

Governance at a glance

Highlights

Board changes

Welcoming two Independent Non-Executive Directors – Dorothy Burwell and Loraine Woodhouse

In December 2022, Dorothy Burwell and Loraine Woodhouse were appointed to the Board as Independent Non-Executive Directors. They both bring a wealth of experience from their roles in other companies.

Read more on their biographies on pages 102 to 104.

Welcoming our new Group General Counsel and Company Secretary – Andrew Garard

On 30 November 2022, Simon Pugsley stepped down as Group General Counsel and Company Secretary. On 1 December 2022, Andrew Garard joined the Group as Group General Counsel and Company Secretary.

Read more on Andrew's experience in his biography on page 104.

Governance updates

Establishment of a Pennon Ethics Management Committee

As part of our commitment to monitoring and improving purpose and culture, during the year we formed a Pennon Ethics Management Committee to assist the Pennon Executive and the main Board in overseeing our culture and commitment to ethical business and integrity, as well as our aspiration to be a great place to work and the best employer in the Great South West.

The Group's core membership is made up of our Group Chief People Officer, Group General Counsel and Company Secretary, People & Culture Director and Head of Legal Compliance.

Their role is to:

- Oversee the Group's ethics and compliance programme including the Code of Conduct.
- Identify general and specific ethics risks and facilitate an organisation and framework for the effective governance and assurance of ethics and compliance (including all associated policies, procedures and controls).
- Oversight of issues logged via the Speak Up line ensuring a consistent and transparent approach.
- Horizon and Group-wide scanning of potential ethics and compliance issues facing the Group.
- Review the Group's progress in living our values and delivering on our purpose.

Key focus areas for the Board in 2022/23

- Supporting customers on low income.
- Drought management and resilience programme including WaterFit.
- Strategic direction 2050.
- Integration of Bristol Water into the Group.
- Culture.
- Environmental performance.
- Operational performance.
- Storm overflows.
- Energy costs.
- WaterShare+.

Board meetings and attendance

There were six scheduled Board meetings during the year.

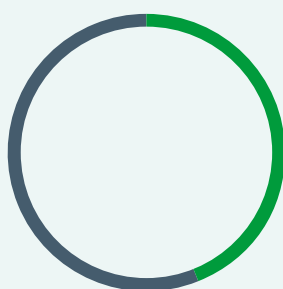
2022	May
	Board and Committee meetings
	✓
	July
	Board and Committee meetings
	✓
2023	September
	Board and committee meetings plus strategy day
	✓
2023	November
	Board and Committee meetings
	✓
2023	January
	Board meeting
	✓
2023	March
	Board and Committee meetings

Meeting attendance during the year and Board skills matrix

Position	Non-Executive Directors						Executive Directors		
	Chair	Neil Cooper	Iain Evans	Claire Ighodaro	Jon Butterworth	Dorothy Burwell ¹	Loraine Woodhouse ¹	Susan Davy	Paul Boote
Member	Gill Rider	Neil Cooper	Iain Evans	Claire Ighodaro	Jon Butterworth	Dorothy Burwell ¹	Loraine Woodhouse ¹	Susan Davy	Paul Boote
Attendance	6/6	6/6	6/6	6/6	6/6	2/2	2/2	6/6	6/6
Skills									
Independence	⊗	⊙	⊙	⊙	⊙	⊙	⊙		
Water sector	⊗	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Regulation	⊗	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Finance and Accounting		⊙	⊙	⊙		⊙	⊙	⊙	⊙
Strategy	⊗	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Transformation	⊗	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Health, safety and wellbeing	⊗		⊙		⊙	⊙		⊙	
ESG including climate change			⊙		⊙	⊙		⊙	⊙
Data, technology and digital				⊙	⊙			⊙	
People	⊗			⊙		⊙	⊙	⊙	⊙
Governance	⊗	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Remuneration	⊗			⊙			⊙		

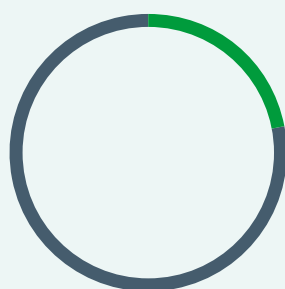
1. Were appointed 1st December 2022.

Board gender diversity as at 31 March 2023



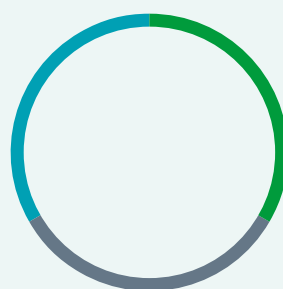
● Male: **44%**
● Female: **56%**

Board ethnic diversity at 31 March 2023



● Of ethnic minority: **22%**
● White: **78%**

Board tenure as at 31 March 2023



● 0 - 3 years: **3 Directors**
Paul Boote, Dorothy Burwell, Loraine Woodhouse
● 3 - 5 years: **3 Directors**
Jon Butterworth, Iain Evans, Claire Ighodaro
● 5+ years: **3 Directors**
Neil Cooper, Susan Davy, Gill Rider

In numbers

14th

Ranking overall in FTSE 250 Women's Leaders Review, 1st in the utility sector.

1 in 14

number of households in the South West Water region now shareholders following the second issuance of WaterShare+ in 2023.

Chair's introduction to governance



Gill Rider
Chair

“Engaging with all our stakeholders has never been more vital.”

Dear Shareholder

I am very pleased to introduce, on behalf of the Board, the Pennon Group Corporate Governance Report for 2023. We provide detail around our governance practices and processes, and how we apply the principles of best practice in corporate governance. It also covers our key focus areas and achievements during 2022/23 and explains how the Board continues to support the Group's strategy. The Board reaffirms its commitment to maintaining the effective corporate governance and integrity that enable us to deliver our sustainable strategy for the long-term benefit of all our stakeholders.

Review of the year

Our well-established governance arrangements and processes enabled the Board and its Committees to operate effectively and efficiently throughout the year. As well as physical Board meetings we also held several ad-hoc virtual meetings, enabling us to communicate more frequently and to give management our advice and support more often.

Strong governance remains central to the successful management of the Group, providing the framework we collectively need to deliver our strategy, effectively fulfil our purpose, create value for all our stakeholders and continuously develop our sustainable business. We continue to operate to the highest standards of corporate governance. Our Board composition is substantially ahead of the diversity targets suggested by the Parker Review and the FTSE Women Leaders Review.

And our ESG targets, which include our commitment to achieving Net Zero by 2030, remain well ahead of many companies in the FTSE 250.

Throughout 2022/23 we focused on achieving our strategic priorities while ensuring a robust response to the drought conditions that affected the environment as well as many of our customers and communities. Management kept us well-informed on progress against the Group's strategy and about the measures taken to mitigate the impact of the year's historically low levels of rainfall.

The table on page 111 will help you to navigate our reporting and evaluate our performance against the Principles of the UK Corporate Governance Code 2018 (the UK Code). As we explain below, we also have processes and procedures in place to safeguard the independence of decision-making by the Boards of South West Water and, prior to its integration with South West Water, Bristol Water.

Promoting diversity

Diversity and inclusion (D&I) continues to be a top priority for the Board and the Group. As a whole it is encouraging to see our CEO recognised for her work in this area. Our gender and ethnic diversity representation on the Board exceeds the Hampton-Alexander and Parker targets. Our commitment to diversity is also reflected right across the business; our widespread commitment and focused drive to recruit talent from all backgrounds has the heartfelt support of our strong and diverse leadership team.

Engaging with our stakeholders

Engaging with all our stakeholders has never been more essential, particularly in view of the national and global issues we are facing. All companies in the water sector face much scrutiny around their environmental impacts, so it is vital that we listen to and respond to our stakeholders' views. We make sure to carefully consider all decisions and their likely impacts on our stakeholders. And we ensure through our stakeholder engagement programme that everyone has the opportunity to provide feedback to the Board.

We continue to foster an open and transparent feedback culture within the business. All colleagues have the opportunity to share feedback with the Executive team and Board in several ways, including the Big Chat initiative, our Great Place to Work survey and our new Employee Forum RISE.

You can read more on how we engage with our stakeholders in our Section 172(1) statement on page 112.

Culture

As a Board we pay particular attention our Group's culture, ensuring it is fully aligned with our shared purpose, values, and strategy. We continue to monitor these essential properties and receive regular reports from management on the work being done to ensure continuous improvement.

Role of the Board and its effectiveness

It is my view that the Board continues to be highly effective with a deep understanding of the opportunities available to us and the threats facing the business. The results of this year's Board and Committee performance evaluations support this view; see page 117 for further detail. We keep all identified threats to the future success of the business under constant review. Please see our risk report on pages 52 to 62 for a description of the risks we identify and review.

Board independence – Pennon, South West Water and Bristol Water

In accordance with Ofwat's principles on board leadership, transparency and governance, the Group maintains separate Boards for Pennon and South West Water including Bristol Water following licence consolidation.

Our system of governance remains appropriate and effective, while continuing to support the delivery of our strategy.

Our Board and Committee framework also allows us to remain efficient in our decision-making processes. The South West Water Board convenes on the same day as each Pennon Board meeting and considers all key relevant issues. This arrangement allows full operational oversight and governance by the Boards over the Group's water interests, while the Pennon Board continues to focus on strategic forward-looking matters for the Group as a whole.

Changes to the Board

We are delighted to welcome two new Non-Executive Directors, Loraine Woodhouse and Dorothy Burwell to the Board. Both Dorothy and Loraine bring a wealth of experience and I look forward to working with them to promote the success of the Group. You can find more details on our new appointees on page 104.

In December 2022, we also welcomed Andrew Garard as Group General Counsel and Company Secretary to continue supporting the Board, succeeding Simon Pugsley. I'd like to thank Simon for his continued support of the Board and his valuable contribution to Pennon Group during his 24 years with the business.

A review of the composition of each Board Committee was conducted in December 2022, with changes becoming effective on 31st January 2023.

Neil Cooper will be standing down from the Board in September 2023 and we set out details on the process to recruit his successor in the report of the Nomination Committee on pages 128 to 131. I'd like to thank Neil for his contribution to the Board over the last 8 years and wish him well for the future.

Looking ahead

As part of our focus for 2023/24, we will continue to embed Bristol Water into the Group. We will focus on delivering against our environmental commitments, and ensuring we are well placed to meet the vital ambitions of the PR24 framework. And, as we look to our governance arrangements, we will continue with our ongoing and orderly succession planning strategy. There is much to do, and we have the talent and governance in place to achieve our ambitions.

I will be standing down as Chair, and from the Board, in 2024 and the search for my successor will begin later in the year. As for all new Board appointments, these will be managed under a formal, rigorous and independently conducted process, in line with the UK Corporate Governance Code.

I would like to take this opportunity to thank my Board colleagues, the management team and our wider workforce for their outstanding work over the year just gone. We will continue to focus on delivering against our strategic priorities in the year ahead, ensuring the wellbeing of our workforce as we build on the work of the last year in creating a successful and sustainable business.



Gill Rider
Chair

31 May 2023

Compliance with the UK Corporate Governance Code 2018 and other requirements

We continue to apply and comply with the 2018 UK Corporate Governance Code (the UK Code) in all our business activities. We believe that strong corporate governance is fundamental to our business, assuring our stakeholders that we act with their best interests in mind and to ensure long-term sustainable value that benefits everybody.

We provide details of how we have applied the principles that form the UK Code throughout this report; the table below provides some useful signposting. The Board confirms that throughout the year under review (and up to the date of this report), the Company has complied with all the relevant provisions of the UK Code. You can find information on the tenure of the Chair of the Board and succession planning on page 117.

The UK Code is published on the Financial Reporting Council (FRC) website. The introduction to this Corporate Governance report and the following sections have been made in accordance with the UK Code, Financial Conduct Authority (FCA) Listing Rule 9.8.6 and FCA Disclosure and Transparency Rules 7.1 and 7.2. They cover the work of our Board and its Committees, our internal control systems and procedures including risk management, our statements relating to share capital and control, our confirmation of the Company as a going concern and our Directors' responsibility statements. Finally, in accordance with reporting requirements, on page 125 the Board can confirm to shareholders that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary to assess the Company's position, performance, business model and strategy.

To read more on how we have applied the UK Code:

Board leadership and company purpose	Composition, Succession and Evaluation
Role of the Board – page 107	Appointments and succession planning – page 128
Purpose, values and monitoring culture – page 109	Board composition – page 116
Stakeholder and shareholder engagement – page 110	Board evaluation – page 117
Risk management – page 118	
Policies and practices – page 107	
Division of Responsibilities	Audit, Risk and Internal Control
Role of the Chair and Non-Executive Directors – page 114	Committee roles – page 107
Committee responsibilities – page 107	Our approach to risk management – page 118
Remuneration	
Remuneration report – page 136	

The Board

Working responsibly together

Gill Rider CBE E H N A R



Chair

Appointment to the Board

Gill was appointed to the Board as Non-Executive Director on 1 September 2012 and became Chair on 31 July 2020.

Current external appointments

Non-executive director and Chair of the Remuneration Committee of Intertek Group plc, President of the Marine Biological Association.

Skills and experience

Gill has a wealth of experience in leadership and governance across a broad range of sectors including professional services, education, not for profit and government. Formerly, Gill was Head of the Civil Service Capability Group at the Cabinet Office, reporting to the Cabinet Secretary. Prior to that, she held a number of senior positions with Accenture LLP culminating in the post of Chief Leadership Officer for the global firm. She was previously President of the Chartered Institute of Personnel and Development (CIPD) and Chair of the Council of the University of Southampton.

Susan Davy E H



Group Chief Executive

Appointment to the Board

Susan was appointed to the Board in February 2015 as Chief Financial Officer, having joined the Group as Finance Director of South West Water in 2007. Susan was appointed Group Chief Executive on 31 July 2020.

Current external appointments

Non-Executive Director, Audit Committee Chair and member of the Nomination and Remuneration Committees of Restore plc. Board member of Water UK and member of the Energy & Utilities Skills Partnership Council.

Skills and experience

Susan's knowledge of the industry, coupled with her financial and regulatory expertise, has underpinned the development of Pennon's strategy to become a leader within the water industry. Under Susan's leadership, the Group has expanded and taken a more water focused approach, through the disposal of Viridor, acquisition of Bournemouth Water and the most recent acquisition of Bristol Water.

In her 25+ years' experience in the utility sector, Susan has also held a number of other senior roles in the water sector, including at Yorkshire Water, giving her the knowledge to provide stability and thoughtful leadership to the Group.

Under her guidance, South West Water has become the only water company to have achieved fast-track status for two consecutive business plans – the first in 2014, the second in 2019.

Paul Boote E H



Group Chief Financial Officer

Appointment to the Board

Paul was appointed to the Board as Group Finance Director on 8 July 2020, having joined Pennon on 1 January 2010. Paul became Group Chief Financial Officer in September 2022.

Current external appointments

None

Skills and experience

Paul is a chartered accountant with over 20 years' experience. He has held several senior roles at Pennon, including Pennon's Director of Treasury, Tax and Group Finance. During this time, he was responsible for the development of Pennon's sector-leading sustainable debt portfolio, ensuring the Group maintained a responsible approach to tax, as well as leading on financial reporting matters.

Paul has also held senior finance roles at companies operating in the sport, construction, and environmental infrastructure industries.

Neil Cooper A E H N R



Senior Independent Director

Appointment to the Board

Neil was appointed to the Board as Independent Non-Executive Director on 1 September 2014 and became Senior Independent Director on 31 July 2020.

Current external appointments

Neil is currently the Chief Financial Officer of Currencies Direct, a foreign exchange broker and international payment provider.

Skills and experience

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

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

Committee key

A Audit Committee E ESG Committee H Health & Safety Committee N Nomination Committee R Remuneration Committee ■ Chair of Committee ● Attended

Iain Evans CBE A E H N R**Independent Non-Executive Director****Appointment to the Board**

Iain was appointed to the Board as Independent Non-Executive Director on 1 September 2018.

Current external appointments

Iain is a non-executive director of Bologna Topco Limited and HSM Advisory Limited and continues to act as an independent corporate strategy consultant.

Skills and experience

Iain has 40 years of extensive global experience in advising companies and governments on issues of complex corporate strategy. In 1983, he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms with a global footprint active in a wide range of industries.

Iain was appointed as a non-executive director of Welsh Water plc in 1989 and served on the board for nearly ten years, including five years as chair.

As chair of the ESG Committee, Iain is leading the development of a sustainability programme that underpins the delivery of Pennon's strategy.

Claire Ighodaro CBE A E H N R**Independent Non-Executive Director****Appointment to the Board**

Claire was appointed to the Board as Independent Non-Executive Director on 1 September 2019.

Current external appointments

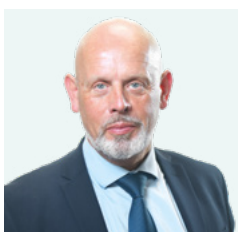
Chair of the Audit Board of KPMG LLP.

Skills and experience

Claire has held a number of senior roles and directorships with UK and international organisations and has extensive board experience, serving on their audit, remuneration and governance committees.

She is a past president of the CIMA (Chartered Institute of Management Accountants) and was the first female to lead this organisation. Claire spent most of her executive career with BT plc. She has also held non-executive directorships across a diverse portfolio including Governance Committee Chair of Bank of America's Merrill Lynch International, Audit Committee Chair of Lloyd's of London, Flood Re, The Open University and various UK public bodies including UK Trade & Investment and the British Council. Claire was also Non-executive Chair of the Board and Governance Committee at Axa XL – UK Entities until December 2022.

As Chair of the Remuneration Committee, Claire continues to guide Pennon's approach to executive remuneration, ensuring that it is aligned with and supports the Group's strategy and reflects the wider economic market.

Jon Butterworth A E H N R**Independent Non-Executive Director****Appointment to the Board**

Jon was appointed to the Board as Independent Non-Executive Director on 8 July 2020.

Current external appointments

Chief Executive Officer at National Gas. Jon is also President of the Pipeline Industries Guild and a director of E.Tapp & Co Limited, Shopfittings Manchester Limited and TMA Property Limited.

Skills and experience

Jon has a distinguished track record and an immense depth of experience and knowledge within the utility sector, having begun his career over 40 years ago as an apprentice at British Gas. Jon was previously Managing Director of National Grid Ventures, driving growth across a range of commercial ventures outside the regulated energy sector in the UK and the US. He has also been the Managing Director of Northwest Gas, Global Environment and Sustainability Manager of Transco, National Operations Director of National Grid, Group safety, Resilience and Environmental Director of National Grid plc and formerly CEO of National Grid Ventures, building (£3 billion) of growth in renewables across the USA and Europe.

Jon's utility background makes him keenly aware of the importance of maintaining a balance between performance and safety. As Chair of Pennon's Health & Safety Committee, he constructively challenges the Board and management team, to continue to raise the bar in this area. He is an Ex-Chair of the CORGI Board, an Ex-Ambassador of the HM Young Offenders Programme and a trustee of the National Gas Museum Trust.

Dorothy Burwell **A E N R**



Independent Non-Executive Director

Appointment to the Board

Dorothy was appointed to the Board as Independent Non-Executive Director on 1 December 2022.

Current external appointments

Partner and Global Partnership Board Member of FGS Global, Non-Executive Director at Post Holdings, Inc, Trustee of the Consumers' Association charity, Which?.

Skills and experience

Dorothy has over 20 years experience in Banking and Communications, specialising in natural resources and advising clients around issues on sustainability, strategy, and corporate communications. She is well known for driving substantive diversity and inclusion agendas.

Between 2002 and 2006, Dorothy held analyst and senior roles at Goldman Sachs in the Investment Banking Division in both London and New York as well as in the firmwide Strategy group, where she focused on proprietary mergers and acquisitions and new business development.

Dorothy graduated from the Florida Agricultural and Mechanical University, USA with a Bachelor and Master of Business Administration, Finance and Management.

Lorraine Woodhouse **A E H N R**



Independent Non-Executive Director

Appointment to the Board

Lorraine was appointed to the Board as Independent Non-Executive Director on 1 December 2022.

Current external appointments

Non-Executive Director of The Restaurant Group plc and a member of their Audit, Remuneration and Nomination Committees, Non-Executive Director and Chair of the Audit Committee at British Land plc.

Skills and experience

Lorraine is an experienced finance executive, with her experience focused in the retail and consumer sector, and more recently in real estate and infrastructure through her roles with Intu Properties plc and British Land Company plc.

Lorraine was the Chief Financial Officer of Halfords Group plc for just under four years until June 2022, before which, she spent five years in executive and senior finance roles within the John Lewis Partnership, including Waitrose.

Prior to that, Lorraine was Chief Financial Officer of Hobbs, Finance Director of Capital Shopping Centres Limited (subsequently Intu Properties plc) and Finance Director of Costa Coffee Limited.

Andrew Garard



Group General Counsel and Company Secretary

Appointment to the Board

Andrew was appointed to the Board as Group General Counsel and Company Secretary on 1 December 2022.

Current external appointments

Non-Executive Director at Zinc Media Group plc where he is Chair of the Remuneration Committee

Skills and experience

Andrew is a very experienced General Counsel having joined from Meggitt PLC where he was Group General Counsel and Director, Corporate Affairs, and a member of the Group Executive responsible for legal, commercial, trade compliance, government relations, ethics and contract management.

Previously, he was Group General Counsel and Company Secretary at ITV plc where he was a member of the Executive Board and led a global team responsible for legal and business affairs, secretariat, compliance, insurance, health & safety, rights management and corporate responsibility. Prior to this, he was Group General Counsel at Cable & Wireless plc and Head of Legal at Reuters Group plc.

Andrew founded the Legal Social Mobility Partnership in 2014 before creating the Social Mobility Business Partnership in 2017.



Committee key

A Audit Committee **E** ESG Committee **H** Health and Safety Committee **N** Nomination Committee **R** Remuneration Committee **■** Chair of Committee **●** Attended

The Executive Team



Susan Davy

Group Chief Executive

See biography on page 102



Paul Boote

Group Chief Financial Officer

See biography on page 102



Adele Barker

Group Chief People Officer

BA hons, PCEC

Adele joined the Group in 2017 and was appointed Group Chief People Officer on 31 July 2020. Adele supports the Remuneration, Nomination, and Health & Safety Committees. Her areas of accountability include the Group wide Human Resources function, Health and Safety and Corporate Communications. Her background includes senior roles in FTSE organisations including British Gas, Barclays and Marks and Spencer.



Andrew Garard

Group General Counsel and Company Secretary

See biography on page 104



John Halsall

Group Chief Operating Officer

Appointment: February 2023

Experience: Before joining the Group, John was Regional Managing Director (Southern) for Network Rail for 14 years. Prior to that, he spent 17 years at Thames Water in various senior operational roles including Director of Water Services and Director of Operations.



Laura Flowerdew

Chief Customer and Digital Officer

Appointment: September 2022

Experience: Laura was Chief Financial Officer of Bristol Water plc from 2018, before taking on her new role within the Group after the Bristol Water acquisition. Laura continues to be a director of Pelican Business Services (billing and customer services across both Bristol Water and Wessex Water), a role she has held since 2019.



Lisa Gahan

Group Director of Regulation, Strategy and Asset Management

Appointment: Joined South West Water in 2021 and became Group Director of Regulatory, Strategy and Asset Management in September 2022

Experience: Prior to joining the Group, Lisa was a founding partner of ICS Consulting, where she spent over 20 year helping utilities organisations with economic regulation, customer engagement, and investment and strategy planning.



Richard Price

Chief Engineering Officer

Appointment: September 2022

Richard has previously held the roles Operations Director and COO in Bristol Water before becoming Chief Engineering Director for Pennon in September 2022. Before joining Bristol Water, Richard held extensive roles at Southern Water and so has in depth knowledge about the water industry. Richard's role within Pennon is to lead safe, efficient and innovative engineering and construction across the greater South West region.



David Harris

Group Drought and Resilience Director

Appointment: November 2022

He leads the organisation's drought planning activities as well the ongoing development of our longer term resilience.

With over 25 years of executive experience, David has successfully led performance and growth of large infrastructure businesses, both in the regulated water market and the competitive energy market in Australia. David brings experience from his time leading one of Australia's largest water companies through the worst droughts in the country's history, ensuring the constant supply of drinking water and the building of additional water resources.



