



18<sup>th</sup> June 2026

## South West Water Limited

### Full Year Results 2025/26

*“Pennon Group plc (“Pennon”) announced its results for the full year ended 31 March 2026. Following this announcement South West Water Limited is providing an update on the South West Water performance for the same period. References to the “Group” in this announcement are to Pennon Group plc and its subsidiaries. References to “South West Water”, “South West Water Group” or “SWW” are references to South West Water Limited and its subsidiaries. For the avoidance of doubt, Pennon does not provide any credit support in respect of any financial instruments guaranteed by South West Water Limited. South West Water Limited is a component part of, but not the totality of, the Group and the Group’s results or SWW’s results are not South West Water Limited’s results.”*

Keith Haslett, Group Chief Executive Officer, commented:

*“I am delighted to have started my tenure as Chief Executive at Pennon, at what is an important moment both for the Group and for the wider UK water sector.*

*As Pennon enters a new era under my leadership, it does so on the back of a return to profitability and the mobilisation of our AMP8 investment plan. However, it is clear that there is more work to do, and improving operational discipline and capital delivery will be important to meet the commitments we have made and the standards we aspire to achieve in the future.*

*Focusing on operational excellence, driving a performance culture and delivering through technology and innovation will be my key priorities, to improve performance for our customers and the communities we serve.”*

## FINANCIAL PERFORMANCE

South West Water Group	2025/26	2024/25	Change %
Revenue	937.8	737.7	+27.1%
Operating costs	(456.1)	(429.1)	+6.3%
<b>EBITDA</b>	<b>481.7</b>	<b>308.6</b>	<b>+56.1%</b>
Depreciation and amortisation	(172.0)	(168.3)	+2.2%
<b>Operating profit</b>	<b>309.7</b>	<b>140.3</b>	<b>+120.7%</b>
Net interest charge	(170.1)	(170.6)	(0.3%)
<b>Profit/(loss) before tax and non-underlying items</b>	<b>139.6</b>	<b>(30.3)</b>	-
Non-underlying items before tax	(15.4)	(32.4)	-
<b>Profit/(loss) before tax</b>	<b>124.2</b>	<b>(62.7)</b>	-

## Financial highlights

- Return to profitability in 2025/26, with statutory profit before tax of £124.2 million (2024/25: loss of £62.7 million)

- 56.1% increase in underlying EBITDA as a result of increased revenues and a focus on cost management
- Regulated water revenue up c.27% year-on-year, driven by the benefit of increased regulatory revenue allowances and higher consumption
- A focused start to our AMP8 capital investment programme, with £563.3 million of capital investment across the South West Water Group in 2025/26 - as we focus on delivering on our AMP8 commitments
- 2025/26 Return on Regulated Equity (RoRE) of 6.9% for SWB, and 5.8% for BRL, with outperformance on financing and totex partly offset by ODI penalties.

### **Operational highlights**

- Our Pollution Incident Reduction Plan continues to deliver tangible improvements with a c.34% reduction in year-on-year on pollutions, and normalised pollutions reducing by c.53%<sup>3</sup>
- Storm overflow use reduced by 17% over the past year, with spill duration reducing c.25% reflecting continued investment in our infrastructure, despite South West England receiving around 150% of average rainfall in November and December
- Water quality performance remains strong with upper quartile performance in South West Water. Water resources exceed our target position at 98%, aided by investment in storage resilience and high rainfall
- Exceptional storms and sustained rainfall coupled with a step up in targets and penalty rates from the beginning of the new regulatory cycle created operational pressures across water and wastewater for 2025/26, resulting in a net operational ODI penalty of c.£42.0 million<sup>4</sup>
- Environmental and social focus resulted in 250 hectares of peatland restored during the year, and 2,370 people engaged in events, volunteer days and school excursions
- c.11% increase year-on-year in customers on one or more of our support tariffs, as we support our customers with affordable bills

### **Outlook**

- With a renewed focus and a strengthened leadership team, Pennon is well positioned to deliver for customers, communities, and the environment in the years ahead
- Our investments, combined with a refreshed and enhanced operational plan that we are developing will benefit customers and communities across our regions, whilst creating a 34% growth in RCV over AMP8. c.£250 million<sup>5</sup> submission to Ofwat for further investment in asset health, providing further growth opportunity whilst supporting resilience





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

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

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

### **Leadership and Board Changes**

This year has marked a significant transition in Pennon’s leadership including South West Water.

