal cycle, a new Remuneration Policy, as described in this part of the report, will be presented to shareholders for approval at the 2026 AGM on 8 July 2026, and if approved will come into effect from this date.

The Directors' Remuneration Policy will be displayed on the Company's website at www.pennon-group.co.uk/investor-information, immediately after the 2026 AGM and will be available upon request from the Group Company Secretary.

Changes to Remuneration Policy

Our current pay model of a bonus plus performance-based LTIP reflects mainstream FTSE market practice; and contains a number of best practice governance features. During the year, the Committee debated how pay arrangements could be best structured to support the delivery of Pennon's ambitious strategy and the interests of our various stakeholders. However, the Committee concluded that implementing major changes at this time was not appropriate in the context of the CEO transition. The Policy set out on the following pages has therefore largely been rolled forward from the previous Policy approved by shareholders. Minor changes have been made to reflect best practice and to ensure the Policy has sufficient flexibility to aid its effective operation.

Following the AGM we will initiate a more holistic review of our approach to remuneration. In line with our normal practice we will engage with our major shareholders regarding any material changes that are proposed in response to this review. We will also consider evolving guidance from Ofwat and market practice in the sector as part of our review.

Future policy table – Executive Directors

The table below sets out the elements of the remuneration package for the Executive Directors.

Fixed pay

Base salary

Purpose and link to strategy	Set at a competitive level to attract and retain high calibre candidates to meet the Company's strategic objectives in an increasingly complex business environment. Base salary reflects the scope and responsibility of the role as well as the skills and experience of the individual.
Operation	Salaries are generally reviewed annually and any changes are normally effective from 1 April each year. In normal circumstances, salary increases will not be materially above the general employee pay increases. However, the Committee reserves the right to make increases above those made to general employees, for example in circumstances including (but not limited to) an increase in the scope of the role, to address market competitiveness or to reflect an individual's development in a role.
Maximum	When reviewing salaries the Committee has regard to the following factors: <ul style="list-style-type: none"> • Salary increases generally for all employees in the Company and the Group. • Market rates. • Performance of the individual and the Company and/or development in the role. • Other factors it considers relevant. <p>There is no overall maximum.</p>
Performance framework	None, although individual and Company performance are factors considered when reviewing salaries.

Benefits

Purpose and link to strategy	Benefits provided are consistent with the market and level of seniority to aid retention of key skills to assist in meeting strategic objectives.
Operation	Benefits currently include the provision of a company vehicle, fuel, health insurance and life assurance. Other benefits may be provided if the Committee considers it appropriate. In the event that an Executive Director is required to relocate, relocation benefits may be provided.
Maximum	The cost of insurance benefits may vary from year to year depending on the individual's circumstances. There is no overall maximum benefit value but the Committee aims to ensure that the total value of benefits remains proportionate.
Performance framework	None.

Future policy table – Executive Directors continued

Fixed pay continued

Pension-related benefits

Purpose and link to strategy	Provides funding for retirement and aids retention of key skills to assist in meeting the Company's strategic objectives.
Operation	The Executives are eligible to participate in the Pennon Group Defined Contribution Scheme at the same level of benefit as the wider workforce. A cash allowance may be provided as an alternative and/or in addition where pension limits have been reached.
Maximum	The maximum pension benefit will normally be capped at a level comparable to the pension benefit available to the majority of employees. This is currently 10% of salary.
Performance framework	None.

All-employee share plans

Purpose and link to strategy	Align the interests of all employees with Company share performance.
Operation	Executive Directors may participate in all-employee plans, including HMRC approved plans, on the same basis as employees.
Maximum	The maximum will be consistent with other employees. For HMRC approved plans, the maximum will be as prescribed under the relevant legislation governing the plans.
Performance framework	None.

Variable pay

Annual bonus

Purpose and link to strategy	Incentivises the achievement of annual performance objectives aligned to the strategy of the Company.
Operation	Annual bonuses are calculated following finalisation of the financial results for the year to which they relate. A portion of any bonus is normally deferred into shares in the Company which are usually released after three years. Normally 50% is deferred. Dividends (or equivalents) may be paid/accrued on deferred shares. Awards are subject to malus and clawback provisions. Further details are set out on pages 152 to 153.
Maximum	The maximum bonus potential is 125% of base salary.
Performance framework	Performance targets may relate to financial, operational, strategic and environmental objectives, which are reviewed each year. Performance criteria will reflect strategic priorities and regulatory requirements. The level of payment for threshold performance will vary depending on the nature of the metric and the stretch of the target set. There is normally scaled payment for performance between the threshold and maximum performance hurdle. The measures, weighting and threshold levels may be adjusted for future years. Following the financial year end the Committee, with advice from the Chair of the Board and following appropriate input from other Board Committees, assesses the extent to which targets are met and determines bonus levels accordingly. The Committee may exercise its discretion in certain circumstances; further details are set out on pages 152 to 153.

Remuneration Policy 2026 continued

Long-term incentive plan (LTIP)

Purpose and link to strategy Provides alignment to the achievement of the Company's strategic objectives and the delivery of sustainable long-term value to shareholders.

Operation Annual grant of conditional shares (or equivalent). Share awards vest subject to the achievement of specific performance conditions, normally measured over a performance period of no less than three years.

An 'underpin' applies which allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying operational and economic performance of the Company.

In addition, a two-year holding period will normally apply in respect of any shares which vest at the end of the three-year performance period.

Dividends (or equivalents) may accrue on share awards that vest.

Awards are subject to malus and clawback provisions. Further details are set out below.

Maximum The maximum annual award is 150% of base salary.

Performance framework Performance metrics and targets are set to reflect the long-term strategic priorities of the Group. Performance criteria are linked to our long-term strategy and may include a combination of financial, operational, strategic and/or shareholder-related measures. An 'underpin' applies which allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying performance of the Company.

No more than 25% of maximum vests for minimum performance. However, this may be adjusted to reflect the nature of the metrics and stretch of targets. The Committee will keep the performance measures and weightings under review and may change the performance condition for future awards if this were considered to be aligned with the Company's interests and strategic objectives, as well as the impact of regulatory changes. In certain circumstances, the Committee may exercise its discretion and adjust performance outcomes. Further details are set out on this page and on page 153.

The Committee would usually seek to consult with major shareholders in advance of any proposed material change in performance measures.

Other features

Shareholding guidelines

Purpose and link to strategy Create alignment between Executives and shareholders and promote long-term stewardship.

During the course of their tenure, Executive Directors are expected to build up a shareholding equivalent to 200% of salary.

Departing Executive Directors are also expected to retain a material interest in Company shares for two years after they step down from the Board. Executives will normally be expected to hold 200% of salary (or actual relevant holding, if lower) on departure, with the guideline reducing to 100% of salary after 12 months. This guideline will apply to all share awards vesting after the adoption of this Remuneration Policy.

Operation The Committee retains discretion to waive this guideline in certain cases (e.g. compassionate circumstances).

Notes to the policy table

Performance measures and targets

There is a strong emphasis on performance related executive pay demonstrating a substantial link between rewards and delivery of stretching performance objectives. The performance conditions for the annual bonus and LTIP are selected by the Committee each year to provide a rounded assessment of performance including metrics which drive financial resilience and key performance indicators for customers, communities and the environment. These metrics are used by the Board to oversee the operation of the businesses.

The Committee may amend performance measures, weightings and targets, in the context of the Company's strategy, the impact of changes to the regulatory framework, accounting standards and any other relevant factors.

The measurement of performance against performance targets and determination of incentive outcomes is at the Committee's discretion. Adjustments may be made to reflect underlying financial or non-financial performance of the individual or the Group, consideration of overall performance in the round, and/or circumstances unforeseen or unexpected when the targets were set. When making this judgement, the Committee may take into account all factors deemed relevant.

Performance conditions may also be replaced or varied if an event occurs or circumstances arise which cause the Committee to determine that the performance conditions have ceased to be appropriate. If the performance conditions are varied or replaced, the amended conditions must, in the opinion of the Committee, be fair, reasonable and materially no less difficult than the original condition when set.

The Committee would clearly disclose any material changes to performance measures, and seek shareholder views as appropriate.

Malus and clawback

Malus and clawback provisions apply to all incentive awards. These provisions enable awards to either be forfeited prior to delivery, repaid or made subject to further conditions where the Committee considers it appropriate in the event of any significant adverse circumstances. For awards granted under the term of this policy, the circumstances in which malus and clawback may be applied include a financial misstatement, error in calculation, material failure of risk management, serious reputational damage, serious corporate failure or misconduct. In respect of the annual bonus, clawback may be applied for the period of three years following determination of the cash bonus. Under the LTIP, clawback may be applied until the end of the holding period. The Committee considers these time horizons appropriate as they align with our annual bonus deferral period and the combined performance and holding period under the LTIP, and provides sufficient time for any potential circumstances to be identified.

Discretion

In line with the 2024 Corporate Governance Code, the Remuneration Committee has ensured that it will maintain the ability to override the formulaic outcomes for future awards under the annual bonus and LTIP where the outcomes are not considered by the Committee to be appropriate (e.g. unreflective of underlying performance), as outlined above.

The Committee will disclose the use of any such discretion.

Operation of executive share plans

The long-term incentive plan will be operated in accordance with the rules of the plan as approved by shareholders. The deferred bonus awards will be governed by the rules adopted by the Board from time to time. Awards under any of the Company's share plans referred to in this report may:

- Be granted as conditional share awards, nil-cost options or in such other form that the Committee determines has the same economic effect.
- Have any performance conditions applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy.
- Incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vests. This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis.
- Be settled in cash at the Committee's discretion (e.g. due to regulatory limitations).

On a change of control or voluntary wind up of the Company, LTIP awards may vest to the extent determined by the Committee having regard to the performance of the Company, and, unless the Committee determines otherwise, the period of time that has elapsed since grant. Deferred bonus awards may vest in full. Alternatively, participants may have the opportunity, or be required, to exchange their awards for equivalent awards in another company, although the Committee may decide in these circumstances to amend the performance conditions.

The Committee also has the discretion to treat any variation of the Company's share capital or any demerger, special dividend or other transaction that may affect the current or future value of awards as an early vesting event on the same basis as a change of control.

Detailed provisions

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretion available in connection with such payments) outside the policy set out above where the terms of the payment were agreed (i) before the 2014 AGM (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

The Committee may make minor amendments to the policy (for example for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

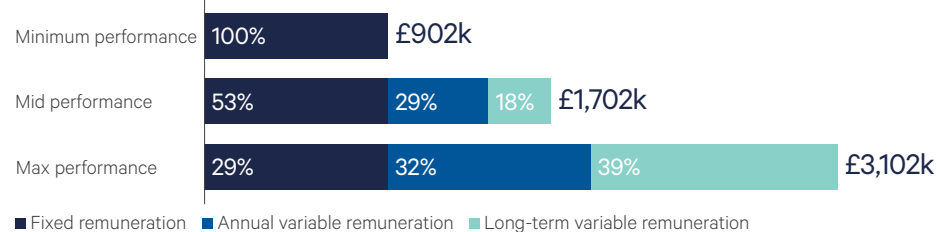
Differences in remuneration policy for all employees

When setting remuneration for Executive Directors the Committee considers relevant information about pay and conditions in the Group. Senior executives and Executive Directors generally receive a higher proportion of their total pay in the form of variable remuneration and share awards. All employees of the Group are entitled to base salary and pension provision including life assurance. In addition, all colleagues are entitled to participate in annual bonus arrangements, the levels of which are based on the seniority and level of responsibility. Long-term incentive share awards are only available to senior executives and Executive Directors, and certain benefits are generally available only to more senior employees at management level and above.

Illustration of applications of Remuneration Policy

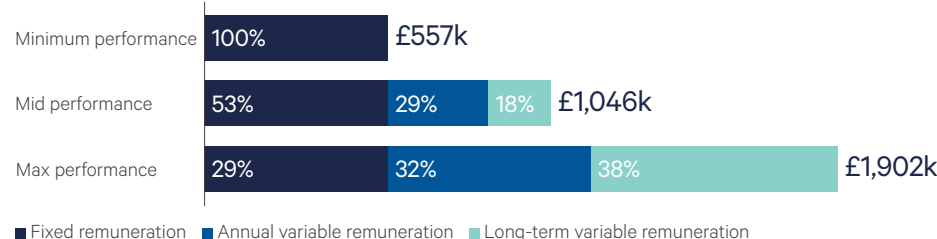
Keith Haslett

Chief Executive Officer



Laura Flowerdew

Chief Financial Officer



Minimum performance

Fixed pay, which constitutes base salary, pension-related benefits and benefits in kind. These values are made up of the salaries for 2026/27 (set out on pages 131 and 132) and the expected value of ongoing benefits. The pension value is 10% of salary.

Mid performance

Fixed pay and 50% of the maximum annual bonus and 25% of the maximum long-term incentive award.

Maximum performance

Fixed pay and 100% vesting of the annual bonus and of long-term incentive awards.

No adjustments have been made for potential payment of dividends. Benefits from all-employee schemes have also been excluded.

As long-term share awards are granted in shares and subject to stretching performance criteria, the value of the award can vary significantly depending on the extent to which targets are achieved and the movement in the share price. For example, if the share price increased by 50% over the relevant vesting and holding period, the maximum values shown in the charts above would increase to £3,702k for the CEO and £2,269k for the CFO. Conversely if the share price was to fall by 50%, the maximum values shown in the charts would reduce to £2,502k for the CEO and £1,535k for the CFO.

Remuneration Policy 2026 continued

Future policy table – Non-Executive Directors

Fees	
Purpose and link to strategy	Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Group's strategy.
Operation	<p>Fees are set by the Board with the Non-Executive Chair's fees being set by the Committee. The relevant Directors are not present at the meetings when their fees are being determined.</p> <p>The Non-Executive Chair and Non-Executive Directors normally receive a basic fee and do not participate in any of the Company's incentive arrangements or receive pension-related benefits. A portion of any fees may be delivered in shares.</p> <p>Non-Executive Directors may receive an additional fee for any specific Board responsibility such as membership or chairmanship of a Committee or occupying the role of Senior Independent Director.</p> <p>In reviewing the fees, the Board, or Committee as appropriate, consider the level of fees payable to Non-Executive Directors in other companies of similar scale and complexity.</p>
Maximum	Total fees paid to Non-Executive Directors will remain within the limits stated in the Articles of Association or as otherwise approved by shareholders.
Benefits	
Operation	<p>Where appropriate limited role-appropriate benefits may be provided.</p> <p>Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company (including any tax due on the expenses).</p> <p>The Chair's benefits include the provision of a driver and vehicle, when appropriate for the efficient carrying out of their duties.</p>
Maximum	None.

Approach to recruitment remuneration

When considering the appointment of Executive Directors, the Committee seeks to balance the need to offer remuneration to attract candidates of sufficient calibre to deliver the Company's strategy whilst remaining mindful of the need to pay no more than is necessary.

The Committee will appoint new Executive Directors with a package that is in line with the Remuneration Policy that has been agreed by shareholders and is in place at the time.

Other elements of remuneration would be in line with the Company's policy set out in the future policy.

The maximum variable pay opportunity on recruitment (excluding 'buyouts') would be 275% of salary, which is in line with the future policy table. The Committee may determine for the first year of appointment that incentives may be subject to different weightings or objectives.

To facilitate recruitment, it may be necessary to recompense a new Executive Director for the expected value of remuneration or contractual arrangements forfeited on joining the Company ('buyout' awards). The Committee may make buyout awards in accordance with the Listing Rules or utilising any other incentive plan operated by the Group from time-to-time. The Committee will ensure that any such award would not exceed the value of arrangements forfeited and be made only where a Director is able to demonstrate that a loss has been incurred. Any buyout would take into account the terms of the arrangement forfeited, including in particular any performance conditions and the time over which they vest. The award would normally have time horizons which are in line with or greater than the awards forfeited. Where appropriate the exact nature of the buyout may be tailored based on the commercial circumstances at the time, provided that the value of the buyout remains comparable to arrangements forfeited.

For interim positions a cash supplement may be paid rather than salary (for example a Non-Executive Director taking on an executive function on a short-term basis).

Where an employee is promoted to the position of Executive Director (including if an Executive Director is appointed following an acquisition or merger), pre-existing awards and contractual commitments would be honoured in accordance with their established terms.

Non-Executive Directors' fees would be in line with the policy set out in the future policy table on this page.

Policy on termination of service agreements and payment for loss of office

The Company's policy is that Executive Directors' service agreements normally continue until the Director's agreed retirement date or such other date as the parties agree. Otherwise, they are terminable on up to one year's notice.

There are no liquidated damages provisions for compensation on termination within Executive Directors' service agreements. Taking into account the circumstances of any termination, the Committee may determine that a payment in lieu of notice should be made. Any such payments would be restricted to salary and benefits (including pension). In these circumstances, consideration would be given to phasing of payments and an individual's duty and opportunity to mitigate losses.

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Benefits payable may include certain one-off benefits in connection with termination, such as legal costs and outplacement support.

Any compensation payable will be determined by reference to the terms of the service contract between the Company and the employee, as well as the rules of the various incentive plans as set out in the table below.

Annual bonus	<p>Normally no bonus is payable unless an Executive Director is employed on the date of payment.</p> <p>In certain good leaver circumstances (death, disability, redundancy, retirement and any other circumstance at the Committee's discretion) a bonus may be payable. Any such bonus would be based on performance and pro-rated to reflect the period of service with performance normally assessed at the same time as other employees. The Committee retains discretion to adjust the timing and pro-rating of any award to take account of any prevailing exceptional circumstances which they consider would be fair to the Company and to the employee. Share deferral would not normally apply.</p>
Deferred shares	<p>Unvested awards would normally lapse upon cessation. In certain good leaver circumstances, the participant may retain their awards. The restricted period is not automatically terminated on cessation of employment; rather, the restricted period continues to apply as if the leaver was still in employment. However, awards may be released to participants at an earlier date following cessation of employment at the discretion of the Committee.</p> <p>Good leaver circumstances are death, injury, ill-health, disability, redundancy, retirement (with agreement of the Company), the transfer of the employing company or business or any other circumstance at the Committee's discretion.</p>
Long-term incentive plan	<p>Any unvested awards would normally lapse upon cessation of the individual's employment within the Group. In certain good leaver circumstances, awards vest to the extent determined by the Committee taking into account the extent to which the performance conditions have been satisfied, the period of time elapsed between grant and the cessation of employment and such other factors as the Committee may deem relevant. Awards would normally vest on the original normal vesting date and be released at the end of the two-year holding period (unless the Committee determines awards should be subject to earlier vesting and release dates).</p> <p>If a participant dies, an award will, unless the Committee determines otherwise, vest and be released as soon as possible following the participant's death, taking into account the extent to which the performance conditions have been satisfied and the period of time elapsed since grant.</p> <p>Good leaver circumstances are death, ill health, injury, disability, redundancy, where the participant's employer is no longer a member of the Group, where the participant is employed in an undertaking which is transferred out of the Group, or for any other reason that the Committee determines.</p> <p>All awards would lapse if a participant was summarily dismissed.</p>
All-employee awards	Leavers will be treated in accordance with the HMRC approved rules.
Other awards	Where a buyout award is made on recruitment, leaver provisions would be determined at the time of award.