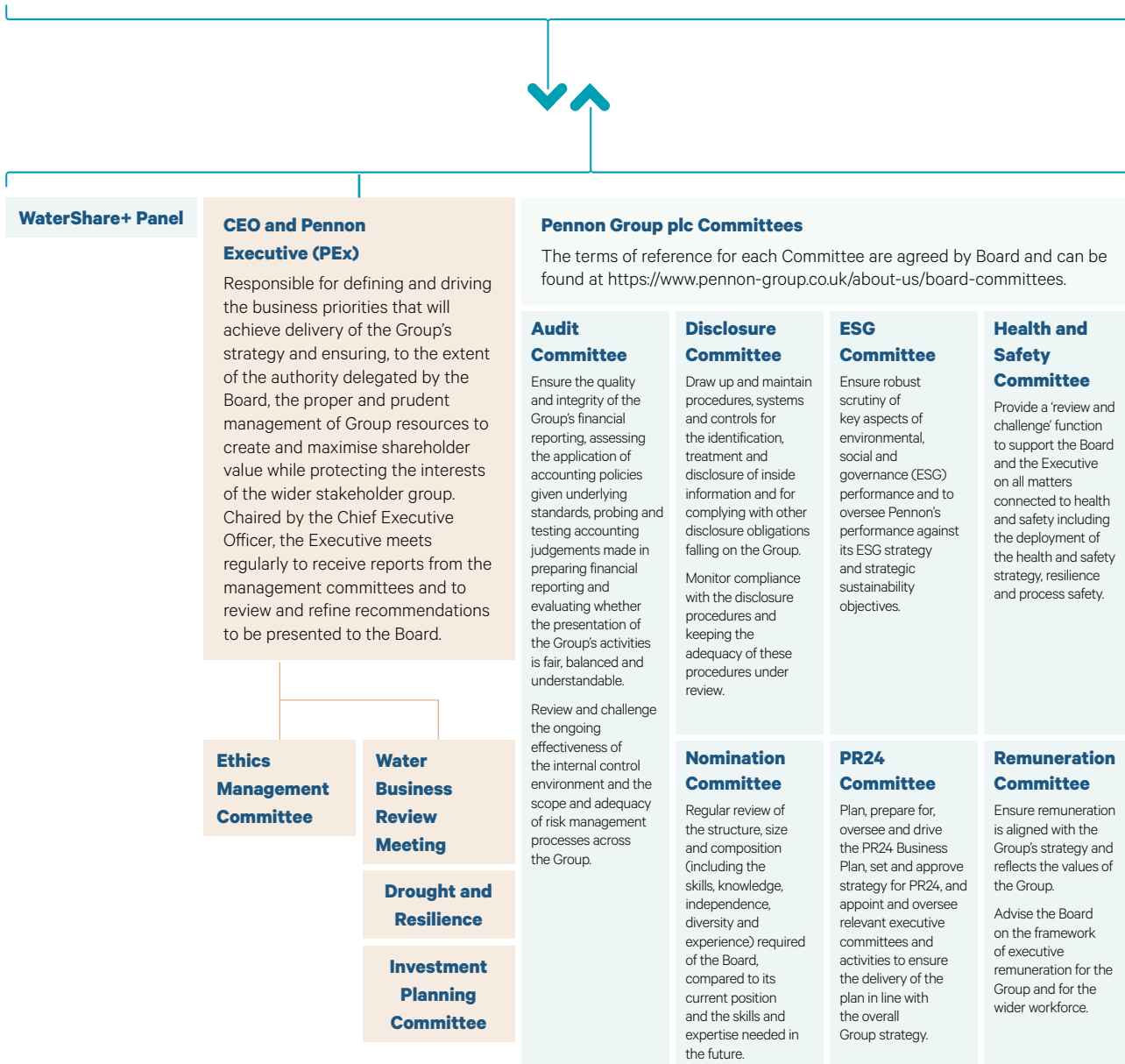
**Porthminster
Beach, Cornwall**

Board Leadership and Company Purpose

Governance structure and framework

Pennon Group plc Board

The Board is responsible for providing leadership and oversight of the Group's business, strategy and associated activities including promoting its long-term success. The Board's responsibilities include setting the Group's values, policies and standards, approving Pennon's strategy and objectives, and overseeing the Group's operations and performance. The Board makes decisions in relation to the Group's business in accordance with its schedule of matters reserved.



WaterShare+ Panel

CEO and Pennon Executive (PEX)

Responsible for defining and driving the business priorities that will achieve delivery of the Group's strategy and ensuring, to the extent of the authority delegated by the Board, the proper and prudent management of Group resources to create and maximise shareholder value while protecting the interests of the wider stakeholder group. Chaired by the Chief Executive Officer, the Executive meets regularly to receive reports from the management committees and to review and refine recommendations to be presented to the Board.

Ethics Management Committee

Water Business Review Meeting

Drought and Resilience

Investment Planning Committee

Pennon Group plc Committees

The terms of reference for each Committee are agreed by Board and can be found at <https://www.pennon-group.co.uk/about-us/board-committees>.

Audit Committee

Ensure the quality and integrity of the Group's financial reporting, assessing the application of accounting policies given underlying standards, probing and testing accounting judgements made in preparing financial reporting and evaluating whether the presentation of the Group's activities is fair, balanced and understandable.

Review and challenge the ongoing effectiveness of the internal control environment and the scope and adequacy of risk management processes across the Group.

Disclosure Committee

Draw up and maintain procedures, systems and controls for the identification, treatment and disclosure of inside information and for complying with other disclosure obligations falling on the Group.

Monitor compliance with the disclosure procedures and keeping the adequacy of these procedures under review.

ESG Committee

Ensure robust scrutiny of key aspects of environmental, social and governance (ESG) performance and to oversee Pennon's performance against its ESG strategy and strategic sustainability objectives.

Health and Safety Committee

Provide a 'review and challenge' function to support the Board and the Executive on all matters connected to health and safety including the deployment of the health and safety strategy, resilience and process safety.

Nomination Committee

Regular review of the structure, size and composition (including the skills, knowledge, independence, diversity and experience) required of the Board, compared to its current position and the skills and expertise needed in the future.

PR24 Committee

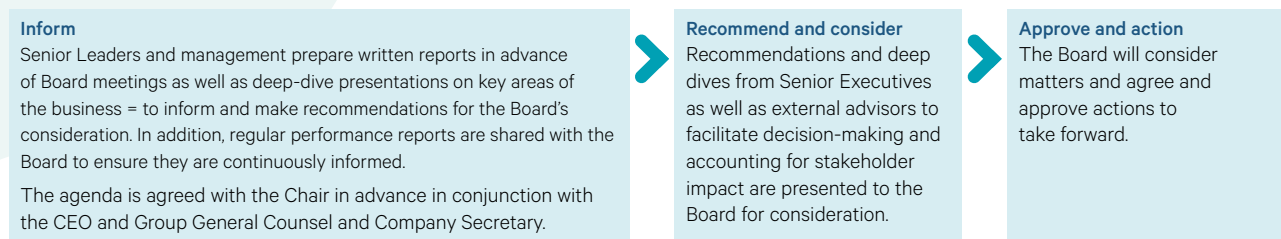
Plan, prepare for, oversee and drive the PR24 Business Plan, set and approve strategy for PR24, and appoint and oversee relevant executive committees and activities to ensure the delivery of the plan in line with the overall Group strategy.

Remuneration Committee

Ensure remuneration is aligned with the Group's strategy and reflects the values of the Group. Advise the Board on the framework of executive remuneration for the Group and for the wider workforce.

Key activities of the Board in 2022/23

The key activities that were carried out by the Board during the year, together with an indication of the stakeholders affected and whose interests the Board considered in its discussions and decision-making are set out below. In 2022/23, the Board has considered a wide range of matters to meet its obligations.



Supported by: Operational site visits / Governance, legal and regulatory updates

Activity	Stakeholder link	Activity	Stakeholder link
Strategic			
<p>Strategic direction through to 2050 Reviewing and approving the strategic direction through to 2050. Agreeing eight priorities and the enablers for change required to achieve these priorities.</p> <p>Bristol Water integration Reviewing the progress of the integration into South West Water and the need for a merged licence. Authorising the final steps to be taken to affect the integration.</p> <p>Delivery of capital projects Reviewing and agreeing a new framework model for capital delivery. Implementing a new tender process to attract new partners into the delivery model.</p>		<p>Environmental</p> <p>Drought management Reviewing the response to the drought given the dry and hot weather. Accelerating all engineering options, increased customer and water-saving communication and enhanced stakeholder engagement. Submission of Drought Order for Cornwall and instigation of a customer bill support initiative.</p> <p>Net Zero strategy, Pollution Incident Reduction Plan Green, Recovery investment programme and Environmental Plan Implementation and monitoring of each of the plans and adapting each where needed. Alignment of plans with our strategic priorities. Committing to key pledges. Delivery to achieve ever more stringent targets as well as greater public/regulatory scrutiny. Reinvestment of funds previously identified as wastewater efficiencies.</p>	
Financial			
<p>Reviewing and authorising the 2021/22 Annual Report and Accounts The payment of a final dividend of 26.83p per share and the holding of a successful Annual General Meeting.</p> <p>Energy costs Reviewing the impact of higher power costs on operating costs. Identifying options to bring power and energy efficiencies across all assets.</p> <p>WaterShare+ Approval of the special WaterShare+ resolution to shareholders at the 2022 AGM enabling the execution of the second issuance of the scheme. Approval of c.£20m to fund both the payment of the dividend to fund the share purchase, and the application of bill reductions, for both South West Water and Bristol Water customers.</p>		<p>Social</p> <p>Purpose and culture Reviewing the results of the Great Place to Work survey. Agreeing the next steps to improving purpose and culture and considering why scores around integrity and values were lower than the previous year. Identifying the types of training and competencies needed to support the business in its future development.</p> <p>Supporting customers on low income Monitoring of customer service levels and plans to deliver improved diversity mix and adapting where needed. Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny.</p>	
Operational			
<p>ODI improvements Meeting regulatory requirements, ongoing regulatory/innovation initiatives, monitoring via H&S reports and adapting plans where needed. Successful regulatory outcomes, safe customer and employee experience, enhancing day-to-day operations.</p> <p>Water Resource Management Reviewing the Water Resource Management Plan which sets out how the Company will ensure it meets demand for water over the next 25 years in line with Department for Environment, Food and Rural Affairs (DEFRA) and Environmental Agency (EA) requirements. Noting options for getting our specific strategic resource and demand plans onto the political agenda and for reducing per capita consumption to 110 l/day.</p>		<p>Governance, Compliance, Legal and Regulatory</p> <p>Regular updates on Corporate Governance and key legal developments during the year. Continued alignment of plans to ensure appropriate compliance/ best practice governance.</p> <p>Risk</p> <p>Mitigation of key risks Ongoing focus on key risks, with deep dives at Audit Committee meetings. Continued alignment of plans to ensure appropriate risk mitigation</p>	

- Legend**
- Environment
 - People
 - Suppliers
 - Regulators
 - Customers
 - Communities
 - Investors
 - Policy makers

Monitoring purpose and culture

Monitoring and measuring the Group's purpose and culture is a key focus area for the Board. Our organisation couldn't deliver without our c.3,000 colleagues. Our purpose, **Bringing water to life – supporting the lives of people and the places they love for generations to come** underpinned by our values that we live by – trusted, responsible, collaborative, progressive – governs how we operate, behave and foster a diverse and inclusive culture. Everything we do, we do with our stakeholders in mind, be it offering our customers financial support when needed, providing help and funding for community initiatives, working with our regulators and the Government on ensuring the future is sustainable, celebrating and rewarding our colleagues or finding innovative ways to protect our environment.

Underpinned by the values we live by



Trusted –
we do the right thing for our customers and stakeholders



Responsible –
We keep our promises to our customers, communities, and each other



Collaborative –
We forge strong relationships working together to make a positive impact



Progressive –
We are always looking for new ways to improve and make life better

New employee panel – RISE

In June 2022, we launched our new people panel, RISE which aims to be a two-way, open and honest communication forum to discuss business topics and ensure that the views and opinions of colleagues are shared with the company. The RISE forum now has over 100 members stretching across all areas of the business.

Twice a year, RISE members meet with our CEO, Susan Davy and our Group Chief People Officer, Adele Barker to discuss feedback and ideas from across the business. The first one took place in January 2023 with seven RISE representatives.

This is a great opportunity for Susan and Adele to understand what is happening and what's important for our colleagues. Topics like wellbeing and mental health, cost of living, communication and hybrid working are just some of the topics covered with actions and responsibilities agreed to drive progress over the next quarter.



Our Executive team visiting Knapp Mill Water Treatment Works, Bournemouth

Stakeholder engagement

The Board understands the role the Group has to play in creating a more sustainable South West and UK as a whole. We are committed to carrying out our business in a responsible way and to continuously improving how we provide all our services for the benefit of all our stakeholders.

Our Section 172(1) statement describes in more detail how the Board considers the interests of all our stakeholders when carrying out its duties. This statement is on pages 112 and 113; you should read it alongside the sections on pages 27 to 39 to understand how the Board took stakeholder interests into consideration in all its decision-making during the year.

We actively engage with all our stakeholders, including our customers, our communities, our people, our suppliers and our investors.

We are acutely aware that many of our stakeholders are struggling with the uncertainty posed by the cost-of-living crisis, the political landscape and wider economic environment.

We are committed to maintaining appropriate and regular dialogue to ensure our strategy and our performance objectives always reflect our stakeholders' expectations and needs. Our continuous engagement allows stakeholders to give feedback on matters they consider of importance to them and raise any issues which they would like to be addressed.

For engagement with the workforce, the Board has decided at this time not to adopt any of the three specific employee engagement methods referred to in the UK Code. Instead, our chosen method is to adopt a more enhanced approach which includes the conduct of a periodic 'Great Place to Work' engagement survey (including related management feedback sessions) and continuous employee feedback through our own in-house forums. These comprise our new RISE people panel, which has recently replaced our employee engagement forum, and the 'Big Chat', hosted by the Executive team. These forums not only give employees access to important up-to-date information on key business events; they also provide the opportunity to hear from the Directors, give feedback and ask questions. The Board believes Pennon's chosen approach is an effective way of communicating with employees and gathering essential feedback from across the business. This empowers the Board to consider the interests of all employees in its discussions and decision-making. You can find further information on employee engagement on pages 31 to 39

Shareholder and investor engagement

Shareholders are one of our key stakeholder groups and we continued to manage a comprehensive engagement programme with them throughout the year.

Members of the Executive met with 71% of our institutional investors during 2022/23, as well as attending 10 roadshows, events and conferences for investors, in North America, Australia and Europe. Alongside this programme, we also hosted a Spotlight Presentation and live Q&A in April 2022 – with focus on investing for sustainable growth. We also held 95 meetings and calls with current and prospective investors alike.

Pennon Group maintains a stable shareholder register of which around half of investors are based in the UK. Institutions hold the majority of our issued share capital, with the remainder largely held by private client investment managers. A small proportion is held by retail investors.

The Group Chief Financial Officer and Group Head of Investor Relations report regularly to the Board on the views of major shareholders, about the Group. To ensure the Board is always fully briefed on shareholder views and aspirations, our corporate brokers present frequently to the Board on equity market developments and shareholder perceptions.

Engaging with our suppliers

We work in partnership with our suppliers to deliver mutually beneficial outcomes that benefit all our stakeholders. We engage through formal RFP processes for each AMP period and periodic supplier review meetings thereafter.

Shareholder and investor engagement calendar

2022

April

- Spotlight Presentation: Investing for Sustainable Growth
- Announcement of the second issuance of our pioneering WaterShare+ scheme, including Bristol Water customers.



May

- Announcement of Full Year Results 2021/22



June

- London and Europe Roadshow
- PCIM Roadshow – London and Edinburgh
- Credit Suisse Global Energy Conference
- RBC Utilities & Infrastructure Conference
- WaterShare+ Advisory Panel meeting



July

- Annual General Meeting
- WaterShare+ Annual General Meeting



September

- Trading Statement



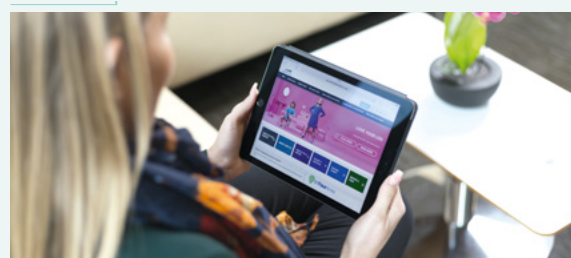
November

- Announcement of Half Year Results 2022/23
- WaterShare+ Advisory Panel meeting



December

- London and Europe Roadshow
- PCIM Roadshow – London and Edinburgh
- Virtual North America Roadshow



2023

January

- Swiss Roadshow (Geneva & Zurich)
- Citi European Utilities Conference



February



- Bristol Water licence merger successfully completed



March

- Trading Statement
- North America Roadshow



May

- Watershare+ Advisory Panel meeting

Engaging with our regulators and policy makers

We have proactively engaged with our regulators and Government, both at a local level, including sharing platforms with local MPs at constituency meetings, and face to face discussions with DEFRA throughout the year.

Pennon AGM

The AGM is an important forum where shareholders can meet with and question the Board, and we are keen to ensure that we continue to enable shareholder engagement. We enjoyed once again our discussions with shareholders in person last year, having been remote since the COVID-19 pandemic. We look forward to engaging with shareholders again at our 2023 AGM. We will set out information on our arrangements for our 2023 AGM in the Notice of AGM. The voting results of each AGM are fully disclosed to the London Stock Exchange, and we were pleased to see that every resolution at the 2022 AGM was passed with at least 94.45% votes in favour.

Customer AGM

Customers were able to see first-hand how water is supplied to the City of Plymouth using the latest technology and provide direct feedback and inform our WaterShare+ Advisory Panel. Lord Taylor, Chair of the Panel, was also on hand to provide an update on plans for the next year and discussed how Pennon Group was delivering against its in year objectives.

Our approach to stakeholder engagement



Section 172(1) Statement

All of the Board's decisions are considered against the importance of acting in a sustainable, ethical and collaborative way, understanding the views of our different stakeholders and weighing their competing interests, whilst being mindful of the regulatory obligations owed by Pennon Group's regulated subsidiary, South West Water limited. Our Board leads and sets the tone by carefully noting the priorities of our stakeholders during its discussions and when it takes decisions. We also know the importance of continually assessing the long-term impacts of our decisions. This helps us live our purpose and our values, as a responsible, trusted and sustainable business acting in a way which benefits all our stakeholders as much as possible. Properly understanding the impact of what we are doing has become part of how we operate, and it permeates everything we do at Pennon.









Each Director has a duty under section 172 of the Companies Act (s.172), to act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of members and stakeholders as a whole, and in doing so, must have regard to a range of broader issues. Therefore, when the Board makes a decision, we always take full account of the following:

- the long-term consequences of our decisions
- the interests of our employees
- the importance of having excellent business relationships with suppliers, customers and anyone else who we impact
- the impacts our operations have on our communities and our environment
- ensuring we maintain our reputation for the highest standards of business conduct
- we will always act fairly between our shareholders

As part of every decision we make, we look at how we will impact our stakeholders. To enable us to understand the points of view of our

stakeholders and where our decisions could affect them, we have a stakeholder engagement programme. We see stakeholder engagement both as fundamental to development and delivery of our purpose and strategy and as critical for our long-term sustainable success. Although there are often competing interests and priorities involved, being clear on what matters to our stakeholders, allows our Board to weigh-up all relevant factors.

We have identified our stakeholders as:

-  **Environment**
-  **Customers**
-  **Our People**
-  **Communities**
-  **Suppliers**
-  **Investors**
-  **Regulators**
-  **Policy makers**

Examples of some of the key strategic issues considered and decisions made by the Board during the year and an explanation of how the Board considered the matters in Section 172(1) (a) – (f) when taking decisions are set out in the table below.

	Section 172 considerations	Our engagement	The Board's role
Drought Management	<p>As a Group, we have recognised the challenges an impact of the unprecedented shortage of rainfall this year within the region, on our customers, communities, and wider stakeholders. We were quick to put in place measures to mitigate any adverse impacts</p> <p>We noted that next year's water resource position would start from a low base</p>	<p>We reviewed the implications of proceeding with a non-essential use drought order and drought permit options noting that two thirds of the required savings would need to be met from supply-side interventions.</p> <p>We considered the impact of financial incentives to customers who saved water.</p>	<p>We approved the submission of a Drought Order to cover Cornwall and the investments required to increase water resilience.</p> <p>We supported in principle the customer bill support initiative.</p> <p>We approved and implemented a recruitment strategy tailored and specialising in drought and water resource management to ensure future resilience.</p> <p>We approved £30m of initiatives and investments that are already underway.</p> <p>We approved £95m of additional investment including desalination to build future resilience.</p> <p>We debated key risks of the various options and used a broad range of scenario modelling.</p>

	Section 172 considerations	Our engagement	The Board's role
Pollution and the Environment	We have a vital role to play in pollution reduction within our region which speaks to our commitment to operate in an environmentally sustainable and responsible manner. We further developed our Pollution Incident Reduction Plan. We strive to have a better relationship with our regulators.	We continued the measures implemented in 2021 which required working closely with customers, the Environment Agency and local communities.	<p>We recognise the responsibility the Board has to the environment and implemented this view throughout the year.</p> <p>We noted the progress made on reducing our pollutions and reviewed the strategy together with our targets over the next two years.</p> <p>We noted the recent changes to penalise amenity-related pollutions within category 1 or 2 and progress against these.</p> <p>We reviewed strategies for preventing illegal connections.</p> <p>On WaterFit, we engaged with our key stakeholders including OFWAT and the EA.</p>
Integration of Bristol Water	Following the clearance from the Competition and Mergers Authority on 7th March 2022, the Board was pleased to finalise the license merger with Bristol Water, on 1st February 2023, and welcome colleagues to the Group.	Following clearance for the merger we worked on the integration, licence merger and statutory transfer process.	<p>We approved the submission of the required licence variation and the issue of the Section 8 notices.</p> <p>We endorsed the proposal to transfer the Bristol Water debt portfolio to South West Water.</p> <p>We delegated authority to the Group Chief Financial Officer and Group Treasurer to agree the final terms of documentation.</p>
Water Resource Management	The long-term sustainability of the company and its continued ability to supply water to its customers is critical but needs to be balanced against the impact on the environment and communities.	We investigated long term interventions to shore up our ability to provide services including looking at other sources.	<p>We considered options including new water sources (including Blackpool Pit and Leswidened Lake), installing desalination and dewatering. We noted the potential extent of these works and the need for full environmental assessments.</p> <p>We debated the restrictions on abstraction that the company is subject to and requested further reports on long-term water resource management.</p>
Delivery of the WINEP programme	High standards of business conduct are critical to the company's operations and reputation. This includes alignment with regulatory guidance. As a company, we are committed to delivering our WINEP programme to meet our environmental obligations.	<p>We considered the assurance activities undertaken in this respect noting the positive assessment provided by our external technical advisers.</p> <p>We considered the relationship between the cost of schemes and impacts into bills and affordability as well as resourcing challenges</p>	<p>We considered the relationship between the cost of schemes and impact on bills.</p> <p>We considered the assurance activities undertaken in this respect, noting the positive assessment provided by our external advisers.</p> <p>We delegated authority to the Executive to approve the submission of the proposals, noting our statutory obligations, non-statutory requirements and the priority drivers of the EA and Natural England.</p>
Affordability	As a Group, we do not only recognise the needs of our wider stakeholders and investors but also the needs of our people and customers. This year, the Board has had the cost of living crisis at the forefront of their minds when supporting our colleagues and customers.	We investigated means of providing incentives to our customers and reducing the cost of their water supplies	<p>Building on the success of the first WaterShare+ scheme, we approved the second WaterShare+ initiative, with £20m being given to South West Water, Bournemouth Water, and, for the first time, Bristol Water customers, in the form of a Pennon share or £13 credit added to their bill.</p> <p>We approved the launch of the 'Stop the Drop' initiative, which asked all customers in Cornwall to come together to help 'Stop the Drop' in reservoir levels. The Board was happy to give support to customers and approve £30 credit to customers' bills, in Cornwall, if Colliford Reservoir rose to 30% storage capacity by 31st December 2022.</p>

Division of responsibilities

There is a clear separation of responsibilities between the Chair and the Chief Executive Officer, divided between managing the Board and the business, while maintaining a close working relationship.

All Directors are equally accountable for the proper stewardship of the Group's affairs and have specific roles, which include those set out below:

Non-Executive Directors

Chair

Gill Rider

- Leading the Board and setting its agenda.
- Promoting the highest standards of integrity and probity and ensuring good and effective governance.
- Managing Board composition, performance, and succession planning.
- Providing advice, support, and guidance to the Chief Executive Officer.
- Representing the Group and being available to shareholders.
- Discussing separately with the Non-Executive Directors performance and strategic issues.

Senior Independent Director

Neil Cooper

- Assisting the Chair with shareholder communications and being an additional point of contact for shareholders.
- Acting as a sounding board for the Chair.
- Being available to other Non-Executive Directors if they have concerns that are not satisfactorily resolved by the Chair.
- Ensuring an annual performance evaluation of the Chair, with the support of the other Non-Executive Directors.

Non-Executive Directors

Claire Ighodaro, Iain Evans, Jon Butterworth, Dorothy Burwell, Loraine Woodhouse

- Critically reviewing the strategies proposed for the Group.
- Critically examining the operational and financial performance of the Group.
- Evaluating proposals from management and constructively challenging its recommendations.
- Contributing to corporate accountability through being active members of the Committees of the Board.

