Acquisition of
Sutton and East Surrey Water
and Equity Capital Raise

10 January 2024

Transaction overview

Proposed transaction	• Pennon is acquiring 100% of the issued capital of Sumisho Osaka Gas Water UK Limited (SOGWUK), the holding company of Sutton and East Surrey Water plc and certain other ancillary businesses for £89m, with a total enterprise value of £380m and a RCV of £351m(1) • Enterprise value equates to a premium to SES Water 2023 RCV of c.6%(2) • Acquisition expected to increase the Group's RCV by c.7% on acquisition, resulting in a total expected Group RCV of c.£5.8bn by 2025 • A placing to raise up to £180m of equity will be launched in connection with the acquisition. This will be conducted by way of an accelerated bookbuild on a non-pre-emptive basis
Use of proceeds	• Proceeds from the equity capital raise will be used in connection with the acquisition to ensure that the enlarged Pennon Group remains within our well-established water business gearing range of 55-65%(3) following completion
Strategic rationale	• Consistent with Pennon's successful track record of value creation through the realisation of synergies, a run rate of £11m(4) p.a. is anticipated, enabling enhanced shareholder returns, driven by operational efficiency initiatives, lower financing costs and economies of scale • Builds on Pennon's existing water operations with another high-quality, water-only business, along with access to an experienced and talented management team, and follows the successful previous acquisitions of two water-only companies
Completion and integration	• Completion of the acquisition, which is not subject to any conditions, has already occurred • The acquisition will now be subject to review by the CMA, with input from Ofwat • There is not expected to be any funding impact on South West Water's plans to otherwise deliver a compelling AMP8 investment plan; nor will it impact SES Water's ability to deliver the same

Note: All £m numbers shown to 0 decimal places. Potential differences due to rounding
(1) Based on management forecast of RCV as at 31 March 2024
(2) Premium stated before £14 million of vendor equity contributions since 31 March 2023 and reflects adjustments including pensions and Pennon's view on the value of unregulated assets
(3) Gearing at the regulated water business level, defined as net debt / RCV
(4) Anticipated run rate of targeted efficiency savings (on a net basis)