Statement of consideration of employment conditions elsewhere in the Company

In setting executive remuneration the Committee takes account of employment market conditions and the pay and benefits differentials across the Group. The Committee considers annual summary reports of employee remuneration and the terms and conditions of employment within each operating company and has regard to these when considering remuneration for the Executive Directors and senior management. As part of this assessment the Committee considers various metrics including data on the ratio between CEO and all-employee pay, gender pay statistics and measures of employee engagement.

The Board engages on remuneration matters with the wider workforce, through many mechanisms including the Be the Future Forum, the Big Chat and two-way business unit communications, on which more can be read on pages 22 to 23.

Statement of consideration of shareholder views

In developing this Remuneration Policy, the Committee took into account general good governance, best practice and evolving shareholder views. We regularly engage with major shareholders to understand their views on executive pay and their feedback informs our decision-making and the approach set out in this Policy.

As detailed on page 132 to the extent that a further review of the Policy is initiated later in the year the Committee would engage with our major stakeholders as appropriate.

Directors' report



Andrew Garard
Group General Counsel and Company Secretary

Introduction

The Directors present their Annual Report and Accounts for the year ending 31 March 2026. The Directors' Report comprises this report and the entire Governance section including the Chair's Governance Statement. It has been prepared in accordance with the provisions of the Companies Act 2006 and regulations made under it. In accordance with the Financial Conduct Authority Listing Rules, the information to be included in the 2026 Annual Report and Accounts, where applicable (under Listing Rule 6.6.1), is set out in this Directors' report. Other information relevant to this report, and which is incorporated by reference, can be located as follows:

Information	Page number
Particulars of important events affecting the Company and/or its subsidiaries which have occurred since the year end	n/a to n/a
Likely future developments of the Company	10 to 13
Risk management systems	62 to 69
Certain employee and employee engagement matters as well as the disclosures below	14 to 17 and 22 to 23
How the Board has engaged with employees and had regard for employee interests	22 to 23 and 111
Business relationships/engagement with suppliers, customers and others	18 to 27
Carbon and greenhouse gas emissions, energy consumption and energy efficiency action	74 to 82
Financial risk management	177 to 179 and 175 and
Financial instruments	198 to 199

This Directors' report (including pages 96 to 159, which form part of this report) fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules.

Cautionary statement: This Annual Report has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Corporate

Articles of Association: The Articles of Association may only be amended by special resolution of the shareholders. The current Articles were adopted as the Articles of Association of the Company at the conclusion of the 2025 AGM and are available on our website.

Auditors: The External Auditor for the 2025/26 financial year was PricewaterhouseCoopers LLP. The Independent Auditors' Report starting on page 160 sets out the information contained in the Annual Report which has been audited by the External Auditor. The Audit Committee considered the performance and audit fees of the External Auditors and the level of non-audit work undertaken.

Change of control: No person holds securities in the Company carrying special rights with regard to control of the Company. All of the Company's share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions proration for time where appropriate.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as bank loan agreements, Eurobond documentation, hybrid capital securities documentation, private placement debt and employees' share plan. This may result in certain funding agreements being altered or repaid early. The impact of employees' share plans is not considered significant.

Other agreements: There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

Final dividend: The Board recommends a final dividend of 20.03 pence per ordinary share to be paid on 4 September 2026 to shareholders on the register on 24 July 2026, making a total dividend for the year of 29.29 pence per share. The aggregate cost of the final dividend will be £94.5 million and total dividend £138.2 million. The Strategic Report on pages 1 to 95 analyses the Group's financial results in more detail and sets out other financial information.

Political contributions: The Company has authority, in accordance with Section 366 of the Companies Act 2006, to make political donations to political parties, political organisations and incur political expenditure subject to limits approved by shareholders. No political donations were made or political expenditure incurred and no contributions were made to a non-UK political party (2024/25: £nil)

Other contributions: During the year, the Group provided a total of £0.4 million in charitable donations (2024/25: £0.1 million).

Directors

Details of the Directors who served in the year and to the date of this report can be found on page 96. Biographies for Directors currently in office can be found on pages 100 to 101 and on our website. During the year, Susan Davy resigned as a Director of the Company on 31 December 2025, Iain Evans resigned as a Director of the Company on 31 March 2026, Andrea Blance was appointed as a Director of the Company on 8 April 2025, Sir Andrew Haines was appointed as a Director of the Company on 1 November 2025 and Keith Haslett was appointed as a Director of the Company on 1 April 2026.

The appointment and replacement of Directors is governed by the Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Directors may from time to time appoint one or more Directors. Any such Director shall hold office only until the next AGM and shall then be eligible for appointment by the Company's shareholders in accordance with the Corporate Governance Code. Subject to annual shareholder approval, Non-Executive Directors are appointed for an initial three-year period and annually thereafter. Each Director will retire and submit themselves for election at the forthcoming AGM.

Conflicts of interest: The Board has adopted a Conflicts of Interest Policy. The Board has considered in detail the current external appointments of the Directors that may give rise to situational conflicts and, where appropriate, has authorised potential conflicts. Such authorisation can be reviewed at any time but is always subject to annual review.

Purchase of own ordinary shares: Subject to applicable law and the Company's Articles of Association, the Directors may exercise all powers of the Company, including the power to authorise the issue and/or market purchase of the Company's shares (subject to an appropriate authority being given in general meeting by the shareholders to the Directors). The Articles and a schedule of Matters Reserved for the Board can be found on our website.

At the 2025 AGM, the Directors were given the authority to purchase up to a maximum number of 47,197,167 of the Company's ordinary shares at a minimum price of the nominal value of the share and a maximum price of not more than the higher of:

- i) 5% of the average of the middle market quotations for such ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased; and
- ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venue where the purchase is carried out (the Share Buy-Back Authority).

In the period from 1 April 2025 until 10 June 2026, no further ordinary shares of 61.05 pence each in Pennon were repurchased using the Share Buy-Back Authority. All shares purchased under the Share Buy-Back Authority have been cancelled. Information on transactions in own shares is also publicly available via the regulatory information service and on Pennon's website at www.pennon-group.co.uk/investor-information/rns-announcements.

No shares were made subject to a lien or charge during the year under review and up to the date of approval of this Annual Report and Accounts. As at 1 April 2026, 5,628 shares were held in treasury, representing 0.001% of the issued share capital. No treasury shares were re-issued during the year.

Directors' insurance and indemnities: The Company has maintained Directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers throughout the year. The Company has entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope that complies with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

Disclosures

Listing Rule 6.6.1 disclosures: The Company has no long-term incentive arrangements in place under LR 9.3.2R where the only participant is a Director and the arrangement is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the individual.

Per note 8 'finance costs of £40.5 million (2024/25: £27.7 million) have been capitalised on qualifying assets included in property, plant and equipment'.

There is no other information to be disclosed under Listing Rule 6.6.1R.

DTR 3.1.2R: The Directors' interest in the ordinary shares and options of the Company are disclosed within the Directors' Remuneration Report on pages 146 to 148.

Financial risk management: The Directors have carried out a robust assessment of the principal and emerging risks facing the Group, including in relation to its business model, future performance, solvency and liquidity. Details of our principal risks and association mitigations are set out on pages 62 to 69. Note 3 to the Financial Statements gives details of the Group's financial risk management policies and related exposures. This note is incorporated by reference and deemed to form part of this report.

Going Concern: The going concern basis has been adopted in preparing these financial statements. At 31 March 2026, the Group has access to undrawn committed funds of £610.0 million and cash and cash equivalents and restricted funds of £388.3 million, totalling £998.3 million. The Group has a headroom of £186.7 million at 30 September 2027.

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 62 to 69, 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 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 30 September 2027. 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.£101.5 million; this value is considered equivalent to an extreme one-off event that could occur over the 15 month period of the assessment to 30 September 2027, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the 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.

Directors' report continued

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 2027, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, management has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosure. The expected environmental impact of climate change on the water business has been modelled noting that the physical risks are increasing. It is likely that the 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 2025 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 2026 are not expected to have a material impact on the Group's and the parent company's net assets or results.

Data: As part of our business activity, the Group processes large amounts of personal data. The Group recognises that to enable this use of personal data it is critical that we continue to build on our approach to applying privacy in a lawful and ethical way. A programme of work to support this has been led by our data governance team. The work includes making improvements to our data governance framework and delivering our data privacy function. We have a number of policies, procedures and tools to support this. Compliance with these policies is mandatory. All colleagues undergo regular training to remind them of their responsibilities under these policies.

Employment policies and employee involvement

Continuous improvement: The Group has a culture of continuous improvement through investment in people at all levels within the Group. The Group is committed to pursuing equality and diversity in all its employment activities including recruitment, training, career development and promotion and ensuring there is no bias or discrimination in the treatment of people. In particular, applications for employment are welcomed from persons with disabilities, and special arrangements and adjustments as necessary are made to ensure that applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible the opportunity is taken to retrain people who become disabled during their employment to maintain their employment within the Group.

Policies: The Group has policies in place covering health and safety, equal opportunities, diversity and inclusion, ethics and employee relations. Further detail of the contents of the diversity and inclusion policy are set out in the report of the Nomination Committee on page 118. Also, information regarding the employee diversity is provided on pages 15 to 16 and 137. The Board's activities in relation to assessing and monitoring culture can be found in the Corporate Governance Statement on page 163.

Freedom of association: Pennon respects the right to freedom of association and employees are consulted regularly about changes which may affect them either through their trade union appointed representatives or consultation groups or by means of their elected representatives at the Employee Engagement Forum. These forums, together with regular meetings with particular groups of employees, are used to ensure that employees are kept up-to-date with the business performance of their employer and the financial and economic factors affecting the performance of the Group. The Group also cascades information to all employees to provide them with important and up-to-date information about key events and to obtain feedback from them on a monthly basis. Further details of employee engagement and employment matters relating to the Group are set out on pages 22 to 23 of the Strategic Report.

Share ownership: The Group encourages share ownership among its employees by operating an HMRC approved Sharesave Scheme and Share Incentive Plan. Following shareholder approval at the 2024 AGM, this scheme and plan were amended to provide for the increased savings limits approved by the Government At 31 March 2026, approximately 42% (2024/25: 33%) of the Group's employees were participating in these plans.

Modern Slavery Act: Our people are fundamental to our business, and we remain committed and passionate about supporting our staff, customers and communities to thrive in creating an environment where everyone can feel safe and supported. We have a clear zero-tolerance approach to modern slavery and are committed to playing our part in helping eradicate it by having systems and processes to monitor, assess and reduce the risk of forced labour and human trafficking.

We remain focused on improving our risk assessment and the widening of our engagement. We have continued to engage and raise awareness, through internal training, and by continuing as a member of Slave Free Alliance.

We are part of a utilities sector working group which shares best practice across our industry. We will continue to work hard to tackle this issue collaboratively with our partners, employees, suppliers, and peers, to evolve our approach to ensure it remains effective. Our latest Modern Slavery Statement can be found at: <https://www.pennon-group.co.uk/sites/default/files/attachments/pdf/pennon-modern-slavery-statement-2025.pdf>

Greenhouse gas emissions: Details of our GHG emissions can be found in the Strategic Report on page 81.

Energy usage: Details of our Energy usage can be found in the Strategic Report on page 82.

Research and development: Research and development within the Group involving water and wastewater treatment processes amounted to £1.2 million during the year (2024/25: £1.1 million).

Overseas branches: The Company has no overseas branches.

Shares

Issued share capital: Details of the Company's issued share capital, consisting of ordinary shares of nominal value 61.05 pence each, are set out in note 34 to the financial statements. All of the issued shares are fully paid up and quoted on the London Stock Exchange.

In addition, the Company issued and allotted 6,882 ordinary shares in the Company under the terms of the Pennon Sharesave Plan 2025.

Rights: The rights attaching to the Company's ordinary shares are set out in the Articles of Association. There are no securities carrying special rights.

Restrictions: There are no restrictions on the transfer of issued ordinary shares of the Company or on the exercise of voting rights attached to them, except:

- where the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006; or
- where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers. There are no persons with special rights regarding control of the Company. No shares issued under the employee share schemes have rights with regard to control of the Company that are not exercisable directly by the employee.

Substantial shareholders: Details of significant direct or indirect holdings of securities of the Company are set out in the shareholder analysis on page 223. The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities or on voting rights.

Authority to purchase own shares: The Directors also intend to renew the power to make purchases of the Company's own shares in issue as set out above up to an aggregate nominal value of:

- I. £ 96,038,171 (such amount to be reduced by any shares allotted or rights granted under (ii) below in excess of £ 96,038,171); and
- II. £ 192,105,155 by way of a pre-emptive offer (such amount to be reduced by any shares allotted or rights granted from (i) above), similar to that approved by shareholders at the 2025 AGM. In addition, shareholders approved at the 2025 AGM, resolutions giving the Directors a limited authority to allot shares for cash other than pro rata to existing shareholders. These resolutions remain valid until the conclusion of this year's AGM. Similar resolutions will be proposed at the 2026 AGM. The Directors have no present intention to issue ordinary shares other than pursuant to the Company's employee share schemes.
- III. The Directors were also given the authority by shareholders at the 2019 AGM, to allot a single non-cumulative redeemable preference share of one penny nominal value (the WaterShare+ Share), the rights and restrictions in relation to which are set out in Article 5A of the Company's Articles of Association. The share was allotted on 20th October 2020.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company; and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the Annual Report and Accounts and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in pages 100 to 101 confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the group;

- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the company; and
- the Annual Report and Accounts, including the Strategic Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

- So far as each of the Directors is aware, there is no relevant audit information of which the Group's and Company's auditors is unaware; and
- Each of the Directors has taken all the steps each Director ought to have taken individually as a Director in order to make herself or himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' report consisting of pages 156 to 159 was approved by the Board on 10 June 2026.

By order of the Board

Andrew Garard

Group General Counsel and Company Secretary

10 June 2026

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 2026 and of the group's profit 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 2026 (the "Annual Report"), which comprise:

- the Consolidated and Company balance sheets as at 31 March 2026;
- the Consolidated statement of profit or loss for the year then ended;
- the Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of changes in equity for the year then ended;
- the Company statement of changes in equity for the year then ended;
- the 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 manual adjustments 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: £12,900,000 (2024/25: £10,400,000) based on 1% of Revenue.
- Overall company materiality: £19,650,000 (2024/25: £17,900,000) based on 1% of Total assets.
- Performance materiality: £9,650,000 (2024/25: £7,800,000) (group) and £14,700,000 (2024/25: £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.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition in relation to the accrued income for measured water services (group)</p> <p>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 judgement 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 judgemental and therefore the position adopted is subjective.</p>	<p>As part of our audit of the directors' judgement over the level of manual adjustments required:</p> <ul style="list-style-type: none"> • We have performed walkthrough procedures to understand the process for calculating the accrued income, with a specific focus on the directors' methodology, including reviewing accounting papers supporting the estimation; • We performed lookback procedures over the directors' historical forecasting to assess the accuracy of the manual adjustments applied; • We performed post year-end lookback procedures over the 2025/26 accrued income based on amounts subsequently billed in April 2026; and • We developed an independent range estimate to assess the reasonableness of the estimate generated by the directors. <p>Based on our procedures, the conclusion that the level of manual adjustments applied was reasonable is consistent with the evidence obtained.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of the expected credit loss provision for household customer trade receivables (group)</p> <p>The expected credit loss provision for household customer balances is calculated using a combination of system generated information on historic debt recovery rates and the directors' judgement of whether manual adjustments are necessary to reflect the future likely level of cash collections where these are expected to not be represented by historic losses. We focussed on this area because the key assumptions driving whether manual adjustments are required are subjective and require the directors to apply judgement. The key assumption related to these manual adjustments is whether historic level of collections is indicative of the ability to collect at the same levels in the future. The risk of non-recovery from customers varies, depending on a number of factors which include, but are not limited to; increases to inflation and water tariffs, changes to customer support programmes, whether the household customer no longer occupies a property in the area and the level of expected leakage.</p>	<p>As part of our audit of the directors' judgement over the level of manual adjustments required:</p> <ul style="list-style-type: none"> • We have performed walkthrough procedures to understand the process for calculating the expected credit loss provision, with a specific focus on the directors' methodology for applying manual adjustments; • We have considered the key factors relating to non-recovery through review of external macroeconomic data and the post balance sheet collections data for April 2026 to assess the impact on the provision held; • We developed an independent range estimate to assess the reasonableness of the estimate generated by the directors; and • We have understood the nature and relevance of the manual adjustments posted validating the basis of the adjustment to supporting evidence. <p>Based on our procedures, the conclusion that the level of manual adjustments applied was reasonable is consistent with the evidence obtained.</p>
<p>Carrying value of investment in subsidiary undertakings (parent)</p> <p>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.</p>	<p>We evaluated the directors' determination of whether there were any other indicators of impairment. Our procedures included:</p> <ul style="list-style-type: none"> • comparing the carrying value of investment with the market capitalisation of the group at 31 March 2026; and • considering the group's current trading performance. <p>Overall, we found the assessment of the carrying value of investment in subsidiary undertakings and associated disclosures to be consistent with the evidence obtained.</p>

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

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.

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. 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 company is comprised of one reporting unit which was subject to a full scope audit by the group audit team for the purposes of the company financial statements.

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 understanding of the business and remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any additional risks of material misstatement, or material inconsistencies between the financial statements and the other climate related information presented.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£12,900,000 (2024/25: £10,400,000).	£19,650,000 (2024/25: £17,900,000).
How we determined it	1% of Revenue	1% of Total assets
Rationale for benchmark applied	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 between £4,800,000 and £11,600,000. 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% (2024/25: 75%) of overall materiality, amounting to £9,650,000 (2024/25: £7,800,000) for the group financial statements and £14,700,000 (2024/25: £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 £645,000 (group audit) (2024/25: £500,000) and £982,000 (company audit) (2024/25: £895,000) 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, where the directors' assessment covered the period of 15 months from the date of approval of the Annual Report and Accounts to September 2027;
- Understanding the key assumptions the directors have applied in developing their base case and severe but plausible downside scenarios. We challenged various aspects of the directors' base case and downside scenarios including consideration of other potential downside risks that were not factored into the directors' downside scenario;
- Assessing the accuracy of the cash flow forecast prepared in the prior years so as to assess the ability of the directors to prepare accurate forecasts;
- Obtaining and understanding the terms of the 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 assess that there is sufficient liquidity and no forecast covenant breaches during the going concern period;
- Assessing the extent of mitigating actions that could be taken by the directors, if necessary, to increase liquidity or to prevent a trigger or default event arising against the covenants in place;
- 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 2026 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the 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 in respect of the financial statements, 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.

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

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, the incorrect classification of items as non-underlying in the Income Statement and management bias in significant accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions among the engagement personnel covering the potential for material misstatements due to error or fraud, the risks associated with related parties and emphasis on the need to maintain professional scepticism throughout the engagement;
- Inquiries of the directors and others within the entity, including those outside of finance, as to their knowledge, awareness and concerns regarding fraud, or breaches in laws and regulations;
- Identification and testing of journal entries that met our risk criteria, in particular any journal entries posted with unusual account combinations that hit our risk criteria and incorporating an element of unpredictability in the nature, timing and extent of audit procedures performed;
- Testing non-underlying items and assessing the judgement made by the directors over their classification;
- Testing significant accounting estimates and judgements made by the directors;
- Reading the minutes of the Board meetings to identify any inconsistencies with other information provided by management;
- Reviewing matters raised through the group's whistleblowing process insofar as they relate to the financial statements;
- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with laws and regulations;
- Reviewing internal audit reports that related to the financial statements; and
- Reviewing legal expense accounts and other correspondence to identify items which may indicate the existence of material legal claims.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the 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

We were first appointed by the company for the financial year ended 31 March 2025. Our uninterrupted engagement covers two financial years.

