

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)

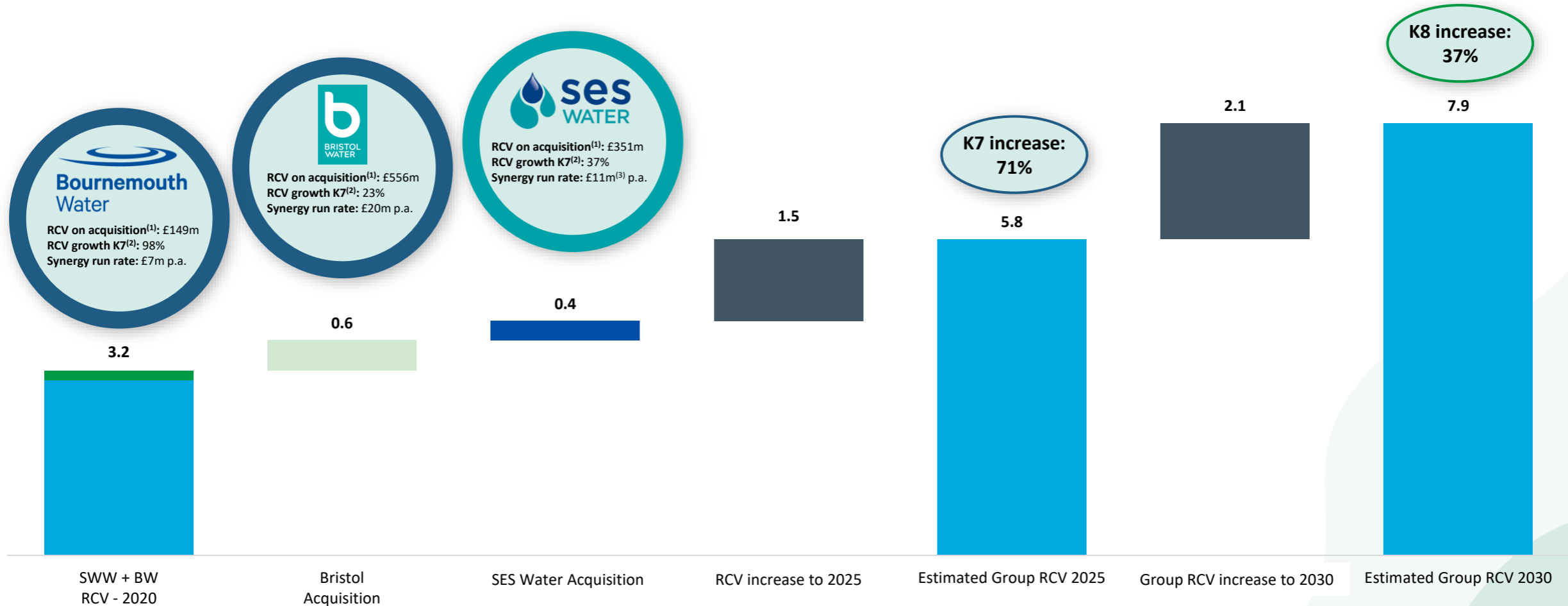


Proven track-record of acquisitive growth and value creation

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

£bn

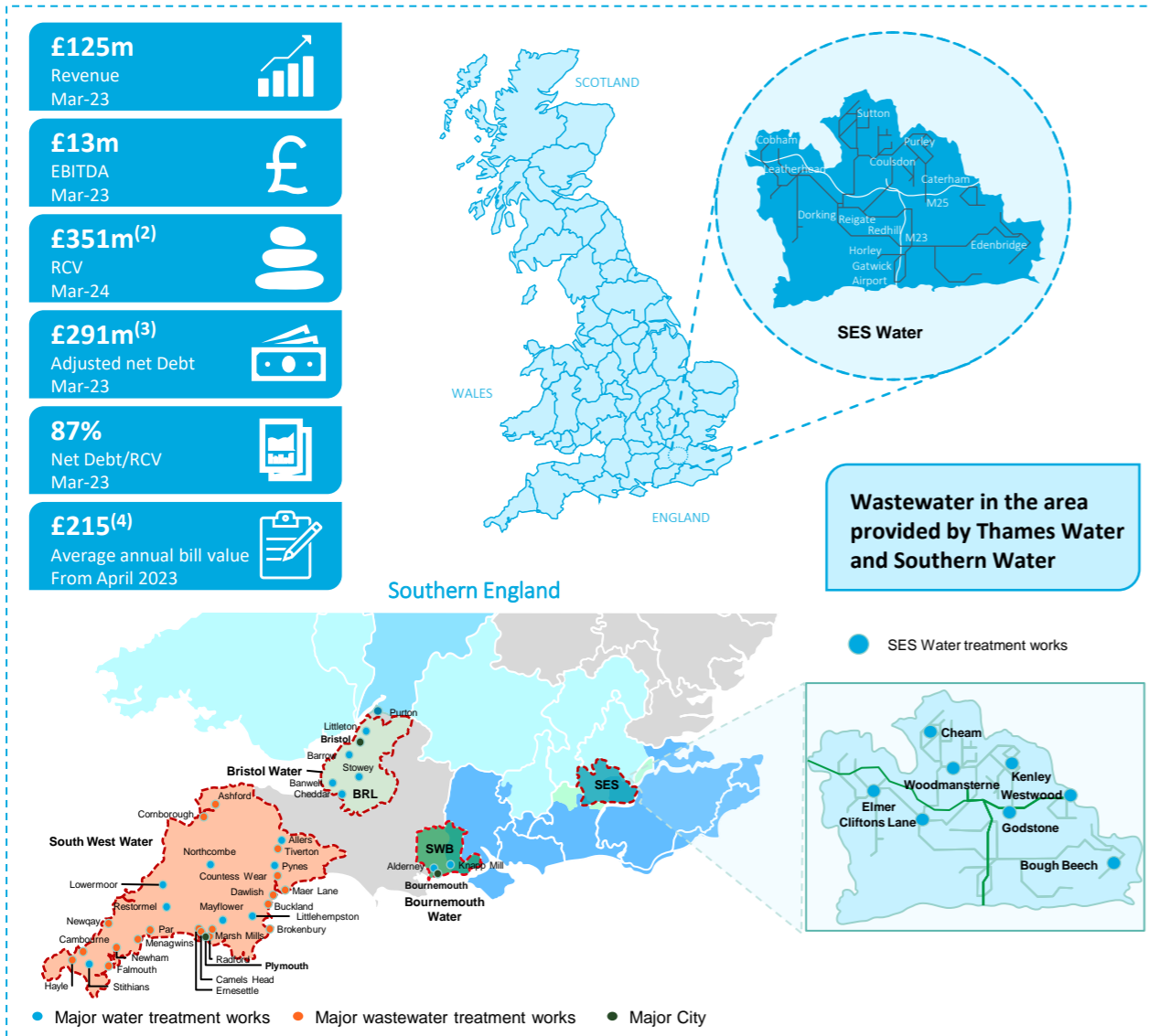
Shareholder value – Increase in Total RCV



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

SES Water overview

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

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.