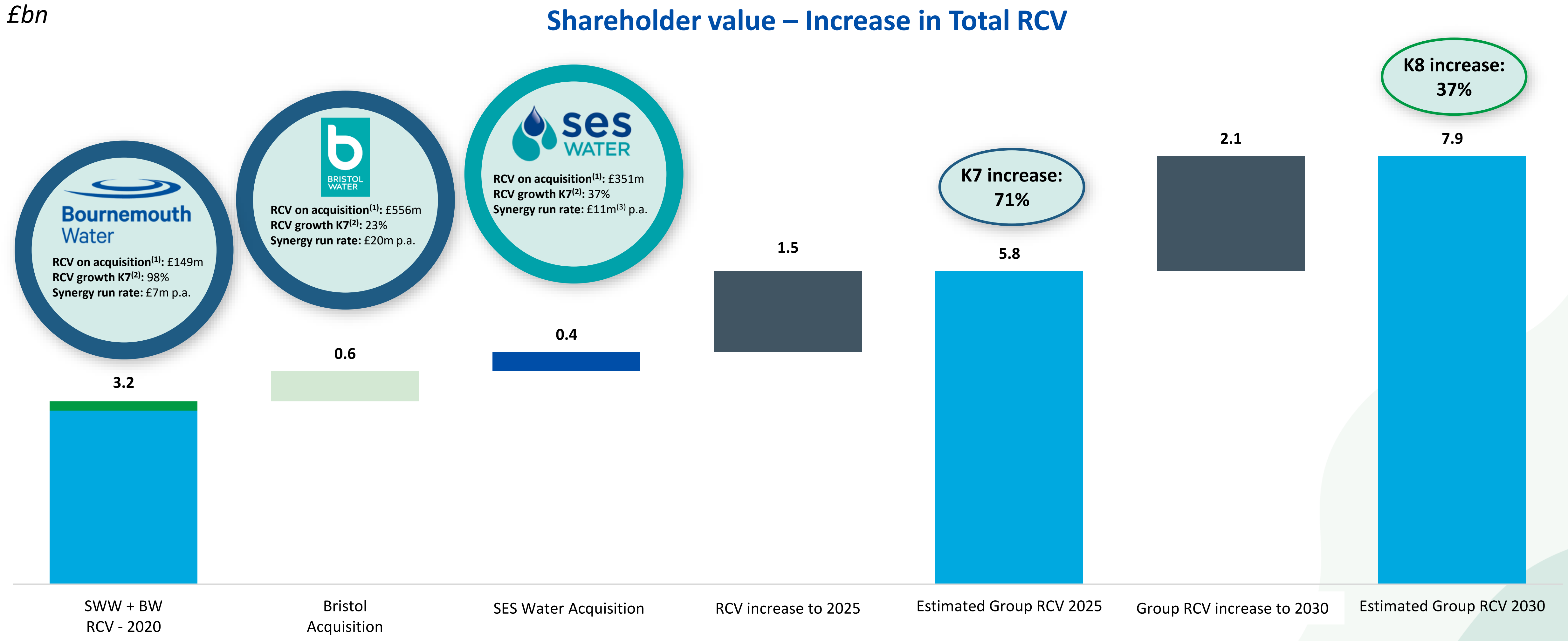
Key investment highlights

- Acquisition of SES Water and other ancillary businesses, adding a high-quality business with over 750k customers and a RCV of £351m[(1)]
- Purchase price of £89m for the equity, including repayment to the vendors of £14m of equity invested into SOGWUK since 31 March 2023, with net debt of £291m[(2)] (book value, as of 31 March 2023), equating to an enterprise value of £380m
- Enterprise value equates to a premium to 2023 RCV of c.6%[(3)]. The transaction is expected to increase the Group's RCV by c.7% on acquisition
- SES Water's 2025-2030 regulatory period (K8) RCV is forecast to grow at an attractive average annual rate of c.5%[(4)]
- Builds on Pennon's existing water operations by acquiring another high-quality, water-only business, along with access to an experienced and talented management team, and follows the successful previous acquisitions of two water-only companies
- Acquisition will benefit SES Water's customers and other stakeholders – SES Water's customers will be offered the opportunity to participate in Pennon's unique WaterShare+ customer shareholding scheme
- Expected to be earnings accretive from the first year of full ownership (2024/25), and to generate attractive returns whilst supporting further RCV growth in the 2020-2025 regulatory period (K7), bringing total expected increase over K7 for Pennon to 71%
- Complementary ethos focused on customer affordability and delivering better outcomes for customers and the environment with SES Water's digital capabilities and smart technologies complementing Pennon's current offering
- Consistent with Pennon's successful track record of value creation through the realisation of synergies, a run rate of £11m[(5)] p.a. is anticipated, enabling enhanced shareholder returns, driven by operational efficiency initiatives, lower financing costs and economies of scale

Note: All £m numbers shown to 0 decimal places. Potential differences due to rounding
(1) Based on management forecast of RCV as at 31 March 2024
(2) Reported net debt adjusted to include unamortised issuance costs and short term debt, before fair value uplift, rounded down from actual figure of £291.52m
(3) Premium stated before £14 million of vendor equity contributions since 31 March 2023 and reflects adjustments including pensions and Pennon's view on the value of unregulated assets
(4) K8 total nominal growth rate of 25%, based on SES Draft Business Plan for AMP8
(5) Anticipated run rate of targeted efficiency savings (on a net basis)

Proven track-record of acquisitive growth and value creation

Demonstrated ability to integrate acquired businesses, realise synergies and drive shareholder value



Building a high-quality UK water company focused on growing the water-only proportion of the Group and generating attractive shareholder returns