Executive Directors

Group Chief Executive Officer

Susan Davy

- Managing the Group and providing executive leadership.
- Developing and proposing Group strategy.
- Leading the operation of the Group in accordance with the Board decisions.
- Coordinating with the Chair on important and strategic Group issues and providing input to the Board's agenda.
- Contributing to succession planning and implementing the organisational structure.
- Leading on acquisitions, disposals, business development and exploiting Group synergies.
- Managing shareholder relations.

Group Chief Financial Officer

Paul Boote

- Supporting the Group Chief Executive in providing executive leadership and developing Group strategy.
- Reporting to the Board on performance and developments across the business.
- Implementing decisions of the Board.
- Managing specific business responsibilities.
- Managing investor relations including financing and treasury activities.

Company Secretary

Simon Pugsley (to 30 November 2022), Andrew Garard (from 1 December 2022)

- As Group General Counsel, with remit covering compliance, statutory duties and governance, providing strategic legal and commercial advice to the Group and the Board in its deliberations. As Group Company Secretary, attending and supporting all Board and associated Committee meetings of Pennon Group plc, South West Water Limited and Bristol Water plc.

Managing the Group and its subsidiaries

Following the acquisition of Bristol Water in June 2021, the South West Water Board and the Bristol Water plc Board operated as separate independent boards in accordance with Ofwat's principles on board leadership, transparency and governance until February 2023. The refocus of the Group on UK water means the interests of the non-regulated and regulated businesses are more closely aligned and provide for more effective leadership and governance. Because the three boards were run concurrently, the Directors were well-positioned to assess matters holistically and provide continuity to the Group as it moves to a water-only enterprise. Despite this concurrency, the Group's rigorous conflicts of interest process safeguarded the South West Water and the Bristol Water plc Boards' ability to set and have accountability for all aspects of the regulated business' strategy thereby ensuring and strengthening South West Water's and Bristol Water plc's regulatory ringfence.

While certain matters may be delegated to the Board Committees and to the Executive Directors, as appropriate, the matters reserved for the Board include:

- All acquisitions and disposals.
- Major items of capital expenditure.
- Authority levels for other expenditure.
- Pennon's dividend policy.
- Risk management process and monitoring of risks.
- Approval of the strategic plan and annual operating budgets.
- Group policies, procedures and delegations.
- Appointments to the Board and its Committees.

The Board also endorsed certain decisions taken by the South West Water and Bristol Water plc Boards, including major capital projects and investments, long-term objectives and commercial strategy, the five-year regulatory plans, annual budgets, and certain decisions relating to financing. This approach was compatible with Ofwat's principles on board leadership, transparency and governance because such decisions were ultimately reviewed and approved by the South West Water and Bristol Water plc Boards. Approval of South West Water's and Bristol Water plc's dividend policy and the declaration of dividends to be paid by South West Water or Bristol Water plc to Pennon also were reserved for the South West Water and Bristol Water plc Boards, respectively.

Conflicts of interest

In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. The Board considers this has operated effectively during the year.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company.

A register of Directors' conflicts is maintained and reviewed at each Board meeting. Authorised conflicts disclosed on the register currently involve cross-directorships with Pennon Water Services Limited and the trustee board of the Group's defined benefit scheme. Other potential conflicts of interest that were examined during the year included:

- The appointment of Claire Ighodaro to her role at KPMG
- Neil Cooper's disclosure of his interest in a holiday home potentially impacted by a South West Water commercial agreement.

Related parties

The processes outlined above in relation to conflicts of interest, together with the commissioning of frequent share register analysis, enable the Board to monitor the Group's related parties so that any related party transactions may be quickly identified and compliance with the Listing Rules ensured.



Composition, succession and evaluation

Board support and training

Directors have access to the advice and services of the Company Secretary, and the Board has an established procedure whereby Directors may seek independent professional advice at the Company's expense to fulfil their duties. The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors, the Board, and the Committees.

The training needs of Directors are reviewed as part of the Board's performance evaluation process each year. Training may include attendance at external courses organised by professional advisors and also internal presentations from senior management.

During the year, updates were provided to the Board and Committees via the Group General Counsel and Company Secretary and/or the Company's external advisors. These included updates on mandatory reporting and recent legal or governance changes, including shareholder guidelines. Specifically, the Board received updates on:

- Proposed changes to the Corporate Governance Code noting the move towards an outcome-based approach backed up with specific reporting and assurance requirements.
- The potential new regulator to replace the FRC announced in May 2022 that will have new powers to tackle breaches of company directors' duties relating to corporate reporting and auditing.
- The Data Protection and Information Bill introduced to Parliament on 18 July 2022 with the aim to "update and simplify" the UK's data protection framework.

Induction programme

Newly appointed Directors receive a formal, tailored induction.



Non-Executive Director induction programme

As part of Dorothy and Loraine's induction to Pennon and its Group companies, they took the opportunity with Andrew to visit several sites across the region including a drinking water treatment site, a sewage treatment site and a reservoir catchment project.

The two days of site visits were complimented by a full day briefing session on topics ranging from Governance and Group Finance to the Group's approach to Health and Safety and key risks and opportunities faced by Pennon and the wider UK water industry.



Pennon Board composition, independence, and experience

The Board comprises the Chair, six Non-Executive Directors, two Executive Directors and the Company Secretary. At year end, female representation on the Board was at 55%, exceeding the Board's target of 40% and the target of the FTSE Women Leaders Review and the Listing Rules.

All of the Non-Executive Directors are considered by the Board to be independent. Noting their intentions of retiring as set out below and given their longer service a particularly rigorous review was undertaken in respect of their respective re-elections, the Board remains satisfied that, based on their participation at meetings and their contribution outside of the boardroom, both Gill Rider and Neil Cooper continue to demonstrate independence of character and judgement in the performance of their role. An explanation regarding the Board's recommendation that Gill Rider and Neil Cooper remained in office during 2022/23 notwithstanding their long service to the Board, is shown below.

Neil Cooper will be retiring from the Board in September 2023 and Gill Rider will be stepping down as Chair in 2024. Details of the recruitment process for their successors is set out in the Nomination Committee Report on page 128.

All Directors are subject to re-election each year. All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 102 to 104 demonstrate collectively a broad range of business, financial and other relevant experience.

Neil Cooper is Chair of the Audit Committee and in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1, has recent and relevant financial experience and competence in accounting and auditing (as set out in his biography on page 103). The Board is satisfied that the Audit Committee has competence relevant to the sector in which the Group operates.

Succession planning

Neil Cooper

Neil Cooper has served eight years following the Board agreeing that his term be extended to nine years last year. The Board recommends Neil's re-election at the 2023 AGM ahead of his stepping down in September 2023. Information on our succession planning for the Audit Committee Chair role is in the Nomination Committee Report on page 128.

Gill Rider

In 2021, noting that Gill's tenure as a Non-Executive Director was approaching nine years and following an independent review and extensive consultation with shareholders, the Board was satisfied that an extension of no more than three years from July 2021 as Chair was appropriate. The rationale for this was set out in the 2022 Annual Report. The Board believes that these factors remain relevant this year. Gill will retire from the Board no later than July 2024 and the Board believes that continuity of leadership and strategic leadership between now and then is important as the Group continues to re-position itself as a major operator in the UK Water sector.

The Board considers that the extension of Gill's term as Chair both facilitates effective succession planning and the development and continuation of a diverse Board. For these reasons, and mindful of the recommendations of the UK Corporate Governance Code, the Board believes it to be in the best interests of the Company and its shareholders, for Gill to remain as Chair, and recommends her re-election at the 2023 AGM. It therefore recommends her re-appointment to the Board as Chair for one more year.

Further information on succession is provided in the Nomination Committee Report on page 128.

External appointments

Susan Davy

Susan Davy continued as a Non-Executive Director of Restore plc throughout 2022/23. The Board is of the opinion that the experience gained from external appointments provides additional and different business experience and a fresh insight into the role of an Executive Director. She is also a Non-Executive Director of Water UK, the membership body representing the UK water industry.

Chair and Non-Executive Directors

Information on the other business commitments of the Chair and Pennon's Non-Executive Directors is on pages 102 to 104.

Board effectiveness review

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus. This year the review was undertaken by a third party, Equity Culture, by means of online interviews with a number of the Board, in consultation with the Chair and respective Committee Chairs, in January and February 2023. The outcome of the review concluded that the Board, its Committees, and individual Directors continued to demonstrate a high degree of effectiveness and collaboration, and that the Board had a forward-thinking mindset and a good understanding of opportunities for growth and risks facing the business, with the following positives, negatives and/or actions suggested. The detailed areas of assessment, commentary/ feedback and actions is included within the Nomination Committee report on pages 130 to 131.

In parallel with the Board effectiveness review the Committee undertook a 360-degree evaluation of the executive committee members and ensured the feedback was shared with the Group's senior leadership.

Audit, risk and internal control

Risk management and the Group's system of internal control

The Board is responsible for maintaining the Group's system of internal control to safeguard shareholders' investments and the Group's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the year and up to the date of the approval of this Annual Report and Accounts and is regularly reviewed by the Board.

The Group's system of internal control is consistent with the Financial Reporting Council's (FRC) 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (FRC Internal Control Guidance).

The Board confirms it applies procedures in accordance with the UK Code and the FRC Internal Control Guidance, which bring together elements of best practice for risk management and internal control by companies. The Group's internal audit function undertakes specific risk assessments to identify vulnerable risk areas in the Group. The Board's risk framework described on page 53 of the Strategic Report provides for the identification of key risks, including ESG risks, in relation to the achievement of the business objectives of the Group, monitoring of such risks and ongoing and annual evaluation of the overall process. ESG risks identified and assessed by the Board cover areas such as health and safety, climate change and tax compliance. Details of the key risks affecting the Group are set out in the Strategic Report on pages 52 to 62.

Key performance indicators are in place to enable the Board to measure the Company's ESG performance on pages 65 and 66 and a number of these are linked to remuneration incentives on page 137.

As part of the review evaluating the system of risk management and internal control under the Group risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Group procedures.

The Group's processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout the Group and that the Group is able to react appropriately to new risks as they arise.

Code of Conduct and policies

The Group's Code of Conduct was reviewed and re-endorsed in November 2022. The Code of Conduct and related policies set out Pennon's commitment to promoting and maintaining the highest ethical standards. Areas covered in the Code of Conduct and related policies include our impact on the environment and our communities, our workplace, and our business conduct.

The Code of Conduct sets out the values and principles by which we operate and provides a framework for ethical business practices. It is further supported by several policies that guide our workforce and suppliers, so that we can identify and deal with suspected wrongdoing, fraud or malpractice, maintain the highest standards of compliance, and apply consistently high standards of ethics. We aim to maintain a culture that fosters the reporting of any concerns, and trust and confidence that we will act upon them.

Anti-bribery and anti-corruption

The Group's policy on anti-bribery and anti-corruption strictly prohibits employees across the Group from offering or accepting bribes, facilitation payments and kickbacks. The policy requires proper due diligence checks of third-party suppliers and contractors doing business with the Group, including a corruption risk assessment to examine the nature of the proposed work or transaction. The policy provides a framework that requires everyone who works with or for the Group to always act honestly and with integrity. The policy has been rolled out comprehensively into all parts of the Group, with regular online training arranged by the legal compliance team. The Group ensures compliance with the policy in line with our risk-based approach by conducting planned and ad hoc checks, providing both general and specific training, and carrying out detailed investigations into allegations of potential wrongdoing (whistle blows) received from employees, customers and suppliers. The potential consequences on colleagues and the Group itself are clearly set out in the policy as are the processes for raising concerns.

To mitigate risk, targeted authorisation and oversight processes are applied to the areas that have been identified as being more vulnerable and additional training is provided.

The legal compliance team likewise actively assesses high-risk areas based on information gained through its close working relationship with the Group internal audit function. Assessments are undertaken using several entry points, including using the output of reviews with the executive teams, during and following face-to-face training, and analysing whistleblowing reports. Any foreign trading operations, procurement activities, business development and back-office functions continue to be specifically reviewed for compliance with anti-bribery and anti-corruption requirements. Comprehensive operating procedures are in place to address risks in those areas, with regular reviews taking place to ensure the assessment of risk remains up to date.

The anti-corruption and anti-bribery policy also sets out the employment consequences for its breach and potential legal sanctions under bribery laws. Any breaches or failure to adhere to the Group's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Company. All employees are required to read, understand, and comply with the policy and report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Group's confidential whistleblowing service Speak Up. There were no confirmed cases of bribery, corruption, fraud, or business ethics violations during the year.

Allegations of bribery or corruption are reported to the Audit Committee together with investigation outcomes and details of any action taken, which are disclosed to our external auditors

Training and communications

Our comprehensive programme of training and internal communications continues with targeted messaging and interactive training sessions. This programme addresses the business's key compliance risk areas and has been designed to increase resilience, heighten awareness, and promote a culture of doing the right thing.

Whistleblowing policy – Speak Up

The Speak Up service encourages employees to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how any such concerns should be raised and ensures that employees are able to do so without fear of reprisal. The Group's whistleblowing policy specifically covers and encourages reporting of:

- Endangering someone's health and safety.
- Anything that is against the law.
- Stealing or fraud.
- Corrupt or dishonest activity.
- Damage to the environment.
- Covering up wrongdoing.
- Abuse of authority.
- Intentionally misreporting to a regulatory body.
- Bullying, harassment and/or victimisation.

The Speak Up service comprises telephone and web-based reporting channels operated for Pennon by independent provider NAVEX Global.

Following receipt of a report, the allegation will be assessed, and an investigation started promptly. The investigation process is overseen by the Ethics Management Committee and will be undertaken fairly, impartially, and thoroughly by appropriately trained investigators with strict confidentiality being maintained at all stages of the investigation. After each investigation, a confidential review is undertaken by the Head of Legal Compliance to identify any lessons learnt, or organisational improvements or training requirements. Other improvements identified are always acted upon, while ensuring the paramount requirement of operating a whistleblowing process that protects the identity of individuals and the independence and integrity of the process. Our whistleblowing process is designed to support our staff, reflect shared responsibility, promote a positive culture, provide unique insights and is central to our system of checks and balances.

Legal Compliance policies and our Code of Conduct

The Group has policies in place covering the acceptance of gifts and hospitality, anti-facilitation of tax evasion and conflicts of interest, which require our people to disclose any situation which may conflict with their responsibilities as Pennon employees.

Our Code of Conduct and other key compliance policies can be found in the Governance and Remuneration section of our Group website at www.pennon-group.co.uk/sustainability/code-conduct-and-policies under Internal Control.

Audit Committee Report



Neil Cooper

Chair of the Audit Committee

Committee members	Date of appointment to Audit Committee	Attendance
Neil Cooper	September 2014	☑☑☑☑
Claire Ighodaro	September 2019	☑☑☑☑
Iain Evans ¹	September 2018	☑☑☑
Jon Butterworth ¹	July 2020	☑☑☑
Loraine Woodhouse	December 2022	☑
Dorothy Burwell ¹	December 2022	

1. Following a review of Board Committee composition Iain Evans, Jon Butterworth and Dorothy Burwell ceased to be members of the Audit Committee effective 31st January 2023.

Role of the Audit Committee

- Ensure the quality and integrity of the Group's financial and regulatory reporting.
- Monitor and review the effectiveness of the internal control environment.
- Challenge the scope and adequacy of the Group's risk management processes.

The Audit Committee is focused on ensuring sound financial and risk management to support the Group's strategy

The Committee's focus for 2022/23

- Ensure the 2023 Annual Report and Financial Statements are fair, balanced and understandable.
- In depth review of the key financial reporting judgements.
- Risk "deep-dives" in key focus areas.
- Consideration of the FRC's review of the external auditor's 2022 audit of Pennon Group plc.
- Scrutiny of our responses to address the risks posed by rising inflation and the resultant cost of living crisis.

Dear Shareholder

On behalf of the Board, I am pleased to present the Audit Committee's report for the year ended 31 March 2023. This report is intended to provide shareholders with an insight into the work of the Audit Committee ('the Committee') together with details of how the Committee has discharged its responsibilities throughout the year and overseen the process of assurance over the integrity of the 2023 Annual Report and Financial Statements ('the 2023 Annual Report').

As in previous years, we have focused on the following key priority areas:

- Ensuring the quality and integrity of the Group's financial reporting; this is done through the assessment of the application of accounting policies given underlying standards, challenging management through the review of the use of accounting judgements made in preparing financial reporting and the Committee's assessment of the quality of financial reporting of the Group in terms of whether its presentation is fair, balanced and understandable.
- Ensuring the 2023 Annual Report is aligned with the requirements and guidance from regulators, and that all matters reported on and disclosed meet the needs of our various stakeholders.
- Monitoring and reviewing the ongoing effectiveness of the internal control environment.
- Challenging the scope and adequacy of risk management processes across the Group. In doing this, we monitor the expression of the Group's risk appetite and undertake "deep dive" reviews of higher risk areas.

The Committee uses its collective expertise, with input from the External Auditor, to provide a robust challenge to the approach and judgements made by management in the treatment of financial matters and their resulting disclosures within the financial statements. One of our key roles is to advise the Board that we are satisfied that the 2023 Annual Report is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's position, trends in performance, business model and strategy. In doing so, we ensure that management's disclosures reflect the supporting detail, or challenge them to explain and justify their explanation and, if necessary, re-present the information. As part of fulfilling these commitments, we carefully consider the key financial reporting judgements of the management as set out on page 123. Significant matters considered by the Committee both during the year and in relation to the year-end financial statements are laid out in this report. The External Auditor supports this process in the course of the statutory audit.

The Committee was pleased to advise the Board that the 2023 Annual Report met these criteria. Details of our review process can be found on page 125.

The Committee discharges its responsibilities throughout the year in accordance with a schedule of business reflecting the annual external reporting cycle of the Group, allowing for appropriate consideration at the right point. This scheduling also allows for consideration on an ad-hoc basis of events as they have arisen.

In regard to risk, the process starts with the Group's Executive Risk Committee formulating its risk appetite as well as its ongoing monitoring of key risks and their mitigation. The Committee then considers this formally, as well as homing in on key risk areas.

During the year, these key risk deep dives covered a wide range of topics including the risks posed by:

- Cyber security breaches.
- Non-recovery of customer debt.
- Regulatory planning for PR24.
- Availability of financing for our accelerated investment programme.

More detail on our risk management processes, principal risks and their associated mitigations can be found on pages 52 to 62.

Alongside this focus on our risk processes, we formally review the output of the Group's financial resilience and health assessments; for a 12-month 'look forward' period through our assessment of the Group's going concern status and over a period of five years to assess the Group's continuing viability. This viability assessment has considered a range of financial projections arising from the current challenging and complex external environment with ongoing uncertainties in relation to economic growth, inflation prospects and the indirect impact of the ongoing conflict in Ukraine. These are modelled through internal scenarios around the deployment of Group cash reserves and which now incorporate the integration of Bristol Water's operating licence into South West Water. While the Group maintains a five-year viability assessment period, being appropriate for an acquisitive group, South West Water, now including the operating commitments of Bristol Water, has continued to use a longer assessment period to 2030, since it has a greater visibility of future cash flows, being a regulated businesses. Our viability statement is reported on pages 63 and 64.

Throughout the year, the Group has remained focused on delivering a resilient performance in UK water, despite a difficult period of cost inflation, as we execute our twin-track growth strategy of utilising both organic and acquisitive levers to drive long-term sustainable growth. We are focused on delivering sustainable results for all stakeholders.

Key considerations for the Committee in the last year in delivering these commitments include:

- Consideration of the FRC's review of the External Auditor's 2022 audit of Pennon Group plc and its thematic review of acquisition disclosures, which included Pennon
- The impact of unprecedented weather conditions and demand in Cornwall, with a combination of temperature and drought leading to a 1-in-200-year water resource shortfall and the appropriate disclosure of the financial impact of this
- Scrutiny of our responses to address the risks to the business posed by rising inflation and the resultant cost of living crisis
- Challenging our financial projections and scenario analysis to ensure we are well placed to deliver our environmental investment commitments.

I am pleased to welcome Loraine Woodhouse to the Committee as part of our Board succession planning. I will be stepping down as Chair during 2023 as I reach the end of my nine-year tenure at Pennon and am confident that Loraine, who will succeed me, has the experience and gravitas to both oversee a smooth transition and perform the role successfully going forward. I would like to thank the members of the Committee past and present, the management team, the internal auditors and our External Auditors and advisors for their continued commitment and for the contribution they all provide in support of the work of the Committee, not just for the year under review, but during my tenure as Committee Chair.



Neil Cooper
Chair of the Audit Committee

31 May 2023

Exeter Quay taken on one of our litter pick days



Audit Committee composition

All members of the Committee are Independent Non-Executive Directors of the Board. In accordance with the UK Code, the Board is satisfied that Neil Cooper, Claire Ighodaro, Loraine Woodhouse, Iain Evans and Jon Butterworth, all of whom served on the Committee during the year under review have recent and relevant financial experience and also, in accordance with FCA Rule 7.11R of the FCA’s Disclosure Guidance and Transparency Rules have competence in accounting or auditing. Following a review of the composition of Board Committees, Iain Evans and Jon Butterworth stood down from the Audit Committee in March 2023.

Only members of the Committee have the right to attend Committee meetings. Other regular attendees at meetings, at the invitation of the Committee, include the Chair of the Board, the Group Chief Executive, the Group Chief Financial Officer, the Group General Counsel and Company Secretary, Director of Risk and Assurance, Group Financial Controller and the External Auditor.

The Committee regularly holds private discussions with the External Auditor without management present. Further, the Committee Chair regularly communicates with the Group Chief Financial Officer, the External Auditor and with Committee members outside the meetings to better understand any issues or areas for concern.

Matters of significance in 2022/23

Financial reporting

- Reviewed and discussed reports from management on the financial statements, considered management’s significant accounting judgements and the policies being applied, and assessed the findings of the statutory audit in respect of the integrity of the financial reporting of full and half year results.
- Reviewed the internal assessment of going concern and longer-term viability on behalf of the Board.
- Reviewed in detail the 2023 Annual Report and advised the Board that the presentation of the 2023 Annual Report is fair, balanced and understandable in accordance with reporting requirements, including the consideration of climate risk in the preparation of the financial statements, and recommended the Board give approval for publication.

External auditor

- Oversaw the 2022/23 statutory audit, including the key audit risks and level of materiality applied by the External Auditors.
- Assessed the effectiveness of the External Auditor and made a recommendation to the Board on their reappointment.
- Agreed the statutory audit fee for the year ending 31 March 2023.
- Reviewed and approved the non-audit services and related fees provided by the External Auditors for 2022/23.

Internal controls and risk management

- Reviewed the effectiveness of the Group’s risk management framework and its integration into Board and Committee Reporting.
- Reviewed the Group’s Risk Appetite Statement prior to making a recommendation to the Board.
- Monitored fraud reporting and incidents of whistleblowing, including a review of the Group’s whistleblowing processes and procedures and reporting to the Board on this.
- Reviewed the Group risk register and considered appropriate areas of focus and prioritisation for the internal audit work programme for the financial year.
- Carried out deep dives at Committee meetings on principal risk areas.

Governance

- Considered and approved Group accounting policies and judgements used in the preparation of the financial statements, including any required alignments of Bristol Water’s accounting policies.
- Reviewed and considered internal financial policies.
- Confirmed compliance with the UK Code.
- Held regular meetings with the external auditor and the Group Director of Risk and Assurance without members of management being present.

Regarding monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2023 are set out in the following table, together with details of how each matter was addressed by the Committee. At the Committee’s meetings throughout the year, the Committee and the external auditor have discussed the significant matters arising in respect of financial reporting during the year, together with the areas of particular audit focus, as reported on in the independent auditor’s report on pages 162 to 169. In addition to the significant matters set out in the table below, the Committee considered presentational disclosure matters including the use of non-underlying performance metrics and ensuring a fair presentation of statutory and non-statutory performance and financial measures.