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
10 June 2026

Consolidated statement of profit or loss

For the year ended 31 March 2026

	Notes	Before non-underlying items 2026 £m	Non-underlying items (note 6) 2026 £m	Total 2026 £m	Before non-underlying items 2025 £m	Non-underlying items (note 6) 2025 £m	Total 2025 £m
Revenue	5	1,291.4	-	1,291.4	1,047.8	-	1,047.8
Operating costs	7						
Employment costs		(131.3)	(4.8)	(136.1)	(151.1)	(11.7)	(162.8)
Raw materials and consumables used		(40.0)	-	(40.0)	(51.7)	(0.2)	(51.9)
Other operating expenses		(581.4)	(15.9)	(597.3)	(499.7)	(25.7)	(525.4)
Financial assets impairment		(19.5)	-	(19.5)	(9.7)	-	(9.7)
Earnings before interest, tax, depreciation and amortisation	5	519.2	(20.7)	498.5	335.6	(37.6)	298.0
Depreciation, amortisation and impairment	7	(193.7)	-	(193.7)	(187.1)	-	(187.1)
Operating profit/(loss)	5	325.5	(20.7)	304.8	148.5	(37.6)	110.9
Finance income	8	21.9	-	21.9	15.0	-	15.0
Finance costs	8	(213.3)	-	(213.3)	(199.4)	-	(199.4)
Net finance costs	8	(191.4)	-	(191.4)	(184.4)	-	(184.4)
Share of post-tax profit from associated companies	21	1.0	-	1.0	0.8	-	0.8
Profit/(loss) before tax	5	135.1	(20.7)	114.4	(35.1)	(37.6)	(72.7)
Taxation (charge)/credit	9	(25.9)	4.1	(21.8)	7.0	8.9	15.9
Profit/(loss) for the year		109.2	(16.6)	92.6	(28.1)	(28.7)	(56.8)
Attributable to:							
Ordinary shareholders of the parent				91.5			(57.9)
Non-controlling interests				1.1			1.1
Earnings per ordinary share (pence per share)	11						
Basic				19.4			(16.1)
Diluted				19.3			(16.1)

The above results were derived from continuing operations. The notes on pages 171 to 217 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2026

	Notes	Before non-underlying items 2026 £m	Non-underlying items (note 6) 2026 £m	Total 2026 £m	Before non-underlying items 2025 £m	Non-underlying items (note 6) 2025 £m	Total 2025 £m
Profit/(loss) for the year		109.2	(16.6)	92.6	(28.1)	(28.7)	(56.8)
Other comprehensive (loss)/income							
Items that will not be reclassified to profit or loss							
Remeasurement of defined benefit obligations	31	(1.5)	-	(1.5)	3.5	-	3.5
Tax relating to components of other comprehensive income	9	0.9	-	0.9	(0.9)	-	(0.9)
Total items that will not be reclassified to profit or loss		(0.6)	-	(0.6)	2.6	-	2.6
Items that may be reclassified subsequently to profit or loss							
Loss on cash flow hedging		(6.7)	-	(6.7)	(19.7)	-	(19.7)
Hedging losses recycled to profit or loss		7.5	-	7.5	15.4	-	15.4
Tax relating to components of other comprehensive income	9	(0.2)	-	(0.2)	2.4	-	2.4
Total items that may be reclassified subsequently to profit or loss		0.6	-	0.6	(1.9)	-	(1.9)
Other comprehensive income for the year net of tax	37	-	-	-	0.7	-	0.7
Total comprehensive income/(loss) for the year		109.2	(16.6)	92.6	(27.4)	(28.7)	(56.1)
Total comprehensive income/(loss) attributable to:							
Ordinary shareholders of the parent				91.5			(57.2)
Non-controlling interests				1.1			1.1

The notes on pages 171 to 217 form part of these financial statements.

Consolidated and Company balance sheets

At 31 March 2026

	Notes	Group		Company	
		2026 £m	2025 £m	2026 £m	2025 £m
Assets					
Non-current assets					
Goodwill	15	179.9	179.9	–	–
Other intangible assets	16	67.5	62.2	–	–
Property, plant and equipment	17	6,297.5	5,841.5	–	–
Investment properties	18	6.3	7.9	–	–
Other non-current assets	20	7.1	8.7	191.3	104.6
Financial assets at fair value through profit or loss	25	–	0.6	–	0.6
Deferred tax assets	32	–	–	25.9	23.6
Derivative financial instruments	24	21.4	22.4	–	0.1
Investments in subsidiary undertakings	21	–	–	1,562.7	1,562.7
Investments in associated companies	21	2.8	1.8	–	–
Retirement benefit assets	31	20.5	22.0	3.6	4.0
		6,603.0	6,147.0	1,783.5	1,695.6
Current assets					
Inventories	22	15.3	12.8	–	–
Trade and other receivables	23	452.4	391.8	180.0	53.8
Current tax receivable	28	–	0.9	0.4	–
Financial assets at fair value through profit or loss	25	0.6	–	0.6	–
Derivative financial instruments	24	9.0	9.8	1.2	0.7
Cash and cash equivalents	26	332.7	417.9	0.4	45.0
Restricted funds	26	55.6	58.2	–	–
Retirement benefit assets	31	11.4	9.2	–	–
		877.0	900.6	182.6	99.5
Liabilities					
Current liabilities					
Borrowings	29	(151.2)	(257.4)	(36.9)	(51.5)
Financial liabilities at fair value through profit and loss	25	–	(0.3)	–	(0.3)
Derivative financial instruments	24	(0.6)	(0.5)	–	(0.1)
Trade and other payables	27	(422.3)	(331.0)	(16.6)	(19.6)
Current tax liabilities	28	–	–	–	(1.9)
Provisions	33	(6.1)	(6.8)	–	(0.3)
		(580.2)	(596.0)	(53.5)	(73.7)
Net current assets		296.8	304.6	129.1	25.8

	Notes	Group		Company	
		2026 £m	2025 £m	2026 £m	2025 £m
Non-current liabilities					
Borrowings	29	(4,746.0)	(4,296.9)	(328.4)	(195.6)
Other non-current liabilities	30	(188.0)	(171.3)	–	–
Derivative financial instruments	24	(1.9)	(1.6)	–	–
Deferred tax liabilities	32	(551.9)	(530.6)	–	–
Provisions	33	(0.4)	(0.5)	–	–
		(5,488.2)	(5,000.9)	(328.4)	(195.6)
Net assets		1,411.6	1,450.7	1,584.2	1,525.8
Shareholders' equity					
Share capital	34	288.1	288.1	288.1	288.1
Share premium account	35	755.1	755.0	755.1	755.0
Capital redemption reserve	36	157.1	157.1	157.1	157.1
Retained earnings and other reserves	37	207.7	248.0	383.9	325.6
Total shareholders' equity		1,408.0	1,448.2	1,584.2	1,525.8
Non-controlling interests		3.6	2.5	–	–
Total equity		1,411.6	1,450.7	1,584.2	1,525.8

The profit for the year attributable to ordinary shareholders' equity dealt with in the accounts of the Parent Company is £191.5 million (2025: £13.5 million loss). The notes on pages 171 to 217 form part of these financial statements.

The financial statements on pages 165 to 217 were approved by the Board of Directors and authorised for issue on 10 June 2026 and were signed on its behalf by:

Laura Flowerdew

Group Chief Financial Officer
Pennon Group plc

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

Consolidated statement of changes in equity

For the year ended 31 March 2026

	Share capital (note 34) £m	Share premium account (note 35) £m	Capital redemption reserve (note 36) £m	Retained earnings and other reserves (note 37) £m	Non-controlling interests £m	Total equity £m
Group						
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 ordinary owners of the parent:</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 ordinary owners of the parent	113.5	356.8	-	(126.1)	-	344.2
At 31 March 2025	288.1	755.0	157.1	248.0	2.5	1,450.7
Profit for the year	-	-	-	91.5	1.1	92.6
Total comprehensive income for the year	-	-	-	91.5	1.1	92.6
<i>Transactions with ordinary owners of the parent:</i>						
Dividends paid	-	-	-	(133.7)	-	(133.7)
Dividends forfeited	-	-	-	1.7	-	1.7
Transaction costs relating to rights issue	-	(0.5)	-	-	-	(0.5)
Sale of share forfeiture shares	-	0.6	-	-	-	0.6
Adjustment in respect of share-based payments (net of tax)	-	-	-	2.6	-	2.6
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(2.4)	-	(2.4)
Total transactions with ordinary owners of the parent	-	0.1	-	(131.8)	-	(131.7)
At 31 March 2026	288.1	755.1	157.1	207.7	3.6	1,411.6

* 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. In the year ended 31 March 2025 transaction costs directly attributable to the rights issue of £20.5 million were incurred and were accounted for as a deduction from share premium. In the year ended 31 March 2026 an additional £0.5 million transaction costs directly attributable to the rights issue have been accounted for as a deduction from share premium. Cash paid in relation to the transaction costs amounted to £15.4 million in the year ended 31 March 2025 and £5.6 million in the year ended 31 March 2026.

The notes on pages 171 to 217 form part of these financial statements.

Company statement of changes in equity

For the year ended 31 March 2026

	Share capital (note 34) £m	Share premium account (note 35) £m	Capital redemption reserve (note 36) £m	Retained earnings and other reserves (note 37) £m	Total equity £m
Company					
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
At 31 March 2025	288.1	755.0	157.1	325.6	1,525.8
Profit for the year	–	–	–	191.5	191.5
Other comprehensive loss for the year	–	–	–	(0.5)	(0.5)
Total comprehensive income for the year	–	–	–	191.0	191.0
<i>Transactions with equity shareholders:</i>					
Dividends paid	–	–	–	(133.7)	(133.7)
Dividends forfeited	–	–	–	1.7	1.7
Transaction costs relating to rights issue	–	(0.5)	–	–	(0.5)
Sale of share forfeiture shares	–	0.6	–	–	0.6
Adjustment in respect of share-based payments (net of tax)	–	–	–	1.7	1.7
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	–	–	–	(2.4)	(2.4)
Total transactions with equity shareholders	–	0.1	–	(132.7)	(132.6)
At 31 March 2026	288.1	755.1	157.1	383.9	1,584.2

* 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. In the year ended 31 March 2025 transaction costs directly attributable to the rights issue of £20.5 million were incurred and were accounted for as a deduction from share premium. In the year ended 31 March 2026 an additional £0.5 million transaction costs directly attributable to the rights issue have been accounted for as a deduction from share premium.

The notes on pages 171 to 217 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 March 2026

	Notes	Group	
		2026 £m	2025 £m
Cash flows from operating activities			
Cash generated from operations	38	529.7	233.6
Interest paid	38	(172.0)	(143.1)
Tax received		1.0	3.0
Net cash generated from operating activities		358.7	93.5
Cash flows from investing activities			
Interest received		17.4	11.1
Purchase of property, plant and equipment		(629.4)	(663.1)
Withdrawal/(deposit) of restricted funds		2.6	(20.8)
Purchase of intangible assets		(8.1)	(5.5)
Proceeds from sale of property, plant and equipment		4.7	1.9
Net cash used in investing activities		(612.8)	(676.4)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		–	491.0
Share issue transaction costs		(5.6)	(15.4)
Purchase of ordinary shares by the Pennon Employee Share Trust		(2.4)	(1.2)
Proceeds from new borrowing		569.9	920.0
Repayment of borrowings		(305.7)	(328.5)
Cash inflows from lease financing arrangements		90.0	25.0
Lease principal repayments		(45.3)	(97.2)
Dividends paid		(133.7)	(126.9)
Proceeds from dividend forfeiture		1.7	–
Net cash received from financing activities		168.9	866.8
Net (decrease)/increase in cash and cash equivalents		(85.2)	283.9
Cash and cash equivalents at beginning of the year	26	417.9	134.0
Cash and cash equivalents at end of the year	26	332.7	417.9

The notes on pages 171 to 217 form part of these financial statements.

Notes to the Financial Statements

1. General information

Pennon Group plc is a public limited company, listed by shares, which is listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. It is registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 224. 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 provides water only services in the South East region. Sutton and East Surrey Water Services Limited provides water and wastewater retail services to non-household customer accounts. Pennon Group plc 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 Limited, operating in the same sector as Pennon Water Services Limited and Sutton and East Surrey Water Services Limited.

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), (w) and (p) respectively) and in accordance with UK-adopted International Accounting Standards and with Companies Act 2006.

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.

A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

New standards and interpretations

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2025 did not have a material impact on the net assets or results of the 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 2026 are not expected to have a material impact on the Group's and the parent company's net assets or results.

IFRS 18 'Presentation and Disclosure in Financial Statements' (effective from 1 April 2027) will replace IAS 1 'Presentation of Financial Statements'. IFRS 18 will not impact the recognition or measurement of items in the financial statements but it is expected to have a significant impact on the presentation and disclosure within the financial statements, in particular on the statement of profit and loss and providing management-defined performance measures within the financial statements.

Management is currently assessing the detailed implications of applying the new standard on the Group's financial statements. From the high-level preliminary assessment performed, the following potential impacts have been identified:

- The line items presented on the primary financial statements might change as a result of the application of the concept of 'useful structured summary' and the enhanced principles on aggregation and disaggregation.
- The Group does not expect there to be a significant change in the information that is currently disclosed in the notes because the requirement to disclose material information remains unchanged; however, the way in which the information is grouped might change as a result of the aggregation/disaggregation principles. In addition, there will be significant new disclosures required for management-defined performance measures; and for the first annual period of application of IFRS 18, a reconciliation for each line item in the statement of profit or loss between the restated amounts presented by applying IFRS 18 and the amounts previously presented applying IAS 1.

Notes to the Financial Statements continued

2. Principal accounting policies continued

- Within the cash flow statement there will be changes to how interest received and interest paid are presented. Interest paid will be presented as financing cash flows and interest received as investing cash flows, which is a change from current presentation as part of operating cash flows.
- Whilst a detailed assessment of the impact of IFRS 18 has not yet been concluded, it is not expected that existing covenants will be impacted by subsequent changes to accounting standards.

The Group will apply the new standard from its mandatory effective date of 1 April 2027. Retrospective application is required, and so the comparative information for the financial year ending 31 March 2027 will be restated in accordance with IFRS 18.

IFRS 20 'Regulatory assets and regulatory liabilities' was published on 29 May 2026 and will be applicable for the year ended 31 March 2030. The Group has not yet assessed the impact of this standard.

Going concern

The going concern basis has been adopted in preparing these financial statements. At 31 March 2026 the Group has access to undrawn committed funds of £610.0 million and cash and cash equivalents and restricted funds of £388.3 million, totalling £998.3 million. The Group has an expected headroom of £186.7 million at 30 September 2027.

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 2027.

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.£101.5 million; this value is considered equivalent to an extreme one-off event that could occur over the 15 month period of the assessment to 30 September 2027, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the 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 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 2027, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, management has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosure. The expected environmental impact of climate change on the water business has been modelled noting that the physical risks are increasing. It is likely that the 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.

(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. Revenue excludes value added tax, trade discounts and revenue arising from transactions between Group companies.

2. Principal accounting policies continued

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.

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

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

The principal components of these contributions are as follows:

- i) Where the performance obligation relates solely to a connection to the network, revenue is recognised at the point of connection when the customer is deemed to 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 and Sutton and East Surrey Water Services provide specialist retail water and wastewater services to business customers. They raise bills and recognise 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 20 (Other non-current assets) and note 23 (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 (v) below). The value of contract liabilities is disclosed within note 27 (Trade and other payables) and note 30 (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 Limited and the regulated water services undertaken by Sutton and East Surrey Water plc. The non-household retail business reflects the services provided by Pennon Water Services Limited and Sutton and East Surrey Water Services Limited. 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 statement of profit or loss and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs) or group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (j).

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 statement of profit or loss through operating costs. The cost of assets includes directly attributable labour and overhead costs which are incremental to the Group.

Intangible assets are amortised evenly over their useful economic lives:

Software development	5 to 15 years
----------------------	---------------

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

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the group are recognised as intangible assets when management intends and has the ability to use the software, it can be reliably measured, and it is probable that incremental future economic benefits will flow to the Group.

(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 statement of profit or loss as it arises.

Notes to the Financial Statements continued

2. Principal accounting policies continued

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

Dams and impounding reservoirs	100 to 200 years
Water mains	60 to 180 years
Sewers	75 to 150 years

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

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:

Land and buildings – freehold buildings	10 to 80 years
Land and buildings – leasehold buildings	Over the estimated economic lives or the lease period, whichever is the shorter
Operational properties	15 to 100 years
Fixed and moveable equipment	4 to 30 years

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

The cost of assets includes directly attributable labour and overhead costs which are incremental to the 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 (v).

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.

(h) Leased assets

Where the Group enters into a contract that contains a lease, it recognises a right-of-use asset and a lease liability except for:

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

Assets and liabilities arising from a lease are initially measured at the present value of contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the 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.

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) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by or for the Group's own activities is classified as investment property. 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.

Investment property is held at cost less accumulated depreciation. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Investment property assets are depreciated evenly to their residual value over their estimated economic lives, and are principally:

Residential properties	10 to 80 years
-------------------------------	----------------

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

(j) Impairment of non-financial assets

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

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

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

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

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

(k) 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.

2. Principal accounting policies continued

(l) 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 statement of profit or loss 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.

(m) 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.

(n) 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.

(o) Restricted cash

Restricted cash within the financial statements relates to cash held under contractual agreements to offset counterparty exposure or provide cover for future interest payments. The restricted cash could be removed by replacing the cash with an agreed alternative.

(p) 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 statement of profit or loss when instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the statement of profit or loss through amortisation.

ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value on trade date 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.

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

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 or loss

Financial instruments at fair value through profit or loss 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 statement of profit or loss.

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.

(q) Taxation including deferred taxation

The tax charge for the year comprises current and deferred taxation. Tax is recognised in the statement of profit or loss, 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.

Notes to the Financial Statements continued

2. Principal accounting policies continued

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current 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, including any adjustment to tax payable in respect of previous years. The amount is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the position is uncertain. The 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.

The Group measures its tax uncertainties either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred 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 probably that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The 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.

(r) 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.

(s) 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 statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(t) 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.

(u) 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 statement of profit or loss.

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

2. Principal accounting policies continued

Defined contribution scheme

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

ii) Share-based payments

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.

(v) 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.

(w) Transfers of assets from customers

Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised as a contract liability on the balance sheet. The contract liability reduces, and revenue is recognised in the statement of profit or loss, as 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.

(x) Foreign exchange

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

(y) 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. Excluding these items is considered to provide additional useful information on the performance and the position of the Group as well as enhancing the comparability of information between reporting periods.

(z) Grants and contributions

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

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

(aa) 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.

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 Group Chief Financial Officer in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance, manage risk, optimise the use of surplus funds and manage overall interest rate performance. The 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 29.

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 has no significant concentration of liquidity risk.

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. Whilst a detailed assessment of the impact of IFRS 18 has not yet been concluded, it is not expected that existing covenants will be impacted by subsequent changes to accounting standards.

