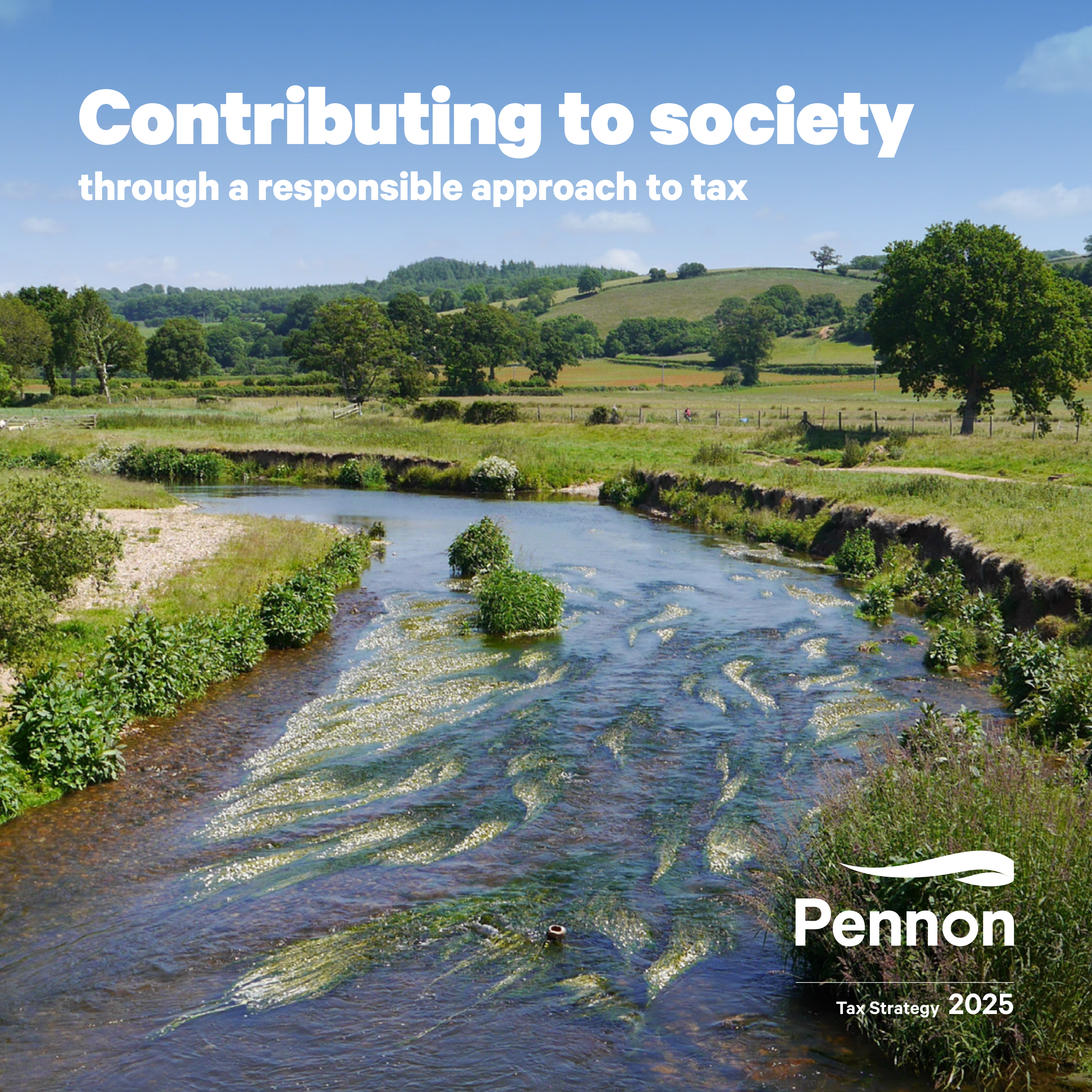