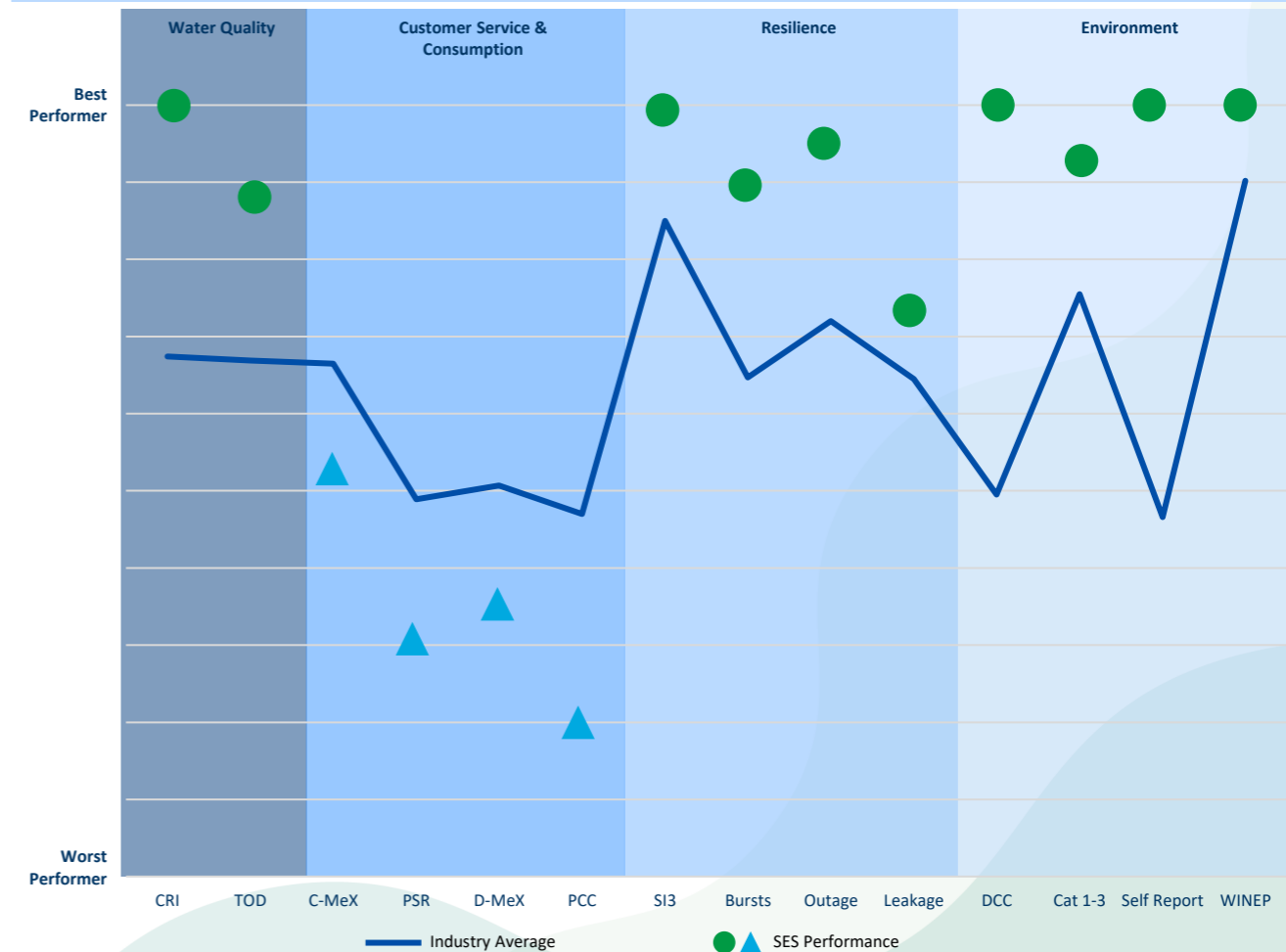
Company	Customer Satisfaction	Priority Services	Leakage	Per Capita Consumption	Supply Interruption	Drinking Water Quality	Mains Repairs	Unplanned Outage
Leading								
Average								
Hafren Dyfrdwy	●	●	●	●	●	●	●	●
Northumbrian Water	●	●	●	●	●	●	●	●
Seven Trent Water	●	●	●	●	●	●	●	●
South West Water	●	●	●	●	●	●	●	●
United Utilities	●	●	●	●	●	●	●	●
Wessex Water	●	●	●	●	○	●	●	●
Affinity Water	●	●	●	●	●	●	●	●
Portsmouth Water	●	●	●	●	○	●	●	●
South Staffs Water	●	●	●	●	○	●	●	●
SES Water	●	●	●	●	○	●	●	●
Lagging Behind								
Anglian Water	●	●	●	●	●	●	●	●
Dwr Cymru	●	●	●	●	●	●	●	●
Southern Water	●	●	●	●	●	●	●	●
Thames Water	●	●	●	●	●	●	●	●
Yorkshire Water	●	●	●	●	●	●	●	●
Bristol Water	●	●	●	●	●	●	●	●
South East Water	●	●	●	●	●	●	●	●

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.