Notes to the Financial Statements continued

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
Group					
31 March 2026					
Non-derivative financial liabilities					
Borrowings excluding lease liabilities	88.8	129.8	873.7	2,635.9	3,728.2
Interest payments on borrowings	171.3	161.8	449.8	1,008.6	1,791.5
Lease liabilities including interest	67.3	80.3	318.9	1,110.4	1,576.9
Trade and other payables	379.1	–	–	–	379.1
Derivative contracts					
Derivative contracts – net receipts	(7.3)	(5.1)	(15.8)	(3.2)	(31.4)
31 March 2025					
Non-derivative financial liabilities					
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
Derivative contracts					
Derivative contracts – net receipts	(6.9)	(5.0)	(14.0)	(5.3)	(31.2)

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 24.

The Group has no significant interest-bearing assets upon which the net return fluctuates from market risk. The Group has no other significant concentration of 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 38) are largely independent of changes in market interest rates.

For 2026 if interest rates on variable net borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £4.5 million (2025 post tax profit for the year and equity would have increased/decreased by £4.0 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 2026 if the indices on index-linked borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £10.4 million (2025 post tax profit for the year and equity would have increased/decreased by £10.0 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 23.

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 its 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. The Group has no significant concentration of inflation risk.

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

3. Financial risk management continued

(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 2026 the Group had cash and facilities, including restricted funds, of £998.3 million (2025: £1,036.1 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 39 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 £4,508.9 million (2025: £4,078.2 million). The gearing ratios at the balance sheet date were:

	2026 £m	2025 £m
Net borrowings	4,508.9	4,078.2
Total equity	1,411.6	1,450.7
Total capital	5,920.5	5,528.9
Gearing ratio	76.2%	73.7%

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 AMP8 (2025–2030) regulatory period is set at 55%. 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	
	2026 £m	2025 £m
Regulatory Capital Value (RCV)	6,505.0	5,983.1
Net borrowings	4,019.3	3,698.3
Net borrowings/Shadow Regulatory Capital Value	61.8%	61.8%

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 24.

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 performs an impairment analysis at each reporting date. 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 2026 the Group's trade and other receivables were £465.0 million (2025: £387.3 million), against which £128.7 million (2025: £117.3 million) had been provided for ECLs (note 23). Whilst the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently the charge or credit to the statement of profit or loss. In determining the allowance for ECLs a provisioning matrix is applied to the debt of customers in Devon, Cornwall and Bournemouth, as set out in note 23. An increase/decrease in the provision rates for current occupiers of 1% would lead to an increase/decrease in the level of provision by £1.7 million (2025: £1.4 million).

Notes to the Financial Statements continued

4. Critical accounting judgements and estimates continued

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 2025, the outcome of which is summarised in note 31.

The pension cost and liabilities under IAS 19 are assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on CMI 2024 actuarial tables with an allowance for future longevity improvement. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in those assumptions and future funding obligations are set out in note 31.

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 and 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. Excluding these items is considered to provide additional useful information on the performance and the position of the Group as well as enhancing the comparability of information between reporting periods. 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. 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 statement of profit or loss 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, including the proportion of employee costs to allocate. 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 and there's not a significant risk of material change in the next 12 months. However, management consider the total level 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 SWW and the regulated water services undertaken by SESW. The non-household retail segment (business retail) reflects the services provided by PWS 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
2026					
Revenue	1,022.0	381.7	25.6	(137.9)	1,291.4
Employment costs	(109.8)	(8.2)	(13.3)	–	(131.3)
Raw materials and consumables used	(38.7)	–	(1.3)	–	(40.0)
Operating costs	(362.8)	(363.6)	(12.4)	137.9	(600.9)
Operating profit/(loss) before depreciation, amortisation and non-underlying items (Underlying EBITDA)	510.7	9.9	(1.4)	–	519.2
Depreciation, amortisation and impairment	(189.0)	(0.8)	(3.9)	–	(193.7)
Operating profit/(loss) before non-underlying items	321.7	9.1	(5.3)	–	325.5
Finance income	23.2	0.6	19.3	(21.2)	21.9
Finance costs	(212.9)	(4.0)	(17.6)	21.2	(213.3)
Share of post-tax profit from associated companies	–	–	1.0	–	1.0
Profit/(loss) before tax and non-underlying items	132.0	5.7	(2.6)	–	135.1
Non-underlying items	(15.4)	(1.6)	(3.7)	–	(20.7)
Profit/(loss) before tax	116.6	4.1	(6.3)	–	114.4
2025					
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)
Operating profit/(loss) before depreciation, amortisation and non-underlying items (Underlying EBITDA)	338.2	7.5	(10.1)	–	335.6
Depreciation and amortisation	(184.4)	(0.3)	(2.4)	–	(187.1)
Operating profit/(loss) before non-underlying items	153.8	7.2	(12.5)	–	148.5
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
(Loss)/profit before tax and non-underlying items	(35.6)	4.3	(3.8)	–	(35.1)
Non-underlying items	(36.1)	–	(1.5)	–	(37.6)
(Loss)/profit before tax	(71.7)	4.3	(5.3)	–	(72.7)

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.

Notes to the Financial Statements continued

5. Segmental information continued

	Water £m	Non-household retail £m	Other £m	Eliminations £m	Group £m
Balance sheet					
31 March 2026					
Assets (excluding carrying value in associated companies)	7,186.2	109.9	611.1	(437.1)	7,470.1
Carrying value in associated companies	–	–	9.9	–	9.9
Total assets	7,186.2	109.9	621.0	(437.1)	7,480.0
Liabilities	(5,823.7)	(122.4)	(559.4)	437.1	(6,068.4)
Net assets	1,362.5	(12.5)	61.6	–	1,411.6
31 March 2025					
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
Total assets	6,657.6	105.3	489.5	(204.8)	7,047.6
Liabilities	(5,327.6)	(115.2)	(358.9)	204.8	(5,596.9)
Net assets	1,330.0	(9.9)	130.6	–	1,450.7

Segment liabilities of the water segment comprise 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
Other information					
31 March 2026					
Intangible asset additions	16	7.6	0.8	–	8.4
Amortisation of other intangible assets	7	3.6	0.2	(1.4)	2.4
Capital expenditure (Property, plant and equipment)	17	580.8	–	54.7	635.5
31 March 2025					
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

5. Segmental information continued

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
Year ended 31 March 2026				
Segment revenue	1,022.0	381.7	25.6	1,429.3
Inter-segment revenue	(120.0)	(0.2)	(17.7)	(137.9)
Revenue from external customers	902.0	381.5	7.9	1,291.4
Significant service lines				
Water	902.0	–	–	902.0
Non-household retail	–	381.5	–	381.5
Other	–	–	7.9	7.9
	902.0	381.5	7.9	1,291.4
	Water £m	Non-household retail £m	Other £m	Total £m
Year ended 31 March 2025				
Segment revenue	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

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. Excluding these items is considered to provide additional useful information on the performance and the position of the Group as well as enhancing the comparability of information between reporting periods. The presentation of results is consistent with internal performance monitoring.

	Notes	2026 £m	2025 £m
Operating costs			
Restructuring/Transformational costs ¹		(14.0)	(15.8)
Costs of Brixham water quality incident and other regulatory investigations ²		(6.7)	(21.0)
SES Water Group acquisition costs ³		–	(0.7)
Renewables projects acquisition related costs ⁴		–	(0.1)
Earnings before interest, tax, depreciation and amortisation		(20.7)	(37.6)
Net tax credit arising on non-underlying items above ⁵	9	4.1	8.9
Net non-underlying charge		(16.6)	(28.7)

- £4.1 million (2025: £15.8 million) of costs were incurred in connection with the ongoing restructuring of the Group and £9.9 million of technological enhancement costs were incurred in connection with the business transformation of the Group. £4.8 million (2025: £10.9 million) of the total costs were employment costs. Due to the one-off nature and incidence of the costs they were classified as non-underlying.
- £6.7 million includes costs of settlement of both the DWI's prosecution in respect of the May 2024 Brixham water quality incident, and the enforcement undertakings agreed with Ofwat in August 2025 in respect of the wastewater investigations, together with associated legal fees. £15.8 million prior year costs relate to the operating costs for remediation of the Brixham water quality incidents and include £0.8 million of directly attributable employment costs. Due to the one-off nature and incidence of the costs they were classified as non-underlying.
- In the prior year the Group incurred expenses of £0.7 million in connection with the acquisition of SES Water Group. Due to the one-off nature and incidence of the costs they were classified as non-underlying.
- In the prior year expenses in connection with the strategic review of renewal energy generating investments, not directly attributable to the intangible assets acquired, totalled £0.1 million. Due to the one-off nature and incidence of the costs they have been classified as non-underlying.
- The net tax credit arising on non-underlying items relates to a deferred tax credit in respect of tax losses carried forwards. The prior year credit reflected a £8.9 million deferred tax credit also in respect of tax losses carried forwards.

Notes to the Financial Statements continued

7. Operating costs

	Notes	2026 £m	2025 £m
Employment costs (underlying)	13	131.3	151.1
Raw materials and consumables		40.0	51.7
Other operating expenses before non-underlying items include:			
Profit on disposal of property, plant and equipment		(3.6)	(1.2)
Short-term/low value asset lease expense		9.1	6.2
Financial asset impairment	23	19.5	9.7
Depreciation of property, plant and equipment:			
• Owned assets	17	152.5	146.7
• Under leases	17	37.3	37.0
Depreciation of investment properties	18	0.8	1.0
Amortisation of other intangible assets	16	2.4	2.3
Impairment of intangible assets	16	0.3	-
Impairment of property, plant and equipment	17	-	0.1
Impairment of investment properties	18	0.4	-

Operating costs include a charge of £20.7 million (2025: £37.6 million) relating to non-underlying items, as detailed in note 6.

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

	2026 £000	2025 £000
Fees payable to the Company's auditor and its associates for the audit of parent company and consolidated financial statements	867	922
Fees payable to the Company's auditor and its associates for other services:		
The audit of Company's subsidiaries	1,683	1,511
Audit-related assurance services	454	360
Other non-audit services	234	1,866
Total fees	3,238	4,659

A description of the work of the Audit Committee is set out in its report on pages 120 to 125 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	2026			2025		
		Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt							
Bank borrowings and overdrafts		(156.8)	–	(156.8)	(138.6)	–	(138.6)
Interest element of lease payments		(48.7)	–	(48.7)	(49.9)	–	(49.9)
Other finance costs		(7.8)	–	(7.8)	(10.9)	–	(10.9)
Interest received		–	17.4	17.4	–	11.1	11.1
Amortisation of unamortised hedging adjustment		–	2.3	2.3	–	2.3	2.3
		(213.3)	19.7	(193.6)	(199.4)	13.4	(186.0)
Notional interest							
Retirement benefit obligations	31	–	2.2	2.2	–	1.6	1.6
Net finance costs		(213.3)	21.9	(191.4)	(199.4)	15.0	(184.4)

In addition to the above, finance costs of £40.5 million (2025: £27.7 million) have been capitalised on qualifying assets included in property, plant and equipment, at an average borrowing rate of 5.4% (2025: 5.7%).

Other finance costs include £1.1 million (2025: £1.1 million) of dividends payable on listed preference shares issued by Bristol Water plc, which are classified as debt (see note 29).

9. Taxation

	Before non- underlying items 2026 £m	Non-underlying items (note 6) 2026 £m	Total 2026 £m	Before non- underlying items 2025 £m	Non-underlying items (note 6) 2025 £m	Total 2025 £m
Analysis of charge/(credit) in year						
Current tax charge/(credit)	0.6	(0.8)	(0.2)	0.8	(0.5)	0.3
Deferred tax charge/(credit)	25.3	(3.3)	22.0	(7.8)	(8.4)	(16.2)
Tax charge/(credit) for year	25.9	(4.1)	21.8	(7.0)	(8.9)	(15.9)

UK corporation tax is calculated at 25% (2025: 25%) of the estimated assessable profit for the year.

UK corporation tax for the Group is stated after a credit relating to prior year current tax of £0.2 million (2025: £0.3 million charge) and a prior year deferred tax credit of £8.3 million (2025: £0.7 million charge). Of the prior year deferred tax credit, £8.0 million relates to capital losses that require recognition on consolidation. This is due to the existence of deferred tax liabilities arising on the fair value of land acquired through business combinations. The remaining elements are in respect of capital allowances claimed in accordance with UK tax legislation.

Notes to the Financial Statements continued

9. Taxation continued

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% (2025: 25%) as follows:

	2026 £m	2025 £m
Reconciliation of total tax charge/(credit)		
Profit/(loss) before tax	114.4	(72.7)
Profit/(loss) multiplied by the standard rate of UK corporation tax of 25% (2025: 25%)	28.6	(18.2)
Effects of:		
Expenses not deductible for tax purposes	1.3	0.8
Associate profits not taxable	(0.3)	(0.2)
Adjustments to tax charge in respect of prior years	(8.5)	1.5
Depreciation charged on non-qualifying assets	1.1	1.0
Adjustment in respect of deferred revenue expenditure	0.4	(0.7)
Other	(0.8)	(0.1)
Tax charge/(credit) for year	21.8	(15.9)

	2026 £m	2025 £m
Reconciliation of current tax (credit)/charge		
Profit/(loss) before tax	114.4	(72.7)
Profit/(loss) multiplied by the standard rate of UK corporation tax of 25% (2025: 25%)	28.6	(18.2)
Effects of:		
Relief for capital allowances in place of depreciation	(60.1)	(11.2)
Disallowance of depreciation charged in the accounts	24.3	24.3
Other temporary differences	(3.8)	(6.6)
Expenses not deductible for tax purposes	0.4	0.8
Associate profits not taxable	(0.2)	(0.2)
Adjustments to tax charge in respect of prior years	(0.2)	0.3
Depreciation charged on non-qualifying assets	1.1	1.0
Tax losses carried forward	19.7	15.9
Relief for capitalised interest and foreign exchange gains/losses	(10.0)	(5.8)
Current tax (credit)/charge for year	(0.2)	0.3

The current tax credit arising on the FY26 accounting profit is £0.2 million (2025: current tax charge of £0.3 million) versus the expected current tax at the UK headline rate of 25% x PBT. This is driven by a range of adjustments which are explained further below:

The 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 reduction in expected cash tax. Consequently there is a deferred tax charge arising in relation to the tax relief claimed in excess of current year depreciation driven by additional capital allowance deductions leading to a higher deferred tax liability.

Certain types of expenditure are not deductible for tax purposes. These types of expenditure are set out in tax legislation. The main category of expenditure not deductible during the current year relates to ongoing legal and environmental cases and the prior year's relate 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, and therefore do not arise as profits in any of the tax returns of the entities within the Group.

The Group incurs depreciation in relation to certain property, plant and equipment which does not qualify for tax relief. As such, this creates a permanent difference which increases the tax charge.

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

Tax losses generated in the year and carried forward generate a deferred tax credit rather than current tax credit, hence the adjustment to current tax. When utilised, the deferred tax asset will reverse creating a current tax deduction in the period of utilisation.

Other temporary differences relate to the timing of relief for items including pensions, general provisions and financial derivatives. The tax deduction in respect of these temporary differences was higher in FY25 due to additional pension contributions made to fund deficits in the scheme.

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

	2026 £m	2025 £m
Amounts recognised directly in other comprehensive income		
Deferred tax (credit)/charge on defined benefit pension schemes	(0.9)	0.9
Deferred tax charge/(credit) on cash flow hedges	0.2	(2.4)
Amounts recognised directly in equity		
Deferred tax charge on share-based payments	-	-

OECD Pillar Two

Pillar Two legislation is applicable to the group. Under the legislation, the group will be required to pay a top-up tax on profits of its subsidiaries in order to ensure that these profits are taxed at a global minimum tax rate of 15%.

The UK is the only jurisdiction in which the Group operates therefore an assessment of any potential Pillar Two tax exposure for FY26 has been performed focusing on the application of the UK domestic top-up tax rules.

The assessment performed by the Group, in line with UK legislation, is based on country-by-country reporting principles and financial statements information for FY26. 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. Profit/(loss) of the parent company

	2026 £m	2025 £m
Profit/(loss) attributable to ordinary shareholders' equity dealt within the accounts of the parent company	191.5	(13.5)

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 37), 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.

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.

	2026	2025
Number of shares (millions)		
For basic earnings per share	471.8	360.5
Effect of dilutive potential ordinary shares from share options	1.5	–
For diluted earnings per share	473.3	360.5

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 the level of long-term capital investment. Earnings per share have been calculated as follows:

	2026			2025		
	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	91.5	19.4	19.3	(57.9)	(16.1)	(16.1)
Deferred tax (credit)/charge before non-underlying items	25.3	5.4	5.4	(7.8)	(2.1)	(2.1)
Non-underlying items (net of tax)	16.6	3.5	3.5	28.6	7.9	7.9
Adjusted earnings	133.4	28.3	28.2	(37.1)	(10.3)	(10.3)

12. Dividends

	2026 £m	2025 £m
Amounts recognised as distributions to ordinary equity holders in the year		
Interim dividend paid for the year ended 31 March 2025 12.14p (2024: 11.60p) per share	42.0	40.1
Final dividend paid for the year ended 31 March 2025 19.43p (2024: 25.07p) per share	91.7	86.8
	133.7	126.9
Proposed dividends		
Proposed interim dividend for the year ended 31 March 2026 9.26p (2025: 12.14p) per share	43.7	42.0
Proposed final dividend for the year ended 31 March 2026 20.03p (2025: 19.43p) per share	94.5	91.7
	138.2	133.7

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

The proposed interim dividend for 2026 was paid on 2 April 2026 and the proposed final dividend is subject to approval by shareholders at the AGM.

Notes to the Financial Statements continued

13. Employment costs

	Notes	Group		Company	
		2026 £m	2025 £m	2026 £m	2025 £m
Wages and salaries		169.0	175.5	9.8	8.4
Social security costs		22.2	17.5	1.7	1.2
Other pension costs	31	15.7	16.2	0.8	1.2
Share-based payments	34	2.6	2.0	1.7	1.6
Total employment costs		209.5	211.2	14.0	12.4
Charged:					
• Employment costs (excluding non-underlying items)		131.3	151.1	11.4	11.5
• Employment costs (non-underlying items)		4.8	11.7	2.6	0.9
• Capital schemes – property, plant and equipment		73.1	48.1	–	–
• Research and development		0.3	0.3	–	–
Total employment costs		209.5	211.2	14.0	12.4

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.

	2026	2025
Employees (average full-time equivalent number)		
The average monthly number of employees (including Executive Directors) was:		
Water	3,384	3,528
Non-household retail	207	259
Other	101	123
Total	3,692	3,910

The average monthly number of employees (including Executive Directors) of the parent company was 90 (2025: 97)

14. Directors' emoluments

	2026 £000	2025 £000
Executive Directors:		
• Salary	873	968
• Share-based payments	1,055	680
• Other emoluments, including payments in lieu of pension provision	122	121
• Compensation for loss of office	735	489
Non-Executive Directors	764	648
	3,549	2,906

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 133 to 155.

Remuneration of key management personnel

	2026 £000	2025 £000
Salaries and short-term employee benefits	4,572	3,724
Share-based payments	1,939	854
Compensation for loss of office	1,646	489
	8,157	5,067

KMP remuneration comprises all Directors and certain senior managers who are members of the executive team.