Note: All £m numbers shown to 0 decimal places. Potential differences due to rounding. Shadow RCV figures shown on nominal basis.
(1) Group RCV increase on acquisition in % terms as follows: Bournemouth Water: c.5%; Bristol Water: c.16%; SES Water: c.7%
(2) RCV growth for K7 represents the period from 2020-2025
(3) Anticipated run rate of targeted efficiency savings (on a net basis)

SES Water overview

A high-quality, water-only business to further expand Pennon's reach in southern England

£125m
Revenue
Mar-23

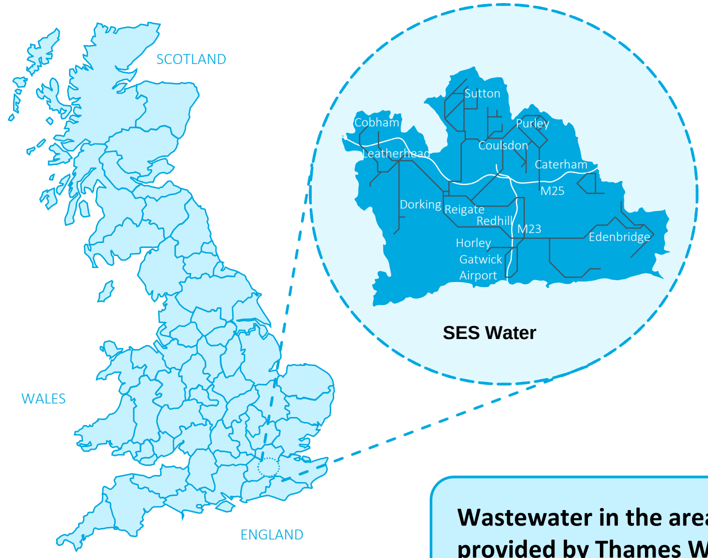
£13m
EBITDA
Mar-23

£351m[(2)]
RCV
Mar-24

£291m[(3)]
Adjusted net Debt
Mar-23

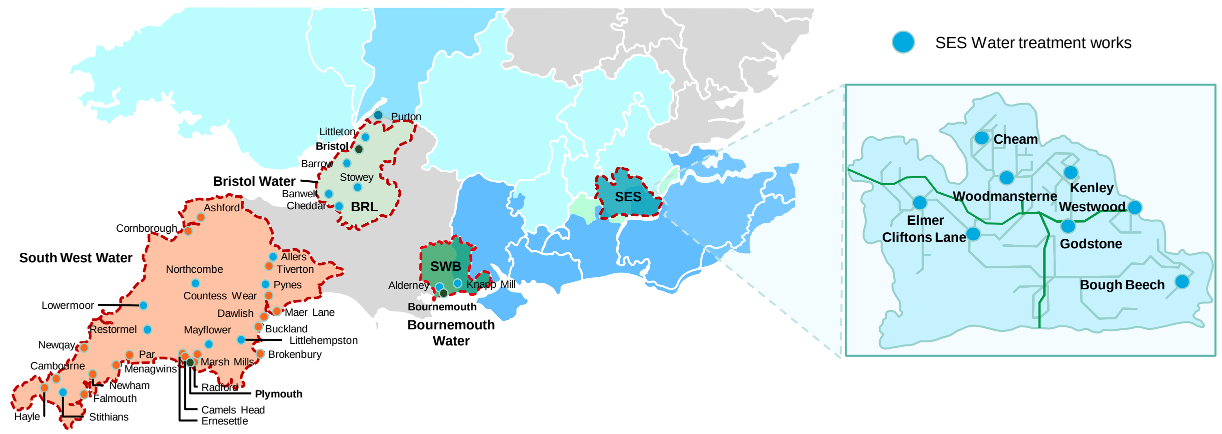
87%
Net Debt/RCV
Mar-23

£215[(4)]
Average annual bill value
From April 2023



Wastewater in the area provided by Thames Water and Southern Water

Southern England



SES Water highlights

- Water supplier serving >750,000 customers in the South East of England
- Over 150 years of operating history
- Key population demographics are forecast to grow by c.3% over the next 10 years[(1)]
- Purpose-led, using water and the environment to enhance nature and lives
- Industry leader in smart networks