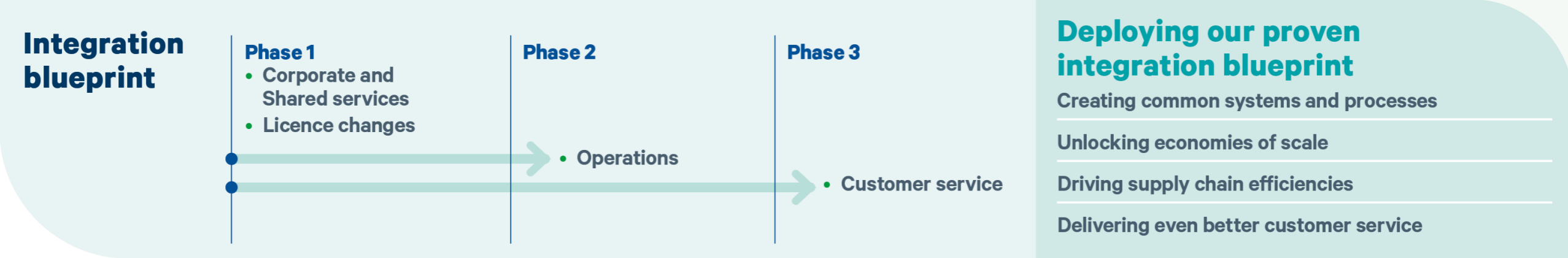
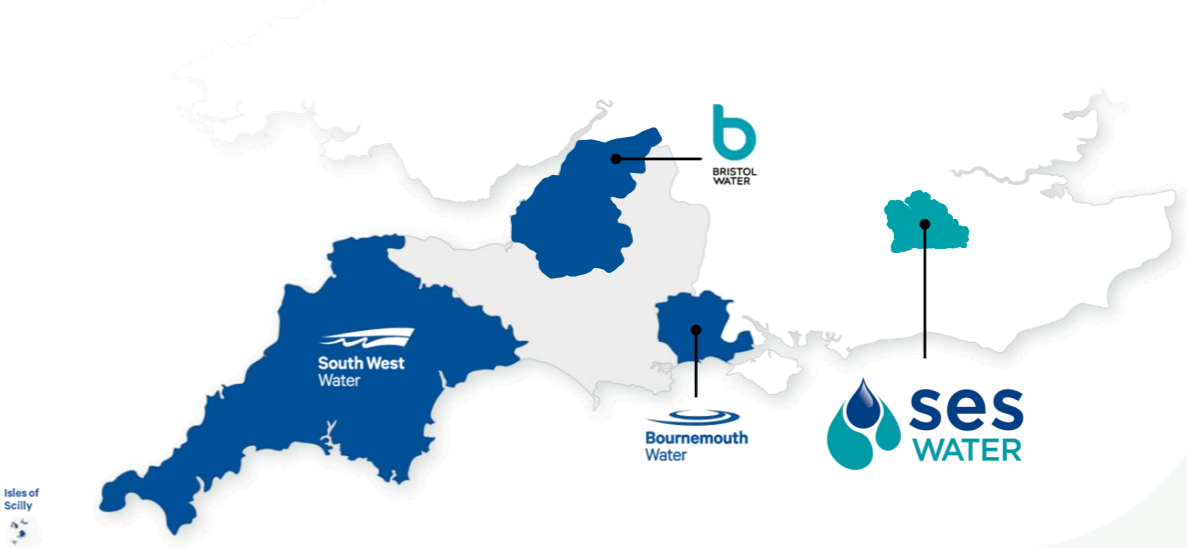
Performance against PR24 Common PCs & EPA metrics (based on 2022/2023 published performance)



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.