15. Goodwill

	£m
Cost:	
At 1 April 2024	179.9
At 31 March 2025	179.9
At 31 March 2026	179.9
Carrying amount:	
At 1 April 2024	179.9
At 31 March 2025	179.9
At 31 March 2026	179.9

Goodwill acquired in a business combination is allocated at acquisition to the CGU expected to benefit from that business combination.

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. The recoverable amount is adjusted for estimated costs to sell. Historical water industry transactions provide a range of premia that could be used in the calculation, for the current financial year applying a premium to RCV was not required to maintain impairment headroom.

The results of tests performed during the year demonstrate significant headroom in the water CGU, and it is judged that no reasonable change in the key assumptions would cause the carrying amount of the CGUs to exceed the recoverable amount.

16. Other intangible assets

	Renewable energy generation £m	Software development £m	Total £m
Cost:			
At 1 April 2024	40.3	29.9	70.2
Additions	–	5.5	5.5
Transfers/reclassifications	–	3.6	3.6
At 31 March 2025	40.3	39.0	79.3
Additions	–	8.4	8.4
Disposals	–	(0.1)	(0.1)
Other	(0.3)	–	(0.3)
At 31 March 2026	40.0	47.3	87.3

Accumulated amortisation:

At 1 April 2024	–	9.9	9.9
Charge for the year	–	2.3	2.3
Transfers/reclassifications	–	3.6	3.6
Impairment charge	–	1.3	1.3
At 31 March 2025	–	17.1	17.1
Charge for year	–	2.4	2.4
Impairment charge	–	0.3	0.3
At 31 March 2026	–	19.8	19.8

Carrying amount:

At 1 April 2024	40.3	20.0	60.3
At 31 March 2025	40.3	21.9	62.2
At 31 March 2026	40.0	27.5	67.5

Renewable energy generation intangible assets are as a result of acquiring renewable energy sites with rights to generate energy in the future. 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.

Software consists of capitalised development costs being an internally generated intangible asset.

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

In the year ended 31 March 2025 an adjustment was made to reclassify cost and accumulated depreciation in relation to assets acquired on the acquisition of Bristol Water plc totalling £36 million.

Notes to the Financial Statements continued

17. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and moveable plant and equipment £m	Construction in progress £m	Total £m
Group						
Cost:						
At 1 April 2024	196.3	3,242.8	1,090.6	2,648.9	567.8	7,746.4
Additions	1.5	68.3	8.9	99.1	469.2	647.0
Assets adopted at fair value	–	17.4	–	–	–	17.4
Disposals	(0.5)	(1.3)	(1.0)	(13.8)	–	(16.6)
Transfers/reclassifications	3.0	40.1	14.6	74.4	(134.1)	(2.0)
At 31 March 2025	200.3	3,367.3	1,113.1	2,808.6	902.9	8,392.2
Additions	1.3	112.6	40.9	12.3	468.4	635.5
Assets adopted at fair value	–	13.2	–	–	–	13.2
Disposals	(0.1)	–	(0.3)	(1.9)	–	(2.3)
Transfers/reclassifications	13.1	119.8	10.6	(19.3)	(124.2)	–
At 31 March 2026	214.6	3,612.9	1,164.3	2,799.7	1,247.1	9,038.6
Accumulated depreciation:						
At 1 April 2024	31.4	442.5	353.5	1,553.8	–	2,381.2
Charge for year	1.7	49.0	23.9	113.1	–	187.7
Disposals	(0.1)	(1.5)	(0.9)	(13.6)	–	(16.1)
Impairment loss	–	–	–	(0.1)	–	(0.1)
Transfers/reclassifications	–	(8.6)	2.2	4.4	–	(2.0)
At 31 March 2025	33.0	481.4	378.7	1,657.6	–	2,550.7
Charge for year	3.6	52.5	24.1	111.9	–	192.1
Disposals	–	–	(0.3)	(1.4)	–	(1.7)
At 31 March 2026	36.6	533.9	402.5	1,768.1	–	2,741.1
Net book value:						
At 31 March 2024	164.9	2,800.3	737.1	1,095.1	567.8	5,365.2
At 31 March 2025	167.3	2,885.9	734.4	1,151.0	902.9	5,841.5
At 31 March 2026	178.0	3,079.0	761.8	1,031.6	1,247.1	6,297.5

Of the total depreciation charge of £192.1 million (2025: £187.7 million), £189.8 million (2025: £183.7 million) has been charged against profits £2.3 million (2025: £2.4 million) has been offset by deferred income and £nil million (2025: £1.6 million) has been charged to capital projects. Asset lives and residual values are reviewed annually. During the year borrowing costs of £40.5 million (2025: £27.7 million) have been capitalised on qualifying assets, at an average borrowing rate of 5.4% (2025: 5.7%).

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

Asset lives are reviewed annually. No significant changes were required in 2025/26.

In the year ended 31 March 2025 an adjustment has been made to reclassify cost and accumulated depreciation in relation to assets acquired on the acquisition of Bristol Water plc totalling £2.0 million.

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 lease liability included within borrowings. The table below shows amounts held within property, plant and equipment for assets subject to these arrangements:

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Group						
Cost:						
At 1 April 2024	5.3	404.0	336.9	425.7	–	1,171.9
Additions	–	22.1	0.8	2.1	–	25.0
At 31 March 2025	5.3	426.1	337.7	427.8	–	1,196.9
Additions	0.8	0.2	4.1	32.0	52.9	90.0
Disposals	(0.2)	(6.3)	(10.5)	(37.0)	–	(54.0)
At 31 March 2026	5.9	420.0	331.3	422.8	52.9	1,232.9
Accumulated depreciation:						
At 1 April 2024	0.6	75.1	96.4	209.9	–	382.0
Charge for year	0.1	6.2	5.8	21.5	–	33.6
At 31 March 2025	0.7	81.3	102.2	231.4	–	415.6
Charge for year	0.3	6.8	5.9	20.8	–	33.8
Disposals	(0.2)	(1.7)	(2.7)	(26.0)	–	(30.6)
At 31 March 2026	0.8	86.4	105.4	226.2	–	418.8
Net book amount:						
At 1 April 2024	4.7	328.9	240.5	215.8	–	789.9
At 31 March 2025	4.6	344.8	235.5	196.4	–	781.3
At 31 March 2026	5.1	333.6	225.9	196.6	52.9	814.1

Notes to the Financial Statements continued

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:

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Group						
Cost:						
At 1 April 2024	31.9	-	-	8.1	5.5	45.5
Additions	1.0	-	-	2.6	(0.3)	3.3
Disposals	-	-	-	(0.1)	-	(0.1)
Transfers/reclassifications	2.1	-	-	-	(2.1)	-
At 31 March 2025	35.0	-	-	10.6	3.1	48.7
Additions	0.9	-	-	1.3	0.7	2.9
Transfers/reclassifications	1.1	-	-	-	(1.1)	-
At 31 March 2026	37.0	-	-	11.9	2.7	51.6
Accumulated depreciation:						
At 31 March 2024	5.7	-	-	3.4	-	9.1
Charge for year	1.4	-	-	1.9	-	3.3
Disposals	-	-	-	(0.1)	-	(0.1)
At 31 March 2025	7.1	-	-	5.2	-	12.3
Charge for year	1.5	-	-	2.3	-	3.8
At 31 March 2026	8.6	-	-	7.5	-	16.1
Net book amount:						
At 1 April 2024	26.2	-	-	4.7	5.5	36.4
At 31 March 2025	27.9	-	-	5.4	3.1	36.4
At 31 March 2026	28.4	-	-	4.4	2.7	35.5

18. Investment properties

	Residential properties £m	Total £m
Group		
Cost:		
At 1 April 2024	9.3	9.3
Disposals	(0.2)	(0.2)
At 31 March 2025	9.1	9.1
Disposals	(0.5)	(0.5)
At 31 March 2026	8.6	8.6
Accumulated depreciation:		
At 1 April 2024	0.2	0.2
Charge for year	1.0	1.0
At 31 March 2025	1.2	1.2
Charge for year	0.8	0.8
Disposals	(0.1)	(0.1)
Impairment	0.4	0.4
At 31 March 2026	2.3	2.3
Net book amount:		
At 1 April 2024	9.1	9.1
At 31 March 2025	7.9	7.9
At 31 March 2026	6.3	6.3

The fair value of the investment properties held by the Group at 31 March 2026 was £6.3 million. The fair value was determined by a RICS Qualified independent valuation expert. Rental income from operating leases was £0.2 million (2025: £0.2 million)

Notes to the Financial Statements continued

19. 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	
Group						
31 March 2026						
Financial assets						
Amounts owed by associated companies	20	-	-	7.1	-	7.1
Trade receivables	23	-	-	-	336.3	336.3
Derivative financial instruments	24	1.9	28.5	-	-	30.4
Cash and cash equivalents and restricted funds	26	-	-	388.3	-	388.3
Total		1.9	28.5	395.4	336.3	762.1
Financial liabilities						
Borrowings	29	-	-	(4,897.2)	-	(4,897.2)
Derivative financial instruments	24	-	(2.5)	-	-	(2.5)
Trade and other payables	27	-	-	-	(373.9)	(373.9)
Total		-	(2.5)	(4,897.2)	(373.9)	(5,273.6)
31 March 2025						
Financial assets						
Amounts owed by associated companies	20	-	-	8.7	-	8.7
Trade receivables	23	-	-	-	270.0	270.0
Derivative financial instruments	24	0.4	31.8	-	-	32.2
Cash and cash equivalents and restricted funds	26	-	-	476.1	-	476.1
Total		0.4	31.8	484.8	270.0	787.0
Financial liabilities						
Borrowings	29	-	-	(4,554.3)	-	(4,554.3)
Derivative financial instruments	24	-	(2.1)	-	-	(2.1)
Trade and other payables	27	-	-	-	(281.7)	(281.7)
Total		-	(2.1)	(4,554.3)	(281.7)	(4,838.1)

20. Other non-current assets

Non-current receivables

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Amounts owed by subsidiary undertakings	–	–	184.2	95.9
Amounts owed by related parties (note 43)	7.1	8.7	7.1	8.7
	7.1	8.7	191.3	104.6

Non-current receivables were due:

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Between 1 and 2 years	7.1	–	28.1	12.2
Over 2 years and less than 5 years	–	8.7	63.1	45.3
Over 5 years	–	–	100.1	47.1
	7.1	8.7	191.3	104.6

The fair values of non-current receivables were:

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Amounts owed by subsidiary undertakings	–	–	184.2	95.9
Amounts owed by associates	7.1	8.7	7.1	8.7
	7.1	8.7	191.3	104.6

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

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

21. Investments

Subsidiary undertakings

	£m
Company	
At 1 April 2024	1,153.2
Investment in subsidiary undertakings:	
Sutton and East Surrey Water Group Holding Limited share issue	80.0
Peninsula Insurance Limited share issue	1.0
South West Water Limited share issue	330.0
Impairment of investment in subsidiary undertakings	(1.5)
At 31 March 2025	1,562.7
At 31 March 2026	1,562.7

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, an indirect associate, was transferred from Bristol Water Holdings Limited to the Company. Accordingly, the investment in Bristol Water Holding's parent company Bristol Water Holdings UK Limited was reduced by £1,500,000.

See note 40 for details of the Company's subsidiary and joint venture undertakings and shareholdings.

Notes to the Financial Statements continued

21. 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 Collections 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 2026 is £2.8 million (2025: £1.8 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 2026 is £1.0 million (2025: £0.8 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

	2026 £m			2025 £m		
	W2B	BWBSL	Searchlight	W2B	BWBSL	Searchlight
Current						
Cash and cash equivalents	2.9	1.3	0.2	2.2	1.7	–
Other current assets	80.8	2.6	(0.2)	71.3	1.2	0.1
Total current assets	83.7	3.9	–	73.5	2.9	0.1
Non-current assets	3.2	–	–	4.2	–	–
Financial liabilities (excluding trade payables)	–	–	–	–	–	–
Current liabilities (including trade payables)	(53.8)	(3.9)	–	(42.5)	(2.9)	–
Total current liabilities	(53.8)	(3.9)	–	(42.5)	(2.9)	–
Non-current liabilities	(23.8)	–	–	(29.4)	–	–
Net assets	9.3	–	–	5.8	–	0.1

Summarised statement of comprehensive income

	2026 £m			2025 £m		
	W2B	BWBSL	Searchlight	W2B	BWBSL	Searchlight
Revenue	412.0	20.9	0.2	327.3	19.7	0.2
Cost of sales and other operating expenses	(405.5)	(20.9)	(0.2)	(321.5)	(19.7)	(0.2)
Interest	(1.7)	–	–	(2.1)	–	–
Pre-tax profit	4.8	–	–	3.7	–	–
Taxation charge	(1.3)	–	–	(1.1)	–	–
Total comprehensive income	3.5	–	–	2.6	–	–

21. Investments continued

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. Water 2 Business Limited'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 £2.8 million (2025: £1.8 million) which comprises 30% of the Group's share of equity of Water 2 Business Limited. For Bristol Wessex Billing Services Limited and Searchlight Collections Limited, the net equity is £nil (2025: £nil). The Group's share of profit from associated companies is £1.0 million (2025: £0.8 million) which comprises 30% of the Group's share of Water 2 Business Limited, restricted by brought forward losses.

22. Inventories

	Group	
	2026 £m	2025 £m
Raw materials and consumables	15.2	12.1
Work in progress	0.1	0.3
Finished goods	–	0.4
	15.3	12.8

23. Trade and other receivables – current

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Trade receivables	465.0	387.3	–	–
Less: allowance for expected credit losses in respect of trade receivables	(128.7)	(117.3)	–	–
Net trade receivables	336.3	270.0	–	–
Amounts owed by subsidiary undertakings	–	–	176.0	51.2
Amounts owed by associated companies	0.4	0.2	0.4	0.2
Other receivables	48.0	45.6	0.4	1.5
Contract Assets	49.4	57.4	0.4	–
Prepayments	18.3	18.6	2.8	0.9
	452.4	391.8	180.0	53.8

Contract assets includes £41.9 million (2025: £34.8 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:

	2026 £m	2025 £m
Group		
Not due	118.5	64.6
Past due 1 – 30 days	34.9	31.1
Past due 31 – 120 days	35.6	29.3
More than 120 days	276.0	262.3
	465.0	387.3

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 (p) i). South West Water Limited and Sutton and East Surrey Water plc 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 Limited's operating area, Sutton and East Surrey Water plc's operating area and the non-household retail business of Pennon Water Services and Sutton and East Surrey Water Services Limited, 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 2026 £m	Allowance for expected credit losses 2026 £m	Trade receivables 2025 £m	Allowance for expected credit losses 2025 £m
Devon, Cornwall & Bournemouth (household customers)				
• Current occupier < 12 months: 1% – 30%	97.7	1.0	68.7	0.4
• Current occupier 12 – 24 months: 10% – 60%	16.0	3.6	12.4	2.9
• Current occupier 24 – 36 months: 15% – 80%	12.2	3.9	10.9	3.0
• Current occupier > 36 months: 20% – 100%	99.1	39.8	91.6	39.9
• Previous occupier: 55% – 100%	58.4	36.8	51.3	32.1
Bristol	44.7	21.0	37.4	17.6
Sutton and East Surrey Water	50.5	10.6	33.0	7.2
Sutton and East Surrey Water Services*	21.5	7.7	21.6	9.5
Pennon Water Services*	48.2	4.3	50.1	4.7
Other	16.7	–	10.3	–
	465.0	128.7	387.3	117.3

*Non-household retail

Notes to the Financial Statements continued

23. 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:

	2026 £m	2025 £m
At 1 April	117.3	125.3
Provision for expected credit losses	19.5	9.7
Receivables written off during the year as uncollectable	(8.1)	(17.7)
At 31 March	128.7	117.3

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.

24. Derivative financial instruments

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Derivatives used for cash flow hedging				
Non-current assets	19.5	22.3	–	–
Current assets	9.0	9.5	1.2	0.4
Current liabilities	(0.6)	(0.5)	–	(0.1)
Non-current liabilities	(1.9)	(1.6)	–	–
Derivatives used for fair value hedging				
Non-current assets	1.9	0.1	–	0.1
Current assets	–	0.3	–	0.3

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 (2025: £nil).

A net £0.8 million credit (2025: £4.3 million debit) was recognised in other comprehensive income for cash flow hedges, including a £7.5 million credit (2025: £15.4 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 2026 the Group had interest rate swaps, to swap from floating to fixed rate, and hedged financial liabilities with a notional value of £603.0 million and a weighted average maturity of 4.5 years (2025: £636.0 million, with 5.3 years). The weighted average interest rate of the swaps for their nominal amount was 3.03% (2025: 2.92%).

At 31 March 2026 the Group had cross currency swaps and hedged financial liabilities with a notional value of £56.1 million (2025: £56.1 million) and a weighted average maturity of 4.1 years (2025: 4.1 years). The weighted average interest rate of the swaps for their nominal amount was 5.6% (2025: 5.6%). 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
As at 31 March 2026				
Interest rate swaps	603.0	25.9	Derivative financial instruments	1.8
Cross currency swaps	56.1	(0.9)	Derivative financial instruments	(0.4)
As at 31 March 2025				
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	–
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
As at 31 March 2026				
Cross currency swaps	16.0	1.2	Derivative financial instruments	0.8
As at 31 March 2025				
Cross currency swaps	16.0	0.4	Derivative financial instruments	(0.4)

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.

24. Derivative financial instruments continued

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

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Assets				
Derivatives used for cash flow hedging	28.5	31.8	1.2	0.4
Derivatives used for fair value hedging	1.9	0.4	–	0.4
Total assets	30.4	32.2	1.2	0.8
Liabilities				
Derivatives used for cash flow hedging	(2.5)	(2.1)	–	(0.1)
Total liabilities	(2.5)	(2.1)	–	(0.1)

25. Financial instruments at fair value through profit or loss

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Current liabilities	–	(0.3)	–	(0.3)
Current assets	0.6	–	0.6	–
Non-current assets	–	0.6	–	0.6

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

26. Cash and cash equivalents and restricted funds

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Cash at bank and in hand	103.8	166.2	0.4	44.8
Short-term bank deposits	75.0	0.2	–	0.2
Other deposits	153.9	251.5	–	–
Cash and cash equivalents	332.7	417.9	0.4	45.0
Restricted funds	55.6	58.2	–	–
Total	388.3	476.1	0.4	45.0

Group short-term deposits have an average maturity of one working day (2025: one working day).

Group other deposits (including restricted funds) have an average maturity of 53 days (2025: 14 days).

Restricted funds include £46.2 million (2025: £46.1 million) to settle long-term lease liabilities (note 29) and £9.4 million (2025: £12.1 million) held in an instant access account. Restricted funds are available for access, subject to being replaced by an equivalent valued security.

27. Trade and other payables – current

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Trade payables	218.9	138.8	2.2	0.9
Contract liabilities	45.1	46.7	–	–
Other tax and social security	5.2	2.6	0.4	0.3
Accruals	59.5	54.4	1.5	6.1
Other payables	93.6	88.5	3.7	3.5
Amounts owed to subsidiary undertakings	–	–	8.8	8.8
Total	422.3	331.0	16.6	19.6

Notes to the Financial Statements continued

27. Trade and other payables – current continued

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	
	2026 £m	2025 £m
Contract liabilities		
At 1 April	218.0	165.5
Revenue recognised in the year	(22.1)	(9.9)
Additions in relation to property developer services (note 2c)	23.8	21.9
Net movement in customer overpayments	11.5	40.5
At 31 March	231.2	218.0

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

	Group	
	2026 £m	2025 £m
Current	45.1	46.7
Non-current (note 29)	186.1	171.3
	231.2	218.0

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 2027.