Non-regulated businesses

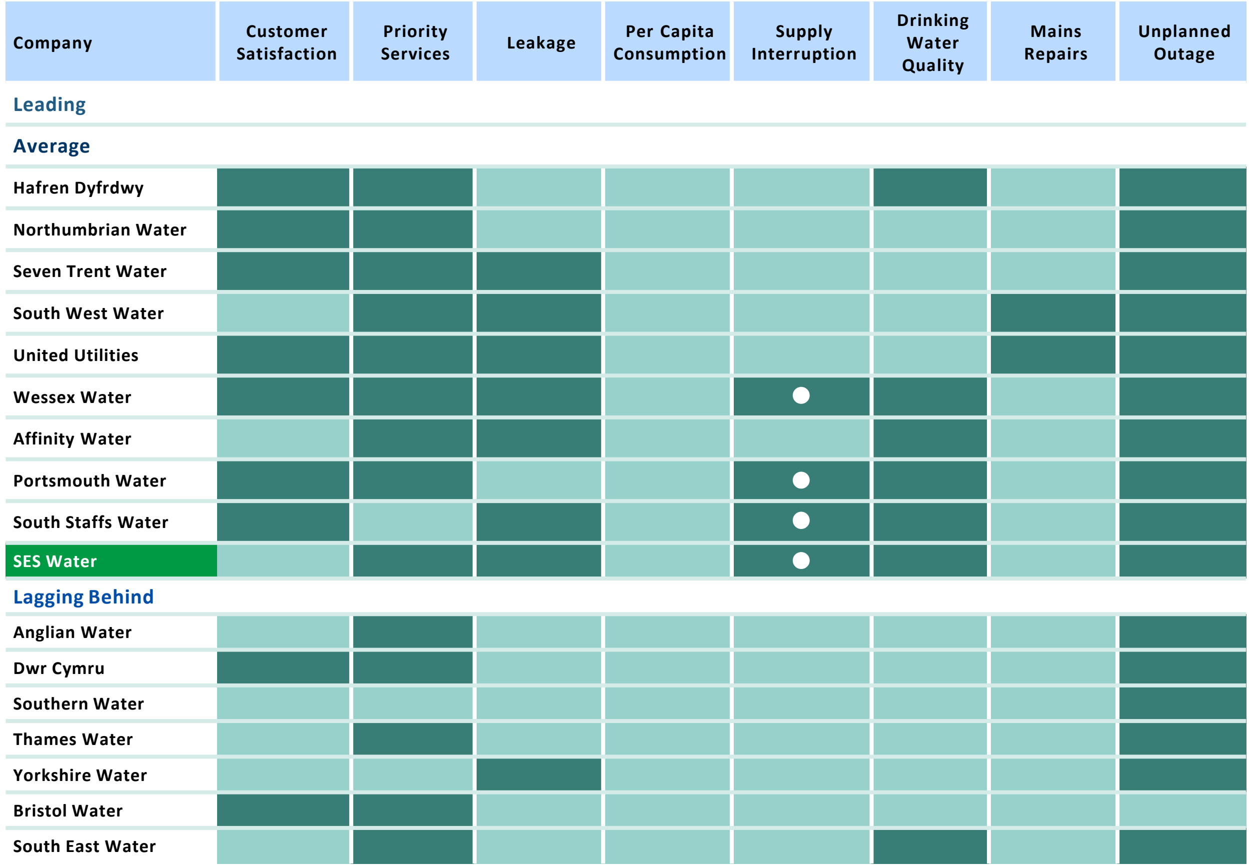
- SOGWUK is the holding company for SES Water and certain other ancillary businesses including SES Home Services, SES Business Water, Allmat Limited, Advanced Minerals Limited and Surrey Downs Property Investments Limited, however these are very small in size in the context of SES Water