During the year, the Committee's areas of focus included:

Area of focus	How the matter was addressed by the Committee
Revenue recognition	<ul style="list-style-type: none"> Given the nature of the Group's revenue, the key areas of income statement judgement for South West Water, Bristol Water and Pennon Water Services continue to be in respect of revenue recognition relating to income from water services. While the Committee relied on South West Water's, Bristol Water's and Pennon Water Services' processes for assessment of water into supply, it challenged the robustness and timeliness of the methodology used, resulting in management streamlining the calculation approach. The Committee welcomed this improvement and continues to scrutinise the track record of accuracy by comparing actual outturns with accruals at previous year ends to form a judgement about the quality of decision making. The Committee also closely considered the work in respect of these areas at year end by the external auditor as well as reviewing disclosures around revenue recognition accounting policies.
Bad and doubtful debts	<ul style="list-style-type: none"> Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly across the Group against historical standards and compared to the track records of other companies in the relevant sectors. The Committee was particularly mindful of the ongoing impacts of affordability on the assessment of expected credit losses in determining the bad debt provision, noting the significant increases in inflation arising from macro-economic developments. At the year end, the external auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for expected credit losses were reasonable.
Going concern basis for the preparation of the financial statements and viability statement	<ul style="list-style-type: none"> A report from the Group Chief Financial Officer on the financial performance of the Group, including forward-looking estimates of covenant compliance and funding levels under different scenarios including inflation scenarios, is provided to the Board on a periodic basis. Rolling five-year strategy projections and the resultant headroom relative to borrowings are also regularly reviewed by the Board, including the application of scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Group Chief Financial Officer prepares for consideration by the Committee a report focusing on the Group's liquidity over the 12-month period from the date of signing of either the Annual Report or half-year results. The Committee also reviewed a report from the Group Chief Financial Officer on the Group's financial viability over an appropriate period, in connection with the UK Corporate Governance Code's requirement for a viability statement to be given by the Board. The Board considers the appropriate period to assess the Group's viability remains unchanged at five years which recognises both the longer-term visibility in the regulatory environment of the South West Water and Bristol Water businesses and the corporate activity, including acquisitions and other non-regulatory investments, such as the recent Bristol Water acquisition and our investments in solar energy generation, undertaken by Pennon. Similarly, this report also considered the viability of the Group, taking into account the potential manifestation of other adverse events modelled from the Group's principal risks and resultant sensitivity scenarios. In performing its own viability assessment, South West Water (now incorporating the operating licence of Bristol Water) uses a longer assessment period to 2030, noting a greater visibility of future cash flows, being a regulated water business. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Group to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on page 63.

In addition to the matters above, the Committee also reviewed and considered communications with the FRC in respect of their thematic review of acquisition disclosures, which included Pennon. Positively, this review highlighted areas of our disclosure in respect of the Bristol Water acquisition as examples of best practice. Less positively, the FRC also queried the inclusion of an element of cash outflow relating to acquisition costs within the investing activities section of the cash flow statement. Having considered this matter, the Company has acknowledged that the acquisition cost cash outflow should have been presented within operating activities but that a restatement of presentation was not proposed as the effect of the change is not material. Following our responses, we are pleased to report the FRC has satisfactorily concluded this review.

The Audit Committee notes that the FRC's review was based on the 2022 annual report and accounts and does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into. It is, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. We also note that the FRC provides no assurance that the annual report and accounts is correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's letters are written on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on them by the company or any third party, including but not limited to investors and shareholders.

Effectiveness of the external audit process

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to carefully monitor the effectiveness of our External Auditor as well as their independence, while recognising there is a need to use our External Auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The FRC's Audit Quality Review (AQR) team completed an inspection of the audit of the financial statements of Pennon Group plc for the year ended 31 March 2022. The AQR's overall assessment of the audit was that there were no key findings arising from the inspection.

The Committee has carefully considered the three other findings that were raised in the AQR's report and has concluded that these do not present any significant concerns on overall External Audit effectiveness when taken with the External Auditor response immediately below.

The External Auditor produced a detailed audit planning report in preparation for the year-end financial statements, which reflects appropriate consideration of improvements to address the AQR report's other findings and which has assisted the auditor in delivering the timely audit of the Group's Annual Report and which was shared with, and discussed by, the Committee in advance.

The effectiveness review of the External Auditor is considered as part of the Committee's annual performance evaluation, which also examines the relationship and communications between the Committee and the external auditor. Further details of the Committee evaluation are provided on page 124. No issues were raised during that review. The Committee concluded that the Auditor was effective during the year and that the relationship and communications were open and constructive.

The Committee considered it was appropriate that the External Auditor be reappointed and has made this recommendation to the Board. The Committee Chair has also met privately with the External Auditor to discuss key matters.

Auditor independence

The Committee regards independence of the External Auditor as absolutely crucial in safeguarding the integrity of the audit process and takes responsibility for ensuring the three-way relationship between the Committee, the External Auditor and management remains appropriate.

The External Auditor reported on its independence during the year and again since the year end, confirming to the Committee that, based on its assessment, it was independent of the Group.

Provision of non-audit services

The Committee adopts a robust policy for the engagement of the External Auditor's firm for non-audit work. The Committee receives a regular report covering the auditor's fees including details of non-audit fees incurred.

Recurrent fees typically relate to agreed procedures regarding annual regulatory reporting obligations to Ofwat; work which is most efficiently and effectively performed by the statutory auditor. The policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee Chair to approve all non-audit work performed by the statutory auditor. The policy uses the average of the last three years' audit fees disclosed in the accounts and certain non-audit fees for services that are required to be performed by the auditors that are excluded from the assessment.

The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditor's firm to carry out such work, and only grants approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be safeguarded. If another accounting firm could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the External Auditor.

The level of non-audit fees payable to the External Auditor for the past year is 14% of the three-year average audit fee, which is within the Group's 70% non-audit fee limit.

The Group Chief Financial Officer regularly reports to the Committee on the extent of services provided to the Company by the External Auditor and the level of fees paid. The fees paid to the External Auditor's firm for non-audit services and for audit services are set out in note 7 to the financial statements on page 188.

External auditor reappointment and statement of compliance with CMA order

The Group complies with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

We last undertook a formal comprehensive audit tender process for statutory audit services in 2014. The current External Auditor, Ernst & Young LLP (EY), were appointed following a comprehensive audit tender process and approval by shareholders at the Company's 2014 AGM. EY commenced their appointment as auditor and presented their first report to shareholders for the year ended 31 March 2015. The lead audit partner must change every five years. Christabel Cowling, who has considerable audit experience of other FTSE 100 utility companies, has held the role since 2019.

This year-end audit has been EY's ninth consecutive year in office as statutory auditor. As previously indicated, the Committee will be running a full tender for the Group's external audit services during the year ending March 2024, before the next rotation would become due. This allows for any potential new audit firm to take up the role for the year ending March 2025 and, if required, affords appropriate time for a smooth transition of responsibilities.

Internal audit

The internal audit activities of the Group are a key part of its internal control and risk management framework. At Group level there is a long-standing and effective centralised internal audit service, which supports the Committee in delivering its responsibilities and has continued to operate effectively. The current Group internal audit plan was approved in March 2022, following a thorough review to ensure it provided adequate coverage over the Group's key risks for the year ahead and was sufficiently flexible to respond to emerging risks. In developing the plan, account is taken of the principal risks, the activities to be undertaken by the External Auditor, and the Group's annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Group. Looking ahead, the intention of the Committee is to establish formal internal audit plans covering each six-month period, given the volatility of the operating environment.

The Group Director of Risk and Assurance reported regularly through the year to the Committee on the outcomes and findings of internal audit activity. There were regular discussions, correspondence and private meetings between the Director of Risk and Assurance and the Committee Chair. The Committee continues to monitor the performance of the internal audit function as part of its annual assessment of the effectiveness of the function. As required by IIA standards, the next cyclical external review of the internal audit function will take place before the end of 2026/27 (the last having been undertaken in 2021/22).

Fair, balanced and understandable assessment

To enable the Committee to advise the Board in making its statement that it considered that the Company's Annual Report is fair, balanced and understandable (FBU) on page 101, the Committee applied a detailed FBU review framework that takes account of the Group's well-documented verification process undertaken by management in conjunction with the preparation of the 2023 Annual Report. This was in addition to the formal process carried out by the External Auditor to enable the preparation of the independent auditor's report, which is set out on pages 162 to 169.

In preparing and finalising the 2023 Annual Report, the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the Pennon Executive. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Looking forward

During the forthcoming year, the Committee will remain focused on the key areas of responsibility delegated to it by the Board, ensuring that standards of good governance are maintained and that appropriate assurance is obtained across all areas of the business, with a particular focus on the Group's principal risks, control environment and approach to financial reporting, noting the volatility in the global economy, and taking into account developments in reporting responsibilities including those recommended by the Task Force on Climate-related Financial Disclosures (TCFD), the consideration of climate risk in preparation of the financial statements and potential changes in the governance environment. The Committee will further assist, with its usual diligence, the transition from the outgoing Committee Chair to the new Chair during the year.



Fernworthy Reservoir,
Dartmoor National
Park, Devon

ESG Committee report



Iain Evans
Chair of the ESG Committee

The ESG Committee supports the Company's ongoing commitment to environmental stewardship.

The Committee's focus for 2022/23

- Reviewed the external 2022 ESG Assessment scores and approved the work being undertaken to improve these.
- Successfully achieved majority of 2022/23 ESG targets.
- Successful progress made against majority of environmental KPIs, including sewer flooding and biodiversity.
- Approved an updated Sustainable Finance Allocation and Impact Report.
- Reformulated the future ESG targets to align with executive remuneration targets.
- Carried out deep dive reviews on storm overflow discharges and the Spillure programme noting the enhanced level of community engagement being proposed.
- Continued delivery of TCFD recommendations including detailed appraisal of transition risks and opportunities and scenario analysis.
- Enhanced ESG reporting including our disclosures aligned to the Sustainability Accounting Standards Board (SASB) reporting framework and new ESG DataBook.
- Integration of Bristol Water ESG activity into Group ESG reporting.

Committee members	Date of appointment to ESG Committee	Attendance
Iain Evans	September 2018	☑☑☑☑
Gill Rider	September 2012	☑☑☑☑
Susan Davy	March 2018	☑☑☑☑
Jon Butterworth	July 2020	☑☑☑☑
Paul Boote	July 2020	☑☑☑☑
Claire Ighodaro ¹	September 2019	☑☑☑
Neil Cooper ¹	July 2020	☑☑☑
Dorothy Burwell	December 2022	☑
Loraine Woodhouse ¹	December 2022	

1. Following a review of Board Committee composition, Gill Rider, Neil Cooper and Loraine Woodhouse ceased to be members of the ESG Committee with effect from 31 January 2023.

Role of the ESG Committee

- Review the policies, management, initiatives and performance of the Group with respect to the environment, workplace policies, group governance and corporate policies relating to responsible and ethical business practice, the role of the Group in society and customer service and engagement.
- Review the overarching environmental performance of the business, ensuring a focus on key areas of improvement.
- Review the actions of the Group to determine the suitability of the workplace environmental policies and practices of key suppliers and contractors.
- Review the extent and effectiveness of the Group's external reporting of sustainability performance and its participation in relevant external benchmarking indices.
- Regularly report to the Board.
- Advise the Audit Committee of any material non-financial risks.

Dear Shareholder

I am pleased to report on the ESG Committee's activities and achievements during 2022/23. There have been no changes to the Committee this year. I continue to be supported by an experienced Committee who focus on governing our ESG activity and disclosure and ensure we continue to be a responsible business, creating a positive long-term impact on the environment and all our stakeholders and I'd like to thank them for their work and input this year.

Our approach to ESG ensures that everything we do supports our commitment to provide environmental stewardship and to support our customers and local communities. As a responsible employer, we remain focused on employee development alongside a robust health, safety and wellbeing programme. This is underpinned by a strong governance framework that upholds our core values within the organisation and throughout our supply chain. Sustainability is at the heart of our business and is part of everything that we do. During the year, the Committee considered a wide range of matters while fulfilling its duties in accordance with its terms of reference.

Our refreshed Group ESG targets through to 2025 reflect the priority issues identified by stakeholders in our materiality assessment that were not already addressed in existing regulatory commitments and plans. These targets support us in aligning our approach and priorities for PR24. You can read more on the outcomes of the materiality assessment on pages 66.

With effect from 6 April 2022, we are required to disclose climate-related financial information on a mandatory basis in line with requirements from the TCFD. These disclosures evidence our strategy to reduce emissions within our operations and through our supply chain to achieve Net Zero by 2030 driven by three pillars – sustainable living, championing renewals, and reversing carbon emissions.

This Annual Report provides an integrated assessment to show how a responsible approach to sustainability helps us to balance the immediate and longer-term needs of society with the delivery of sustained commercial success.

ESG performance

The ESG Committee continues to assess performance against a range of challenging targets for the Group, set as part of the business planning process. The Committee reviewed and approved 2025 targets noting that the metrics, ODIs, Operational Service assessments and ESG

targets are aligned to the strategic themes identified in the Committee's materiality assessment. ESG targets were rebased and reformulated to align with executive remuneration targets. The Committee agreed that the targets for 2023/24 should be published in this Annual Report on page 66.

In addition, the South West Water ESG Committee provides assessment and oversight of South West Water's performance against sustainability targets that are core to the successful delivery of its five year business plan. This is consistent with Ofwat's requirement for independent governance of the regulated business.

As at the 31 March 2023 Pennon achieved 14 of our 16 targets for 2023 and are currently on track to meet our 2025 targets. Whilst we have continued to invest in solar generation, the increase in energy usage has resulted in generation as a proportion of total usage being lower than targeted and despite our lowest number of lost time injuries this was ahead of the number targeted for the year.

Materiality assessment

During the year, we embedded the results of our extensive materiality assessment into our 2025 targets. The outcome of this materiality assessment showed the following as of highest importance to all stakeholders:

- Net Zero.
- Freshwater stewardship.
- Water quality.
- Climate resilience.
- Drinking water quality.
- Amenity and recreation.
- Trust and transparency.

There has been no change in the areas of materiality which have the highest importance for the Group.

Enhanced reporting and assurance

With a growing focus on ESG reporting, we are increasing our 2023 reporting suite and providing enhanced disclosure through our SASB disclosure which can be found on pages 70 to 72 and ESG databook which is available to view at www.pennon-group.co.uk/sustainability.

Pennon's ESG reporting is integrated throughout the strategic report and specifically in the following sections:

Section	Page
Chair's letter	2
Chief Executive Officer's review	4
Business model	8
Strategy overview	10
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Other related reporting including our Gender Pay Gap report, Climate Change Adaptation Report and Net Zero plan can be found on our website www.pennon-group.co.uk/sustainability.

Pennon's ESG performance and reporting has been assured by DNV, an independent management consultancy specialising in technical assurance in the utility sector. DNV's method of assurance includes testing the assumptions, definitions, methods, and procedures that are followed in the development of data and the auditing thereof to ensure accuracy and consistency. The assurance statement can be found on our website www.pennon-group.co.uk/sustainability.

Certain disclosures within this Annual Report that relate to the sustainability performance of South West Water and Bournemouth Water have been subject to an independent audit of regulatory data conducted by Jacobs. DNV has reviewed the consolidation of these into total Pennon data where stated, but not their preparation.

Jacobs are engaged to independently audit South West Water's and Bristol Water's technical (non-financial) data relating to our Outcome Delivery Incentives published in its Annual Performance Report (APR), this includes all regulatory targets, including a suite of environmental performance indicators. This year Turner and Townsend has conducted an independent audit of other non-financial also included in the APR. This includes all South West Water regulatory targets, including the suite of environmental performance indicators. Jacobs provide a report on this audit within South West Water's APR. Similarly, Turner & Townsend conduct an independent audit of Bristol Water's technical (non-financial) data also published in its APR.

Benchmarking

It's important to us to ensure we are regularly benchmarked against the expected industry standards. This ensures we are continuing to provide up to date disclosure for our stakeholders. Certain leading indices assess companies on their disclosures relating to stringent environmental, social and governance criteria, and their position to capitalise on the benefits of responsible business practice. Pennon is a constituent within the FTSE4Good Index, Sustainalytics, CDP Climate Change, S&P Global CSA, and a number of other leading external ESG assessments. FTSE4Good and similar leading indices are designed to facilitate investment in companies that meet globally recognised corporate responsibility standards.

Our latest external assessment scores as at 31 March 2023 are included on page 65 with improvements seen in 7 out of 8 assessments.

Focus areas for 2023/24

- Embed the assessment and identification of climate-related risks without our investment appraisal processes.
- Integrate our climate risks within our existing risk management systems and risks registers across the Group.
- Continue to explore options to develop quantitative metrics for our key climate risks and opportunities.
- Further integration of ESG across the entire Group.
- Expansion of community impact evaluation and reporting.
- Review performance on how the company is fulfilling its purpose and its external ESG benchmarking.
- Undertake matters of Committee governance such as its rolling calendar of agenda items, annual Committee evaluation and examination of Committee's terms of reference.



Iain Evans
 ESG Committee Chair

31 May 2023

Nomination Committee report



Gill Rider
Chair of the Nomination Committee

The role of the Nomination Committee is to ensure that the Group has the pre-requisite skills, experience, breadth and depth of talent to meet longer-term strategic objectives.

The Committee's focus for 2022/23

- Overseeing the effectiveness of the Board's succession plan and identifying two new non-executives, ensuring that the Board has the appropriate mix of skills, experience and diversity.
- Conducting the annual review of Board Effectiveness and Board composition.
- The annual review and approval of the Group policy on Diversity, Respect and Inclusion and the Group's progress on diversity in line with the Parker review, including the outcome of the FTSE Women Leaders Review and the Group's position on Gender Pay and Ethnicity Pay.
- Ongoing review, development, and evolution of the Executive Leadership team, including succession planning and the integration of Bristol Water.
- Reviewing terms of reference for the Committee to ensure they continue to be appropriate.

Committee members	Date of appointment to Nomination Committee	Attendance
Gill Rider	September 2012	☑☑☑☑
Neil Cooper	September 2014	☑☑☑☑
Iain Evans	September 2018	☑☑☑☑
Jon Butterworth	July 2020	☑☑☑☑
Claire Ighodaro	July 2020	☑☑☑☑
Loraine Woodhouse	December 2022	☑
Dorothy Burwell	December 2022	☑

Role of the Nomination Committee

- Regularly review the structure, size and composition (including skills, knowledge, independence, diversity and experience) required of the Board.
- Consider succession planning for the Board and Senior Management overseeing the development of a diverse pipeline.
- Identify and nominate candidates to fill Board vacancies.
- Assist the annual Board evaluation process to assess performance and effectiveness of the Board and its Committees.
- Evaluate the balance of skills, knowledge, independence, diversity and experience on the Board.
- Review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued success of the Group.
- Review the Group's policy on Diversity, Respect and Inclusion (see www.pennon-group.co.uk/about-us/governance-and-remuneration), including gender, and the progress against objectives.
- Review membership of the Board Committees.

Dear Shareholder

I am pleased to present the Nomination Committee's report for the year ended 31 March 2023.

This year, the Committee has been pleased to welcome Loraine Woodhouse and Dorothy Burwell to the Board as independent Non-Executive Directors, from 1 December 2022. The appointments are in line with our succession planning with relevant skills and diversity of perspective. Loraine will succeed the Audit Committee Chair when Neil Cooper steps down in the summer. I am delighted they have chosen to join Pennon, and would also like to recognise Neil's considerable contribution to the Group since he was appointed in 2014.

As noted in the 2022 Committee Report at page 157, Russell Reynolds Associates was appointed as independent consultants, to conduct the search activity, providing the Committee with a long list of suitable candidates, ensuring candidates were apprised of the expectations required as a member of the Board, the time commitment and professional conduct and values. A rigorous selection process was undertaken, including meetings with appropriate stakeholders as well as the interview process with Board members. The induction process for Dorothy and Loraine is detailed on page 116.

The Committee has also supported the ongoing evolution of the wider executive, with the integration of Bristol Water, and key external appointments including Andrew Garard as Group Counsel and Company Secretary and John Halsall as Chief Operating Officer.

The Committee maintains its strong interest in the Group's progress in championing diversity, whether gender, ethnicity, or social mobility, and regularly reviews the demographics of the workforce as well as the leadership and was pleased to see Pennon shortlisted in the Balance in Business awards.

The Nomination Committee met four times during the year to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the Committee meetings, although other regular invitees to Committee meetings during the year included the Group Chief Executive Officer, the Group Chief People Officer and the General Counsel and Company Secretary. Committee members are also excluded from participating when their own positions are under discussion.

Further information on the Board biographies, can be found on pages 102 to 104.

Board diversity

At Pennon, we believe that a diverse and inclusive culture is a strategic imperative, treating it in the same way as we do each strategic priority - setting the tone from the top, holding leaders accountable and delivering against a clear action plan.

We believe having a diverse mix of minds has helped to deliver a step change in our culture, as a more caring and considerate business, that places significant focus on wellbeing, and evidenced in achieving Great Place to Work status for two years running.

As at 31 March 2023, female representation on the Board stood at 56% and Pennon Executive gender diversity at 44%. Our overall score in the Bloomberg GEI scorecard increased to 69.6%, up from 65% and reflecting a disclosure score of 97% for 2022. We also maintained first place in the FTSE Women Leaders Review for utilities.

Despite progress across the FTSE, Pennon is still one of only a few businesses in the UK to have both a female Chief Executive Officer and Chair. Given this, we have continued our membership of the 30% Club, and I am an ambassador of 25 x 25, the initiative to increase the number of women CEOs in UK business.

The Group is an advocate of Sir John Parker's review for ethnic board diversity, meeting the external targets required of a responsible and inclusive business ahead of the required dates. This year, in line with our commitment to the Change the Race Ratio campaign, we have voluntarily published our ethnicity pay gap of 10.3%. The Committee will continue to monitor pay gaps. Building our representation across the Group is a focus, given the area we serve has lower representation than the national average where ethnic representation is 2.2%. Nonetheless we are making good progress and our ethnic diversity across the Group has improved to 3%.

Board Diversity and Inclusion policy

The Board requires the Committee to review and monitor compliance with the Board's Diversity and Inclusion Policy and report on the targets, achievement against those targets and overall compliance in the Annual Report each year. The Policy was reviewed in March 2023.

The Board's diversity and inclusion policy confirms that the Board is committed to:

- The search for Board candidates being conducted, and appointments made, on merit, against objective criteria whilst promoting the widest forms of diversity, including gender, social and ethnicity. In this context, the Board will endeavour to achieve and maintain:
 - a. A minimum of 40% female representation on the Board
 - b. A minimum of 40% female representation on the Group's senior management team
 - c. At least one member of diverse ethnicity on the Board
- Satisfying itself that plans are in place for orderly succession of appointments to the Board and senior leadership
- Maintain an appropriate balance of skills and experience within the Group and on the Board.

The approach to Company-wide diversity is detailed on page 37 and is also fully applicable to our Remuneration, Audit and Nomination Committees, and as each Committee is comprised of members of the Board, the Board's Diversity and Inclusion Policy detailed above, similarly applies. I can confirm we exceed the Policy.

Colleagues are asked to provide personal information for the purposes of monitoring equality and for statutory reporting purposes, including Gender Pay Gap. This is collected during recruitment and on-boarding and colleagues are asked to periodically review and update as necessary. Information is stored on the Group's HR management system, including the data used to populate the table on the following page. Employees are encouraged to provide information on a voluntary basis.

The ethnic representation of our Board and leadership

	Number of Board members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
White, British or other White (incl. minority white groups)	7	78	4	9	100
Mixed / multiple Ethnic Groups	0	-	0	0	-
Asian / Asian British	0	-	0	0	-
Black / African / Caribbean / Black British	2	22	0	0	-
Other ethnic group including Arab	0	0	0	0	-
Not specified / prefer not to disclose	0	0	0	0	-

The gender representation of our Board and Leadership

	Number of Board members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
Men	4	44	2	5	57
Women	5	56	2	4	43
Other categories	0	-	0	0	-
Not specified / prefer not to disclose	0	-	0	0	-

Talent management and succession planning

During 2022/23 we have overseen the reshaping of the wider executive, ensuring that the Group has the requisite skills and experience and breadth of talent to meet the Group's longer-term strategic objectives. As we worked to enact our integration blueprint, following the acquisition of Bristol Water, Paul Boote became Group Chief Financial Officer. At the same time, we strengthened the overall executive with the external appointments of Andrew Garard as General Counsel and John Halsall as Chief Operating Officer. Mel Karam, Chief Executive Officer of Bristol Water, post the TUPE transfer of Bristol Water to South West Water, chose to step down. The Committee thanks him for his six years of service.

The Committee, supported by the Group Chief People Officer, also regularly reviews both the executive and non-executive leadership as part of its standing agenda, reviewing both short- and long-term skills requirements, opportunities for positive support to minority groups, and early identification of high potential. In line with our commitment to Change the Race Ratio, we have set stretching targets to develop diversity in our leadership levels below Executive Committee level and the Committee will continue to review progress on this important goal. As part of the regular reports received by the Committee, rates of participation by many characteristics are provided, noting this is also subject to employees' wish to disclose certain characteristics or sensitive information.

Board effectiveness review

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus. This year the review was undertaken by a third party, Equity Culture, by means of online interviews with a number of the Board, in consultation with the Chair and respective Committee Chairs, in January and February 2023. The outcome of the review concluded that the Board, its Committees, and individual Directors continued to demonstrate a high degree of effectiveness and collaboration, and that the Board had a forward-thinking mindset and a good understanding of opportunities for growth and risks facing the business, and the table shows the positives, negatives and/or actions suggested. In parallel with the Board effectiveness review the Committee undertook a 360 degree evaluation of the executive committee members and ensured the feedback was shared with the Group's senior leadership.