Included within contract liabilities are amounts received from customers in advance of the satisfying its performance obligations. The current balance includes these customer overpayments and other advance receipts which are expected to be utilised through the delivery of services or offset against customer bills within the next 12 months.

28. Current tax assets/(liabilities)

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Current year (creditor)/debtor	-	(0.1)	0.4	0.4
Prior year tax items	-	1.0	-	(2.3)
	-	0.9	0.4	(1.9)

29. Borrowings

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Current				
Bank and other loans	99.2	222.0	20.0	49.5
Fixed rate bonds	2.2	2.5	-	-
Private placements	16.7	-	16.9	-
Amounts owed to subsidiary undertakings	-	-	-	2.0
	118.1	224.5	36.9	51.5
Leases	33.1	32.9	-	-
Total current borrowings	151.2	257.4	36.9	51.5
Non-current				
Bank and other loans	466.0	506.3	99.9	99.9
Private placements	964.8	841.9	228.5	95.7
Fixed rate bonds	1,177.5	886.4	-	-
RPI index-linked bonds	1,057.9	1,030.5	-	-
Listed preference shares	12.5	12.5	-	-
	3,678.7	3,277.6	328.4	195.6
Leases	1,067.3	1,019.3	-	-
Total non-current borrowings	4,746.0	4,296.9	328.4	195.6
Total borrowings	4,897.2	4,554.3	365.3	247.1

South West Water Finance Plc issued a £300 million fixed rate bond in September 2025 with a cash coupon of 5.25%.

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%.

29. Borrowings continued

Fair value adjustments of £96.5 million (2025: £106.8 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 £1,546.7 million, 2025: £1,570.2 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.

The fair values of borrowings valued using level 2 measures, unless otherwise stated below, (as set out in note 24) were:

	2026		2025	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Group				
Bank and other loans	99.2	99.2	222.0	222.0
Fixed rate bonds	2.2	2.2	2.5	–
Private placement	16.7	16.7	–	–
	118.1	118.1	224.5	222.0
Leases	33.1	33.1	32.9	32.9
Total current borrowings	151.2	151.2	257.4	254.9
Group				
Bank and other loans	466.0	455.2	506.3	556.1
Private placements	964.8	981.6	841.9	842.2
Fixed rate bonds (level 1)	1,079.0	1,067.1	781.4	784.0
Fixed rate bonds	98.5	60.8	105.0	61.6
RPI index-linked bonds (level 1)	236.5	240.9	224.6	233.0
RPI index-linked bond	821.4	625.8	805.9	602.2
Listed preference shares	12.5	17.4	12.5	18.5
	3,678.7	3,448.8	3,277.6	3,097.6
Leases	1,067.3	928.6	1,019.3	1,007.4
Total non-current borrowings	4,746.0	4,377.4	4,296.9	4,105.0
Total borrowings	4,897.2	4,528.6	4,554.3	4,359.9

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 2026, as part of an ongoing programme to renew and raise new financing, the Group entered into £300 million (2025: £650 million) of new public bonds issuances and £150 million (2025: £150 million) private placements with an average maturity of 5.5 years.

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

	Group	
	2026 £m	2025 £m
Between 1 and 2 years	102.4	71.8
Over 2 years and less than 5 years	697.9	268.2
Over 5 years	2,878.4	2,937.6
	3,678.7	3,277.6

The weighted average maturity of non-current borrowings, excluding leases, was 12.6 years (2025: 12.3 years).

Undrawn committed borrowing facilities at the balance sheet date were:

	Group	
	2026 £m	2025 £m
Floating rate:		
Expiring within 1 year	–	65.0
Expiring after 1 year	610.0	495.0
	610.0	560.0

Notes to the Financial Statements continued

29. Borrowings continued

Information on leases

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

The maturity of lease liabilities was:

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Within 1 year	33.1	32.9	–	–
Over 1 year and less than 5 years	206.5	169.8	–	–
Over 5 years	860.8	849.5	–	–
	1,100.4	1,052.2	–	–

Analysed as:

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Current	33.1	32.9	–	–
Non-current	1,067.3	1,019.3	–	–
	1,100.4	1,052.2	–	–

Lease liabilities includes liabilities of £1,057.0 million (2025: £1,007.2 million) that are subject to secured financing arrangements (see note 17) and lease liabilities under IFRS 16 of £43.4 million (2025: £45.0 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 2026 the range of IBRs used was between 5.7% and 7.9% (2025: between 5.1% and 6.9%) and the weighted average IBR across all leases was 6.3% (2025: 6.2%). If the weighted average rate used increased or decreased by 10bps, this would result in a c.0.9% increase or reduction in the present value of lease liabilities recognised at 31 March 2026 (2025: c.0.9%).

The period for repayment of certain leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £46.2 million at 31 March 2026 (2025: £46.1 million), are currently being held to settle the lease liability subject to rights to release by negotiation with the lessor. The deposits are subject to a registered charge given as security to the lessor for the balance outstanding.

Cash outflows in respect of leasing relate to principal repayments of £42.4 million (2025: £94.3 million) and interest repayments of £49.9 million (2025: £63.0 million), in addition to inflows from lease financing arrangements of £90.0 million (2025: £25.0 million).

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

30. Other non-current liabilities

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Other creditors	1.9	–	–	–
Contract liabilities	186.1	171.3	–	–
	188.0	171.3	–	–

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 27. 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.

31. 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 planned buy-out of the Section was completed on the 11 July 2025 and the process to wind up the scheme continues.

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.

31. Retirement benefit obligations continued

In June 2023, the High Court handed down a decision (Virgin Media Limited v NTL Pension Trustees II Limited and others) which potentially has implications for the validity of amendments made by schemes, including the PGPS and other Group defined benefit schemes, which were contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. This decision was upheld by the Court of Appeal in August 2024. The Company has engaged with the relevant Trustee for PGPS and other Group defined benefit schemes who have confirmed that based on the governance processes in place and reviews of significant deed changes during the period in question, these bodies have no reason to believe that the relevant requirements were not complied with in relation to the Schemes with regard to the relevant period in question. Under the Pensions Schemes Act 2026, which came into force on 29 April 2026, the Trustees will be able to retrospectively validate amendments if required. Accordingly no additional liabilities have been recognised.

Defined contribution schemes

Pension costs for defined contribution schemes were £14.3 million (2025: £14.9 million).

Defined benefit schemes

Assumptions

The principal actuarial assumptions at 31 March were:

	2026	2025
	%	%
Rate of increase in pensionable pay	2.7	2.5
Rate of increase for current and future pensions	2.8	2.7
Rate used to discount schemes' liabilities and expected return on schemes' assets	6.1	5.8
Inflation	3.2	3.1

Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2024 actuarial tables with an allowance for future longevity improvement.

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

	2026	2025
Male	24.2	23.8
Female	26.7	26.6

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

	2026	2025
Male	25.0	24.9
Female	27.7	27.7

The sensitivities regarding the principal assumptions used to measure the schemes' liabilities are:

	Change in assumption	Impact on schemes' liabilities	
		2026	2025
Rate of increase in current and future pensions	+/- 0.5%	+/- 4.6%	+/-4.4%
Rate used to discount schemes' liabilities	+/- 0.5%	-/+ 5.4%	-/+ 5.6%
Inflation	+/- 0.5%	+/- 3.8%	+/-4.3%
Life expectancy	+/- 1 year	+/- 3.5%	+/-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	
	2026 £m	2025 £m	2026 £m	2025 £m
Present value of financial obligations	(572.6)	(673.3)	(120.8)	(120.5)
Fair value of plan assets	610.3	709.7	124.4	124.5
Surplus of funded plans	37.7	36.4	3.6	4.0
Less: restriction of surplus	(5.8)	(5.2)	-	-
Net asset recognised in the balance sheet	31.9	31.2	3.6	4.0

Notes to the Financial Statements continued

31. Retirement benefit obligations continued

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

	2026			2025		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	(673.3)	704.5	31.2	(774.2)	800.8	26.6
Current service cost	(1.0)	(0.9)	(1.9)	(1.0)	(1.4)	(2.4)
Past service cost, curtailments and gains/losses on settlements	92.8	(92.8)	–	–	–	–
Interest (expense)/income	(33.7)	35.9	2.2	(36.0)	37.6	1.6
	58.1	(57.8)	0.3	(37.0)	36.2	(0.8)
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	–	(1.6)	(1.6)	–	(87.9)	(87.9)
(Loss)/gain from change in demographic assumptions	(2.3)	–	(2.3)	7.2	–	7.2
Gain from change in financial assumptions	10.6	–	10.6	86.3	–	86.3
Experience (losses)/gains	(7.5)	(0.7)	(8.2)	(2.3)	0.2	(2.1)
	0.8	(2.3)	(1.5)	91.2	(87.7)	3.5
Contributions:						
Employers	0.1	1.8	1.9	0.1	1.8	1.9
Payments from plans:						
Benefit payments	41.7	(41.7)	–	46.6	(46.6)	–
	41.8	(39.9)	1.9	46.7	(44.8)	1.9
At 31 March	(572.6)	604.5	31.9	(673.3)	704.5	31.2

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 overall surplus includes a net surplus of c. £11.4 million (31 March 2025 £9.2 million) relating to the Bristol Water Section of the WCPS. The planned buy-out of the Section was completed on 11 July 2025. The section's assets and liabilities were remeasured prior to settlement using actuarial assumptions at this date. The assets and liabilities were both reduced by £92.8 million resulting in a net £nil statement of profit or loss settlement charge. An actuarial gain of £2.7 million was recognised in other comprehensive income for the period 1 April 2025 to 11 July 2025.

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 now only available as a refund. Under UK tax legislation a tax deduction of 25% (2025: 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 wind up the scheme continues and the Trustee has indicated its intention to return the surplus to the Company. The remaining assets relating to the Bristol Water Section are 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.

31. Retirement benefit obligations continued

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

	2026			2025		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	(120.5)	124.5	4.0	(137.9)	141.4	3.5
Current service cost	(0.3)	-	(0.3)	(0.4)	-	(0.4)
Interest (expense)/income	(6.8)	7.0	0.2	(6.5)	6.6	0.1
	(7.1)	7.0	(0.1)	(6.9)	6.6	(0.3)
Remeasurements:						
Gain/(loss) on plan assets excluding amounts included in interest expense	-	0.7	0.7	-	(16.2)	(16.2)
(Loss)/gain from change in demographic assumptions	(0.5)	-	(0.5)	1.2	-	1.2
Gain from change in financial assumptions	2.5	-	2.5	15.8	-	15.8
Experience losses	(3.3)	-	(3.3)	(0.4)	-	(0.4)
	(1.3)	0.7	(0.6)	16.6	(16.2)	0.4
Contributions:						
Employers	-	0.3	0.3	-	0.4	0.4
Payments from plans:						
Benefit payments	8.1	(8.1)	-	7.7	(7.7)	-
	8.1	(7.8)	0.3	7.7	(7.3)	0.4
At 31 March	(120.8)	124.4	3.6	(120.5)	124.5	4.0

The schemes' assets relating to the Group were:

	2026			2025		
	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	88.5	-	15	92.2	-	13
Government bonds	-	-	-	16.4	-	2
Other bonds	82.3	38.8	20	91.7	49.1	20
Diversified growth	43.0	-	7	39.1	-	6
Property/Infrastructure	40.1	22.5	10	42.7	27.8	10
Insurance linked security	55.9	-	9	50.0	-	7
Bulk insurance policies	-	54.7	9	-	146.6	21
LDI investments	158.3	-	26	114.3	-	16
Other (including cash funds)	2.8	17.6	4	18.3	16.4	5
	470.9	133.6	100.0	464.7	239.9	100

Notes to the Financial Statements continued

31. Retirement benefit obligations continued

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

	2026			2025		
	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	20.6	-	17	21.2	-	17
Government bonds	-	-	-	3.8	-	3
Other bonds	19.2	9.0	23	21.1	11.3	26
Diversified growth	10.1	-	8	9.0	-	7
Property/Infrastructure	9.4	5.4	12	9.8	6.4	13
Insurance linked security	13.1	-	10	11.5	-	9
LDI investments	37.0	-	30	26.3	-	21
Other	0.6	-	-	4.1	-	4
	110.0	14.4	100	106.8	17.7	100

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, which are commonly used by UK pension schemes.

The weighted average duration of the defined benefit obligation is 11 years (2025: 10 to 12 years).

The 2025 triennial actuarial valuation of the principal defined benefit scheme was agreed in 2025 with an actuarial valuation surplus of £14.0 million. No deficit recovery contributions are required as a result of the 2025 valuation. Additional contributions of £1.8 million were paid into the scheme in respect of scheme expenses (2025: £1.8 million). The Group monitors funding levels on an annual basis and the Group expects to pay only scheme expenses of around £1.9 million, during the year ended 31 March 2027.

The last formal valuation of the SES section of the WCPS was at 31 March 2022.

32. 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	
	2026 £m	2025 £m	2026 £m	2025 £m
Net liabilities/(assets) after offsetting at 1 April	530.6	548.4	(23.6)	(20.7)
Charged/(credited) to the statement of profit or loss	25.3	(7.8)	(2.2)	(3.0)
(Credited)/charged to other comprehensive income	(0.7)	(1.5)	(0.1)	0.1
Other non-underlying credits in the statement of profit or loss	(3.3)	(8.5)	–	–
Net liabilities/(assets) after offsetting at 31 March	551.9	530.6	(25.9)	(23.6)

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

The Group has applied the exemption from recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes as required by the amendments to IAS 12 'International Tax Reform – Pillar Two Model Rules'.

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

Group

Deferred tax liabilities

	Property, plant and equipment £m	Fair value adjustments £m	Short-term liabilities including provisions £m	Retirement benefit obligations £m	Total £m
At 1 April 2024	522.3	104.7	4.9	2.3	634.2
Underlying charged/(credited) to the statement of profit or loss	39.1	0.5	(0.5)	0.7	39.8
Charged to other comprehensive income	–	–	–	0.9	0.9
At 31 March 2025	561.4	105.2	4.4	3.9	674.9
Underlying charged/(credited) to the statement of profit or loss	43.7	(0.9)	(0.4)	0.6	43.0
Credited to other comprehensive income	–	–	–	(0.9)	(0.9)
At 31 March 2026	605.1	104.3	4.0	3.6	717.0

Notes to the Financial Statements continued

32. Deferred tax continued

Deferred tax assets

	Derivatives £m	Share-based payments £m	Tax losses £m	Corporate interest restriction £m	Fair value adjustment £m	Total £m
At 1 April 2024	(4.2)	(0.6)	(42.2)	(10.7)	(28.1)	(85.8)
Underlying charged/(credited) to the statement of profit or loss	1.1	(0.1)	(51.0)	(0.6)	3.0	(47.6)
Non-underlying credited to the statement of profit or loss	–	–	(8.5)	–	–	(8.5)
Credited to equity	(2.4)	–	–	–	–	(2.4)
At 31 March 2025	(5.5)	(0.7)	(101.7)	(11.3)	(25.1)	(144.3)
Underlying charged/(credited) to the statement of profit or loss	4.5	(0.1)	(22.4)	(0.1)	0.4	(17.7)
Non-underlying credited to the statement of profit or loss	–	–	(3.3)	–	–	(3.3)
Charged to equity	0.2	–	–	–	–	0.2
At 31 March 2026	(0.8)	(0.8)	(127.4)	(11.4)	(24.7)	(165.1)

Net liability

At 31 March 2025	530.6
At 31 March 2026	551.9

Deferred tax assets not recognised

Gross	Property, plant and equipment £m	Short-term liabilities including provisions £m	Tax losses and corporate interest restriction £m	Total £m
At 1 April 2024	0.4	0.2	22.0	22.6
Movement in unrecognised deferred tax	(0.1)	–	11.6	11.5
At 31 March 2025	0.3	0.2	33.6	34.1
Utilisation of unrecognised deferred tax	–	(0.2)	(1.7)	(1.9)
Movement in unrecognised deferred tax	(0.3)	–	–	(0.3)
At 31 March 2026	–	–	31.9	31.9

32. Deferred tax continued

Deferred tax assets have not been recognised in respect of the following items:

Tax effect	Property, plant and equipment £m	Short-term liabilities including provisions £m	Tax losses and corporate interest restriction £m	Total £m
At 1 April 2024	0.1	–	5.5	5.6
Utilisation of unrecognised deferred tax	–	–	2.9	2.9
At 31 March 2025	0.1	–	8.4	8.5
Movement in unrecognised deferred tax	–	–	(0.4)	(0.4)
Utilisation of unrecognised deferred tax	(0.1)	–	–	(0.1)
At 31 March 2026	–	–	8.0	8.0

Following the acquisition of SES Water in FY24, the Group acquired various tax attributes upon which no deferred tax assets were recognised at the point of acquisition. As at FY26, these attributes continue to be unrecognised. These tax attributes mainly relate to tax losses £23.8 million (2025: £25.5 million) and a UK corporate interest disallowance of £8.1 million (2025: £8.1 million).

The Group does not consider that it is probable that sufficient taxable profits will be created which would enable utilisation of these tax attributes when taking into account the application of the UK tax rules in respect of attributes acquired via an acquisition.

Company

Deferred tax assets

	Retirement benefit obligations £m	Share-based payments £m	Tax losses £m	Total £m
At 31 March 2024	0.9	(0.5)	(21.1)	(20.7)
Credited to the statement of profit or loss	–	–	(3.0)	(3.0)
Charged to other comprehensive income	0.1	–	–	0.1
At 31 March 2025	1.0	(0.5)	(24.1)	(23.6)
Credited to the statement of profit or loss	–	–	(2.2)	(2.2)
Credited to other comprehensive income	(0.1)	–	–	(0.1)
At 31 March 2026	0.9	(0.5)	(26.3)	(25.9)

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

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Remeasurement of defined benefit obligations	(0.9)	0.9	(0.1)	0.1
Cash flow hedges	0.2	(2.4)	–	–
	(0.7)	(1.5)	(0.1)	0.1

When a business incurs capital expenditure which is qualifying for tax relief, tax deductions are obtained via the capital allowance regime. The tax relief arising replaces the accounting depreciation of the qualifying expenditure which is not tax deductible. Over the period of ownership of the relevant property, plant and equipment, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates typically vary from 3% up to 100%. Depreciation periods vary from 4 to 200 years. Due to the 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. The Group has benefited from 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 derivatives and share based payments because the treatment of such items are different for tax and accounting purposes creating temporary differences which will unwind in the near future. Retirement benefit obligations will crystallise over the life of the pension scheme and/or the period when spreading applies (this can be up to three years for spreading purposes).

The fair value deferred tax liabilities shown above relate to the impact of previous business combinations of Bournemouth Water, Bristol Water and SES Water in respect of an increase between the fair value and book value of property, plant and equipment that was acquired and upon which a deferred tax liability is booked. In respect of the same business combinations, fair value deferred tax assets relate to the revaluation of debt on the acquisition of Bournemouth Water, Bristol Water and SES 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 statement of profit or loss.