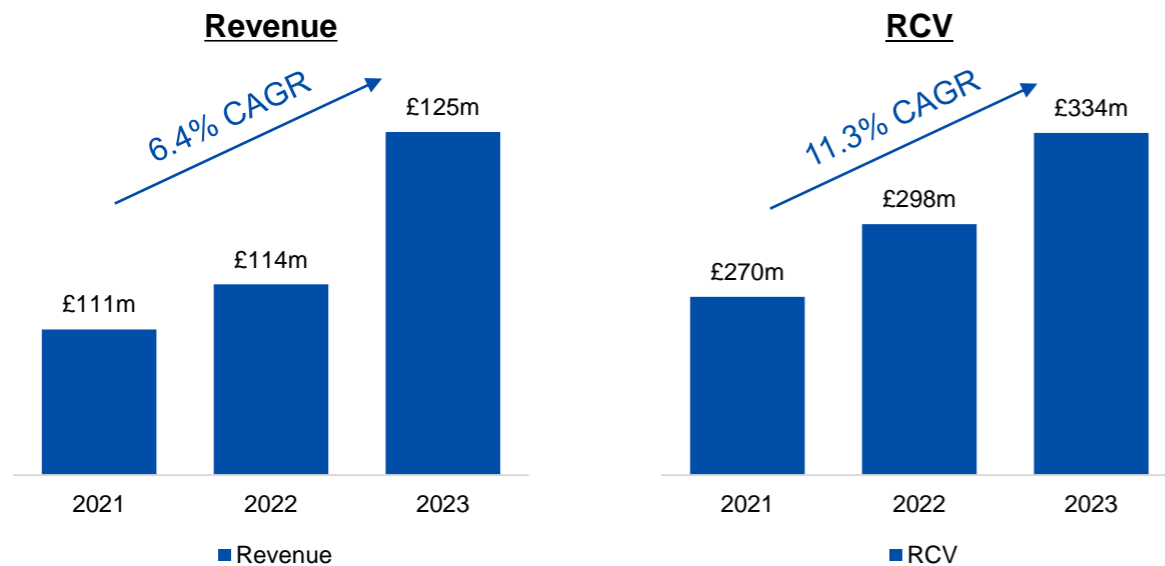


Acquisition offers scale benefits and returns opportunities

Transaction highlights

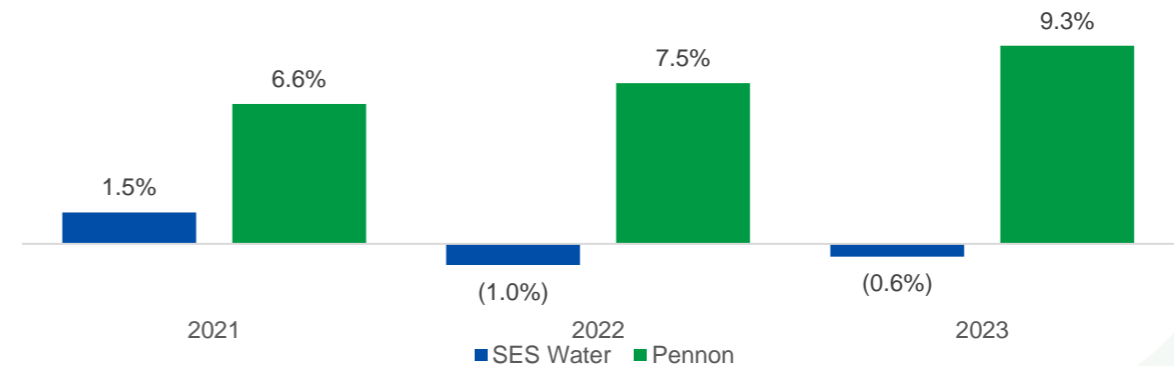
- Synergies expected to reach £11m⁽¹⁾ p.a., resulting in value creation
- No material impact on gearing (post equity placing) is expected, with water business gearing expected to be maintained within targeted range of 55-65%⁽²⁾
- No change in commitment to current dividend policy – Pennon policy for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

Standalone SES Water financials



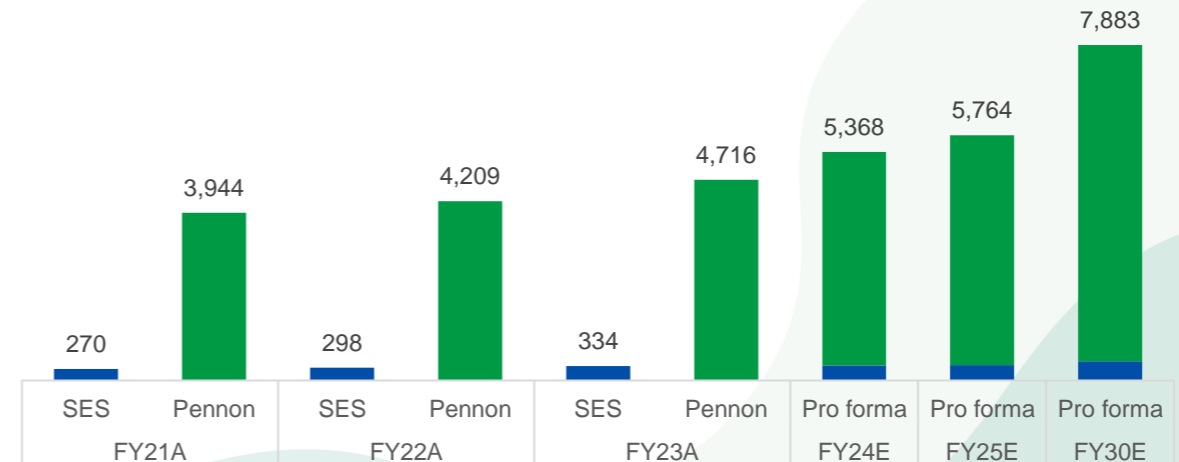
Upside potential from improving SES Water returns