Summary of evaluation

	Area of assessment	Commentary/feedback	Actions
Pennon Board	Conduct of meetings	<ul style="list-style-type: none"> The Board is open, honest, respectful, engaged and committed 	
	Board meetings, papers and presentation	<ul style="list-style-type: none"> The volume of papers provides a challenge for the Board to manage but this reflects the open culture of the Group The annual cycle of Board meetings and topics is appropriate. There is a reassuring balance between appropriate challenge and support between NEDs and Executive The meetings are well-managed Governance is a strength of the Group 	<ul style="list-style-type: none"> Review the structure of Board papers
	Board oversight	<ul style="list-style-type: none"> Maintain increased visibility around pollutions. 	<ul style="list-style-type: none"> Continue to ensure appropriate processes for monitoring, reporting and addressing pollution incidents
	Group strategy and Governance	<ul style="list-style-type: none"> The Board continues to provide helpful support to management The Board offers good strategic direction and governance 	<ul style="list-style-type: none"> Key themes are developing strategic lines of communication to drive climate delivery and growth
	Communications strategy	<ul style="list-style-type: none"> The Board is keen to help with advocacy Further Board appointments could consider broadening the expertise in regulatory and Government affairs 	<ul style="list-style-type: none"> Ensure the Group has the appropriate capacity to meet its challenges

	Area of assessment	Commentary/feedback	Actions
	Succession and talent planning	<ul style="list-style-type: none"> Recent Board and Executive appointments have been very positive The appointment of a new SID and Chair is high on the priority list of the Board The CEO is very highly regarded 	<ul style="list-style-type: none"> The bench strength of the Executive needs to be kept under review
	Strategy	<ul style="list-style-type: none"> The annual strategy day is well received ESG matters are well embedded Social initiatives are high on the Group's agenda 	<ul style="list-style-type: none"> The focus should remain on ensuring that the Group has the human resources to deliver its ambitions
	Risk	<ul style="list-style-type: none"> The Group has good structures and processes in place Scrutiny of risk remains a priority for the Board agenda 	<ul style="list-style-type: none"> Top-level risks should be regularly reviewed
	Committees	<ul style="list-style-type: none"> The Committees work well and are well chaired The frequency of meetings of the Health and Safety Committee should be kept under review 	
Audit Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> The Audit Committee provides useful support to the Board and management The Committee operates good governance, is up to date with changing legislation and has a strong relationship with financial management Overall, it was felt that the Audit Committee functions well, with multiple members with deep finance experience 	<ul style="list-style-type: none"> Continue with existing processes
ESG Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> Relationships and communication between the ESG Committee and key executives are open and constructive The Committee makes effective use of KPIs and benchmarking to understand ESG performance, with external sustainability performance reported on regularly Overall, the Committee provides good direction in an ever-evolving area and has developed well over the last 18 months Environmental issues particularly around CSOs have emerged more prominently this year The Committee and the Board have work to do, to deal with the pollutions and CSO challenges, with the right executive support 	<ul style="list-style-type: none"> Ensure sufficient flexibility to further improve Net Zero activities and outcomes Continue the vital focus on environmental issues and CSOs Continue to review and assess processes in this area
Remuneration Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> The Remuneration Committee has performed well, with well-honed processes and in noting the evolving external environment 	<ul style="list-style-type: none"> Continue to evolve the framework as required and build on existing processes
Nomination Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> The Nomination Committee has performed well and needs to continue its track of Board succession planning and Executive succession activities 	<ul style="list-style-type: none"> Continue with existing processes, focused on succession
H&S Committee	Committee operation and effectiveness	<ul style="list-style-type: none"> The H&S Committee provides effective support to both the Board and management The Committee is now well established and focused on supporting the Board's aspirations with recent reports on investigations felt excellent. 	<ul style="list-style-type: none"> A developing Committee that should continue its deep dives into H&S performance and incidents.

A key area for focus in 2023/24 will be seeking a successor for the role of Chair. The current Board reflects Pennon's commitment and belief in the importance of diversity, and Pennon will be mindful of both the Company-wide and Board-specific diversity policies when selecting a replacement Chair. The succession planning process will consider candidates from diverse backgrounds, experiences, and perspectives and we will provide an update on the process followed in next year's report. As detailed on page 117 the Board recommended an extension of up to three years to the Chair's term from July 2021, as being appropriate, to provide continuity during the strategic business review and acquisition of Bristol Water. Shareholders voted in favour of this decision. The addition of Loraine and Dorothy to the Board means this is the right time to review the responsibilities of Board members ensuring we are maximising skills to best lead the Group for the future. The process of seeking a successor for the Chair will be led by the Senior Independent Director with no involvement from the current Chair.



Gill Rider
Chair

31 May 2023

Health and Safety Committee report



Jon Butterworth

Chair of the Health and Safety Committee

Committee members	Date of appointment to Health & Safety Committee	Attendance
Jon Butterworth	November 2020	☑☑☑☑
Gill Rider	November 2020	☑☑☑☑
Iain Evans	November 2020	☑☑☑☑
Susan Davy	November 2020	☑☑☑☑
Paul Boote	November 2020	☑☑☑☑
Neil Cooper ¹	November 2020	☑☑☑
Claire Ighodaro ¹	November 2020	☑☑☑
Dorothy Burwell	December 2022	☑
Loraine Woodhouse ¹	December 2022	

1. Following a review of Board Committee composition, Neil Cooper, Claire Ighodaro and Loraine Woodhouse ceased to be members of the H&S Committee with effect from 31 January 2023.

Role of the Health & Safety Committee

- Review and challenge to support the Board and Executive on all matters connected to Health and Safety.
- Review the extent and effectiveness of the Group's reporting of health and safety performance and compare to external benchmarks.
- Regularly report to the Board.
- Advise the Audit Committee of any material non-financial risks.

The Health and Safety Committee promotes a culture of safety within the Company.

The Committee's focus for 2022/23

During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Six-monthly comprehensive reviews of the Group's Health & Safety performance.
- A review of the next phase of the HomeSafe strategy through to 2025.
- A deep dive into the wellbeing strategy with a focus on mental health.
- A review and challenge of potential near-miss events to ensure lessons are learnt.
- Visiting operational sites to engage with front-line colleagues and the wider Health and Safety teams.

Dear Shareholder

I am pleased to provide an update on the Health & Safety (H&S) Committee's activities during the year.

I believe the key to ensuring we keep employees safe and well in the workplace, is through empowering everyone to take responsibility for the health, safety and wellbeing of each other and for themselves. Simply put, it's about culture, leadership and accountability.

Our dedicated Board Committee focused purely on H&S ensures the Board continues to support our HomeSafe strategy and the Group's vision that everyone goes home safe every day. We continue to strive to be a leader of H&S by 2025 in our sector, and leadership from the top is critical. The Board has dedicated time to visit operational sites, discuss and review performance, offer support, encourage learning and meet leaders and employees from across the business.

Reviewing the Group's health and safety performance, effectiveness of health and safety policies and procedures, including the continued roll-out of the HomeSafe strategy, has been core, with significant improvements already noted.

Importantly, the Committee reviews deep dives of High Potential Incidents with a particular focus on lessons learned, getting to the root cause, encouraging a learning mindset.

I was personally delighted to be able to attend and present to over 170 colleagues at the first new Pennon Group H&S conference in Bristol in February this year, opened by Susan Davy. The conference was attended by representatives throughout the business from water treatment operational colleagues through to supply chain directors, with the aim of empowering everyone to recognise "It could happen to you" and "Take 5" to ensure it doesn't. This theme developed from an investigation into a High Potential Incident we reviewed at our Committee.

H&S Committee composition

All Board members are attendees and served throughout the year, with support from the Group Chief People Officer and Pennon's H&S Director.

Reporting

In addition to the regular Board report by the Group Chief Executive Officer, detailed performance is reviewed six-monthly, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health and working environment. The corresponding improvements in outcome metrics have been noted, with the Lost Time Injury Frequency Rate (LTIFR) reducing through the year by 15%.

The HomeSafe strategy continues to drive improvements and is regularly reviewed to ensure it drives us towards our 2025 aims. The Committee will continue to review and challenge plans and performance to support our HomeSafe ambitions, with a detailed roadmap to 2025 built on six key pillars.



Jon Butterworth

Chair of the Health and Safety Committee

31 May 2023

HomeSafe strategy

The Group's flagship H&S programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities and impacts. HomeSafe is built on the six strategic pillars:



Managing Risk



Sharing and Learning



Working Together



Protecting Health



Enabling Leaders



Being Resilient

Read more on pages 35 and 36

Susan at the 'Keeping it flowing', Kier Live event, Exeter Racecourse, Devon



Remuneration Committee report



Claire Ighodaro

Chair of the Remuneration Committee

The role of the Remuneration Committee is to set and implement executive pay in a fair and socially responsible manner.

Role of the Remuneration Committee

- Ensure remuneration is aligned with the Group's strategy and reflects the values of the Group.
- Set and review the Remuneration Policy to ensure it remains appropriate, considering shareholders' views and best practice.
- Advise the Board on the framework of executive remuneration for the Group.
- Setting the remuneration for the Chair, the Executive Directors and senior executives of the Group and reviewing the remuneration arrangements of the wider workforce.
- Approve the design and determine targets for any performance-related pay schemes.
- Determine the appropriate outturn of any incentive arrangements.

The Committee's focus for 2022/23

- Consider the remuneration and terms of engagement of the Executive Directors, senior executives and Chair of the Group and the remuneration of the wider workforce.
- Determine targets that remain stretching, relevant to the Group's strategy and values and reflect best practice and wider stakeholders' views.
- Undertake the review of the Remuneration Policy, taking into consideration the Group's strategic goals, shareholders' views, regulatory commitments and evolving best practice, ahead of the 2023 AGM.

Committee members

Date of appointment to Remuneration Committee

Attendance

Committee members	Date of appointment to Remuneration Committee	Attendance
Claire Ighodaro	July 2020	⊙ ⊙ ⊙ ⊙ ⊙
Gill Rider ¹	September 2012	⊙ ⊙ ⊙ ⊙
Neil Cooper	September 2014	⊙ ⊙ ⊙ ⊙ ⊙
Iain Evans ¹	September 2018	⊙ ⊙ ⊙ ⊙
Jon Butterworth ¹	July 2020	⊙ ⊙ ⊙ ⊙
Lorraine Woodhouse	December 2022	⊙
Dorothy Burwell	December 2022	⊙

1. Following a review of Board Committee composition, Gill Rider, Iain Evans and Jon Butterworth ceased to be members of the Remuneration Committee with effect from 31 January 2023.

Dear Shareholder

I am pleased to present the Directors' remuneration report for the year ending 31 March 2023.

We are a purpose-led business, shaped by our values and culture. Our approach to all matters, including pay, is informed by the perspective of our various stakeholders, including our investors, customers, colleagues communities and the environment.

The economic downturn over the past year has impacted the business, our colleagues and our customers. Climate-related issues have also dominated the landscape, and the driest, hottest summer on record for the region resulted in record demand for water. With this challenging backdrop, we are mindful of the need to build and maintain trust on the sensitive topic of executive pay, by clearly demonstrating our commitment to socially responsible business.

Despite the external backdrop, this has been a year of progress. Our robust performance over the last financial year has created c.£198 million cumulative out-performance over K7 to date, enabling reinvestment that will improve service quality over the longer term. We have reduced storm overflow use by 30% and have maintained 100% bathing water quality for the second year in a row. We also remain on track to deliver our ambitious Net Zero programme by 2030. However, it is recognised that there remains scope for improvement in certain areas as we work towards our stretching ambitions. Although our PBT and EPS results reflect the impact of exceptional levels of UK inflation on our debt instruments, the underlying financial results remain robust as demonstrated by EBITDA of £307.8 million.

We were able to keep bills lower than inflationary increases. We have increased the number of customers benefiting from one or more of our social tariffs by 23%. The second phase of our innovative WaterShare+ scheme was also launched in November 2022, and almost 90,000

customers have opted to become shareholders, via the scheme, since its introduction in 2021.

Supporting our colleagues

We are proud to be the largest employer in the region, with c.3,000 employees. The global financial pressures which face our customers, are also affecting our colleagues. Building on the support that was provided during the pandemic, the business has continued to support our colleagues during the well-documented cost-of-living crisis.

The 2023 pay settlement represented our largest-ever pay award, in recent times, with a focus on higher increases for lower-paid, customer-facing roles. The increase of 7% was backdated to 1 January 2023, which further enhanced the effective increase for the year to 9.2%. Increases for more senior roles were scaled down, with those earning in excess of £80,000 awarded an increase of 4.6%. The 2023/24 increases for Executive Directors were capped at 3.5%.

The business also implemented a rounded package of measures to support employees, including wellbeing support, access to financial information and guidance through an external provider and hardship support. An interim bonus payment was paid to front-line teams.

Our HMRC-approved share schemes continue to be popular with c.60% of colleagues in either the Sharesave or Share Incentive Plan. During the year, our 2017 five-year plan and 2019 three-year plan reached maturity with colleagues seeing growth of up to 45% on their investment. We have once again provided expanded disclosure on our approach for the wider workforce, and this is set out on page 140.

CEO incentives

The Chief Executive Officer's annual bonus for the 2022/23 financial year and the long-term share awards (LTIP) granted in 2020 subject to three-year performance to 31 March 2023, were each based on scorecards intended to capture a rounded assessment of overall performance. Based on the formulaic assessment of performance, the annual bonus delivered an outcome of 26% of maximum and the 2020 LTIP vested at 45% of maximum. Further detail on the targets and outcomes is set out in the main body of the report. There were clear areas of under and over performance, and this is reflected in the scorecard results. The Committee was satisfied that these outcomes fairly captured overall Group performance over the relevant performance periods.

However, having reflected on the exceptional economic backdrop, the Chief Executive Officer recommended to the Committee that her bonus and 2020 LTIP awards were foregone in full. An equivalent value is to be diverted into a future issuance under the Company's WaterShare+ scheme. The WaterShare+ scheme directly benefits our customers by either providing money off their bill or via ownership of Pennon shares.

While recognising the performance delivered, the Committee reflected on the broader environment and approved the Chief Executive Officer's recommendation regarding her awards. Therefore, the Chief Executive Officer's single figure for 2022/23 does not include any variable incentives and is significantly lower than outcomes in prior years.

Remuneration Policy review

Our current Remuneration Policy was last approved by shareholders in 2020. In accordance with the normal three-year renewal timetable, we will be seeking shareholder approval for a new Policy at our 2023 AGM.

We are not proposing any material changes to our Remuneration Policy, and therefore the previous policy has been largely rolled-forward. For the current year, we have instead focused on refining the metrics applicable to incentive awards (see below).

Overall remuneration levels under the policy remain modestly positioned against our FTSE 250 peers, and no increases are being proposed as part of the policy renewal. We also continue to have a number of safeguard mechanisms to avoid payments for failure including use of clear performance measures, stakeholder and other feedback, operation of a discretion framework before approving incentive outcomes and robust malus and clawback provisions.

However, the Committee is aware of the external environment, particularly in the context of our business plan submission for the next regulatory review cycle, due to Ofwat in October 2023. Following the AGM, we intend to undertake a review of our pay structure taking account of our strategic priorities and continuing best practice guidance. This review will reflect on the range of approaches seen in the market, from alternative performance metrics through to structural changes such as the use of restricted shares. We will also consider any refinements that are needed to in-flight arrangements. To the extent that further changes to the remuneration structure for Executive Directors are proposed, we will engage with our key stakeholders and seek relevant approvals.

Incentives for 2023/24 - clearer link to customers, communities and the environment

When considering the implementation of the policy for the coming year, the Committee was mindful of evolving Ofwat guidance on incentives for senior executives, in particular the desire for a substantial portion of awards to be linked to delivery for customers, communities and the environment.

For 2023/24, the annual bonus structure has been revised, and balances our focus on operational and strategic objectives related to customers, communities and the environment (60%) and maintains an appropriate weighting on financial results (40%).

For 2023 LTIP awards, the balance of measures has been refined to respond to both Ofwat guidance and recent feedback from our shareholders. A significant portion of the awards will be based on return on regulated equity (50% weighting, increased from 33%), as this is a key measure for our shareholders and the regulator. As the performance period concludes during the next price review period, the targets have been expressed as returns above the allowed cost of equity, but require the same level of out-performance as the 2022 LTIP. Customer experience has also been maintained as a measure (20% weighting). A new measure linked to water quality and the environment (30% weighting), has been introduced, with long-term objectives relating to our EPA rating, reductions in pollution incidents and combined storm overflows. The targets are detailed in the main body of the report.

Although the scorecard has been simplified by removing the sustainable dividend measure, we acknowledge the ongoing importance of the dividend to investors. In practice the continued focus on profitability in the bonus plan and RoRE in the LTIP will together ensure that the Company delivers strong and resilient financial performance, which in turn enables us to deliver sustainable returns to our shareholders and stakeholders over the long term.

The Remuneration Committee is very aware of the need to clearly demonstrate a measured and responsible approach to executive pay. Over a number of years we have a track record of taking a fair and modest approach and this has been reflected in voting support at previous AGMs and decisions set out in this year's report. In this context we look forward to your continued support at the 2023 AGM.



Claire Ighodaro CBE

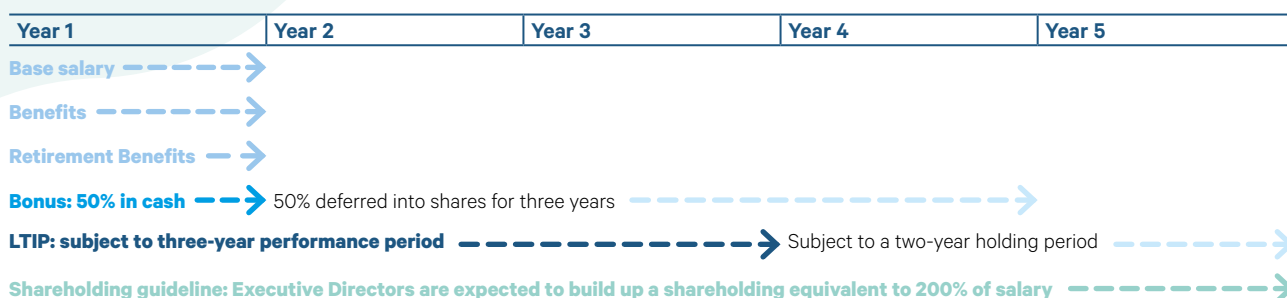
Chair of the Remuneration Committee

31 May 2023

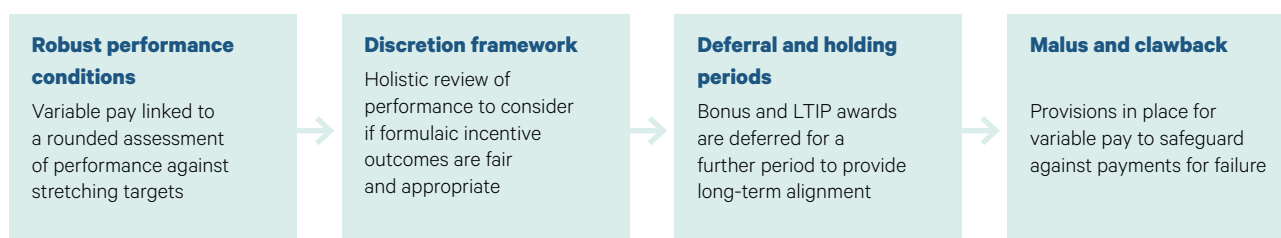
Directors' remuneration report

At a glance

What is the structure of executive pay?



What safeguards are in place?



How does executive pay link to our strategy?

Performance measures	Customer measures 2 3	ESG 1 2 3	Water quality 1 2 3	Profit measures 1 3	Return on Regulated Equity 2 3
2023/24 bonus	✓	✓	✓	✓	
2023 LTIP	✓	✓	✓		✓

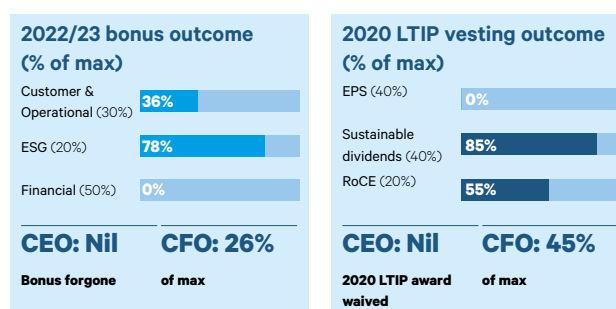
Our Strategic pillars: 1 Growth in Environmental Infrastructure 2 Pioneering Solutions 3 Leadership in UK water

How did we perform?

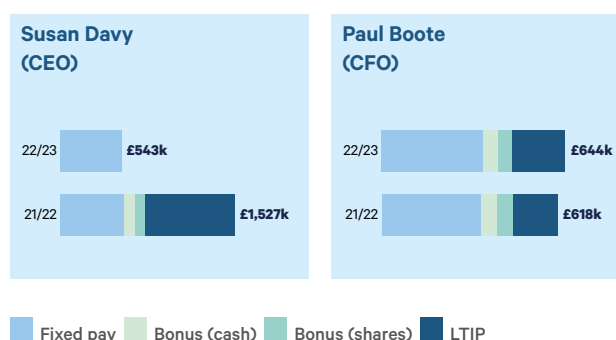
Performance highlights

- £358m record capital investment**
part of our largest environmental programme to date
- c.50% reduction in wastewater pollution incidents**
in K7 to date
- 100% bathing water quality**
for the second consecutive year
- >50% RCV growth forecast over K7**
including our successful acquisition of Bristol Water
- Investing c.£160m**
in renewable energy generation
- c.£40m returned to customers in K7**
through our unique WaterShare+ mechanism

What were the outcomes under the incentive scorecards?



What were the remuneration outturns for 2022/23?



Summary of Remuneration Policy and Implementation in 2023/24

The previous Directors' Remuneration Policy was approved by shareholders at the 2020 AGM and continues to operate as intended. Although no major changes are proposed, a new policy will be presented for approval at the 2023 AGM in line with the normal three-year cycle. The 2023 Directors' Remuneration Policy is set out in full on pages 152 to 157.

Fixed Pay

No change in policy

Salary increases below that of the wider workforce.

Retirement benefits aligned with maximum rate available to wider workforce.

Salary

The Group Chief Executive Officer respectfully declined salary increases for both 2021 and 2022. Salary increases effective for 2023/24 for the wider workforce range from 9.2% for colleagues on lower and mid pay ranges, to 4.6% for those earning over £80,000. Increases for Executive Directors have been capped at 3.5%.

Salaries from 1 April 2023: Group Chief Executive Officer – **£491,625** Group Chief Financial Officer – **£319,815**

Benefits, including pension-related benefits

Benefits currently include the provision of a Company vehicle, fuel, health insurance, income protection and life assurance. Other benefits may be provided if the Committee considers it appropriate. Executive Directors may participate in HMRC approved all-employee share plans on the same basis as employees.

Executive Directors pension-related benefits are in line with the maximum rate available to the wider workforce (10% of salary).

Annual Bonus

No change in policy

Maximum potential is unchanged for 2023/24 at 125% of salary.

Normally 50% of bonus is deferred into shares released after three years.

Malus and clawback provisions apply.

Long-term incentive plan (LTIP)

No change in policy

Maximum annual award is unchanged for 2023/24 at 150% of base salary.

Three-year performance period, two-year holding period.

Malus and clawback provisions apply.

For 2022/23 our bonus was based on:

Customer + operational (30%)	Basket of service and customer metrics
ESG (20%)	Basket of measures linked to environment, social goals and good governance
Financial (50%)	Underlying PBT

2022 LTIP targets:

Measure	Threshold (100%)	Maximum (100%)
Return on Regulated Equity (33.3%)	6%	8%
Sustainable dividends (33.3%)	2.6x	3.6x
Basket of customer measures (33.3%)	Basket of customer measures, includes C-MeX, R-MeX, D-MeX, MPS and our Trustpilot Score	

2023/24 - Clearer link to Customer, Communities and Environment

For 2023/24, increased portion of bonus linked to measurable goals that are key to meeting goals for our customers, communities and the environment:

- **Financial metrics (40%)** – stretching profit objective
- **Customers, communities and the environment (60%)** – scorecard of various metrics linked to operational, customer and environmental performance as well as broader ESG metrics.

Details of bonus targets are closely aligned to strategy, and as such are considered commercially sensitive. Further disclosure will be provided on a retrospective basis in next year's report.

2023 LTIP - Clearer link to customer, communities and environment

For the 2023 LTIP, RORE will be up-weighted to 50%, increasing from 33%. An element linked to Water quality and the Environment will be introduced, with the balance of the award linked to Customer Experience. An underpin continues to apply.