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

Tax losses relate to trading losses and capital losses accumulated to date which have not been utilised. The deferred tax on these tax losses is recognised together with the deferred tax on the UK corporate interest restrictions carried forward. These tax attributes are available indefinitely. The increase in tax losses in the current year is partly driven by a prior year adjustment as discussed in note 9. UK capital losses are recognisable only on consolidation as per the application of IAS 12. The basis for recognition is that the UK tax group has appropriate taxable temporary differences that are expected to reverse in a manner which will enable full utilisation of these tax attributes thereby reducing future tax payable thereby complying with the offsetting provisions set out in IAS 12.

Notes to the Financial Statements continued

33. Provisions

	Restructuring £m	Other £m	Total £m
Group			
At 1 April 2024	–	1.1	1.1
Charge	9.9	0.5	10.4
Utilised	(3.5)	(0.7)	(4.2)
At 31 March 2025	6.4	0.9	7.3
Charge	–	5.7	5.7
Utilised	(6.4)	(0.1)	(6.5)
At 31 March 2026	–	6.5	6.5

Other provisions include £0.3 million (2025: £0.4 million) in relation to dilapidations and onerous contracts and £6.2 million (2025: £0.5 million) in relation to ongoing legal and environmental cases. £6.2 million of these provisions are expected to be utilised within one year.

34. Share capital

Allotted, called-up and fully paid

	Number of shares		£m
	Treasury shares	Ordinary shares	
Group and Company			
At 1 April 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
At 31 March 2025 ordinary shares of 61.05p each	5,628	471,976,711	288.1
For consideration of £4,000, shares issued under the Company's Sharesave Scheme	–	6,883	–
At 31 March 2026 ordinary shares of 61.05p each	5,628	471,983,594	288.1

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. In the year ended 31 March 2026 an additional £0.5 million transaction costs directly attributable to the rights issue have been accounted for as a deduction from share premium.

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.

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

Date granted	Subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March	
			2026	2025
19 July 2020	750p	2023 – 2025	–	27
6 July 2021	710p	2024 – 2026	36	53
5 July 2022	669p	2025 – 2027	24	206
4 July 2023	536p	2026 – 2028	323	495
2 July 2024	406p	2027 – 2029	1,115	1,383
3 July 2025	421p	2028 – 2030	776	–
			2,274	2,164

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

	2026		2025	
	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	2,164	472	1,461	746
Granted	844	421	1,324	406
Additional options awarded as part of rights issue	–	–	493	492
Forfeited	(453)	477	(789)	543
Exercised	(7)	406	(4)	501
Expired	(274)	600	(321)	645
At 31 March	2,274	437	2,164	472

The weighted average price of the Company's shares at the date of exercise of Sharesave options during the year was 513 pence (2025: 612 pence). The options outstanding at 31 March 2026 had a weighted average exercise price of 437 pence (2025: 472 pence) and a weighted average remaining contractual life of 2.1 years (2025: 2.4 years). The number of exercisable Sharesave options at 31 March 2026 was 3,091 (2025: 2,277) and the weighted average exercise price of exercisable Sharesave options was 699 pence (2025: 710 pence).

34. Share capital continued

The aggregate fair value of Sharesave options granted during the year was £0.8 million (2025: £1.0 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model at the date of issue of the options were:

	2026	2025
Weighted average share price (pence)	494	564
Weighted average exercise price (pence)	421	406
Expected volatility	31%	27%
Expected life	3.5 years	3.5 years
Risk-free rate	4.3%	5.3%
Expected dividend yield	6.4%	7.8%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three year and five year 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 133 to 155.

The number and price of shares in the LTIP are:

	2026		2025	
	Number of ordinary shares (thousands)	Weighted average award price per share (p)	Number of ordinary shares (thousands)	Weighted average award price per share (p)
At 1 April	1,978	773	1,122	863
Granted	675	458	603	646
Additional shares awarded as part of rights issue	-	-	470	-
Vested	(94)	-	(133)	753
Lapsed	(555)	629	(84)	1,093
At 31 March	2,004	548	1,978	773

The awards outstanding at 31 March 2026 had a weighted award price of 548 pence (2025: 773 pence) and a weighted average remaining contractual life of 3.0 years (2025: 3.3 years).

The aggregate fair value of awards granted during the year was £1.5 million (2025: £1.3 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:

	2026		2025	
	Number of ordinary shares (thousands)	Weighted average award price per share (p)	Number of ordinary shares (thousands)	Weighted average award price per share (p)
At 1 April	108	803	217	863
Granted	184	493	22	665
Vested	(42)	988	(45)	1,141
Lapsed	(13)	710	(86)	729
At 31 March	237	536	108	803

The awards outstanding at 31 March 2026 had a weighted average award price of 536 pence (2025: 803 pence) and a weighted average remaining contractual life of 1.9 years (2025: 1.6 years). The Company's share price at the date of the awards ranged from 493 pence to 988 pence (2025: 665 pence to 1,141 pence).

The aggregate fair value of awards granted during the year was £0.9 million (2025: £0.1 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.

35. Share premium account

	£m
Group and Company	
At 1 April 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)
At 31 March 2025	755.0
Sale of share forfeiture shares	0.6
	755.6
Less: Transaction costs directly attributable to rights issue	(0.5)
At 31 March 2026	755.1

Notes to the Financial Statements continued

36. 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
Group and Company	
At 31 March 2024	157.1
At 31 March 2025	157.1
At 31 March 2026	157.1

37. Retained earnings and other reserves

	Own shares £m	Hedging reserve £m	Retained earnings £m	Total £m
Group				
At 1 April 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)	–
Credit/(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)
At 31 March 2025	(0.7)	24.7	224.0	248.0
Profit for the year	–	–	91.5	91.5
Other comprehensive income/(loss) for the year	–	0.6	(0.6)	–
Dividends paid relating to 2025	–	–	(133.7)	(133.7)
Dividends forfeited	–	–	1.7	1.7
Credit to equity in respect of share-based payments (net of tax)	–	–	2.6	2.6
Credit/(charge) in respect of share options vesting	1.3	–	(1.3)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(2.4)	–	–	(2.4)
At 31 March 2026	(1.8)	25.3	184.2	207.7

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 247,106 ordinary shares (2025: 127,801 ordinary shares) held by the Trust at 31 March 2026 was £1,308,000 (2025: £573,000).

	Own shares £m	Retained earnings £m	Total £m
Company			
At 1 April 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)
Credit to equity in respect of share-based payments (net of tax)	–	1.5	1.5
Credit/(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	(2.1)	–	(2.1)
At 31 March 2025	(0.7)	326.3	325.6
Profit for the year	–	191.5	191.5
Other comprehensive expense for the year	–	(0.5)	(0.5)
Dividends paid relating to 2025	–	(133.7)	(133.7)
Dividends forfeited	–	1.7	1.7
Credit to equity in respect of share-based payments (net of tax)	–	1.7	1.7
Credit/(charge) in respect of share options vesting	1.3	(1.3)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(2.4)	–	(2.4)
At 31 March 2026	(1.8)	385.7	383.9

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.

38. 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	
	2026 £m	2025 £m
Profit/(loss) for the year	92.6	(56.8)
Adjustments for:		
Share-based payments	2.6	2.0
Profit on disposal of property, plant and equipment	(3.6)	(1.2)
Depreciation charge	190.6	184.7
Amortisation of intangible assets	2.4	2.3
Intangible impairment charge	0.3	1.3
Impairment of investment properties	0.4	-
Share of post-tax profit from associated companies	(1.0)	(0.8)
Finance income	(21.9)	(15.0)
Finance costs	213.3	199.4
Taxation charge/(credit)	21.8	(15.9)
Changes in working capital:		
(Increase)/decrease in inventories	(2.5)	0.4
Increase in trade and other receivables	(59.1)	(42.5)
Increase/(decrease) in trade and other payables	94.6	(30.5)
(Decrease)/increase in provisions	(0.8)	6.2
Cash generated from operations	529.7	233.6

Reconciliation of total interest paid:

	Group	
	2026 £m	2025 £m
Interest paid in operating activities	172.0	143.1
Total interest paid	172.0	143.1

39. Net borrowings

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Borrowings – current				
Bank and other current borrowings	(118.1)	(224.5)	(36.9)	(51.5)
Lease obligations	(33.1)	(32.9)	-	-
Total current borrowings	(151.2)	(257.4)	(36.9)	(51.5)
Borrowings – non-current				
Bank and other non-current borrowings	(3,666.2)	(3,265.1)	(328.4)	(195.6)
Listed preference shares	(12.5)	(12.5)	-	-
Lease obligations	(1,067.3)	(1,019.3)	-	-
Total non-current borrowings	(4,746.0)	(4,296.9)	(328.4)	(195.6)
Total financing liabilities	(4,897.2)	(4,554.3)	(365.3)	(247.1)
Less:				
Cash and cash equivalents	332.7	417.9	0.4	45.0
Restricted funds	55.6	58.2	-	-
Total net borrowings	(4,508.9)	(4,078.2)	(364.9)	(202.1)

Notes to the Financial Statements continued

39. Net borrowings continued

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

Group

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

	Net borrowings at 31 March 2025 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2026 £m
Bank and other current borrowings	(224.5)	180.7	(73.3)	(1.0)	(118.1)
Current lease obligations	(32.9)	96.4	(43.4)	(53.2)	(33.1)
Bank and other non-current borrowings	(3,265.1)	(444.9)	73.3	(29.5)	(3,666.2)
Listed preference shares	(12.5)	–	–	–	(12.5)
Non-current lease obligations	(1,019.3)	(90.0)	43.4	(1.4)	(1,067.3)
Total financing liabilities	(4,554.3)	(257.8)	–	(85.1)	(4,897.2)
Less					
Cash and cash equivalents	417.9	(85.2)	–	–	332.7
Restricted funds	58.2	(2.6)	–	–	55.6
	(4,078.2)	(345.6)	–	(85.1)	(4,508.9)

Non-cash movements relates to accrued interest expense which will be presented as operating cash flows in the statement of cash flows when paid.

40. Subsidiary and joint venture undertakings at 31 March 2026

Principal subsidiary companies	Registered office address	Country of incorporation, registration and principal operations
Water		
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
Non-household retail		
Pennon Water Services Limited ⁽¹⁾	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Sutton and East Surrey Water Services Limited	66-74 London Road, Redhill, RH1 1LJ	England
Other		
Advanced Minerals Limited ⁽¹⁾	66-74 London Road, Redhill, RH1 1LJ	England
Allmat (East Surrey) Limited	66-74 London Road, Redhill, RH1 1LJ	England
East Surrey Holdings Limited	66-74 London Road, Redhill, RH1 1LJ	England
EEB17 Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
EEB31 Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Insurance Limited ⁽²⁾	Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ	Guernsey
Pennon Power Aberdeenshire Limited (formerly EEB16 Limited)	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Power Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Power Fife Limited (formerly Dunfermline Solar Limited)	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Power Lite Limited (formerly South West Water Services Limited)*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	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

Other trading companies	Registered office address	Country of incorporation
Bristol Water Holdings Limited	Bridgwater Road, Bristol, BS13 7AT	England
Bristol Water Holdings UK Limited*	Bridgwater Road, Bristol, BS13 7AT	England

Dormant companies	Registered office address	Country of incorporation
Avon Valley Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Properties (Exeter) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
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
SES Business Water Limited	66-74 London Road, Redhill, RH1 1LJ	England
SES Home Services Limited	66-74 London Road, Redhill, RH1 1LJ	England
Source for Business Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SWW Pension Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
The Calcite Factory BV(1)	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 (%)
Joint Ventures:			
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
Associates:			
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.

Notes to the Financial Statements continued

40. Subsidiary and joint venture undertakings at 31 March 2026 continued

Subsidiary audit exemption

Pennon Group plc has issued guarantees over the liabilities of the following companies at 31 March 2026 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
Pennon Power Fife Limited (formerly Dunfermline Solar Limited)	12683727
Pennon Power Aberdeenshire Limited (formerly 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

41. Contingencies

Contingent liabilities

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Guarantees:				
Performance bonds	28.8	20.0	28.7	15.0
	28.8	20.0	28.7	15.0

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

On 2 February 2024 summons was received by South West Water Limited from the EA in relation to alleged breaches of permits in relation to the illegal water discharge activity at seven locations with a total of 30 charges. The EA have since withdrawn six of these charges relating to one site. At a hearing on 14 November 2024, South West Water Limited pleaded guilty to five of the charges. Sentencing was held on 12 and 13 March 2026 although the value of any fine will not be known until the judgement takes place on 30 July 2026.

On 23 May 2023 Ofwat announced an investigation into South West Water Limited's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to assurance processes which include independent checks and balances carried out by an external technical auditor. The Group continues to work openly and constructively with Ofwat to comply with the formal notice issued to South West Water Limited as part of this investigation.

The 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 (ODI). 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 S19 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.

Following the Brixham cryptosporidium outbreak in May 2024, legal proceedings were brought by the Drinking Water Inspectorate (DWI). South West Water pleaded guilty to the charge of supplying water unfit for human consumption on 4 March 2026, with sentence received on 2 June 2026. The Court levied a fine of £1.9 million, reflecting the serious impact this incident had on customers in the area, whilst also recognising the extensive customer support and remedial actions taken by South West Water. Full provision was recognised in the 2025/26 financial year for the fine.

The 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. An amount of £6.7 million has been included in non-underlying costs in respect of the above.

42. Capital commitments

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Contracted but not provided	254.9	167.9	–	–

The above capital commitments in the current and prior year relate to property, plant and equipment.

43. 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 investment of South West Water Limited and Water 2 Business Limited is an associate investment of the Company.

	2026 £m	2025 £m
Sales of goods and services		
Water 2 Business Limited	32.2	29.5
Purchase of goods and services		
Bristol Wessex Billing Services Limited	4.4	4.1

Year-end balances

	2026 £m	2025 £m
Receivables due from related parties		
Water 2 Business Limited (including loan receivable of £7.1 million (2025: £8.7 million))	7.5	10.9
Bristol Wessex Billing Services Limited	0.2	0.2
Payables due to related parties		
Bristol Wessex Billing Services Limited	1.6	1.6

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

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:

	2026 £m	2025 £m
Sales of goods and services		
Water 2 Business Limited	0.5	0.1

Year-end balances

	2026 £m	2025 £m
Receivables due from related parties		
Water 2 Business Limited (including loan receivable of £7.1 million (2025: £8.7 million))	7.5	8.9

On 31 January 2025 the £8.7 million 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%.

Alternative performance measures

Alternative performance measures (APMs) are financial measures used in this report that are not defined by International Financial Reporting Standards (IFRS). The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group as well as enhancing the comparability of information between reporting periods.

As the Group defines the APMs they might not be directly comparable to other companies' APMs. They are not intended to be a substitute for, or superior to, IFRS measurements. For the year ended 2025/26, the following APMs were added to or amended to those presented previously:

- The APM 'Effective interest rate' has been amended and is now calculated for the Water Group which includes SES Water. Previously this was for South West Water only.
- The APM 'Effective cash cost of interest rate' has been amended and is now calculated for the Water Group which includes SES Water. Previously this was for South West Water only.

Underlying earnings

Underlying earnings are presented alongside statutory results as the Directors believe they provide a more useful comparison on business trends and performance. Note 6 in the notes to the financial statements provides more detail on non-underlying items, and a reconciliation of underlying earnings for the current year and the prior year is as follows:

	Non-underlying items				Earnings per share p
	Underlying £m	Brixham and regulatory investigations £m	Restructuring/ Transformation £m	Statutory results £m	
Underlying earnings reconciliation 31 March 2026					
EBITDA (see below)	519.2	(6.7)	(14.0)	498.5	
Operating profit/(loss)	325.5	(6.7)	(14.0)	304.8	
Profit/(loss) before tax	135.1	(6.7)	(14.0)	114.4	
Taxation	(25.9)	0.7	3.4	(21.8)	
Profit after tax				92.6	
Non-controlling interests				(1.1)	
Profit after tax attributable to shareholders				91.5	19.4

Underlying earnings reconciliation 31 March 2025	Non-underlying items					Statutory results £m	Earnings per share p
	Underlying £m	Brixham £m	SES acquisition £m	Renewables acquisition £m	Transformation £m		
EBITDA (see below)	335.6	(21.0)	(0.7)	(0.1)	(15.8)	298.0	
Operating profit/(loss)	148.5	(21.0)	(0.7)	(0.1)	(15.8)	110.9	
Loss before tax	(35.1)	(21.0)	(0.7)	(0.1)	(15.8)	(72.7)	
Taxation	7.0	5.2	-	-	3.7	15.9	
Loss after tax						(56.8)	
Non-controlling interests						(1.1)	
Loss after tax attributable to shareholders						(57.9)	(16.1)

Underlying EBITDA

Underlying EBITDA (earnings before interest, tax, depreciation and amortisation and non-underlying items) is used to assess and monitor operational underlying performance.

Effective interest rate

A measure of the mean average interest rate payable on net debt associated with the Water Group, which excludes interest costs not directly associated with net debt. This measure is presented to assess and monitor the relative cost of financing for the Water Group.

	2026 £m	2025 £m
Net finance costs before non-underlying items (note 8)	191.4	184.4
Remove: net finance income before non-underlying items not associated with the Water Group	(1.7)	5.0
Net finance costs before non-underlying items associated with the Water Group	189.7	189.4
Net interest on retirement benefit obligations	2.0	1.5
Capitalised interest	34.2	23.3
Non-debt related interest	2.4	(2.2)
Net finance costs for effective interest rate calculation	228.3	212.0
Group net debt (opening) (note 39)	4,078.2	3,844.8
Remove: Unamortised hedging adjustment	(35.2)	(37.5)
Remove: opening net debt not associated with the Water group	(344.9)	(238.2)
Opening net debt for calculation	3,698.1	3,569.1
Group net debt (closing) (note 39)	4,508.9	4,078.2
Remove: Unamortised hedging adjustment	(32.8)	(35.2)
Remove: closing net debt not associated with the Water Group	(456.8)	(344.9)
Add: equity injection from parent company	-	380.0
Closing net debt for calculation	4,019.3	4,078.1
Average net debt (opening net debt + closing net debt divided by 2)	3,858.7	3,823.6
Effective interest rate (%)	5.9	5.5

Effective cash cost of interest

Effective cash cost of interest is calculated on the same basis as the effective interest cost calculation above, but excludes finance costs that are not paid in cash, but accrete to the carrying value of debt (principally the inflationary impact of indexation on index-linked debt).

	2026 £m	2025 £m
Net finance costs for effective interest rate calculation (as above)	228.3	212.0
Remove non-cash interest accrued (income statement indexation charge)	(44.9)	(33.4)
Net finance costs for effective cash cost of interest calculation	183.4	178.6
Opening net debt (as above)	3,698.1	3,569.1
Closing net debt (as above)	4,019.3	4,078.1
Average net debt (opening net debt + closing net debt divided by 2)	3,858.7	3,823.6
Effective cash cost of interest (%)	4.8	4.7

Underlying interest cover

Underlying net finance costs (excluding pensions net interest cost) divided by operating profit before non-underlying items.