Source: Ofwat reports, Company reports
(1) 2020 Office of National Statistics model
(2) Shadow RCV as of 31 March 2024
(3) Reported net debt adjusted to include unamortised issuance costs and short term debt, before fair value uplift, rounded down from actual figure of £291.52m
(4) SES website: "Our charges explained"

SES Water is a high-quality, water-only business

"Top performer" in 2022-2023 for minimising interruptions to customers' supply[1]

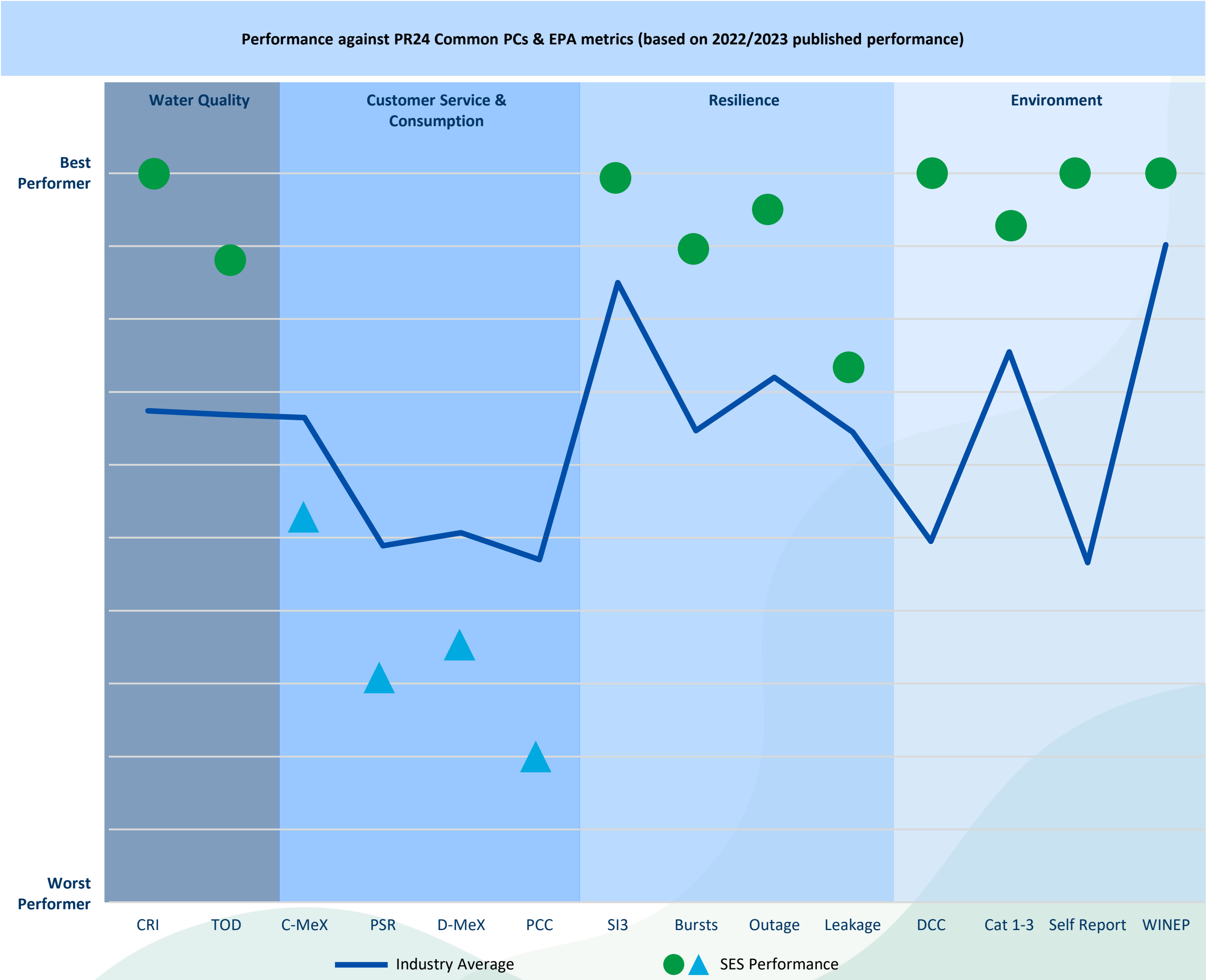
One of only three companies in the industry **to achieve Leakage, Supply Interruptions, Water Quality** and **Unplanned Outage** targets for its customers.