Measure	Weighting	Threshold	Maximum
Return on Regulated Equity (50%)		allowed cost of equity +1.81%	allowed cost of equity +3.81%

Water Quality and Environment (30%)

Scorecard assessment based on various measures including:

Measure	Weighting	Target
EPA	10%	Improvement of EPA rating towards 4 star
Wastewater Pollution reduction	10%	Minimisation of Category 1-2 pollution incidents and material reduction of Category 3-4 incidents
Storm overflow reduction	10%	Material reduction of Storm Overflows

Maximum vesting under this element would require out-performance across each performance area. Detailed metrics are deemed to be commercially sensitive. Full disclosure of targets and the basis for outcomes will be provided at the end of the performance period.

Customer Experience (20%)

Measure	Weighting	Target	Maximum
Customer metrics (15%)			
C-Mex (60%), D-Mex, R-Mex, MPS (10% each)		Median	Upper-Quartile
Trustpilot Score (10%)		4.5	5.0
WaterShare+ participation (5%)		Maintain	10% increase

Shareholding requirements

No change in policy

Executive Directors are expected to build up a shareholding equivalent to 200% of salary.

Departing Executive Directors will normally be expected to hold 200% of salary (or actual relevant holding, if lower) on departure, reducing to 100% of salary after 12 months.

Annual report on remuneration

Remuneration approach for wider employees

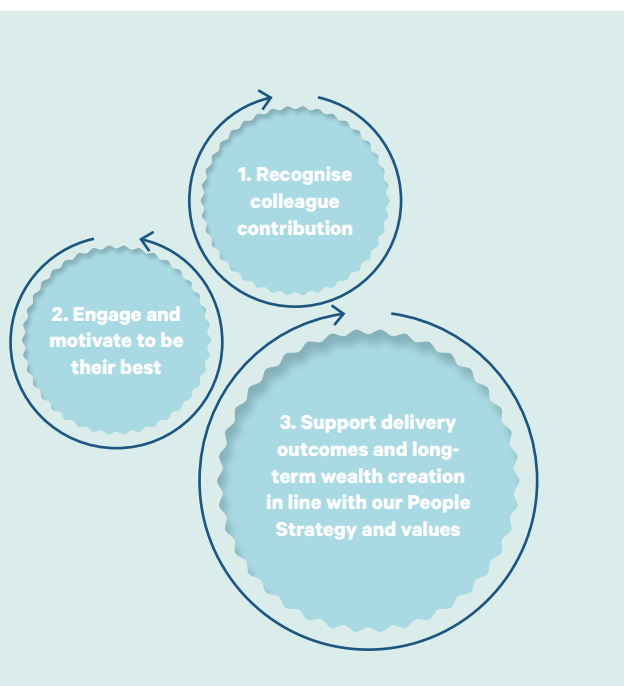
The Remuneration Committee pays close attention to the approach taken to remuneration for the wider workforce and considers this when making decisions regarding remuneration for the Executive Directors. The Committee reviews a pay dashboard twice a year, which contains information on elements of financial and non-financial reward, the wider labour market, demographics and pay statistics across the organisation. This detail provides important context to ensure that a consistent approach is adopted across the Group, including the Executive Directors. Progress in delivering the reward strategy is also reviewed regularly and the Committee reflects on progress made in relation to our gender and ethnicity pay gaps. Alongside this, the Committee hears feedback from employees from the RISE engagement forum through the CEO on matters concerning remuneration arrangements.

Reward strategy

Our well-established People Strategy across the Group is centred around talented people doing great things for customers and each other and creating the best place to work.

Our Reward Strategy

Pennon's Group Reward Strategy has three aims:



Supporting our colleagues

Salary increases for wider workforce

We have supported colleagues during the cost-of-living crisis, prioritising increases for those who need it most. For 2023/24, colleagues with a base salary below £40,000 have been awarded a pay increase of 7%. This was also backdated resulting in an effective increase of 9.2% for this population. For those earning between £40,000 to £80,000 a tapered approach has been taken, with those earning above £80,000, receiving a pay increase of 4.6% from 1 April 2023.

Interim bonus

We paid an interim bonus payment to all employees below leadership, helping colleagues meet the additional costs of Christmas at a time when they need it most.

Financial wellbeing and wider benefits

We offer a comprehensive package of support, including the roll out of a financial wellbeing partner for colleagues and their families, as well as hardship loans. We have also lifted the limits on our cycle to work scheme, enabling colleagues to take advantage of electric bikes (subject to affordability) helping them reduce their commuting costs and their own carbon footprint.

Saving for the future

Our Sharesave scheme was launched in 2022, enabling over 300 new participants to join, meaning that circa 60% of employees now enjoy one of the Group's share plans, having a stake and say in the business.

We have also rolled out participation in the Share Incentive Plan and our Sharesave scheme across Bristol Water.

Living Wage Foundation

In 2021, we announced our Living Wage Foundation (LWF) Accreditation. Further investment has been made in our critical customer service roles to maintain pay at a level above the LWF rates for all colleagues.

Wider workforce remuneration dashboard

In accordance with the 2018 UK Corporate Governance Code, the Committee reviews the level of information provided on pay matters in the wider organisation. The Wider Workforce Remuneration Dashboard provides the Remuneration Committee with an overview of the approach to pay across the Group:

- Helps support the Committee in reviewing workforce remuneration and related policies which continually evolves to provide greater insight
- Provides an overview of pay arrangements across the business and key statistics on pay in different areas of the business
- Updates on progress on our Reward Strategy implementation
- Oversight of the wider remuneration landscape to provide more external context, industry specifics and to inform on our developments on financial wellbeing
- Covers information on workforce demographics, employee engagement, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas.

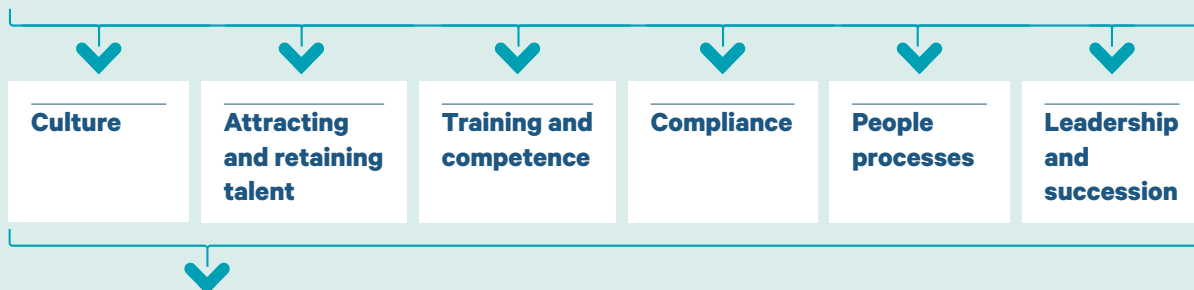
The Committee intends to keep the content of the dashboard under review to ensure it remains suitable.

Reward framework

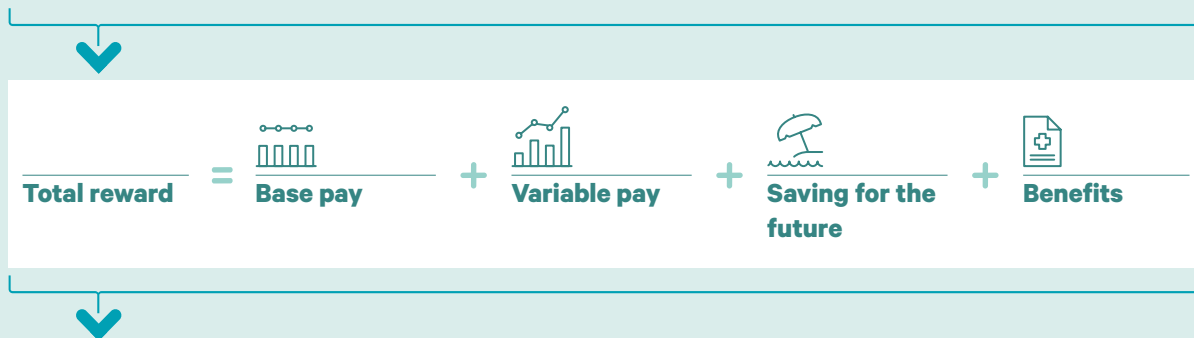
Our Reward framework supports our People Strategy:

Talented people doing great things

For our customers and each other



Rewarded by our framework







Underpinned by the Pennon values



Supported by:

Strategy and Governance, Job Evaluation and Benchmarking, Systems and Data

Pillar	Highlights
Base pay 	<p>The Group's overarching principles for basic pay are as follows:</p> <ul style="list-style-type: none"> • Be competitive to support attraction and retention • Be fair, meeting all legislative requirements • Reflect the market and region in which the role operates • Reviewed annually – we engage with employee forums and trades unions as appropriate. <p>The 2023 pay settlement represented our largest pay award in recent years, focusing on our lower-paid and customer-facing roles, see page 135.</p> <p>SWW is also proud to be one of the minority of UK companies to be an accredited Living Wage Employer and these standards apply to all Group companies.</p>
Variable pay 	<p>The Group operates variable pay schemes, including annual bonus arrangements and all employees and temporary workers are eligible to participate. Throughout the main bonus schemes, there is strong correlation in the targets, to align the whole organisation on goals linked to customer, communities and the environment. The maximum bonus levels are based on seniority and level of responsibility. At leadership level a portion of the bonus is deferred into shares for three years.</p> <p>Long-term incentive share awards are available to senior executives and Executive Directors, consistent with market practice.</p> <p>Our front-line teams receive overtime, call-out and standby payments, ensuring that when workloads are high, employees benefit. We remain mindful of the need to balance working hours and available resource against the health, safety and wellbeing of our colleagues.</p>
Saving for the future 	<p>Membership of the Group pension scheme remains high with a 96% participation rate in our Defined Contribution (DC) scheme. As part of our Saving for the Future, all employees can participate in our HM Revenue and Customs-approved Sharesave and Share Incentive Plan, with a strong emphasis on employee buy-in and ownership. In 2022, the Share Incentive Plan was launched to Bristol Water colleagues to sit alongside the Sharesave. 10% of eligible employees chose to participate. We supported the 2022 Sharesave with a number of drop-in sessions and presentations, ensuring new colleagues fully understood the schemes. We saw over 1,000 colleagues enter into a savings plan, of which c.330 were new to employee share ownership. Not only do our share schemes provide a mechanism for sharing in the long-term success of the Group, but mean that colleagues and customers have a say and stake in the business.</p>
Benefits 	<p>Benefits are available to all colleagues. During 2023, the Group continued to build on the additional benefits to support employees' physical and mental wellbeing in line with our reward strategy.</p> <p>We have launched an online health programme providing self-assessment and guidance for a healthy life plan. Total Reward Statements are available through our Reward Hub platform and for Bristol through a flexible benefits platform. Our buy and sell holiday scheme launched in 2022, gives employees the opportunity to either have more holiday to suit their lifestyles or have more of their reward in cash to use for other benefits as they prefer. We have developed further the colleague support groups and Time to Talk sessions established in 2022. Financial wellbeing has grown in priority for colleagues this year and we have partnered with an external financial wellbeing service to deliver this much-needed support to colleagues and their families.</p>

Gender and Ethnicity pay reporting

During 2022, in line with our Change the Race Ratio commitments, we published our Ethnicity Pay Gap data for the first time. The results reflect our journey in building representation of ethnic minority groups and gender diversity across Pennon, noting that the South West, where a large proportion of our business is based, has a lower diversity mix than other parts of the UK.

The mean ethnicity pay gap for the Group is 10.3%. Across the Group we have been working hard to attract a greater number of ethnically diverse candidates to apply for job vacancies, and we offer dedicated support to new employees through our graduate programme and support the 10,000 Black Interns Programme. We will continue to work to progress our diversity actions to build greater representation.

Our Group gender pay gap improved slightly during 2022 with an improvement of 0.8% - the gap for the Group now stands at 8.4%. As we look to develop female representation at all levels, we continue to create an environment for women to thrive and develop their careers.

During the year we have been recognised for our progression in gender equality by external bodies. In Spring 2023, Pennon was rated in the Bloomberg Gender Equality Index with an overall score of 69% up from 65% in 2022. The index measures gender equality across five key areas. Our placement in the FTSE Women Leaders report revealed we were again first in the Utilities sector.

We are committed to deliver on our ambitions to build diversity and inclusion across the Group and the water industry.

Colleague engagement

In early 2022, we launched RISE our people forum, providing a two-way dialogue for all colleagues across the Group. This is regularly attended by senior leadership including the Group Chief Executive Officer, Group Chief People Officer and other members of the Pennon Executive. RISE is now embedded as an established group provoking healthy debate and discussion on areas that matter to employees. Engagement survey results and action planning are a discussion area for this group and as there is now a RISE member for every 30 employees, representation of all different departments and individuals is well catered for. This group continues to be a key source of dialogue and employee views for shaping future reward developments. The Committee is kept informed of themes and feedback from RISE discussions.

As we prepared to transfer Bristol employees to South West Water as an outcome of the statutory transfer, we conducted a thorough communication and consultation process with colleagues, with regular Town Hall events, meetings with union and employee representatives and regular team meetings. The transfer concluded smoothly on 1 February 2022.

The use of Yammer also continues to grow as a feedback loop for colleagues who can post questions and comments on any topic, creating the culture that enables colleagues to feel comfortable raising questions on remuneration is an important step in open dialogue. Employees can create groups for information sharing on wide-ranging topics from social activities to innovation ideas. We have seen colleagues use this to voluntarily share Health and Safety posts reflecting the success of colleagues' engagement with HomeSafe, a priority for the Group, as well as thoughts on energy saving, efficiencies, and well-being techniques.

The Big Chat, which is our regular cascade mechanism from the Executive, has regular sessions to inform colleagues on remuneration topics, such as the Sharesave launch, details of the annual salary review, benefits, and bonus news. Employees can post questions live during sessions or post follow up questions that will always be answered. The Big Chat is recorded to ensure that front-line workers who are not always able to attend can access these broadcasts and this is supported by a weekly newsletter to all employees.

We hold regular meetings with the union representatives, keeping them informed of business developments and the People Strategy and recognising their role for colleague feedback and the insights they can provide on behalf of their members. Their constructive approach to the 2023 pay settlement enabled us to pay colleagues as early as possible supporting them with the many cost increases that come in April.

We held our annual engagement survey in late spring of 2022 and were pleased that we were again accredited as a Great Place to Work for the second year running. As in prior years, local results are discussed and agreed at team level with Company-level actions agreed with our RISE representatives and the Executive Committee. Continuing our programme of wellbeing activities has been strongly supported by all colleagues. During 2023 we will be engaging with employees across the Group as we collectively continue to embed the Pennon values.

How our remuneration approach meets Section 40 of the UK Corporate Governance Code

<p>Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.</p>	<p>The Committee advocates for transparent disclosure of remuneration arrangements, with full details of executive remuneration provided within the Remuneration Report each year. Incentive outcomes and the performance levels achieved against pre-set targets are clear. Consistent frameworks for annual incentives are used throughout all levels of the organisation, providing clarity of performance levels expected. The Committee welcomes dialogue on remuneration arrangements, with shareholders, our WaterShare+ Advisory panel and our colleagues either through our RISE panel or other employee forums.</p>
<p>Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.</p>	<p>The remuneration arrangements in place are simple, comprising base pay, pension, benefits, short-term and long-term incentive awards and in fundamental construct remain consistent over time. Performance ranges where applicable are straightforward in nature. Maximum remuneration levels are set within the policy.</p>
<p>Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.</p>	<p>Remuneration arrangements are carefully considered by the Committee, to ensure they reflect our values and those of a responsible business. Long-term sustainable performance is central to our delivery for all stakeholders and this is reflected in our long-term incentive plan, balancing both financial resilience and customer and environmental standards. All incentive payments are scrutinised by the Committee and levels of reward positioned so that excess is avoided. The provisions for malus and clawback are in place across all leadership schemes.</p>
<p>Predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.</p>	<p>The Remuneration Policy sets the maximum levels for variable remuneration and for retirement benefits and other benefits, these are aligned to the wider organisation. All incentive payments are carefully scrutinised by the Committee using a discretion framework to assess audited results and making adjustment as appropriate when considering wider performance outcomes.</p>
<p>Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.</p>	<p>Careful consideration is given to the stretching targets that are selected, taking into account the long-term strategy of the Group and the expectations of all our stakeholders.</p>
<p>Alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy.</p>	<p>Delivery for customers, communities, the environment and all stakeholders is at the forefront of our incentive arrangements. The Committee receives regular information on remuneration outcomes and arrangements for the wider workforce, employee engagement and interacts with colleagues across the business.</p>

Single total figure of remuneration table (audited information)

	Susan Davy ³ (£000)		Paul Boote (£000)	
	2022/23	2021/22 ¹	2022/23	2021/22 ¹
Base salary	475	475	309	300
Benefits ¹ (including Sharesave)	21	29	16	17
Pension-related benefits ²	48	55	31	30
Total fixed pay	543	559	356	347
Annual bonus (cash)	0	91	51	57
Annual bonus (deferred shares)	0	91	51	58
Long-term incentive plan ^{4,5,6}	0	786	186	156
Total variable pay	0	968	288	271
Total remuneration	543	1,527	644	618
Total fixed pay	543	559	356	347
Total variable pay (actual)	0	968	288	271
Total variable pay (forgone)	440	-	-	-

- Benefits comprise a car allowance, fuel allowance, medical insurance, and income protection.
- See page 145 for further information on retirement benefits.
- For 2022/23, the CEO recommended that her bonus and 2020 LTIP award were forgone in full. An equivalent value is to be diverted into a future issuance under the Company's WaterShare+ scheme. Further detail is provided in the narrative below.
- For 2022/23, the 2020 LTIP has been valued based on the average share price during the three-month period to 31 March 2023 of 891.86p and a vesting outcome of 45%, as referred to on page 145, together with an estimate of the accrued dividends payable on the vesting shares. Of the vested amount, none of the award is attributable to share price appreciation over the performance period. Vested awards are subject to a two-year holding period.
- For 2021/22, the 2019 LTIP value reflects the share price at the date of vesting of 970.5p and a vesting outcome of 88.2%. The value includes accrued dividends over the vesting period. The Committee did not exercise any discretion in relation to share price changes. These LTIP awards are subject to a two-year holding period.
- For 2021/22, the 2019 LTIP award granted to Paul Boote relates to his previous role, prior to his appointment to the Board but is included in the table above for transparency.

Notes to the single figure table

Fixed pay

For 2023/24, the Remuneration Committee awarded the Executive Directors a salary increase of 3.5%, effective from 1 April 2023. This was set with reference to the increases awarded to the wider workforce, which ranged between 4.6% to 9.2% depending on pay levels. For the Chief Executive Officer, this will be the first salary increase that she has accepted since she was appointed to the role in 2020.

Retirement benefits for both Executive Directors have been set at 10% of salary since appointment, which is aligned to the rate available to the majority of the wider workforce. Further detail on pension arrangements is set out on page 145.

Variable pay

CEO incentive awards

Further detail regarding the outcomes of the 2022/23 annual bonus and 2020 LTIP are set out in the relevant sections below. Both incentive awards are based on scorecards which consider performance from a number of different perspectives. The overall outcomes reflect this rounded assessment of performance.

In line with best practice, the Remuneration Committee considers the broader performance context before approving outcomes. Reflecting on the exceptional economic backdrop and in particular the cost-of-living crisis faced by many of our customers, the Chief Executive Officer recommended to the Committee that she forgo her 2022/23 bonus and 2020 LTIP award. The Company will instead divert an equivalent value into a future issuance under the Company's WaterShare+ scheme. The WaterShare+ scheme directly benefits our customers through either providing money off their bill or via ownership of Pennon shares.

While recognising the performance delivered, the Committee reflected on the broader environment and subsequently approved the Chief Executive Officer's recommendation regarding her awards. Therefore, the Chief Executive Officer's single figure for 2022/23 does not include any variable incentives and is significantly lower than outcomes in prior years.

Annual bonus outturn for 2022/23

Consistent with prior years, the bonus is based on a rounded assessment of performance. In line with regulatory guidance a substantial portion of the bonus is linked to delivery of stretching objectives for our customers, communities and the environment. The bonus includes profit measures which ensures that the Company maintains a focus on financial discipline, enabling us to invest in the future and deliver robust and sustainable performance for all of our stakeholders.

Whilst the Executive Directors have combined roles as Group Executive Directors and executives of the underlying water companies owned by the Group, in the interests of transparency, they continue to be incentivised under a single bonus structure. This ensures that there is an appropriate balance between Group measures and objectives directly linked to our regulated water businesses.

The table below provides further details on the annual bonus structure. As shown below, a significant portion of the bonus was linked to objectives relating to customer, communities and environmental measures.

	Link to strategy	Water business role	Group role
Customer & Operational (30% weighting)	➤ Focus on customer and operational measures assessed by Ofwat, our customers, communities and wider stakeholders.	☑	
ESG – Natural (6.7% weighting)	Support our commitment to provide environmental stewardship and to support our customers and local communities.	☑	
ESG – Social (6.7% weighting)	➤ Objectives include a number of elements which matter for our customers – including reduced carbon emissions, onsite water usage and diversity & inclusion.	☑	
ESG – Governance (6.7% weighting)		☑	☑
Financial (50% weighting)	➤ Underlying profit before tax is a key measure of the Group's financial performance and is one of our LPs. Overall financial stability enables us to continue to make sustainable capital investments which benefit our customers over the long term. Through the unique WaterShare+ scheme, customers have a direct interest which is aligned with our shareholders. They are therefore able to benefit directly from strong financial performance.	☑	☑

In recognition of the Executive Directors' broader roles, 70% of their remuneration is recharged to the individual water companies (50% to South West Water and 20% to Bristol Water) with the balance of 30% attributable to other Group activities including Pennon Water Services. In practice, this means that 87.5% of salary of the total opportunity is allocated to the water businesses and 37.5% of salary to the Group role.

For 2022/23, the detailed measures and corresponding outcomes are shown below:

Customer and operational measures – 30% weighting	Target	Actual outturn	Target achieved	Bonus outturn (% of element)
Measures				
Bathing water quality improvements	4 Cumulative	8 Cumulative	Yes	
Wastewater pollution incidents, per 10,000km sewer	23	62	No	
Internal sewer flooding, per 10,000 connections	1.58	0.68	Yes	
Sewer collapses per 1,000km	15.54	8.01	Yes	
Leakage (3-yr rolling average) SWW	113 Ml per day	113 Ml per day	Yes	
Leakage (3-yr rolling average) BRL	34.3 Ml per day	37 Ml per day	No	
Environment Agency EPA ¹	3 star	2 star	No	
CRI Water Quality Score SWW ¹	2	2.4	No	
CRI Water Quality Score BRL ¹	1.5	4.6	No	
Interruptions to supply per property SWW	5 mins 45 seconds	8 mins 42 seconds	No	
Interruptions to supply per property BRL	5 mins 45 seconds	8 mins 03 seconds	No	36.4%

1. Awaiting regulator confirmation in July 2023

ESG Measures – 20% Weighting

	Target	Actual outturn	Target achieved	Bonus outturn (% of element)
Measures				
Reduce carbon emissions in support of our Net Zero strategy by 2030	65%	65%	Yes	
Increase renewable generation	7%	6.89%	No	
Reduce onsite water usage	5 Ml/d	6.13 Ml/d	Yes	
Great Place to Work accreditation	Maintain	Maintained	Yes	
Reduce Lost time injuries	22 (18% reduction)	28 (12% reduction)	No	
FTSE Women Leaders Review position (Hampton Alexander)	20th	14th	Yes	
Achieve a Sustainalytics ESG	75	80	Yes	
New debt through Sustainable Financing Framework	60% of new debt	100% of new debt	Yes	
Fair Tax Accreditation	Maintain	Maintained	Yes	77.8%

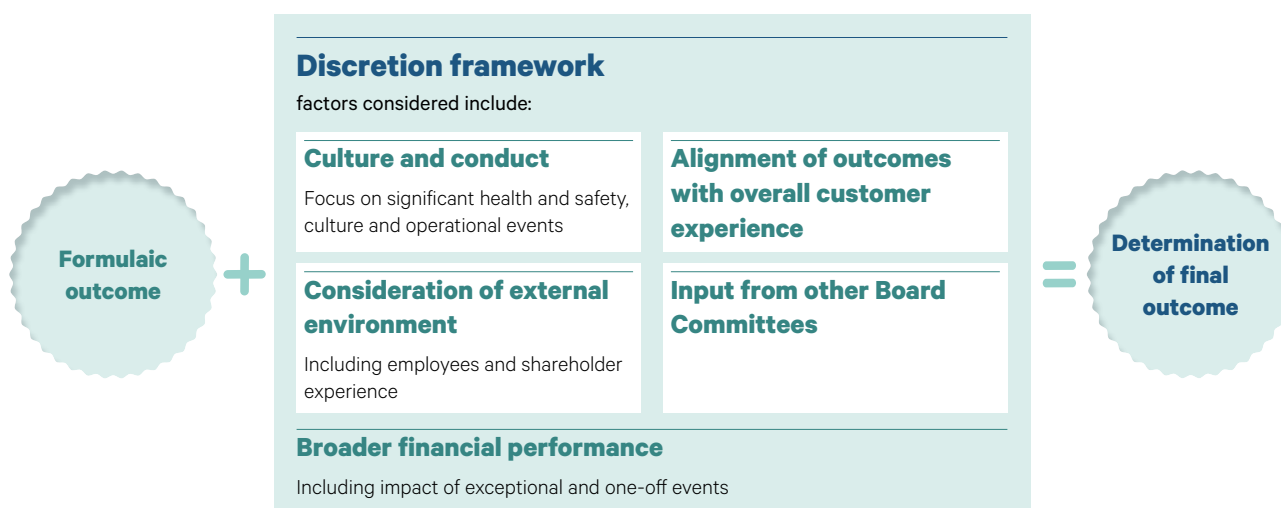
Group financial measures – 50% weighting

Financial performance for the bonus was based on underlying profit before tax. The outcomes for the year predominantly reflects the impact of the exceptional inflationary environment on finance costs. EBITDA for the year was £307.8m.