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

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

In support of our clear aims and ambitions, we also announced in February 2026 the creation of a new Chief Asset Officer role, with Ian Christie joining Pennon in May 2026. Asset health sits at the heart of reliable service delivery and environmental performance and strengthening our asset management capability is a deliberate step as we enter a period of record investment. Ian brings extensive experience in asset management, operational delivery and system planning, and will play a key role in ensuring that asset health and long-term resilience sit at the centre of decision-making across the Group.

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

experience from across regulated infrastructure sectors, most recently as Chief Executive of Network Rail.

## **Our Performance**

The South West Water Group has returned to profitability during the year, with underlying EBITDA<sup>6</sup> increasing by 56.1% compared with the prior year to £481.7 million. This reflects tariff increases in the first year of AMP8 as well as improving underlying performance across the business with the early benefit of operational efficiencies as well as the investment programmes now underway. South West Water Group Profit Before Tax was £124.2million compared to a prior year loss of £62.7 million.

### *Operational and Environmental Performance*

The year has once again demonstrated how rapidly the operating environment for water infrastructure is changing. Conditions during the year ranged from one of the driest springs on record to intense storms and exceptional rainfall later in the year. The South West of England experienced five named storms with around 150% of average rainfall during November and December 2025, rising to 190% in January and February 2026, placing significant pressure on both our water and wastewater networks and resulting in net operational penalties of c.£42.0 million<sup>6</sup>. These extremes, and the impact on our performance, highlight the increasing volatility created by climate change and reinforce the need for sustained investment in resilient infrastructure.

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

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

We recognise the significant impact sewer flooding can have on customers when homes, businesses and properties are affected. Internal sewer flooding incidents remained strong, although increased year-on-year to 1.20 per 10,000 connections; around one-third of this increase is due to the exceptionally high rainfall and weather events, with underlying performance consistent with previous years and we are focused on ensuring we deliver at these levels going forward. This performance still delivers strong outperformance against the target of 1.34 and we expect it to remain a strong position compared with industry performance.

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<sup>6</sup> Net ODI penalty (in 2022/23 prices) across water and wastewater for both in-period and end of AMP measures, reflecting adjustments for items under review with Ofwat and third-party impacts

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

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

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

#### *Supporting Customers and Communities*

Supporting customers and communities remains central to South West Water's purpose.

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

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

We also remain focused on supporting customers with the tailored services they need through our Priority Services Register (PSR). c.300,000 customers are now registered for additional help during an incident.

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

#### *Mobilising the AMP8 Investment Programme and delivering on our four priorities*

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



Our acceptance of the PR24 Final Determinations enabled us to accelerate mobilisation of our £3.2 billion<sup>7</sup> investment programme to 2030. This programme is focused on strengthening water resource resilience, improving environmental performance and upgrading critical infrastructure across the regions we serve.

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

### *Legal and regulatory proceedings*

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

### **Looking Ahead**

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

South West Water enters this new phase with a refreshed and strengthened leadership, a clear strategy and the largest investment programme in our history underway. Our £3.2 billion<sup>8</sup> programme that runs to 2030 will deliver improvements to water quality, environmental performance and infrastructure resilience across the regions we serve. In addition, we have made a submission to Ofwat for a further c.£250 million<sup>9</sup> of investment, under the new 'cost change process', which will provide a further growth opportunity whilst supporting resilience.