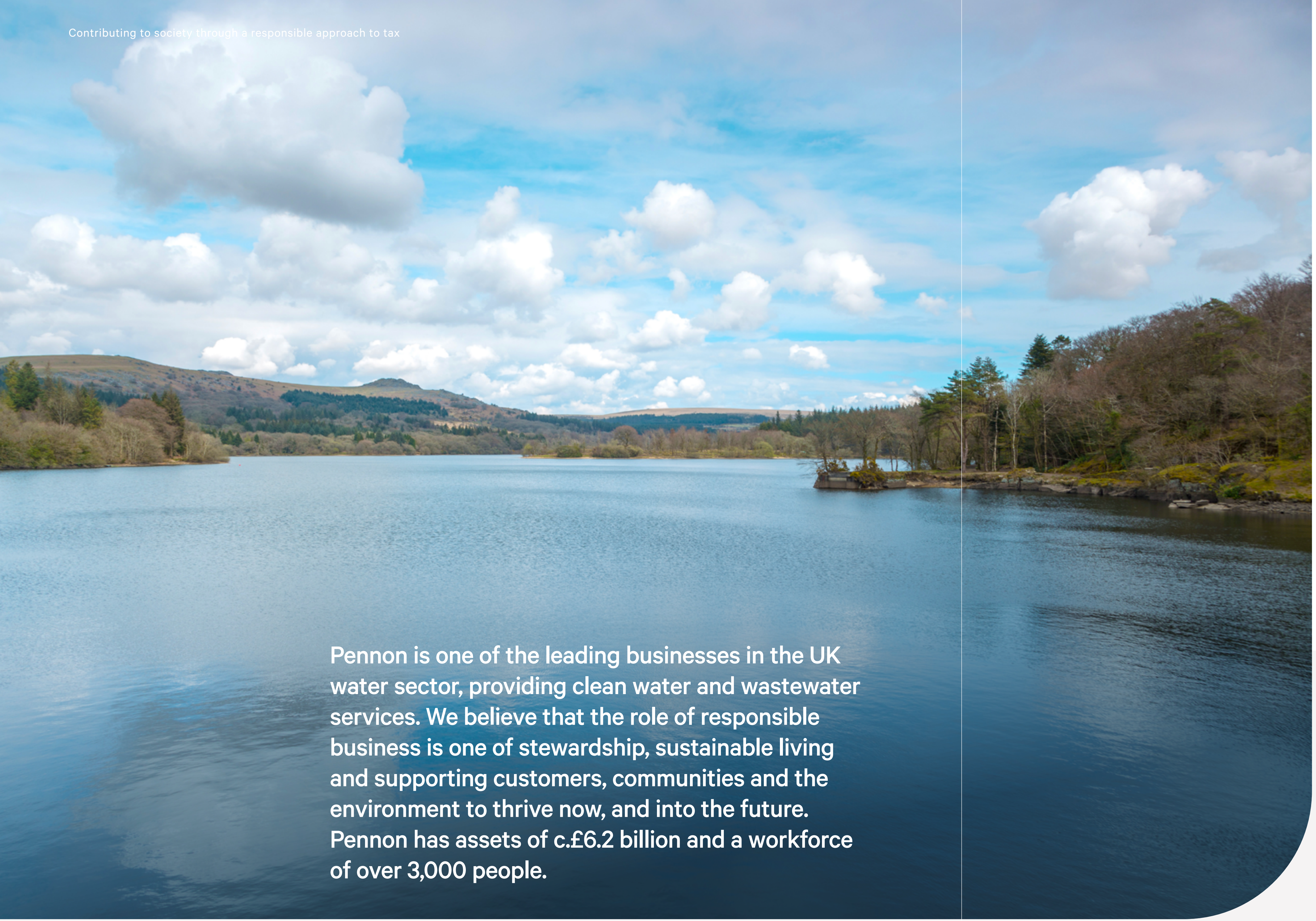
Contributing to society