Categorisation of Performance	
●	Top performer
	At or better than performance commitment level
	Poor than performance commitment level
.	N/A for water only companies

Sustained strong performance throughout AMP7[2]

SES Water has **outperformed** the industry average **on 100%** of common **quality, resilience and environment** outcomes over AMP7, currently holding **upper quartile** performance in these, and is driving an upward trajectory in the customer service and consumption metrics.

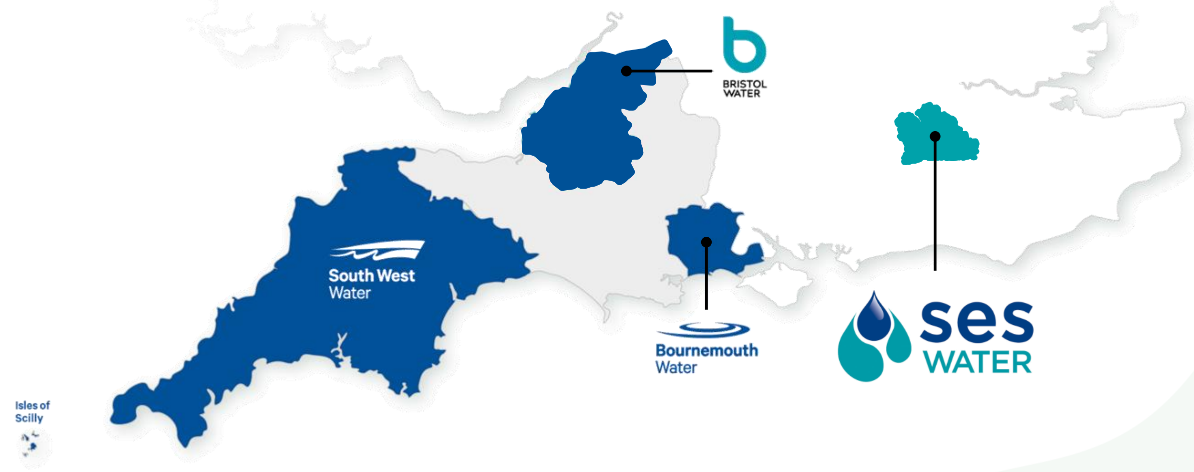


Source:
(1) Ofwat Annual Performance Report 2022-2023
(2) SES Water analysis of PCs and EPA metrics as per 2022/2023 company published Annual Performance Reports

Deploying our proven integration blueprint

24-month programme to integrate the business

- Acquisition completes immediately without conditions, but requires CMA review
- Bristol Water acquisition indicates potential framework for potential undertakings
- Licence change and statutory transfer anticipated in 2025
- Anticipated synergies expected to reach £11m(1) p.a.