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

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

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<sup>7</sup> In forecast outturn prices

<sup>8</sup> In forecast outturn prices

<sup>9</sup> In 2022/23 prices

## **GROUP CHIEF EXECUTIVE OFFICER'S INTRODUCTION**

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

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

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

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

Improving environmental performance will be central to that effort, both through our leading catchment management and biodiversity work and our operational delivery. We are already seeing tangible progress through the implementation of our Pollution Incident Reduction Plan and through sustained investment in our wastewater infrastructure. Building on that progress with further focus on operational excellence and introducing industry best practice will be a key priority for the Group and me in the years ahead. We will earn the trust of our customers, the communities we serve and the shareholders who invest in the business, by showing our commitment to innovate, transform and deliver on our promises.

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

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

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



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

## GROUP CHIEF FINANCIAL OFFICER'S REVIEW

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

Underlying EBITDA<sup>^</sup> has increased by c.56% year-on-year to £481.7 million (2024/25: £308.6 million) driven by higher revenue and a focus on cost control. Whilst the first year of the five-year cycle results in a step up in the underlying cost base, due to inflationary pressures and regulatory charges, our integration and efficiency programmes have provided benefit and the restructuring of the Group, aligned with our strategic priorities, has allowed increased focus on cost control and driving further efficiencies throughout the business.

Our £3.2 billion<sup>10</sup> investment programme over the five-year AMP8 period is a core focus across the business, to deliver improvements for customers and to ensure we improve the resilience and performance of our assets. We remain focused on delivery, with clear priorities and tight control. This means delivering outcomes effectively, executing the capital programme efficiently and building on the momentum we have created this year. We remain on track to deliver on our Performance Commitment Deliverables (PCDs) over the five-year period, with a net neutral position at the end of year one in terms of delivery incentives.

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

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

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

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

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<sup>10</sup> At forecast outturn price

Net finance costs of £170.1 million (2024/25: £170.6 million), reflect an effective interest rate of 5.7%<sup>11</sup> (2024/25: 5.4%). The year-on-year decrease of £0.5 million was a result of higher capitalised interest partially offset by higher debt to fund the ongoing capital programme.

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

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

### **Non-underlying items**

Non-underlying items<sup>^</sup> for 2025/26 were a net charge before tax of £15.4 million (2024/25: net charge of £32.4 million). Non-underlying items are those that in the Directors' view should be separately identified by virtue of their size, nature or incidence and where they believe excluding these items is considered to provide additional useful information on the performance and the position of the Group as well as enhancing the comparability of information between reporting periods.

The non-underlying<sup>^</sup> charge includes:

- £8.7 million of technological enhancement costs in connection with the implementation of new customer technology platforms in South West Water
- £6.7 million includes costs of settlement of both the DWI's prosecution in respect of the May 2024 Brixham water quality incident, and the enforcement undertakings agreed with Ofwat in August 2025 in respect of the wastewater investigations, together with associated legal fees

The non-underlying<sup>^</sup> charges in the year give rise to a net tax credit of £3.0 million in relation to the above items.

### **Net debt and liquidity**

South West Water's net debt at 31 March 2026 was £3,787.3 million (31 March 2025: £3,481.7 million).

As at 31 March 2026, South West Water had £745.3 million (31 March 2025: £694.2 million) of liquidity through a combination of cash and committed facilities. This consists of cash and cash deposits of £300.2 million (31 March 2025: £334.2 million), including £46.2 million (31 March 2025: £46.1 million) of restricted funds representing deposits with lessors against future lease obligations, and £445.0 million (31 March 2025: £360 million) of undrawn committed facilities.

During the year, the South West Water has secured c.£490 million of new debt, through its diverse portfolio, consisting of:

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<sup>11</sup> A measure of the mean average interest rate payable on net debt associated with South West Water Limited's group of companies, which excludes interest costs not directly associated with net debt.

- £300 million through our inaugural public bond issuances under our EMTN<sup>12</sup> programme
- £190 million of new term loans and leasing with an average maturity of seven years

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

South West Water has secured an additional £175 million in new and renewed revolving credit facilities since March 2025.

Resulting from the changes above and drawing of new debt during the year, South West Water<sup>15</sup> gross debt at 31 March 2026 was £4,087.5 million (31 March 2025: £3,815.9 million). The debt has a maturity of up to 31 years with a weighted average maturity of 12 years.