through a responsible approach to tax



Pennon

Tax Strategy 2025



Pennon is one of the leading businesses in the UK water sector, providing clean water and wastewater services. We believe that the role of responsible business is one of stewardship, sustainable living and supporting customers, communities and the environment to thrive now, and into the future. Pennon has assets of c.£6.2 billion and a workforce of over 3,000 people.

Contents

Pennon Group plc and its subsidiaries are collectively referred to as “the Group”.

Fair Tax

Foreword – Laura Flowerdew

Chief Financial Officer

As a Group, we are committed to transparency and openness with all our stakeholders. We believe this is essential to maintaining strong relationships and building trust. This is why we publish the Group's tax strategy on an annual basis; our tax strategy sets our responsible approach to tax, as well as sharing an overview of the taxes we pay, providing information on how we contribute fairly and transparently to the society of which we form part.

Like any successful business, we continue to work hard to be efficient and effective in delivering the best possible results for customers, communities and shareholders. This is equally relevant when it comes to our approach to tax; the taxes paid by our business help fund government investment in key public services and infrastructure and, by optimising our tax position, we are able to benefit our customers by helping to keep water bills down.

The Group continues to make record levels of investment across all areas of our business, including the provision of clean water, wastewater treatment, storm overflow improvement and investment in renewable energy to support us in our journey to net zero. This significant level of capital spend (£650m for the year ended 31 March 2024) heavily influences our UK tax profile and, when taken together with the effect of the UK Government's recent introduction of "full expensing" tax rules for investment in capital assets, means that the Group does not expect to pay any Corporation Tax in the UK in the immediate future. Corporation tax, however, is only a small element of the tax contributions we make and, in 2023/24, our taxes borne and collected resulted in a total UK tax contribution of £100m, with significant elements attributable to areas such as employment taxes, business rates and environmental payments.

We do not enter into artificial tax arrangements, use tax havens or take an aggressive stance in the interpretation of tax legislation. As a long-term business with a long-term approach to financial management, there have been no changes to the Group's overall tax strategy this year compared to last.

This document not only meets our legal obligation to publish the Group's tax strategy, but also provides a platform to highlight the Group's tax position, and the contribution it makes to society, in much more depth than required by UK legislation. The strategy and policies explored overleaf are applied equally across the whole Group and, as part of HMRC's governance processes, the content of this document is subject to review to ensure that what we say is reflected in our practices and our day-to-day operations.

We hope you will find our 2024/25 update both useful and informative.

Laura Flowerdew
Chief Financial Officer
Pennon Group plc

Fair Tax

Our tax strategy

The Finance Act 2016 requires the Group's tax strategy in relation to UK taxation to be reviewed and updated annually.

Our overall approach to tax planning, risk management and governance is outlined in the following pages and is in line with the Finance Act 2016 requirements. This published strategy applies for the year to 31 March 2025. We do not expect our tax strategy to change significantly year on year, but we review and update it annually. Pennon is a sustainable business with a long-term approach to financial management.

We are committed to having a robust and transparent tax strategy

This means that we will:

1. At all times consider the Group's corporate and social responsibilities in relation to its tax affairs
2. Operate appropriate tax risk governance processes to ensure that the policies are applied throughout the Group
3. Comply with our legal requirements, file all appropriate returns on time and make all tax payments by the due dates
4. Consider all taxes as part of ongoing business decisions
5. Not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation
6. Not undertake transactions which are outside the Group's low-risk appetite for tax or not in line with the Group's Code of Conduct
7. Engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real-time, such interpretations following both the letter and spirit of the laws
8. Not have any connections with tax havens unless it is necessary for the purposes of trading within those jurisdictions*

*Our subsidiary, Peninsula Insurance Ltd, is a Guernsey incorporated company but is UK tax resident.

Our tax profile

The Group has a number of different legal entities. Our main operating businesses are South West Water (including the integrated businesses of Bournemouth Water and Bristol Water), Sutton & East Surrey Water and Pennon Water Services. All are UK-based businesses. Our tax strategy applies to all entities in the Group, all of which are members of one group for tax purposes.