Integration blueprint

Phase 1	Phase 2	Phase 3
• Corporate and Shared services • Licence changes	• Operations	• Customer service

Deploying our proven integration blueprint

- Creating common systems and processes
- Unlocking economies of scale
- Driving supply chain efficiencies
- Delivering even better customer service

Note: All £m numbers shown to 0 decimal places. Potential differences due to rounding
(1) Anticipated run rate of targeted efficiency savings (on a net basis)

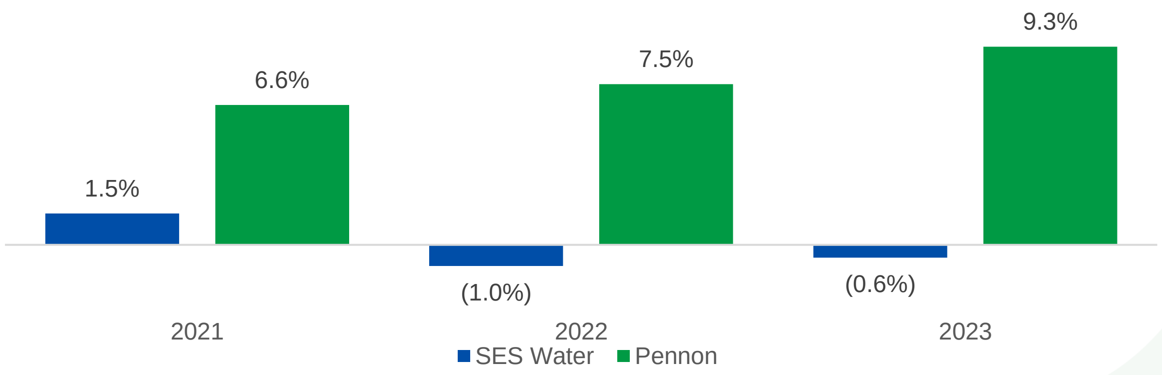
Acquisition offers scale benefits and returns opportunities

Transaction highlights

- Synergies expected to reach £11m[1] p.a., resulting in value creation
- No material impact on gearing (post equity placing) is expected, with water business gearing expected to be maintained within targeted range of 55-65%[2]
- No change in commitment to current dividend policy – Pennon policy for 2025-30 to be announced post-final determinations, in line with previous announcements

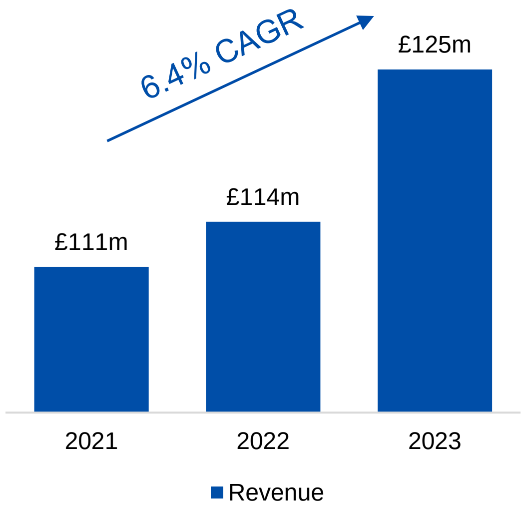
Upside potential from improving SES Water returns