Historic AMP7 Average Rolling RoRE Comparison between PNN⁽³⁾ & SESW



Attractive RCV growth profile

Combined RCV⁽⁴⁾ Progression, £m Nominal



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

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



Disclaimer

NOT FOR PUBLICATION, RELEASE, TRANSMISSION, FORWARDING OR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN WHOLE OR IN PART, IN OR INTO THE UNITED STATES OF AMERICA (INCLUDING ITS TERRITORIES AND POSSESSIONS, ANY STATE OF THE UNITED STATES AND THE DISTRICT OF COLUMBIA, COLLECTIVELY, THE “UNITED STATES”), AUSTRALIA, CANADA, JAPAN OR THE REPUBLIC OF SOUTH AFRICA (“SOUTH AFRICA”) OR ANY OTHER JURISDICTION IN WHICH SUCH RELEASE, PUBLICATION OR DISTRIBUTION WOULD BE UNLAWFUL.

This presentation has been prepared by Pennon Group plc (the “Company”) solely for informational purposes and is not, and should not be construed as, a prospectus, and (along with any materials provided or oral presentation and question-and-answer session) does not constitute, and should not be construed as, an offer to sell or issue securities or otherwise constitute an invitation, inducement, solicitation or recommendation to any person to purchase, underwrite, subscribe for or otherwise acquire securities in the Company or any of its affiliates or constitute an inducement to enter into an investment activity in any jurisdiction, including to any person in the United States, Australia, Canada, South Africa or Japan or in any jurisdiction to whom or in which such offer or solicitation is unlawful.

This presentation is confidential and is being made only to, and is only directed at, persons to whom such information may lawfully be communicated. This presentation may not be (in whole or in part or directly or indirectly) reproduced, forwarded, distributed, stored, introduced into a retrieval system of any nature or disclosed in any way to any other person. The information contained in this presentation has not been independently verified and some of the information is still in preliminary or draft form. No person is under any obligation to verify, update or keep current the information contained in this presentation. No reliance may or should be placed by any person (whether or not attending the presentation) for any purposes whatsoever on the information contained in this presentation or any other material discussed at the presentation, or on its completeness, accuracy or fairness. None of the Company, Barclays Bank PLC (“Barclays”), Morgan Stanley & Co. International plc (“Morgan Stanley”, and together with Barclays, the “Joint Global Coordinators”) or any of its or their respective parent or subsidiary undertakings, or any of its or their directors, officers, partners, employees, agents, affiliates or advisers or any other person makes any representation or warranty (express or implied) on the accuracy or completeness of the information contained in this presentation or in any other document or information made available in connection with this presentation, and they disclaim all and any liability in connection therewith.

This presentation contains statements that constitute forward-looking statements relating to the business, financial condition and results of operations of the Company and its subsidiary undertakings (the “Group”) and the industry in which the Group operates. These statements may be identified by their context or words, such as “expectation”, “belief”, “estimate”, “plan”, “target”, “forecast” or “will”, among others, or by discussions of strategy, plans, objectives, goals, future events or intentions. All statements regarding the future are subject to inherent risks and uncertainties, and various factors, including such factors that may be outside the Company’s control, could cause actual future results, financial condition, liquidity, performance, prospects or events to differ materially from those described or implied in these statements, and neither the Company, the Joint Global Coordinators nor any other person accepts any responsibility for the accuracy of such forward-looking statements.