At 31 March 2026 South West Water's<sup>13</sup> net debt to RCV ratio<sup>14</sup> stood at 61.9% (31 March 2025: 62.0%). This remains broadly neutral year-on-year as a result of increasing RCV offsetting in year debt funding of our investment programme.

South West Water's<sup>17</sup> cost of finance, with an effective interest rate in 2025/26 of 5.7% (2024/25: 5.4%), reflects higher interest rates and the impact of full year interest charges on new issuances in 2024/25.

### Investment grade ratings

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

### Ring fenced borrowing

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

### Creating economic value in the regulated business

#### *Regulatory Capital Value* ^

<b>Regulatory Capital Value (RCV)</b>	<b>31 March 2026</b>
SWB	5,362.6
BRL	756.4
<b>SBB</b>	<b>6,119.0</b>

#### *Return on Regulated Equity (RoRE)* ^

<sup>12</sup> Euro Medium Term Note

<sup>13</sup> Based on South West Water Group, including Bristol Water excl. SES (SBB)

<sup>14</sup> Based on South West Water Group including Bristol Water (SBB) net debt/RCV.

During the year, SWB delivered a RoRE of 6.9% (2024/25: 6.0%) and BRL delivered 5.8% (2024/25: 5.1%) comprised of financing and totex outperformance, offset by Operational Delivery Incentive (ODI) underperformance.

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

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

ODI performance across the South West Water (SBB) in 2025/26 has been materially impacted by the adverse weather and step up in both performance outcomes and penalty rates applied at the start of the new regulatory cycle. RoRE, as calculated below, includes the impact of both ODI (c.£42.0 million<sup>15</sup> penalties across both the water and wastewater) and customer measures of experience (estimated at £11.5 million, subject to final outcomes from Ofwat). Plans are in place to mitigate and minimise these going forward through operational interventions and focused investment.

<b>Regulated Return on Equity (RoRE)</b>	<b>SWB</b>	<b>BRL</b>
<b>Base return</b>	5.4%	5.4%
<b>Financing</b>	1.7%	1.3%
<b>Totex</b>	2.1%	1.1%
<b>ODI</b>	(2.3%)	(2.0%)
<b>Cumulative RoRE 2025/26</b>	<b>6.9%</b>	<b>5.8%</b>
Cumulative RoRE 2024/25	6.0%	5.1%

## Contingencies

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

On 2 February 2024, summons was received by South West Water from the EA in relation to water discharge activity at seven locations with a total of 30 charges. The EA have since withdrawn six of these charges relating to one site. At a hearing on 14 November 2024, South West Water pleaded guilty to five of the charges. Sentencing was held on 12 and 13 March 2026, although the value of any fine will not be known until the judgement is handed down on 30 July 2026.

<sup>15</sup> Net ODI penalty (in 2022/23 prices) across water and wastewater for both in-period and end of AMP measures, reflecting adjustments for items under review with Ofwat and third-party impacts



On 23 May 2023, Ofwat announced an investigation into South West Water's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to assurance processes which include independent checks and balances carried out by an external technical auditor. The Group continues to work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation.

The Group has undertaken its own internal investigation into the data and third-party experts have concluded the calculations are within a tolerance as reported, as a result there were no detrimental impacts to customers through ODIs. The Group recognises opportunities to enhance data quality to improve the estimation process and these have been shared with Ofwat. Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply, from closing the investigation with no further action, agreeing to formal S.19 undertakings, through to fining the Group up to 10% of its revenue in relation to the regulated drinking water business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty.

Following the Brixham cryptosporidium outbreak in May 2024, legal proceedings were brought by the Drinking Water Inspectorate (DWI). South West Water pleaded guilty to the charge of supplying water unfit for human consumption on 4 March 2026, with sentence received on 2 June 2026. The Court levied a fine of £1.9 million, reflecting the serious impact this incident had on customers in the area, whilst also recognising the extensive customer support and remedial actions taken by South West Water. An amount of £1.8 million has been included within the non-underlying costs for the matters set out above.