Measure	Threshold (£m)	Target (£m)	Maximum (£m)	Actual outturn (£m)	Bonus outturn (% of element)
Underlying PBT (50% weighting)	97.7	99.7	104.7	16.8	0 %

Assessment of overall performance

Each year, the Remuneration Committee undertakes a holistic review of performance to consider whether formulaic outcomes are appropriate in the context of overall performance. In line with best practice, the formal review process considers the following factors before approving outcomes for incentive arrangements.



For 2022/23, the Committee reviewed the formulaic outcome of the annual bonus against the various perspectives set out above. The Committee noted that there has been a drive to improve our underlying EPA performance, with a c.30% reduction in pollution incidents during 2022. There has been a similar reduction in the releases from storm overflows and our water resilience initiatives have continued to progress well. While targets had not been achieved in certain areas, this was reflected in the scorecard outcomes. Performance against our customer and operational and ESG elements were therefore considered to be appropriate.

While the formulaic outcome for the financial element reflected the external inflationary environment, the overall financial results were robust as reflected in delivery of operating profit of £153.1 million and Group Return on Regulated Equity of 10.5% for 2022/23 (South West Water 11.1%, Bristol Water 4.6%).

Taking into account the factors set out above, the Committee were satisfied that the bonus outcome fairly reflected underlying performance over the financial year. As noted above the CEO did not receive a bonus in respect of the year.

Bonus outturn

	Weighting	Bonus outturn	
		CEO	CFO
Customer & Operational measures	30%	10.9%	10.9%
ESG measures	20%	15.6%	15.6%
Financial measures	50%	0%	0%
Formulaic outturn	% of maximum	100%	26.5%
	£000	£157k	£102k
Actual outturn		Nil	£102k

One half of the bonus paid to the Chief Financial Officer will be deferred into shares for three years. Malus and clawback provisions apply in relation to the bonus awards in respect of the year.

Long-term incentive outturn for 2022/23

The awards in the single figure table relate to the LTIP awards granted on 3 August 2020 which are due to vest on 2 August 2023. These share awards were subject to performance targets relating to earnings per share (EPS), sustainable dividends and return on capital employed (RoCE).

The table below provides an overview of performance against the targets set:

Measures	Threshold (25% of maximum)	Maximum (100% of maximum)	Achievement	Outcome (% of maximum)
EPS (40% of award)	30.8p	32.6p	7.3p	0%
Sustainable dividend measure (40% of award)	2.6x	3.6x	3.4x	34%
RoCE (20% of award)	8%	10%	8.8%	11%
			Overall vesting outcome	45%
			CEO's award	Forgone

1. Average of opening and closing capital employed.
2. For below-threshold performance for any of the performance conditions, 0% vests in respect of that performance condition.
3. Straight-line vesting between points.

Assessment of overall performance

Vesting of the award is subject to an 'underpin' relating to overall Group performance. Consistent with prior years and in line with industry best practice, the Committee utilises a structured discretion framework to support this review which considers performance from number of different perspectives. This review is intended to ensure vesting outcomes are justified based on an in-the-round assessment of performance.

For the 2020 LTIP, the following factors were noted:

- Substantial capital investment into future infrastructure to improve service quality – capital investment programme of c.£358 million, with investment in FY23 seeing a record increase of c.49% compared to the prior year.
- Supporting our customers –over £85 million customer benefits delivered over the regulatory period to date.
- Service delivery despite climate challenges – responding to record demand for water as a result of the driest, hottest year on record across the region.
- Sharing success – the second phase of our innovative WaterShare+ scheme was launched in November 2022, and almost 90,000 households have benefited from this scheme since launch.
- Water quality – continued progress but scope for improvement towards stretching goals.

As part of the review, the Remuneration Committee was mindful of recent Ofwat guidance for incentive awards to have a clearer link to customer, community and environmental objectives. The 2020 LTIP award was the final LTIP scheme to be based solely on financial performance. Since 2021, LTIP awards have included targets relating to customer performance, and as noted on page 154, for the 2023 LTIP grant a water quality measure has also been introduced. Further reassurance was provided by the fact the vesting outcome would have remained broadly similar if the targets for the 2023 LTIP had been retrospectively applied to the 2020 award.

Based on the factors set out above, and the strategic progress made by the Group, the Committee was satisfied that the vesting outcome of 45% of maximum represented a fair reflection of overall Group performance over the last three years. The grant price for this award was substantially higher than the price used the awards granted in the prior year, due to the market's positive response to the completion of the sale of Viridor in 2020. Therefore an adjustment for potential windfall gains was not deemed to be necessary.

The CFO's vested awards will remain subject a two-year holding period and will remain subject to malus and clawback provisions. As noted above the CEO has waived her right to this award.

Retirement benefits and entitlements (audited information)

Details of the Directors' pension entitlements and pension-related benefits during the year are as follows. Effective from 1 August 2020, the maximum pension contribution made by the Company is 10% of salary.

	Company contributions to defined contribution arrangements (£000)	Cash allowances in lieu of pension (£000)	Total value for the year (£000)	Age and date of retirement (for pension purposes)
Susan Davy	4	44	48	65 (17 May 2034)
Paul Boote	–	31	31	65 (29 June 2043)

Susan Davy received an overall pension benefit from the Company equivalent to 10% of her salary for the period 1 April 2022 to 31 March 2023. For 2022/23 this comprised an employer's contribution of £4,000 and a cash sum of £43,500. She is a member of Pennon Group's defined contribution pension arrangements and is entitled to access the retirement fund in the Master Trust from age 55.

The employer's contribution to the pension for Susan Davy is deducted from the overall pension allowance.

Paul Boote received a pension contribution of 10% of his salary. This is paid as a cash allowance of £30,900. He makes personal contributions to the Group's Defined Contribution pension scheme and is entitled to access the retirement fund in the Master Trust from age 55.

No additional benefits will become receivable by a Director if the Director retires early.

Non-Executive Directors' remuneration

Single figure of remuneration (audited)

	2022/23			2021/22		
	Fees (£000)	Taxable benefits (£000)	Total fees (£000)	Fees (£000)	Taxable benefits (£000)	Total fees (£000)
Gill Rider	232	0	232	225	0	225
Neil Cooper	88	0	88	86	0	86
Iain Evans	76	0	76	74	0	74
Claire Ighodaro	76	0	76	74	0	74
Jon Butterworth	68	0	68	66	0	66
Lorraine Woodhouse ¹	23	0	23	-	-	-
Dorothy Burwell	21	0	21	-	-	-

1. A payment of £2,600 was made to Lorraine Woodhouse in respect of attendance at the November Board meeting prior to commencement of her service agreement on 1 December 2022.

Non-Executive Directors' fees and benefits

During the year, the fees for Non-Executive Directors and Chair were reviewed and increased with effect from 1 April 2023. Fees were increased by 3.5%, which is below the average increase awarded to the wider workforce which ranged between 4.6% and 9.2% depending on pay level. The table below sets out the fee structure in full.

Non-Executive Director fees

Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Group's strategy.

	From 1 April 2023	From 1 April 2022
Chair fee¹	£239,860	£231,750
Basic Non-Executive Director fee	£64,550	£62,365
Additional fees		
Senior Independent Director	£10,660	£10,300
Chair of Audit Committee	£15,990	£15,450
Chair of Remuneration Committee	£13,870	£13,400
Chair of ESG Committee	£13,970	£13,400
Chair of Health and Safety Committee	£5,330	£5,150

1. When appropriate for the efficient carrying out of her duties, the Chair is provided with a driver and a vehicle. She is entitled to expenses on the same basis as for other Non-Executive Directors.

Directors' service contracts and letters of appointment

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown below.

Executive Directors	Date of appointment	Notice period
Susan Davy	31 July 2020	12 months
Paul Boote	8 July 2020	12 months

A previous service contract dated 1 February 2015 was held by Susan Davy in respect of her appointment as Chief Financial Officer.

Non-Executive Directors	Date of initial letter of appointment	Expiry date of appointment
Gill Rider	22 June 2012	31 August 2024 ¹
Neil Cooper	17 July 2014	31 August 2023
Iain Evans	16 June 2018	31 August 2024
Claire Ighodaro	1 September 2019	31 August 2025
Jon Butterworth	1 August 2020	31 July 2023
Lorraine Woodhouse	1 December 2022	30 November 2025
Dorothy Burwell	1 December 2022	30 November 2025

1. Gill Rider was appointed as Chair of the Board as of 31 July 2020 and as such is providing ongoing strategic support and continuity of the Board until 2024.

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side. The contract has a normal retirement age of 67, except where otherwise agreed by both the Executive Director and the Company.

The policy is for Non-Executive Directors' letters of appointment to contain a three-month notice period from either side. All Non-Executive Directors are subject to annual re-election and letters of appointment are for an initial three-year term.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown above.

Outside appointments

Executive Directors may accept one board appointment in another company. Board approval must be sought before accepting an appointment.

Fees may be retained by the Director. Susan Davy remained a non-executive director of Restore plc throughout 2022/23. No other outside company appointments are held by the Executive Directors other than with industry bodies or governmental or quasi-governmental agencies.

Additional contextual information

Historical TSR

The graph below shows the value, over the 10-year period ended on 31 March 2023, of £100 invested in Pennon Group on 1 April 2013 compared with the value of £100 invested in the FTSE 250 Index. The FTSE 250 Index is a broad equity market index of which the Company was a constituent until the end of the period.

Total shareholder return – since April 2013



Historical Chief Executive Officer remuneration

As the Company did not have a Chief Executive Officer until 1 January 2016, the table below provides historical single figure information in the form of the average remuneration of the Executive Directors for years up to and including 2014/15. Their remuneration was considered to be the most appropriate to use as they were the most senior executives in the Company.

From 2015/16 onwards the Chief Executive Officer's remuneration for the year is shown.

	2013/14	2014/15	2015/16 ¹	2016/17	2017/18	2018/19	2019/20	2020/21 ²	2020/21 ²	2021/22	2022/23 ³
	Average Executive Director	Average Executive Director	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Susan Davy	Susan Davy	Susan Davy
Single figure of remuneration (£000)	962	762	1,119	1,318	1,153	1,351	2,135	1,337	1,930	1,527	543
Annual bonus pay-out (% of maximum)	67.6	68.2	84.0	84.0	87.0	91.0	78.0	79.2	78.1	30.7	0.0
LTIP vesting (% of maximum)	30.2	0.0	37.9	20.4	0.0	32.0	86.6	89.9	89.9	88.2	0.0

- Group Chief Executive Officer for the year, including remuneration received between 1 April 2015 and 31 December 2015 when in position as Chief Executive of South West Water.
- Chris Loughlin stepped down as Chief Executive Officer on 31 July 2020 and was succeeded by Susan Davy. Consistent with the single figure, the figures for Susan Davy relate to the whole of 2020/21, including the portion of the year when she was Chief Financial Officer. The LTIP award for Chris Loughlin was pro-rated to reflect service within the performance period.
- For 2022/23, Susan Davy recommended that her bonus and 2020 LTIP were forgone. An equivalent value is to be diverted into a future issuance under the Company's WaterShare+ scheme. Further detail is provided on page 142.

Percentage change in Directors' remuneration

The table below shows the annual percentage change in base salary, benefits and annual bonus of all Directors, including both Executive Directors and Non-Executive Directors, and all employees over the three financial years to 31 March 2023.

As Pennon Group plc has a relatively small number of employees, we have also shown below the percentage change against our UK employees. For comparison purposes, this is considered to be a more relevant peer group than the Pennon Group plc entity.

	Percentage change in salary /fees 2020/21	Percentage change in benefits 2020/21	Percentage change in annual bonus 2020/21	Percentage change in salary/fees 2021/22	Percentage change in benefits 2021/22	Percentage change in annual bonus 2021/22	Percentage change in salary/fees 2022/23	Percentage ³ change in benefits 2022/23	Percentage change in annual bonus 2022/23
Executive Directors									
Susan Davy	10.7%	0%	34.8%	4.2%	-23.0%	-58.4%	0%	-27%	-100%
Paul Boote	-	-	-	36.9%	27.0%	-44.7%	3.0%	-6%	-11.3%
Non-Executive Directors									
Gill Rider ¹	126%	0%	-	27.8%	-	-	3.0%	-	-
Neil Cooper ¹	16%	0%	-	7.5%	-	-	3.0%	-	-
Iain Evans ¹	4%	0%	-	1.4%	-	-	3.0%	-	-
Claire Ighodaro ¹	97%	0%	-	8.8%	-	-	3.0%	-	-
Jon Butterworth ¹	-	0%	-	34.7%	-	-	3.0%	-	-
Loraine Woodhouse ²	-	-	-	-	-	-	n/a	-	-
Dorothy Burwell ²	-	-	-	-	-	-	n/a	-	-
All employees									
Pennon Group plc	-11.8%	3.1%	10.7%	2.8%	-27.8%	-10.9%	4.2%	-30.4%	-73.5%
UK employees	1.22%	5.7%	17.8%	2.0%	-19.5%	-14.3%	3.9%	-20.3%	-45.4%

1. In July 2020, there were a number of changes to the composition of the Board and the Committees which has impacted the year-on-year percentage changes for 2020/21 and 2021/22. This includes the Chief Executive Officer and Group Chief Financial Officer who were appointed to their roles on 31 July 2020 and 8 July 2020 respectively. The Chief Executive Officer was previously in role as Chief Finance Officer. Full detail on these changes has been provided in the 2022 Directors' Remuneration Report.

2. Loraine Woodhouse and Dorothy Burwell were appointed to the Board 1 December 2022.

3. The percentage change in benefits is attributed to a reduction in the cost of vehicle leasing costs and reduced cost in healthcare premium.

Relative importance of spend on pay

	2022/23 (£ million)	2021/22 (£ million)	Percentage change
Overall expenditure on pay ^{1,2}	98.9	90.4	9.4%
Distributions to ordinary shareholders	101.5	91.8	10.6%
Purchase of property, plant, and equipment (cash flow)	323.3	240.1	34.7%

1. Excludes non-underlying items.

2. Relates to continuing Group including Bristol Water.

The above table illustrates the relative importance of spend on pay compared with distributions to equity holders. The purchase of property, plant, and equipment (cash flow) has also been included as this was the most significant outgoing for the Company in the past financial year. Where relevant the numbers have been provided for the continuing Group to enable year on year comparability.

Chief Executive Officer pay ratio

Our CEO pay ratio stands at 16:1 for the median employee. This is considerably lower than the ratio in preceding years. This is predominantly due to the decision by the CEO to forgo her 2020 LTIP and the 2022/23 annual bonus award. Had the variable pay elements been paid to the CEO the ratio would have stood at 28:1.

Year	Method	25th percentile (P25) pay ratio	Median (P50) pay ratio	75th percentile (P75) pay ratio
2022/23 ¹ actual outcomes	A	20:1	16:1	12:1
2022/23 ² formulaic outcomes	A	36:1	28:1	21:1
2021/22	A	59:1	44:1	36:1
2020/21 ³	A	95:1	69:1	55:1
2019/20	A	87:1	68:1	50:1

1. For 2022/23, the CEO recommended that her bonus and 2020 LTIP award were forgone. An amount of the equivalent value is to be diverted into a future issuance under the Company's WaterShare+ scheme. The CEO pay ratio for this year therefore does not include any variable incentive pay.

2. This shows the values for 2022/23 had the CEO accepted her variable incentive pay awards.

3. The CEO ratio for 2021/22 is lower than previous years, partially due to the lower salary and pension benefit received by Susan Davy, compared to her predecessor. The total single figure used in the ratio in 2020/21 was a combined total single figure pro-rated to reflect the change in CEO mid-year.

Option A has been used for the calculations as per the disclosure regulations. The employees at the lower quartile, median and upper quartile (P25, P50 and P75 respectively) have been determined based on a calculation of total remuneration for the financial year 1 April 2022 to 31 March 2023.

Base salary for part-time employees and new joiners within the applicable period has been converted to full-time equivalents for the purpose of the calculations.

Estimated values for employee P11D data have been used to establish the ordering of employees, given the timing of publication. This will be validated and amended in due course to account for any variances.

The validated P11D data and restated total single figure for the CEO for 2021/22 led to a small adjustment in the published ratios for P25, P50 or P75, leading to a revised ratio at median of 44:1 and reducing the ratio at P25 to 59:1.

For 2022/23 the total remuneration for the employees identified at P25, P50 and P75 is £27,035, £34,871 and £45,909 respectively. The base salary of 2022/23 for the employees identified at P25, P50 and P75 is £24,835, £31,244 and £37,223 respectively.

As the Committee spends a considerable amount of time on matters relating to remuneration arrangements for the wider workforce, we are comfortable that the median pay ratio is consistent with our wider policies on pay, reward and progression and reward for the Group as a whole. In a normal year, a greater proportion of the CEO's remuneration would be made up of the variable pay from their bonus and LTIP award. This year as the CEO has forgone her variable pay award, the value of total remuneration is considerably lower.

Share awards and shareholding disclosures (audited information)

Share awards granted during 2022/23

The table below sets out details of share awards made in the year to Executive Directors.

Executive Director	Type of interest	Basis of award	Face value £000	Percentage vesting at threshold performance	Performance/restricted period end date
Susan Davy	LTIP	150% of salary	713	25% of maximum	12 June 2025
Paul Boote			463		
Susan Davy	Deferred bonus	50% of bonus awarded	91	n/a	18 July 2025
Paul Boote			58		

LTIP awards were calculated using the share price of £10.376 being the average closing price over the five dealing days preceding the date of grant, which was 13 June 2022. LTIP awards are also subject to an additional two-year holding period. Deferred bonus awards were calculated using the average share price at which shares were purchased on the market on 19 July 2022 to satisfy the award, which was £9.8794.

Directors' shareholding and interest in shares

The Remuneration Committee believes that the interests of Executive Directors and senior management should be closely aligned with the interests of shareholders.

To support this the Committee operates shareholding guidelines of 200% of salary for both the Chief Executive Officer and Group Finance Director. Deferred bonuses and LTIP awards subject to a holding period only may count towards the guidelines on a net-of-tax basis. Shareholding requirements are noted on page 137.

The beneficial interests of the Executive Directors in the ordinary shares (61.05p each) of the Company as at 31 March 2023 and 31 March 2022 together with their shareholding guideline obligation and interest are shown in the table below.

	Share interests (including connected parties) at 31 March 2023	Share interests (including connected parties) at 31 March 2022	Vested LTIP awards in holding period ¹	Deferred bonus shares ¹	SAYE	Performance shares (subject to performance conditions)	Shareholding guideline	Shareholding guideline met?
Susan Davy	132,887	77,486	159,869	31,901	2,047	194,936	200%	Yes
Paul Boote ²	29,554	13,571	36,885	16,160	2,047	126,098	200%	No

1. These shares awards are not subject to further performance criteria and may therefore count towards the guideline on a net-of-tax basis.

2. Paul Boote was appointed on 8 July 2020. It is therefore expected that his shareholding will be built up over the course of his tenure.

Since 31 March 2023, 97 and 66 additional ordinary shares in the Company have been acquired by Susan Davy and Paul Boote respectively as a result of their direct participation in the Company's Share Incentive Plan and reinvestment of dividends under that Plan via the Dividend Reinvestment Plan (DRIP). There have been no other changes in the beneficial or non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2023 and 1 June 2023.

Non-Executive Directors' shareholding

The beneficial interests of the Non-Executive Directors, including the beneficial interests of their spouses, civil partners, children, and stepchildren, in the ordinary shares of the Company are shown in the table below.

Director	Shares held at 31 March 2023	Shares held at 31 March 2022
Gill Rider	2,407	2,407
Neil Cooper	-	-
Iain Evans	-	-
Claire Ighodaro	-	-
Jon Butterworth	-	-
Loraine Woodhouse	-	-
Dorothy Burwell	-	-

There have been no changes in the beneficial interests or the non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2023 and 1 June 2023.

There is no formal shareholding guideline for the Non-Executive Directors; however, they are encouraged to purchase shares in the Company.

Shareholder dilution

The Company can satisfy awards under its share plans with new issue shares or shares issued from treasury up to a maximum of 10% of its issued share capital in a rolling 10-year period to employees under its share plans. Within this 10% limit the Company can only issue (as newly issued shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans. The percentage of shares awarded within these guidelines and the headroom remaining available as at 1 June 2023 is as set out below:

	Awarded	Headroom	Total
Discretionary schemes	1.5%	3.5%	5%
All schemes	4.7%	5.3%	10%

Details of share awards

(a) Long-term incentive plan

In addition to the above beneficial interests, the following Directors have or had a contingent interest in the number of ordinary shares (of nominal value of 61.05p each) of the Company shown below, representing the maximum number of shares to which they would become entitled under the plan should the relevant criteria be met in full. In 2021 ordinary shares were consolidated at a ratio of 3:2 following the payment of a special dividend to shareholders. For simplicity, outstanding LTIP awards did not accrue an entitlement to the special dividend and were therefore unaffected by the consolidation.

Director and date of award	Vested awards held at 1 April 2022 ^{1,2}	Conditional awards held at 1 April 2022	Conditional awards made in year	Market price upon award year	Vesting in year ³	Value of shares upon vesting (before tax) 2022	Vested awards held at 31 March 2023 ⁴	Vested awards released in year ⁵	Conditional awards held at 31 March 2023	Date of end qualifying conditions to be fulfilled	Expected date of release
Susan Davy⁶											
25/08/17	74,045	-	-	802.70p	-	747	-	78,747	-	24/08/20	24/08/22
02/07/18	78,875	-	-	790.12p	-	928	78,875	-	-	01/07/21	01/07/23
04/07/19	-	82,062	-	752.72p	80,994	786	80,994	-	-	03/07/22	03/07/24
03/08/20	-	63,812	-	1071.90p	-	-	-	-	63,812	02/08/23	02/08/25
01/07/21	-	62,456	-	1140.80p	-	-	-	-	62,456	30/06/24	30/06/26
13/06/22	-	-	68,668	1037.60p	-	-	-	-	68,668	12/06/25	12/06/27
Paul Boote⁷											
25/08/17	15,961	-	-	802.70p	-	161	-	16,974	-	24/08/20	24/08/22
02/07/18	20,836	-	-	790.12p	-	245	20,836	-	-	01/07/21	01/07/23
04/07/19	-	16,261	-	752.72p	16,049	156	16,049	-	-	03/07/22	03/07/24
03/08/20	-	41,982	-	1071.90p	-	-	-	-	41,982	02/08/23	02/08/25
01/07/21	-	39,446	-	1140.80p	-	-	-	-	39,446	30/06/24	30/06/26
13/06/22	-	-	44,670	1037.60p	-	-	-	-	44,670	12/06/25	12/06/27

1. 86.6% of the awards granted on 25 August 2017 vested on 24 August 2020 at a market price of £10.085 per share.

2. 89.9% of the awards shares granted on 2 July 2018 vested on 1 July 2021 at a market price of £11.7698 per share.

3. 88.2% of the awards granted on 4 July 2019 vested on 3 July 2022 at a market price of £9.705 per share.

In respect of (1), (2) and (3) above, the total number of shares that vested included additional shares equivalent in value to such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on the vested shares during the three-year performance period. The balance of the award lapsed.

4. Vested award; no longer subject to performance conditions.

5. Awards released in year at a market price of £9.8717 per share, inclusive of additional shares equivalent in value to such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on the vested shares during the two-year holding period.

6. Following year-end, the CEO recommended that her 2020 LTIP award was forgone.

7. Paul Boote's LTIP awards include those he received in his previous position as Director of Treasury, Tax and Group Finance, in which he will retain an interest following his appointment to the Board as Group Finance Director on 8 July 2020.