Our businesses

South West Water provides water and wastewater services to a population of c. 1.8 million people in Cornwall, Devon, the Bristol region and parts of Dorset and Somerset. It also provides water only services to c. 1.7 million people in parts of Dorset, Hampshire and Wiltshire. South West Water is regulated by various agencies including The Water Services Regulation Authority (Ofwat), the Environment Agency, the Department for Environment, Food and Rural Affairs (DEFRA) and the Drinking Water Inspectorate. The tax strategy and processes for the Group are mirrored for South West Water, which is considered separately for regulatory purposes.

South West Water Ltd operates through the trading names of South West Water, Bournemouth Water and Bristol Water.

Sutton & East Surrey water was acquired by the Group in January 2024 and provides water only services to over 750,000 people in Surrey, Kent and south London. The supply area extends from Morden and South Croydon in the north, to Gatwick Airport in the south and from Cobham, Leatherhead and Dorking in the west to Edenbridge in the east.

Pennon Water Services are business water specialists providing water retail services for business customers' water management needs, serving customers across England, Wales and Scotland. Pennon Water Services serves national customers through the "Source for Business" brand.

Our taxes

The Group's taxes, borne and collected, are made up of a number of different types of tax and tax regimes. The Group calculates its total tax contribution by combining its taxes borne together with those it collects and remits on behalf of the Government. These taxes can be grouped into the following categories:

Environmental taxes (borne and collected) – These encourage businesses and their customers to act in more environmentally friendly ways. The Group makes payments to the Environment Agency and other regulatory bodies which reduce Profit Before Tax.

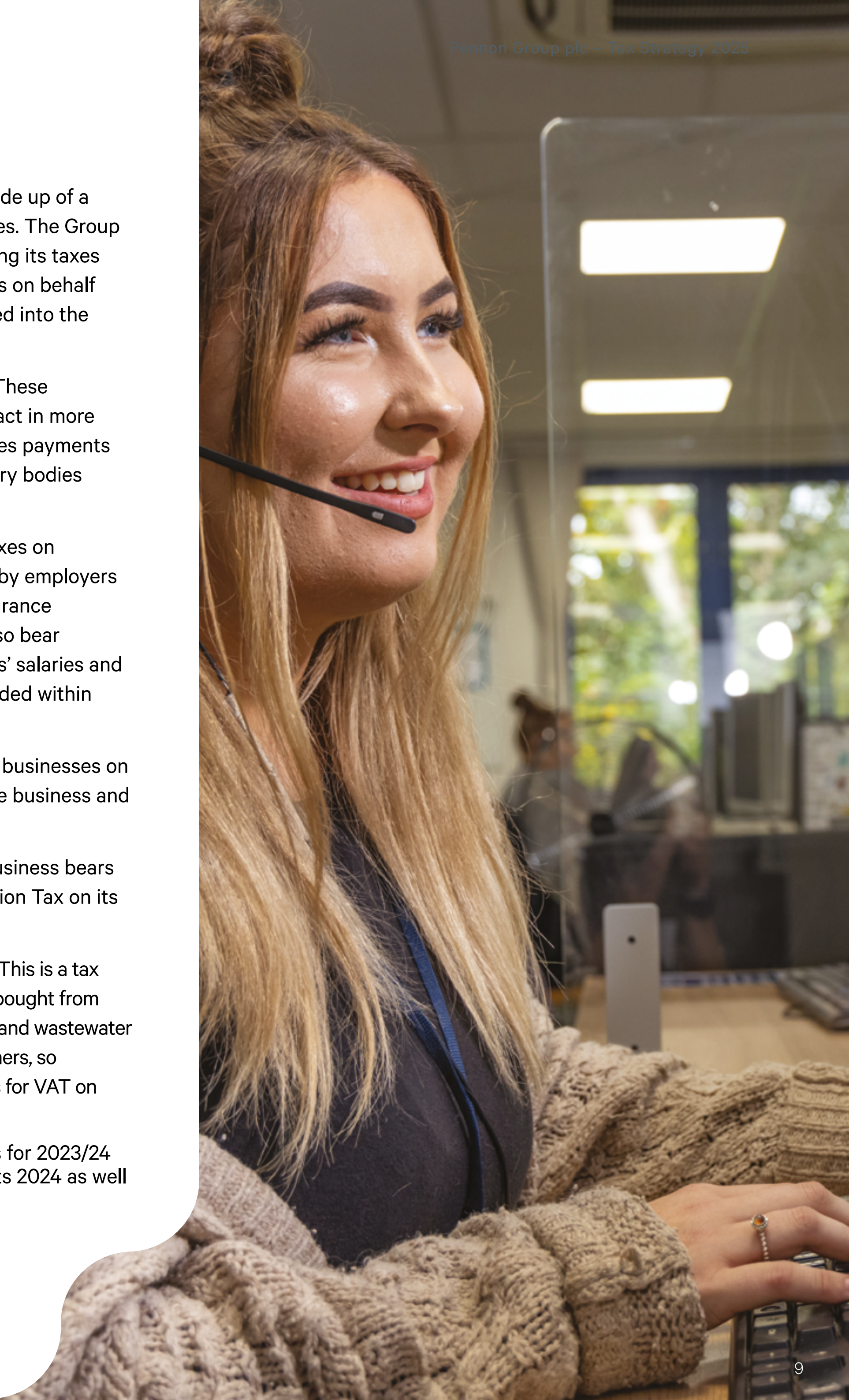
Employment taxes (borne and collected) – Taxes on employees' salaries and benefits are collected by employers through the Pay As You Earn and National Insurance systems and paid over to HMRC. Employers also bear National Insurance Contributions on employees' salaries and benefits. The Apprenticeship Levy is also included within employment taxes.