### **Cost change process**

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

The first submission was completed for South West Water in May 2026, with detailed cases and supporting evidence with Ofwat for review. Whilst the Group's submissions amounted to c.£250 million<sup>16</sup> of additional allowances, in-AMP funding was requested as part of that submission. The submissions will be subject to review and scrutiny from Ofwat, and given the nature of certain claims, which are specific to the Group's coastal region, may require ongoing engagement and discussion before agreement. We continue to engage positively with Ofwat in this regard and ensure any additional expenditure is fully supported by our customer research and engagement through our WaterShare+ customer panels.

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<sup>16</sup> In 2022/23 prices

## PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

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

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

## **CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS**

This Report contains forward-looking statements relating to South West Water Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, South West Water Group management which may constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", "outlook", "plan", "probably", "project", "remain", "seek", "should", "target", "will", "would" and related and similar expressions, as well as statements in the future tense. All statements other than of historical fact may be forward-looking statements and represent the Group's belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Group's control. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation, development or performance of the Group and the estimates and historical results given herein. Important risks, uncertainties and other factors that could cause actual results, performance or achievements of South West Water Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements include, among other things, changes in Government policy; regulatory and legal reform; compliance with laws and regulations; maintaining sufficient finance and funding to meet ongoing commitments; non-compliance or occurrence of avoidable health and safety incidents; tax compliance and contribution; failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase; non-recovery of customer debt; poor operating performance due to extreme weather or climate change; macro-economic risks impacting commodity and power prices and other matters; poor customer service and/or increased competition leading to loss of customer base; business interruption or significant operational failure/incidents; difficulty in recruitment, retention and development of skills; non-delivery of regulatory outcomes and performance commitments; failure or increased cost of capital projects/exposure to contract failures; failure of information technology systems, management and protection, including cyber risks; and all other risks in the South West Water Limited Annual Report to be published in June 2026. Such forward-looking statements should therefore be construed in light of all risks, uncertainties, and other factors, including without limitation those identified above, and undue reliance should not be placed on them. Nothing in this report should be construed as a profit forecast.

Any forward-looking statements are made only as of the date of this document and no representation, assurance, guarantee or warranty is given in relation to them including as to their accuracy, completeness, or the basis on which they are made. The Group accepts no obligation to revise or update publicly these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

## SOUTH WEST WATER

### Alternative performance measures

#### (i) Effective interest rate

A measure of the mean average interest rate payable on net debt associated with the Water Group which excludes interest costs not directly associated with net debt. This measure is presented to assess and monitor the relative cost of financing for the Water Group.

	2026 £m	2025 £m
Group net finance costs before non-underlying items	191.4	184.4
Remove: net finance income before non-underlying items not associated with SWW group of companies	(21.3)	(13.8)
<b>Net finance costs before non-underlying items associated with the SWW group of companies</b>	<b>170.1</b>	<b>170.6</b>
Net interest on retirement benefit obligations	1.6	1.1
Capitalised interest	34.0	23.1
Non-debt related interest	2.4	(2.2)
<b>Net finance costs for effective interest rate calculation</b>	<b>208.1</b>	<b>192.6</b>
Group net debt (opening)	4,078.2	3,844.8
Remove: unamortised hedging adjustment	(32.2)	(34.3)
Remove: opening net debt not associated with SWW group of companies	(564.3)	(515.8)
<b>Opening net debt for calculation</b>	<b>3,481.7</b>	<b>3,294.7</b>
Group net debt (closing)	4,508.9	4,078.2
Remove: unamortised hedging adjustment	(30.0)	(32.2)
Remove: closing net debt not associated with SWW group	(688.8)	(564.3)
Add: equity injection from parent company	-	330.0
<b>Closing net debt for calculation</b>	<b>3,790.1</b>	<b>3,811.7</b>
<b>Average net debt (opening net debt + closing net debt divided by 2)</b>	<b>3,635.9</b>	<b>3,553.2</b>
<b>Effective interest rate (%)</b>	<b>5.7</b>	<b>5.4</b>

#### (iv) Effective cash cost of interest

Effective cash cost of interest is calculated on the same basis as the effective interest cost calculation above, but excludes finance costs that are not paid in cash, but accrete to the carrying value of debt (principally the inflationary impact of indexation on index-linked debt).

