

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.

Independent auditors’ report to the members of Pennon Group plc continued

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.

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

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	–	–
Other intangible assets	16	67.5	–	–
Property, plant and equipment	17	6,297.5	–	–
Investment properties	18	6.3	–	–
Other non-current assets	20	7.1	191.3	104.6
Financial assets at fair value through profit or loss	25	–	–	0.6
Deferred tax assets	32	–	25.9	23.6
Derivative financial instruments	24	21.4	–	0.1
Investments in subsidiary undertakings	21	–	1,562.7	1,562.7
Investments in associated companies	21	2.8	–	–
Retirement benefit assets	31	20.5	3.6	4.0
		6,603.0	1,783.5	1,695.6
Current assets				
Inventories	22	15.3	–	–
Trade and other receivables	23	452.4	180.0	53.8
Current tax receivable	28	–	0.4	–
Financial assets at fair value through profit or loss	25	0.6	0.6	–
Derivative financial instruments	24	9.0	1.2	0.7
Cash and cash equivalents	26	332.7	0.4	45.0
Restricted funds	26	55.6	–	–
Retirement benefit assets	31	11.4	–	–
		877.0	182.6	99.5
Liabilities				
Current liabilities				
Borrowings	29	(151.2)	(36.9)	(51.5)
Financial liabilities at fair value through profit and loss	25	–	–	(0.3)
Derivative financial instruments	24	(0.6)	–	(0.1)
Trade and other payables	27	(422.3)	(16.6)	(19.6)
Current tax liabilities	28	–	–	(1.9)
Provisions	33	(6.1)	–	(0.3)
		(580.2)	(53.5)	(73.7)
Net current assets		296.8	129.1	25.8

Notes	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Non-current liabilities				
Borrowings	29	(4,746.0)	(328.4)	(195.6)
Other non-current liabilities	30	(188.0)	–	–
Derivative financial instruments	24	(1.9)	–	–
Deferred tax liabilities	32	(551.9)	–	–
Provisions	33	(0.4)	–	–
		(5,488.2)	(328.4)	(195.6)
Net assets		1,411.6	1,584.2	1,525.8
Shareholders' equity				
Share capital	34	288.1	288.1	288.1
Share premium account	35	755.1	755.1	755.0
Capital redemption reserve	36	157.1	157.1	157.1
Retained earnings and other reserves	37	207.7	383.9	325.6
Total shareholders' equity		1,408.0	1,584.2	1,525.8
Non-controlling interests		3.6	–	–
		1,411.6	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 continued

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.

Notes to the Financial Statements continued

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
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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
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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.

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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	Non-underlying items (note 6)	Total 2026 £m	Before non- underlying items	Non-underlying items (note 6)	Total 2025 £m
	2026 £m	2026 £m		2025 £m	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.

Notes to the Financial Statements continued

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	
	£m	Basic p	Diluted p	£m	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.

Notes to the Financial Statements continued

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 £3.6 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.

Notes to the Financial Statements continued

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

Notes to the Financial Statements continued

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)

Notes to the Financial Statements continued

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	-	-

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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%.

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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

Notes to the Financial Statements continued

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).

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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.

Notes to the Financial Statements continued

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 B.V(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.

Notes to the Financial Statements continued

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%.