Business rates (borne) – This is a levy paid by businesses on non-domestic property. It is a cost borne by the business and reduces the Group's Profit Before Tax.

Profit taxes (borne) – These are the taxes a business bears on its profits. The Group is subject to Corporation Tax on its taxable profits.

Value Added Tax (VAT) (borne and collected) – This is a tax charged on goods and services which are either bought from suppliers or sold to customers. Supplies of water and wastewater are VAT zero-rated for the majority of our customers, so generally customers do not incur additional costs for VAT on their water bills.

Further details of the Group's tax contributions for 2023/24 are included in the Annual Report and Accounts 2024 as well on pages 12 and 13.



Our Fair Tax Mark

Launched in 2014, the Fair Tax Foundation's purpose is to encourage and recognise businesses through their Fair Tax Mark accreditation scheme. This is an independent accreditation scheme for businesses paying their fair share of Corporation Tax and reporting on their tax practices transparently. Achieving the Mark demonstrates that we are paying the right amount of Corporation Tax in the right place at the right time and applying the gold standard of transparency.

"Pennon demonstrates how to deliver essential services and make a fair tax contribution"

Fair Tax

The Group is pleased to confirm it has once again maintained the Fair Tax Mark accreditation for the year. This is the seventh year in succession that the Group has been awarded the accreditation and we are proud of our responsible approach to tax. We have also inspired other water companies to apply for the accreditation, thereby improving the tax transparency of the sector in which we operate.

Jaime Boswell, Head of Accreditation, Fair Tax Organisation said:

"Pennon's ongoing commitment to openness and honesty when it comes to tax is commendable. The firm's tax strategy includes a solid commitment to shun artificial and abusive tax arrangements and follow both the letter and spirit of tax law. This, coupled with clear and transparent reporting, means stakeholders can gain a comprehensive understanding of Pennon's tax arrangements. The public wants to see more businesses doing as Pennon has and taking a responsible approach to tax."

Our total tax contribution for 2023/24

£908m
Group revenue

Loss before tax £9m

£63m **Taxes borne**

£37m **Taxes collected**

£100m **Total tax contribution**

Taxes borne includes all taxes which are a cost to the Group, including business rates, Corporation Tax and Employer National Insurance on employee salaries and benefits.