(b) Annual incentive bonus plan – deferred bonus shares (long-term incentive element)

The following Directors had or have a contingent interest in the number of ordinary shares of the Company shown below, representing the total number of shares to which they have or would become entitled under the deferred bonus element of the Annual Incentive Bonus Plan (the bonus plan) at the end of the relevant restricted period:

Director and date of award	Restricted awards held at 1 April 2022	Restricted awards made in year	Market price of each share upon award in year	Restricted awards post-share consolidation (restated) ¹	Released in year ²	Value of shares upon release (before tax) £000	Restricted awards held at 31 March 2023	Date of end of restricted period
Susan Davy								
24/07/19	24,449	-	755.5386p	16,299	16,299	160	-	-
14/07/20	15,011	-	1079.47p	10,007	-	-	10,007	13/07/23
30/06/21	18,993	-	1150.45p	12,661	-	-	12,661	29/06/24
19/07/22	-	9,233	987.94p	-	-	-	9,233	18/07/25
Paul Boote³								
24/07/19	9,033	-	755.5386p	6,021	6,021	59	-	-
14/07/20	5,026	-	1079.47p	3,350	-	-	3,350	13/07/23
30/06/21	10,469	-	1150.45p	6,979	-	-	6,979	29/06/24
19/07/22	-	5,831	987.94p	-	-	-	5,831	18/07/25

1. All shares held under the AIBP at the 5 July 2021, were adjusted on that date to reflect the share consolidation activity at a ratio of 3:2 into shares of 61.05p each.

2. These shares were released on 23 July 2022 at 979.75p per share.

3. Paul Boote's deferred bonus share awards include those he received in his previous position as Director of Treasury, Tax and Group Finance, in which he will retain an interest following his appointment as Group Finance Director on 8 July 2020.

During the year, the Directors received dividends on the above shares in accordance with the conditions of the bonus plan as follows: Susan Davy £17,491; Paul Boote £7,864.

(c) Sharesave Scheme

Details of options to subscribe for ordinary shares (61.05p each) of the Company under the all-employee Sharesave Scheme were:

Market value

Date of award	Options held at 1 April 2022	Granted in year	Exercised in year	Exercise price per share	Market price of each share on exercising	Market value of each share at 31 March 2023	Options held at 31 March 2023	Exercise period/ maturity date
Susan Davy								
06/07/21	2,047	–	–	879.00p	–	874.0p	2,047	01/09/24–28/02/25
Paul Boote								
06/07/21	2,047	–	–	879.00p	–	874.0p	2,047	01/09/24–28/02/25

The Remuneration Committee and its advisors

Claire Ighodaro and Neil Cooper were members of the Remuneration Committee throughout the year. Loraine Woodhouse and Dorothy Burwell joined the Committee on their appointment to the Board on 1 December. Gill Rider, Iain Evans, and Jon Butterworth stepped down from the Committee on the 31 January 2023, and now attend by invitation as required. During the year, the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from Adele Barker (Group Chief People Officer) and from Deloitte LLP.

During 2018/19, Deloitte LLP was reappointed directly by the Committee with a refreshed advisory team, following a comprehensive re-tendering process. Deloitte LLP's fees in respect of advice which materially assisted the Committee during 2022/23 were £120,975 (arrived at from an hourly rate basis of charging). During the year, Deloitte LLP also provided broader reward services to the Group. Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte LLP has been objective and independent.

Statement of voting at general meeting

The table below sets out the voting by the Company's shareholders on the resolutions to approve the Directors' remuneration report at the 2022 AGM and the remuneration policy at the 2020 AGM, including votes for, against and withheld.

Annual report on remuneration (2022 AGM)	
For % (including votes at the Chair's discretion)	98.34
Against %	1.66
Withheld number	10,730,076
Remuneration policy (2020 AGM)	
For % (including votes at the Chair's discretion)	91.50
Against %	8.50
Withheld number	407,344

A vote withheld is not counted in the calculation of the proportion of votes for and against a resolution.

Directors' remuneration report compliance

This Directors' remuneration report has been prepared in accordance with the provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It also complies with the requirements of the Financial Conduct Authority's Listing Rules and the Disclosure and Transparency Rules. The UK Corporate Governance Code also sets out principles of good governance relating to directors' remuneration, and this report describes how these principles are applied in practice. The Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions. The above regulations also require the external auditor to report to shareholders on the audited information within the annual report on remuneration which is part of the Directors' remuneration report. The external auditor is obliged to state whether, in its opinion, the relevant sections have been prepared in accordance with the Companies Act 2006.

The external auditor's opinion is set out on page 162 and the audited sections of the annual report on remuneration are identified in this report.

On behalf of the Board



Claire Ighodaro CBE

Chair of the Remuneration Committee

31 May 2023

Remuneration policy 2023

Introduction

The previous Directors' Remuneration Policy was approved by shareholders at the 2020 AGM on 31 July 2020. Under the normal three-year renewal cycle, a new Remuneration Policy, as described in this part of the report, will be presented to shareholders for approval at the 2023 AGM on 20 July 2023, and if approved will come into effect from this date.

The Directors' Remuneration Policy will be displayed on the Company's website at www.pennon-group.co.uk/investor-information, immediately after the 2023 AGM and will be available upon request from the Group Company Secretary.

Changes to remuneration policy

During the year, the Committee carefully considered the Director's remuneration policy for 2023, reflecting on its' purpose to incentivise performance, reward excellence and attract and retain Executive Directors. The current pay structure remains relatively conventional (i.e. bonus plus performance-based LTIP) and reflects mainstream FTSE market and best practice. Overall remuneration is modestly positioned against FTSE 250 peers and maximum incentive opportunities will remain unchanged under the proposed Policy.

As part of the Policy review, the Committee reflected on the expectations of Ofwat and shareholder input. Consideration was also given to the principles of clarity, simplicity, risk-management, predictability, proportionality and alignment to culture (see page 141 for further details). Input was sought from the management team, while ensuring that conflicts of interests were suitably mitigated.

In light of the quickly evolving external environment, and in particular the time-frame for submission of business plans for the next regulatory review cycle which are due to Ofwat in October 2023, the Committee determined that no major changes to our pay model should be proposed at this stage. The Policy set out on the following pages has therefore largely been rolled-forward from the previous Policy. Minor changes have been made to refine language in line with evolving market and best practice and to aid the operation of the Policy.

Following the 2023 AGM, the Committee intends to undertake a more comprehensive review of our pay structure. This review will take into account our strategic priorities, the upcoming price review and evolving best practice guidance. To the extent that further changes to the remuneration structure for Executive Directors are proposed, the Committee will suitably engage with our major stakeholders and seek relevant approvals as appropriate.

Future policy table – Executive Directors

The table below sets out the elements of the remuneration package for the Executive Directors.

Fixed pay	
Base salary	
Purpose and link to strategy	Set at a competitive level to attract and retain high calibre candidates to meet the Company's strategic objectives in an increasingly complex business environment. Base salary reflects the scope and responsibility of the role as well as the skills and experience of the individual.
Operation	Salaries are generally reviewed annually and any changes are normally effective from 1 April each year. In normal circumstances, salary increases will not be materially different to general employee pay increases. However, the Committee reserves the right to make increases above those made to general employees, for example in circumstances including (but not limited to) an increase in the scope of the role, or to reflect an individual's development in a role.
Maximum	When reviewing salaries the Committee has regard to the following factors: <ul style="list-style-type: none"> • Salary increases generally for all employees in the Company and the Group. • Market rates. • Performance of individual and the Company and/or development in the role. • Other factors it considers relevant. <p>There is no overall maximum.</p>
Performance framework	None, although individual and Company performance are factors considered when reviewing salaries.
Benefits	
Purpose and link to strategy	Benefits provided are consistent with the market and level of seniority to aid retention of key skills to assist in meeting strategic objectives.
Operation	Benefits currently include the provision of a company vehicle, fuel, health insurance and life assurance. Other benefits may be provided if the Committee considers it appropriate. In the event that an Executive Director is required to relocate, relocation benefits may be provided.
Maximum	The cost of insurance benefits may vary from year to year depending on the individual's circumstances. There is no overall maximum benefit value but the Committee aims to ensure that the total value of benefits remain proportionate.
Performance framework	None.
Pension-related benefits	
Purpose and link to strategy	Provides funding for retirement and aids retention of key skills to assist in meeting the Company's strategic objectives.
Operation	The Executives are eligible to participate in the Pennon Group Defined Contribution Scheme at the same level of benefit as the wider workforce. A cash allowance may be provided as an alternative and/or in addition where pension limits have been reached.
Maximum	The maximum pension benefit will normally be capped at a level comparable to the pension benefit available to the majority of employees. This is currently 10% of salary.
Performance framework	None.

Remuneration policy 2023 continued

All-employee share plans

Purpose and link to strategy	Align the interests of all employees with Company share performance.
Operation	Executive Directors may participate in all-employee plans, including HMRC approved plans, on the same basis as employees.
Maximum	The maximum will be consistent with other employees. For HMRC approved plans, the maximum will be as prescribed under the relevant legislation governing the plans.
Performance framework	None.

Variable pay

Annual bonus	
Purpose and link to strategy	Incentivises the achievement of annual performance objectives aligned to the strategy of the Company.
Operation	Annual bonuses are calculated following finalisation of the financial results for the year to which they relate. A portion of any bonus is deferred into shares in the Company which are normally released after three years. Normally 50% is deferred. Dividends (or equivalents) may be paid/accrued on deferred shares. Awards are subject to malus and clawback provisions. Further details are set out on page 154.
Maximum	The maximum bonus potential is 125% of base salary.
Performance framework	Performance targets may relate to financial, operational, strategic and environmental objectives, which are reviewed each year. Performance criteria will reflect strategic priorities and regulatory requirements. The level of payment for threshold performance will vary depending on the nature of the metric and the stretch of the target set. There is normally scaled payment for performance between the threshold and maximum performance hurdle. The measures, weighting and threshold levels may be adjusted for future years. Following the financial year end the Committee, with advice from the Chair of the Board and following appropriate input from other Board Committees, assesses the extent to which targets are met and determines bonus levels accordingly. The Committee may exercise its discretion in certain circumstances; further details are set out on page 154.

Long-term incentive plan (LTIP)

Purpose and link to strategy	Provides alignment to the achievement of the Company's strategic objectives and the delivery of sustainable long-term value to shareholders.
Operation	Annual grant of conditional shares (or equivalent). Share awards vest subject to the achievement of specific performance conditions normally measured over a performance period of no less than three years. In addition, a two-year holding period will apply in respect of any shares which vest at the end of the three-year performance period. Dividends (or equivalents) may accrue on share awards that vest. Awards are subject to malus and clawback provisions. Further details are set out on page 154.
Maximum	The maximum annual award is 150% of base salary.
Performance framework	Performance metrics and targets are set to reflect the long-term strategic priorities of the Group. Performance criteria are linked to our long-term strategy and may include a combination of financial, operational and/or shareholder-related measures. An 'underpin' applies which allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying performance of the Company. No more than 25% of maximum vests for minimum performance. The Committee will keep the performance measures and weightings under review and may change the performance condition for future awards if this were considered to be aligned with the Company's interests and strategic objectives, as well as the impact of regulatory changes. In certain circumstances, the Committee may exercise its discretion and adjust performance outcomes. Further details are set out on page 154. The Committee would seek to consult with major shareholders in advance of any proposed material change in performance measures.

Shareholding guidelines

Purpose and link to strategy	Create alignment between Executives and shareholders and promote long-term stewardship. During the course of their tenure, Executive Directors are expected to build up a shareholding equivalent to 200% of salary. Departing Executive Directors are also expected to retain a material interest in Company shares for two years after they step down from the Board. Executives will normally be expected to hold 200% of salary (or actual relevant holding, if lower) on departure, with the guideline reducing to 100% of salary after 12 months. This guideline will apply to all share awards vesting after the adoption of this remuneration policy.
Operation	The Committee retains discretion to waive this guideline in certain cases (e.g. compassionate circumstances).

Notes to the policy table

Performance measures and targets

There is a strong emphasis on performance related executive pay demonstrating a substantial link between rewards and delivery of stretching performance objectives. The performance conditions for the annual bonus and LTIP are selected by the Committee each year to provide a rounded assessment of performance including metrics which drive financial resilience and key performance indicators for customers, communities and the environment. These metrics are used by the Board to oversee the operation of the businesses.

In recent years, LTIP grants have been subject to targets linked to Return on Regulated Equity, sustainable dividends and customer performance. For 2023, we are proposing some refinement to ensure ongoing alignment with our strategic priorities by assessing performance against measures that drive long-term sustainable performance. A significant portion of the award will remain based on return on regulated equity, in recognition that this is a key measure for our shareholders and the regulator. The 2023 LTIP award will also be assessed against measures relating to customer experience and water quality and the environment. These measures have objectives linked to customer, communities and the environment and have been set with reference to our long-term strategic ambitions.

The Committee may amend performance measures, weightings and targets, in the context of the Company's strategy, the impact of changes to the regulatory framework, accounting standards and any other relevant factors.

The measurement of performance against performance targets and determination of incentive outcomes is at the Committee's discretion. Adjustments may be made to reflect underlying financial or non-financial performance of the individual or the Group, consideration of overall performance in the round, and/or circumstances unforeseen or unexpected when the targets were set. When making this judgement, the Committee may take into account all factors deemed relevant.

Performance conditions may also be replaced or varied if an event occurs or circumstances arise which cause the Committee to determine that the performance conditions have ceased to be appropriate. If the performance conditions are varied or replaced, the amended conditions must, in the opinion of the Committee, be fair, reasonable and materially no less difficult than the original condition when set.

The Committee would clearly disclose any material changes to performance measures, and seek shareholder views as appropriate.

Malus and clawback

Malus and clawback provisions apply to all incentive awards. These provisions enable awards to either be forfeited prior to delivery, repaid or made subject to further conditions where the Committee considers it appropriate in the event of any significant adverse circumstances. For awards granted under the term of this policy, the circumstances in which malus and clawback may be applied include a financial misstatement, error in calculation, material failure of risk management, serious reputational damage, serious corporate failure or misconduct. In respect of the annual bonus, clawback may be applied for the period of three years following determination of the cash bonus. Under the LTIP, clawback may be applied until the end of the holding period.

Discretion

In line with the 2018 Corporate Governance Code, the Remuneration Committee has ensured that they will maintain the ability to override the formulaic outcomes for future awards under the annual bonus and LTIP where the outcomes are not considered by the Committee to be appropriate (e.g., unreflective of underlying performance).

The Committee will disclose the use of any such discretion.

Operation of executive share plans

The long-term incentive plan will be operated in accordance with the rules of the plan as approved by shareholders. The deferred bonus awards will be governed by the rules adopted by the Board from time to time. Awards under any of the Company's share plans referred to in this report may:

- Be granted as conditional share awards, nil-cost options or in such other form that the Committee determines has the same economic effect
- Have any performance conditions applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy
- Incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vests. This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis
- Be settled in cash at the Committee's discretion (e.g. due to regulatory limitations).

On a change of control or voluntary wind up of the Company, LTIP awards may vest to the extent determined by the Committee having regard to the performance of the Company and, unless the Committee determines otherwise, the period of time that has elapsed since grant. Deferred bonus awards may vest in full. Alternatively, participants may have the opportunity, or be required, to exchange their awards for equivalent awards in another company, although the Committee may decide in these circumstances to amend the performance conditions.

The Committee also has the discretion to treat any variation of the Company's share capital or any demerger, special dividend or other transaction that may affect the current or future value of awards as an early vesting event on the same basis as a change of control.

Detailed provisions

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretion available in connection with such payments) outside the policy set out above where the terms of the payment were agreed (i) before the 2014 AGM (the date the Company's first shareholder-approved directors' remuneration policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

The Committee may make minor amendments to the policy (for example for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

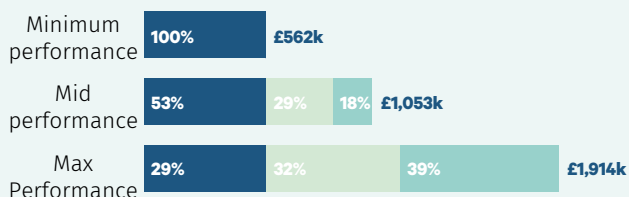
Differences in remuneration policy for all employees

When setting remuneration for Executive Directors the Committee considers relevant information about pay and conditions in the Group. Senior executives and Executive Directors generally receive a higher proportion of their total pay in the form of variable remuneration and share awards. All employees of the Group are entitled to base salary and pension provision including life assurance. In addition, all colleagues are entitled to participate in annual bonus arrangements, the levels of which are based on the seniority and level of responsibility. Long-term incentive share awards are only available to senior executives and Executive Directors, and certain benefits are generally available only to more senior employees at management level and above.

Illustration of applications of remuneration policy

Susan Davy

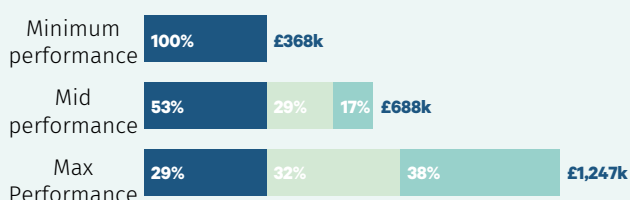
Chief Executive Officer



- Fixed remuneration
- Annual variable remuneration
- Long-term variable remuneration

Paul Boote

Chief Financial Officer



- Fixed remuneration
- Annual variable remuneration
- Long-term variable remuneration

Minimum Performance

Fixed pay, which constitutes base salary, pension-related benefits and benefits in kind. These values are made up of the salaries for 2023/24 and the benefits values as shown for 2022/23. The pension value is 10% of salary.

Mid Performance

Fixed pay and 50% of the maximum annual bonus and 25% of the maximum long-term incentive award.

Maximum Performance

Fixed pay and 100% vesting of the annual bonus and of long-term incentive awards.

No adjustments have been made for potential payment of dividends. Benefits from all-employee schemes have also been excluded.

As long-term share awards are granted in shares and subject to stretching performance criteria, the value of the award can vary significantly depending on the extent to which targets are achieved and the movement in the share price. For example, if the share price increased by 50% over the relevant vesting and holding period, the maximum values shown in the charts above would increase to £2,282k for the CEO and £1,487k for the CFO. Conversely if the share price was to fall by 50%, the maximum values shown in the charts above would reduce to £1,545k for the CEO and £1,007k for the CFO.

Future policy table – Non-Executive Directors

Purpose and link to strategy Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Group's strategy.

Fees

Operation	<p>Fees are set by the Board with the Non-Executive Chair's fees being set by the Committee. The relevant Directors are not present at the meetings when their fees are being determined.</p> <p>The Non-Executive Chair and Non-Executive Directors normally receive a basic fee and do not participate in any of the Company's incentive arrangements or receive pension-related benefits.</p> <p>Non-Executive Directors may receive an additional fee for any specific Board responsibility such as membership or chairmanship of a Committee or occupying the role of Senior Independent Director.</p> <p>In reviewing the fees, the Board, or Committee as appropriate, consider the level of fees payable to Non-Executive Directors in other companies of similar scale and complexity.</p>
Maximum	Total fees paid to Non-Executive Directors will remain within the limits stated in the Articles of Association.

Benefits

Operation	<p>Where appropriate limited role-appropriate benefits may be provided.</p> <p>Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company (including any tax due on the expenses).</p> <p>The Chair's benefits include the provision of a driver and vehicle, when appropriate for the efficient carrying out of their duties.</p>
Maximum	None.

Approach to recruitment remuneration

When considering the appointment of Executive Directors, the Committee seeks to balance the need to offer remuneration to attract candidates of sufficient calibre to deliver the Company's strategy whilst remaining mindful of the need to pay no more than is necessary.

The Committee will appoint new Executive Directors with a package that is in line with the remuneration policy that has been agreed by shareholders and is in place at the time.

Other elements of remuneration would be in line with the Company's policy set out in the in the future policy.

The maximum variable pay opportunity on recruitment (excluding 'buyouts') would be 275% of salary, which is in line with the future policy table. The Committee may determine for the first year of appointment that incentives may be subject to different weightings or objectives.

To facilitate recruitment, it may be necessary to recompense a new Executive Director for the expected value of remuneration or contractual arrangements forfeited on joining the Company ('buyout' awards). The Committee may make buyout awards in accordance with LR9.4.2 of the Listing Rules or utilising any other incentive plan operated by the Group from time-to-time. The Committee will ensure that any such

award would at a maximum match the value of the awards granted by the previous employer and be made only where a Director is able to demonstrate that a loss has been incurred from leaving his or her previous employment. Any buyout would take into account the terms of the arrangement forfeited, including in particular any performance conditions and the time over which they vest. The award would normally have time horizons which are in line with or greater than the awards forfeited. Where appropriate the exact nature of the buyout may be tailored based on the commercial circumstances at the time, provided that the value of the buyout remains comparable to arrangements forfeited.

For interim positions a cash supplement may be paid rather than salary (for example a Non-Executive Director taking on an executive function on a short-term basis).

Where an employee is promoted to the position of Executive Director (including if an Executive Director is appointed following an acquisition or merger), pre-existing awards and contractual commitments would be honoured in accordance with their established terms.

Non-Executive Directors' fees would be in line with the policy set out in the future policy table on page 152.

Policy on termination of service agreements and payment for loss of office

The Company's policy is that Executive Directors' service agreements normally continue until the Director's agreed retirement date or such other date as the parties agree. Otherwise, they are terminable on one year's notice.

There are no liquidated damages provisions for compensation on termination within Executive Directors' service agreements. Taking into account the circumstances of any termination, the Committee may determine that a payment in lieu of notice should be made. Any such payments would be restricted to salary and benefits. In these circumstances, consideration would be given to phasing of payments and an individual's duty and opportunity to mitigate losses.

The Committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of compromise or settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the director's legal and/or professional advice fees in connection with his cessation of office or employment. The Company may meet ancillary costs, such as outplacement consultancy and/or reasonable legal costs.



Burrator Reservoir,
Devon

Any compensation payable will be determined by reference to the terms of the service contract between the Company and the employee, as well as the rules of the various incentive plans as set out in the table below.

Annual bonus	<p>Normally no bonus is payable unless an Executive Director is employed on the date of payment.</p> <p>In certain good leaver circumstances (death, disability, redundancy, retirement and any other circumstance at the Committee's discretion) a bonus may be payable. Any such bonus would be based on performance and pro-rated to reflect the period of service with performance normally assessed at the same time as other employees. The Committee retains discretion to adjust the timing and pro-rating of any award to take account of any prevailing exceptional circumstances which they consider would be fair to the Company and to the employee. Share deferral would not normally apply.</p>
Deferred shares	<p>Unvested awards would normally lapse upon cessation. In certain good leaver circumstances, the participant may retain their awards. The restricted period is not automatically terminated on cessation of employment; rather, the restricted period continues to apply as if the leaver was still in employment. However, awards may be released to participants at an earlier date following cessation of employment at the discretion of the Committee.</p> <p>Good leaver circumstances are death, injury, ill-health, disability, redundancy, retirement (with agreement of the Company), the transfer of the employing company or business or any other circumstance at the Committee's discretion.</p>
Long-term incentive plan	<p>Any unvested awards would normally lapse upon cessation of the individual's employment within the Group. In certain good leaver circumstances, awards vest to the extent determined by the Committee taking into account the extent to which the performance conditions have been satisfied, the period of time elapsed between grant and the cessation of employment and such other factors as the Committee may deem relevant. Awards would normally vest on the original normal vesting date and be released at the end of the two-year holding period (unless the Committee determines awards should be subject to earlier vesting and release dates).</p> <p>If a participant dies, an award will, unless the Committee determines otherwise, vest and be released as soon as possible following the participant's death, taking into account the extent to which the performance conditions have been satisfied and the period of time elapsed since grant.</p> <p>Good leaver circumstances are death, ill health, injury, disability, redundancy, retirement, where the participant's employer is no longer a member of the Group, where the participant is employed in an undertaking which is transferred out of the Group, or for any other reason that the Committee determines.</p> <p>All awards would lapse if a participant was summarily dismissed.</p>
All-employee awards	Leavers will be treated in accordance with the HMRC approved rules.
Other awards	Where a buyout award is made on recruitment, leaver provisions would be determined at the time of award.

Statement of consideration of employment conditions elsewhere in the Company

In setting executive remuneration the Committee takes account of employment market conditions and the pay and benefits differentials across the Group. The Committee considers annual summary reports of employee remuneration and the terms and conditions of employment within each operating company and has regard to these when considering remuneration for the Executive Directors and senior management. As part of this assessment the Committee considers various metrics including data on the ratio between CEO and all-employee pay, gender pay statistics and measures of employee engagement.

The Board engage on remuneration matters with the wider workforce, through many mechanisms including the employee RISE and the Partnership forum, the Big Chat and Open Door communications, on which more can be read on pages 31 to 39.

Statement of consideration of shareholder views

In developing this Remuneration Policy, the Committee took into account general good governance, best practice and evolving shareholder views. We regularly engage with major shareholders to understand their views on executive pay and their feedback informs our decision-making and the approach set out in this Policy.

As detailed on page 152 to the extent that a further review of the Policy is initiated later in the year the Committee would engage with our major stakeholders as appropriate.