	2026 £m	2025 £m
Net finance costs after non-underlying items (note 8)	191.4	184.4
Net interest on retirement benefit obligations (note 8)	2.2	1.6
Net finance costs for interest cover calculation	193.6	186.0
Operating profit before non-underlying items (see 'Underlying earnings' above)	325.5	148.5
Interest cover (times)	1.7	0.8

Underlying EBITDA dividend cover

Underlying EBITDA for the Group divided by proposed combined interim and final dividends.

	2026 £m	2025 £m
Underlying EBITDA (see 'Underlying earnings' above)	519.2	335.6
Proposed dividends (note 12)	138.2	133.7
EBITDA dividend cover (times)	3.8	2.5

Underlying dividend cover

Proposed dividends divided by profit for the year before non-underlying items and deferred tax.

	2026 £m	2025 £m
Proposed dividends (note 12)	138.2	133.7
Profit/(loss) for the year attributable to ordinary shareholders	91.5	(57.9)
Deferred tax charge/(credit) before non-underlying items (note 9)	25.3	(7.8)
Non-underlying items after tax in profit/(loss) for the year (note 6)	16.6	28.7
Adjusted profit/(loss) for dividend cover calculation	133.4	(37.0)
Dividend cover (times)	1.0	-

Capital investment

Property, plant and equipment and intangible asset additions. The measure is presented to assess and monitor the total capital investment by the Group.

	2026 £m	2025 £m
Additions to property, plant and equipment (note 17)	635.5	647.0
Additions and 'other' movements to intangible assets (note 16)	8.1	5.5
Capital investment	643.6	652.5

Alternative performance measures continued

Capital payments

Payments for property, plant and equipment (PPE), intangible asset and investment property additions, net of proceeds from sale of PPE, intangible assets and investment properties. The measure is presented to assess and monitor the net cash spend on PPE, intangible assets and investment properties.

	2026 £m	2025 £m
Cash flow statements: purchase of property, plant and equipment	629.4	663.1
Cash flow statements: purchase of intangible assets	8.1	5.5
Cash flow statements: proceeds from sale of property, plant and equipment and investment properties	(4.7)	(1.9)
Capital payments relating to the Group	632.8	666.7

Return on Regulated Equity (RoRE)

This is a key regulatory metric which represents the returns to shareholders expressed as a percentage of regulated equity.

Returns are made up of a base return (set by Ofwat, the water business regulator, at c.5.4% and c.5.2% for SES Water for the period 2025 to 2030) plus totex outperformance, financing outperformance and PCD outperformance. Returns are calculated post tax and post sharing (only a proportion of returns are attributed to shareholders and shown within RoRE). The three different types of return calculated and added to the base return are:

- Totex outperformance – Totex is defined below and outperformance is the difference between actual reported results for the regulated business compared to the Final Determination (Ofwat published document at the start of a regulatory period), in a constant price base.
- Financing outperformance – is based on the difference between a company's actual effective interest rate compared with Ofwat's allowed cost of debt.
- ODI outperformance – the net reward or penalty a company earns based on a number of different key performance indicators, again set in the Final Determination.
- Price control deliverables (PCD) performance – If the PCD delivery is delayed, Ofwat applies a Time Value of Money (TVM) adjustment claw back, delivery dates are set in the Final Determination.

Regulated equity is a notional proportion of regulated capital value (RCV) which is set by Ofwat at the start of every five-year regulatory period, adjusted for actual inflation. For 2025 to 2030, the notional equity proportion is 45.0%.

Further information on this metric can be found in South West Water and SES Water's annual performance reports and regulatory reporting, published in July each year. The most recent can be found at: www.southwestwater.co.uk/about-us/how-are-we-performing and www.seswater.co.uk/about-us/publications/our-annual-performance-report respectively.

Total Expenditure (Totex)

Operating costs and capital expenditure of the regulated water and wastewater business (based on the Regulated Accounting Guidelines).

Outcome Delivery Incentives (ODIs)

ODIs are designed to incentivise companies to deliver improvements to service and outcomes based on customers' priorities and preferences. If a company exceeds these targets a reward can be earned through future higher revenues. If a company fails to meet them, they can incur a penalty through lower future allowed revenues.

Regulatory Capital Value (RCV)

RCV has been developed for regulatory purposes and is primarily used in setting price limits.

RCV is widely used by the investment community as a proxy for the market value of the regulated business and forms part of covenant debt limits.

Shadow RCV reflects the addition of anticipated regulatory adjustments which amend RCV at the end of a regulatory period. These changes are accrued due to performance through ODIs, changes in levels of totex expenditure, changes in inflation rates and other regulatory adjustments.

Water Group Gearing

Calculated as combined closing net debt of South West Water and SES Water over RCV for 2025/26 and shadow RCV for 2024/25.

	2026 £m	2025 £m
Net debt	4,019.3	3,698.3
RCV/Shadow RCV	6,505.0	5,983.1
Water Group Gearing	61.8%	61.8%

Five-year financial summary

	2026 £m	2025 £m	2024 £m	2023 £m	2022 £m
Income statement					
Revenue before non-underlying items	1,291.4	1,047.8	907.8	825.0	792.3
Operating profit before non-underlying items	325.5	148.5	166.3	153.1	237.2
Net finance costs before non-underlying items	(191.4)	(184.4)	(150.2)	(136.6)	(93.7)
Share of post-tax profit from associated companies	1.0	0.8	0.7	0.3	–
Profit/(loss) before tax and non-underlying items	135.1	(35.1)	16.8	16.8	143.5
Net non-underlying items before tax	(20.7)	(37.6)	(25.9)	(25.3)	(15.8)
Taxation (charge)/credit	(21.8)	15.9	0.6	8.9	(112.1)
Profit/(loss) for the year	92.6	(56.8)	(8.5)	0.4	15.6
Attributable to:					
Ordinary shareholders of the parent	91.5	(57.9)	(9.5)	0.1	15.4
Perpetual capital security holders	–	–	–	–	–
Non-controlling interests	1.1	1.1	1.0	0.3	0.2
Dividends proposed/declared	138.2	133.7	126.9	111.7	102.0
Earnings per ordinary share (basic):					
Earnings per share	19.4p	(16.1p)	(2.9p)	–	4.0p
Deferred tax before non-underlying items	5.4p	(2.2p)	1.5p	(0.2p)	2.1p
Non-underlying items (net of tax)	3.5p	7.9p	6.5p	6.3p	30.2p
Earnings per share before non-underlying and deferred tax	28.3p	(10.3p)	5.1p	6.0p	36.6p
Declared dividends per share	29.29p	31.57p	36.67p	35.31p	31.84p

	2026 £m	2025 £m	2024 £m	2023 £m	2022 £m
Capital expenditure					
Acquisitions (including investment in joint ventures)	–	–	90.2	–	425.1
Property, plant and equipment	635.5	647.0	604.5	353.7	237.3
Intangibles	8.1	5.5	45.0	4.6	3.6
Balance sheet					
Non-current assets	6,603.0	6,147.0	5,669.1	4,743.0	4,527.0
Net current assets/(liabilities)	296.8	304.6	(23.3)	87.0	389.5
Non-current liabilities	(5,488.2)	(5,000.9)	(4,483.2)	(3,704.8)	(3,641.9)
Net assets	1,411.6	1,450.7	1,162.6	1,125.2	1,274.6
Number of employees					
(average full time equivalent for year)					
Water	3,384	3,528	3,051	2,639	2,394
Non-household retail	207	259	191	158	177
Other businesses	101	123	90	67	65
	3,692	3,910	3,332	2,864	2,636

Glossary

AMP7	The 2020 to 2025 regulatory price review period	ODI	Outcome Delivery Incentives, many of which are common across all water companies while others are bespoke to South West Water
AMP8	The 2025 to 2030 regulatory price review period	Ofwat	The Water Services Regulation Authority, or Ofwat, is the body responsible for economic regulation of the privatised water and sewerage industry in England and Wales
AMP9	The 2030 to 2035 regulatory price review period	PR24	The 2024 'Price Review' for water companies in England and Wales was a process led by Ofwat to determine prices for the period 2025–2030
BRL	Ofwat reference to the Bristol region	RCV	RCV is the financial base used by Ofwat to allow a rate of return and set prices at each Periodic Review
BR-MeX	Business customer and retailer measure of experience is Ofwat's measure of how business customers and retailers experience our services	REACH	Race Ethnicity and Cultural Heritage
C-MeX	Customer measure of experience, a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain	RNAGS	Reason for Not Achieving Good Status
CPI	Consumer price index, a measure of inflation in a representative sample of retail goods and services using a geometric mean and excluding e.g. housing costs	RoRE	Return On Regulated Equity
CPIH	Consumer price index, a measure of inflation in a representative sample of retail goods and services using a geometric mean, including owner occupiers' housing costs	RPI	Retail Price Index, a measure of inflation in a representative sample of retail goods and services using an arithmetic mean
CREWW	The Centre for Resilience in Environment, Water and Waste, a Pioneering research centre for Resilience in Environment, Water and Waste, in partnership with Exeter University	STEM	Science, Technology, Engineering and Mathematics
D-MeX	Developer Measure of Experience, a measure of service experience for developers which directly compares us with our peers	Sustainable Financing Framework	The way we link financial impacts with sustainability impacts; the Framework aligns with the Green Bond Principles, the Social Bond Principles and the Green Loan Principles
EBITDA	Earnings before interest, tax, depreciation and amortisation	SBB	Ofwat reference for South West Water including Bournemouth and Bristol – refers to the combined company across all five regions: South West (Devon and Cornwall), Bristol, Bournemouth and Isles of Scilly
EDM	Event Duration Monitoring – A regulatory requirement to monitor the frequency and duration of releases from storm overflows	SESW	Sutton and East Surrey Water
EFRA	Environment, Food and Rural Affairs Committee	SWB	Ofwat reference for South West Water including Bournemouth – refers to the four regions: South West (Devon and Cornwall), Bournemouth and Isles of Scilly
EPA	The EPA is the Environment Agency's assessment of environmental performance.	SWW	South West Water Limited
ESG	Environmental, Social and Governance	TCFD	Task force on climate-related financial disclosures
Fair Tax Mark	An independent certification scheme which recognises organisations that demonstrate they are paying the right amount of corporation tax at the right time	TCND	Task force on nature-related financial disclosures
GHG	Greenhouse gases	Totex	Total expenditure
GRESB	The GRESB Foundation is an independent, not-for-profit organisation that sets global standards for assessing the ESG performance of real estate, infrastructure and other assets	UKWIR	UK Water Industry Research
HomeSafe	Our health & safety improvement programme	Water Group	South West Water including Bristol Water and SES Water
IEA	International Energy Agency	WaterShare	The programme through which we shared the benefits of outperformance against our 2015–20 business plan targets with water customers
IPCC	The Intergovernmental Panel on Climate Change	WaterShare+	The enhanced benefit sharing mechanism introduced for water customers under our 2020–25 New Deal business plan
Jacobs	Jacobs U.K. Limited, an independent management consultancy specialising in technical assurance in the utility sector	WaterShare+ Advisory Panel	Established to protect the interests of our customers. The Panel provides an independent review of our business plan commitments and Board pledges
KPI	Key Performance Indicator, our measures of business performance against the key targets monitored by Board and Pennon Executive	WTW	Water Treatment Works – that part of a waterworks that is used to filter or condition water for the purpose of rendering water acceptable for human consumption or hygienic use
LGBTQ+	Acronym for Lesbian, gay, bisexual, transgender, and queer plus	WWTW	Waste Water Treatment Works – We use this term, rather than sewage treatment works, to describe the facilities which return used water to a condition where it can safely be discharged to environmental waters.
LTIFR	Lost Time Injury Frequency Rate		
MOSL	The market operator for the non-household retail market in England		
NCSC	National Cyber Security Centre		
Net Zero	Achieving a balance between greenhouse gas emissions produced and removed from the atmosphere across Scope 1, 2 and 3, as defined by the GHG Protocol, in line with the UK Government's 2050 target and the Science Based Targets initiative (SBTi) Net Zero Corporate Standard.		

Shareholder information

Financial calendar, including Dividend Reinvestment Plan (DRIP) alternative

Financial year end	31 March 2026
Full Year Results 2025/26	10 June 2026
Annual Report and Accounts Published	16 June 2026
Annual General Meeting 2026	8 July 2026
Pennon Q1 Trading Update	8 July 2026
Ordinary shares quoted ex-dividend	23 July 2026*
Record date for final dividend	24 July 2026*
Final date for receipt of DRIP applications	10 August 2026*
Final dividend payment date	4 September 2026*
Trading Statement	September 2026
Half Year Results 2026/27	1 December 2026

* Subject to obtaining shareholder approval at the 2026 Annual General Meeting.

Shareholder analysis at 31 March 2026

Number of holding of shares	Number of shareholders	% of total shareholders	% of ordinary shares
1–100	2,039	16.1	0.01
101–1,000	5,701	45.1	0.57
1,001–5,000	3,888	30.8	1.8
5,001–50,000	758	6.0	1.8
50,001–100,000	50	0.4	0.7
100,001+	206	1.6	95.1
	12,642		

	Number of accounts	% of total accounts	% of total shares
Individuals	11,988	94.9	3.8
Companies	571	4.5	84.2
Trust companies (pension funds etc.)	1	–	–
Banks and nominees	82	0.6	12.0
	12,642		

Major Shareholders as at 9 April 2026

Shareholder	Shareholding in Pennon Group plc shares	% of issued share capital
Lazard LCC	45,933,776	9.73
Crédit Agricole S.A.	35,354,489	7.49
BlackRock, Inc.	33,628,139	7.12
Vanguard Group, Inc.	27,311,371	5.79
Pictet & Cie	18,991,178	4.02
Impax Group PLC	18,730,376	3.97
Schroders PLC	18,519,508	3.92
Franklin Resources Inc.	18,355,856	3.89
HSBC Group PLC	17,569,465	3.72
Deutsche Bank Group AG	15,049,511	3.19
Legal & General Group PLC	14,790,621	3.13

As at 26 May 2026, the Company has been notified of the following holdings of voting rights in the ordinary share capital of the Company: BlackRock Inc. on 20 April 2026 of 23,520,374 shares (4.98%), on 22 April 2026 of 23,665,101 shares (5.01%), on 24 April 2026 of 23,137,073 shares (4.90%), on 27 April 2026 of 24,180,144 shares (5.12%), on 30 April 2026 of 22,949,438 shares of (4.86%), on 1 May 2026 of 23,830,753 shares of (5.04%) and on 29 May 2026 of 22,605,274 shares (4.78%). The percentage of voting rights detailed above was calculated at the time of the relevant disclosures were made in accordance with Rule 5 of the Disclosure Guidance and Transparency Rules.

Shareholder information continued

Registrar

All enquiries concerning shareholdings including notification of change of address, loss of a share certificate or dividend payments should be made to the Company's registrar, MUFG Corporate Markets Limited, who can be contacted as follows:

MUFG Corporate Markets Limited
Pennon Group Share Register
Central Square
29 Wellington Street
Leeds
LS1 4DL

Telephone: 0371 664 9234 (calls are charged at standard geographic rate and will vary by provider).

Lines are open 8.30am-5.30pm Monday-Friday, excluding public holidays in England and Wales.

Overseas telephone: +44 371 664 9234
(calls outside the United Kingdom will be charged at the applicable international rate).

Email: pennon@mpms.mufg.com

Website: www.signalshares.com

ShareGift service

Through ShareGift, an independent charity share donation scheme, shareholders who only have a small number of shares with a value that makes it uneconomical to sell them can donate such shares to charity. Donations can be made by completion of a simple share transfer form which is available from the Company's registrar, MUFG Corporate Markets Limited, or by contacting ShareGift on 020 7930 3737 (www.sharegift.org).

Individual savings accounts

Shareholders may gain tax advantages by holding their shares in the Company in an Individual Savings Account (ISA).

Dividend Reinvestment Plan (DRIP)

Subject to obtaining shareholder approval at the 2026 Annual General Meeting for the payment of a final dividend for the year ended 31st March 2026, full details of the DRIP and how to participate will be published on the Company's website at www.pennon-group.co.uk/dividends/dividend-reinvestment-plan-drip.

The full timetable for offering the DRIP is given opposite.

The DRIP provides shareholders with an opportunity to invest the cash dividend they receive on their Pennon Group plc shares to buy further shares in the Company at preferable dealing rates.

Corporate information

Registered office

Peninsula House
Rydon Lane
Exeter
Devon
EX2 7HR

Company registration number: 2366640

Company Secretary

Andrew Garard

Corporate brokers

Barclays Bank plc
Morgan Stanley & Co. International plc

Independent auditors

PricewaterhouseCoopers LLP

Online portfolio service

The online portfolio service, provided by MUFG Corporate Markets Limited, gives shareholders access to more information on their investments. Details of the portfolio service are available online at www.signalshares.com.

Electronic communications

The Company has passed a resolution which allows it to communicate with its shareholders by means of its website.

Shareholders currently receiving a printed copy of the annual report who now wish to sign up to receive all future shareholder communications electronically can do so by registering with MUFG Corporate Markets Limited's share portal.

Go to <http://www.signalshares.com> to register, select 'Account Registration' and then follow the on-screen instructions by inputting your surname, your Investor Code (which can be found on your proxy form) and your postcode, as well as entering an email address and selecting a password.

By registering to receive your shareholder communications electronically, you will also automatically receive your dividend confirmations electronically.

Electronic proxy voting

Pennon encourages the use of electronic proxy voting and no longer provides paper proxy forms alongside the AGM Notice. We believe that is both more efficient and consistent with our important environmental sustainability responsibilities and objectives.

You may register your proxy votes via www.signalshares.com.

Registering your vote electronically is entirely secure and ensures the privacy of your personal information. Alternatively, if you wish to vote by post you may request a hard copy proxy form by contacting our registrar, MUFG Corporate Markets Limited. Contact details are provided above.

Pennon's website

www.pennon-group.co.uk provides news and details of the Company's activities plus links to its subsidiaries' websites.

The Investor Information section contains up-to-date information for shareholders including detailed share price information, financial results, dividend payment dates and amounts, and stock exchange announcements. There is also a comprehensive shareholder services section which includes information on buying, selling and transferring shares, and how to notify a change in personal circumstances, for example, a change of address.

Beware of share fraud

The following is taken from the ScamSmart section of the Financial Conduct Authority's website (www.fca.org.uk/scamsmart).

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

Keep in mind that firms authorised by the Financial Conduct Authority (FCA) are unlikely to contact you out of the blue with an offer to buy or sell shares.

Do not get into a conversation; note the name of the person and firm contacting you and then end the call.

Check the Financial Services Register from <http://www.fca.org.uk> to see if the person and firm contacting you is authorised by the FCA.

Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.

Use the firm's contact details listed on the Register if you want to call it back.

Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.

Search the FCA Warning List of unauthorised firms at www.fca.org.uk/scamsmart.

Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme. Seek impartial advice from a financial adviser before you make an investment.

Remember: if it sounds too good to be true, it probably is!

5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000.

Report a scam

If you are approached by fraudsters, please tell the FCA using the share fraud reporting form at <http://www.fca.org.uk/scams> where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you can report this at any time to Action Fraud using their Online Fraud Report Tool at www.actionfraud.police.uk/reporting-fraud-and-cyber-crime or by calling 0300 123 2040.



Designed and produced
by carrkama.co.uk



Pennon Group plc
Peninsula House
Rydon Lane
Exeter
Devon
England EX2 7HR
www.pennon-group.co.uk