	2026 £m	2025 £m
Net finance costs for effective interest rate calculation (as above)	208.1	192.6
Remove non-cash interest accrued (income statement indexation charge)	(34.0)	(26.3)
<b>Net finance costs for effective cash cost of interest calculation</b>	<b>174.1</b>	<b>166.3</b>
Opening net debt (as above)	3,481.7	3,294.7
Closing net debt (as above)	3,790.1	3,811.7
<b>Average net debt (opening net debt + closing net debt divided by 2)</b>	<b>3,635.9</b>	<b>3,553.2</b>
<b>Effective cash cost of interest (%)</b>	<b>4.8</b>	<b>4.7</b>

## PENNON GROUP PLC

### Alternative performance measures (continued)

#### (ii) Return on Regulated Equity (RoRE)

This is a key regulatory metric which represents the returns to shareholders expressed as a percentage of regulated equity.

Returns are made up of a base return (set by Ofwat, the water business regulator, at c.5.4% for South West Water and c.5.2% for SES Water for the period 2025-30) plus Totex outperformance, financing outperformance and PCD outperformance. Returns are calculated post tax and post sharing (only a proportion of returns are attributed to shareholders and shown within RoRE). The four different types of return calculated and added to the base return are:

- Totex outperformance – Totex is defined below and outperformance is the difference between actual reported results for the regulated business compared to the Final Determination (Ofwat published document at the start of a regulatory period), in a constant price base.
- Financing outperformance – is based on the difference between a company's actual effective interest rate compared with Ofwat's allowed cost of debt.
- ODI outperformance – the net reward or penalty a company earns based on a number of different key performance indicators, again set in the Final Determination.
- Price control deliverables performance – If the PCD delivery is delayed, Ofwat applies a Time Value of Money (TVM) adjustment claw back, delivery dates are set in the Final Determination.

Regulated equity is a notional proportion of regulated capital value (RCV) which is set by Ofwat at the start of every five-year regulatory period, adjusted for actual inflation. For 2025-30, the notional equity proportion is 45.0%.

Further information on this metric can be found in South West Water's annual performance report and regulatory reporting, published in July each year. The most recent can be found at: [www.southwestwater.co.uk/about-us/how-are-we-performing](http://www.southwestwater.co.uk/about-us/how-are-we-performing).

#### (iii) Total Expenditure (Totex)

Operating costs and capital expenditure of the regulated water and wastewater business (based on the Regulated Accounting Guidelines).

#### (iv) Outcome Delivery Incentive (ODIs)

ODIs are designed to incentivise companies to deliver improvements to service and outcomes based on customers' priorities and preferences. If a company exceeds these targets a reward can be earned through future higher revenues. If a company fails to meet them, they can incur a penalty through lower future allowed revenues.

#### (v) Regulatory Capital Value (RCV)

RCV has been developed for regulatory purposes and is primarily used in setting price limits.

RCV is widely used by the investment community as a proxy for the market value of the regulated business and forms part of covenant debt limits.

Shadow RCV reflects the addition of anticipated regulatory adjustments which amend RCV at the end of a regulatory period. These changes are accrued due to performance through ODIs, changes in levels of Totex expenditure, changes in inflation rates and other regulatory adjustments.

#### (vi) South West Water Group Gearing

Calculated as combined closing net debt of South West Water over RCV for 2025/26 and Shadow RCV for 2024/25.



	2026	2025
	£m	£m
Net debt	3,787.3	3,481.7
RCV/Shadow RCV	6,119.0	5,617.8
<b>Water business gearing</b>	<b>61.9%</b>	<b>62.0%</b>