This presentation is only available to and directed only at persons who are: (a) in the United Kingdom, persons who are “qualified investors” within the meaning of Article 2(e) of the Prospectus Regulation (EU) 2017/1129 (as amended) (the “Prospectus Regulation”) as it forms part of English law pursuant to the European Union (Withdrawal) Act 2018 (as amended) (the “EU Withdrawal Act”) and who are:

(i) “investment professionals” within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the “Order”); or (ii) persons falling within Article 49(2)(a) to (d) of the Order; (b) in a member state of the European Economic Area, persons who are “qualified investors” within the meaning of Article 2(e) of the Prospectus Regulation, including any relevant implementing measure in any member state; (c) in the United States, persons who are “qualified institutional buyers” (as defined in Rule 144A under the US Securities Act 1993 (the “Securities Act”)) (each a “QIB”); (d) in Canada, persons who are both “accredited investors” within the meaning of National Instrument 45-106 (or, in Ontario, section 73.3(1) of the Securities Act (Ontario), as applicable) and “permitted clients” within the meaning of National Instrument 31-103; (e) in Australia, persons who are “sophisticated investors” or “professional investors” (within the meaning of sections 708(8), and 708(11), respectively, of the Australian Corporations Act 2001 (Cth) (the “Corporations Act”)), being persons to whom an offer of securities can be made without a disclosure document under Chapter 6D of the Corporations Act; (f) in South Africa, persons who fall within the exemptions set out in sections 96(1)(a) or 96(1)(b) of the South African Companies Act, No 71 of 2008; (g) in the United Arab Emirates (the “UAE”), persons who are “professional investors” as defined in the UAE Securities and Commodities Authority’s Board of Directors Resolution Number 13 B.C. of 2021 on the Regulations Manual of the Financial Activities and Status Regularization Mechanics (as amended); (h) in the Abu Dhabi Global Market (the “ADGM”), persons who meet the professional client criteria set out in Rule 2.4 of the Conduct of Business Rulebook (COBS) of the Financial Services Regulatory Authority of the ADGM; (i) in Switzerland, persons who are purchasing, or are deemed to be purchasing, as principal and who are “professional clients” within the meaning of the Swiss Financial Services Act; and (j) persons to whom it may otherwise be lawfully communicated (all such persons together being referred to as “Relevant Persons”).

This presentation and any materials distributed in connection with this presentation are not directed at or intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation or which would require any registration or licensing within such jurisdiction. In particular, any person who is not a Relevant Person should not act or rely on this presentation or any of its contents. Any failure to comply with these restrictions may constitute a violation of law. The contents of this presentation may be inside information, and recipients of this presentation should not engage in any behaviour which would or might amount to insider dealing, the unlawful disclosure of inside information or market manipulation for the purposes of the Market Abuse Regulation (EU) 596/2014 (as amended) as it forms part of English law pursuant to the EU Withdrawal Act (“UK MAR”). By attending this presentation and/or receiving this presentation, you are agreeing to the terms and conditions set forth above.

Each of the Joint Global Coordinators is authorised in the United Kingdom by the Prudential Regulation Authority and regulated in the United Kingdom by the Prudential Regulation Authority and the Financial Conduct Authority. Each of the Joint Global Coordinators is acting exclusively for the Company and no-one else in connection with the Company’s proposed placing of new ordinary shares (the “Placing”) and will not regard any other person (whether or not a recipient of this presentation) as its client in relation to the proposed Placing, this presentation or any other matter contemplated herein and will not be responsible to anyone other than the Company for providing advice in relation to the proposed Placing, this presentation or any other matter contemplated herein.

By accepting receipt of, attending any delivery of, or electronically accessing, the presentation, you agree to be bound by the above limitations and conditions and, in particular, you represent, warrant and undertake to the Company and the Joint Global Coordinators that: (i) you are able to receive this presentation without contravention of any applicable legal or regulatory restrictions; (ii) you are a Relevant Person; (iii) you will keep the presentation confidential and will not forward the presentation to any other person, or reproduce or publish this document, in whole or in part, for any purpose; (iv) you have read and agree to comply with the contents of this notice; and (v) you will not deal in (or encourage any other person to deal in) the shares or financial instruments of the Company or base any behaviour on any inside information you receive as part of the presentation until you have ceased to have such information for the purposes of UK MAR.