Historic AMP7 Average Rolling RoRE Comparison between PNN[3] & SESW

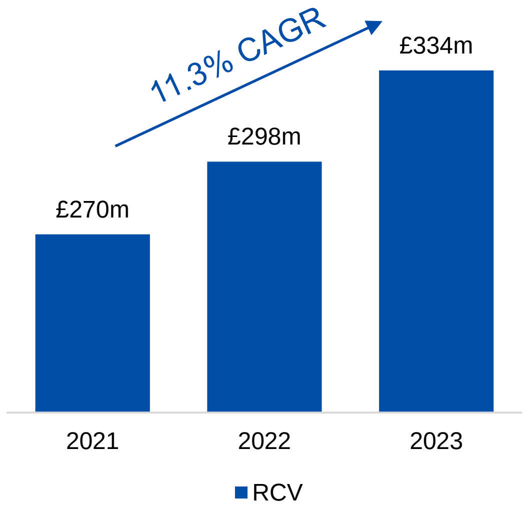


Standalone SES Water financials

Revenue

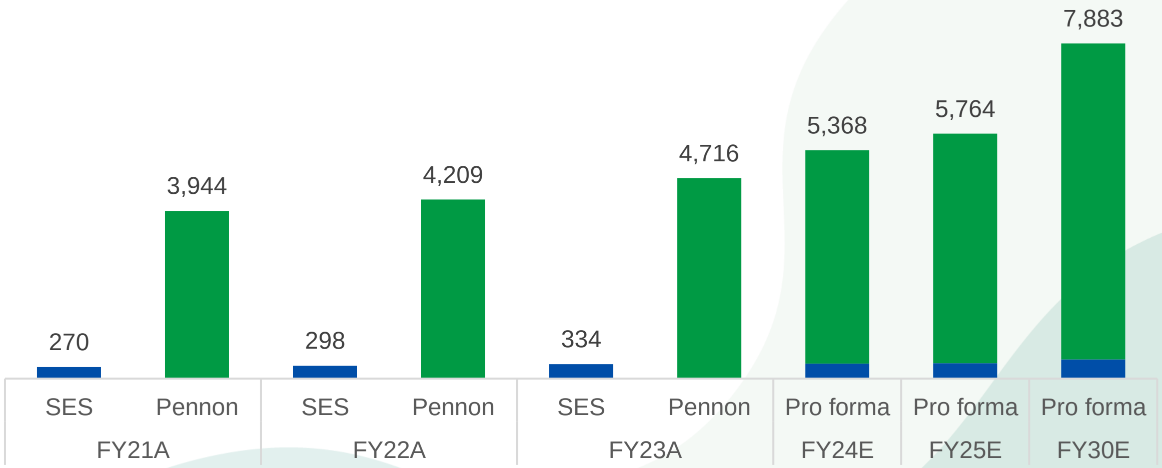


RCV



Attractive RCV growth profile

Combined RCV[4] Progression, £m Nominal



Source / notes: All £m numbers shown to 0 decimal places. Potential differences due to rounding

(1) Anticipated run rate of targeted efficiency savings (on a net basis)

(2) Gearing at the regulated water business level, defined as net debt / RCV

(3) SWW RoRE used for Pennon given Bristol Water closed in February 2023, calculated on an Ofwat basis

(4) RCV progression applies PR19 growth rate to FY23A values

Equity placing and pro forma gearing

£m, March 2023	Net Debt	RCV	PF Net Debt / RCV
Pennon Group standalone pre transaction	2,965	4,716	**62.9%**
Adjustments[1]			
SES Water (SOGWUK)	291[1]	334	**87.3%**
Equity consideration	89	-	**-**
Net placing proceeds to reduce debt	(176)	-	**-**
Pro Forma Combined Pennon Group[2]	**3,170**	**5,050**	**62.8%**

Equity placing ensures gearing remains within target gearing range

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(1) Reported net debt adjusted to include unamortised issuance costs and short term debt, before fair value uplift, rounded down from actual figure of £291.52m
(2) 2023 pro forma balance sheet, before fair value adjustments, transaction costs and other effects

Summary

- Attractive opportunity to acquire a high-quality, water-only UK asset
    - Complements Pennon's existing portfolio across southern England
    - Fits our execution and asset integration experience – proven acquisition and integration blueprint
- Will deliver an estimated c.7% increase in RCV on acquisition, bringing total expected RCV growth for Pennon to 71% over K7
- Increases water-only proportion of the Group
    - Prior to inclusion of SES Water's RCV – water c.54%, wastewater c.46%(1)
    - Post inclusion of SES Water's RCV – water c.57%, wastewater c.43%(1)
- Benefiting from an engaged and experienced high-calibre management team
- Synergies expected to reach £11m(2) p.a., resulting in value creation
- No material impact to Group gearing (post equity placing)
- Pennon's current sector-leading dividend policy will remain unchanged

Source / notes: All £m numbers shown to 0 decimal places. Potential differences due to rounding
(1) Based on 2023 Ofwat numbers
(2) Anticipated run rate of targeted efficiency savings (on a net basis)

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