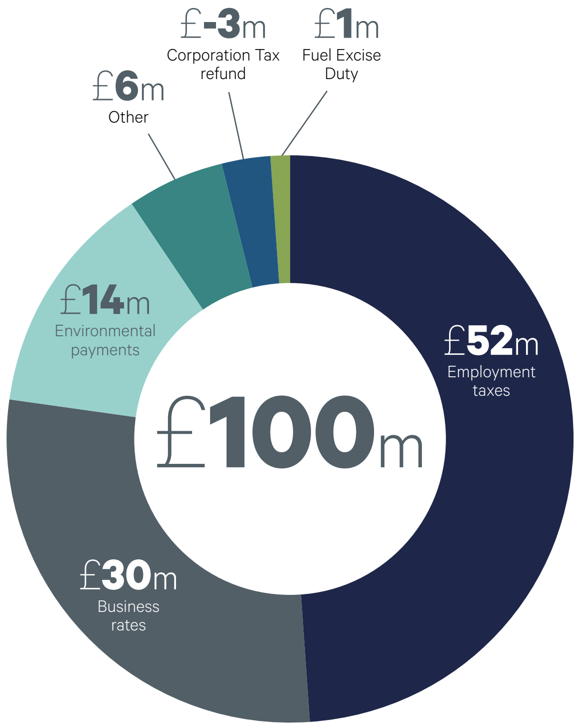
Taxes collected are those where the business is acting as a tax collector on behalf of HMRC and includes Employee National Insurance and Income Tax deducted at source. All figures relate to the year ended 31 March 2024.

Top taxes

Employment taxes	Business rates	Environmental payments
£52m	£30m	£14m

£100m

Total tax contribution for the year ended 31 March 2024



Total Tax Contribution

Our tax in the 2023/24 Financial Statements

£(9.0)m		Loss Before Tax from continuing operations
£(2.3)m	A	Loss multiplied by the standard rate of UK Corporation Tax of 25%
£(0.1)m	B	Tax effect of timing differences
£2.4m	C	Tax effect of permanent items
£(0.5)m	D	Adjustments to tax charge in prior years
£(0.5)m	E	Corporation Tax receivable
£0.5m	F	Adjustment for Corporation Tax refund not yet received
£Nil	G	Corporation Tax paid in respect of the current year
£(3.4)m	H	Corporation Tax refund received in respect of prior years
£(3.4)m	I	Net Corporation Tax refund received in the year

Our Corporation Tax payments are different to the Corporation Tax Credit in the Income Statement.

Corporation Tax is charged at a headline tax rate of 25% on taxable profits, which differ to accounting profits.

These differences are set out opposite.

A This shows the tax credit at 25% of the Loss Before Tax prior to any necessary tax adjustments being made.

B UK tax legislation requires adjustments to be made for certain items which are deductible for tax purposes on a different basis and/or at a different time to that used in the preparation of the accounts. These items include capital allowances, which give relief for qualifying capital assets at set rates in place of accounting depreciation, which is generally non-deductible, and pension contributions, which are deductible on a paid rather than accrued basis. These generate timing differences which are dealt with through deferred tax. Further details are included in our Annual Report and Accounts 2024.

C UK tax legislation requires adjustments to be made for certain items where no tax relief is available or where income is not taxable. Examples include certain professional fees where these are capital in nature, entertaining costs and fines/penalties. These adjustments create a permanent tax effect and either increase or decrease the tax charge.

D When the accounts are prepared, a provision is recorded for the expected tax charge. This is trued-up to the tax computations once they are finalised for the year, with any adjustment being recorded as a prior year item in the current year.

E This is the total Corporation Tax receivable for the year.

F This represents the fact that the amount has not yet been refunded by HMRC.

G Corporation Tax paid in respect of the current year.

H Corporation Tax refunded in respect of prior years.

I This shows the net Corporation Tax paid to HMRC in the year.

Our tax compliance and planning

Capital allowances are given by UK Government to encourage investment in infrastructure. The Group incurred capital expenditure of £650m on assets during 2023/24, on which tax relief on capital allowances of c. £103m was claimed during the year on these assets.

The Group also continued to offer a variety of tax efficient salary sacrifice arrangements. All of these are supported by the UK Government. These aid and support employee engagement and retention.

For the year ended 31 March 2024, the Group:

... will file in excess of

200

tax returns, and

... make over

50

tax payments to HMRC

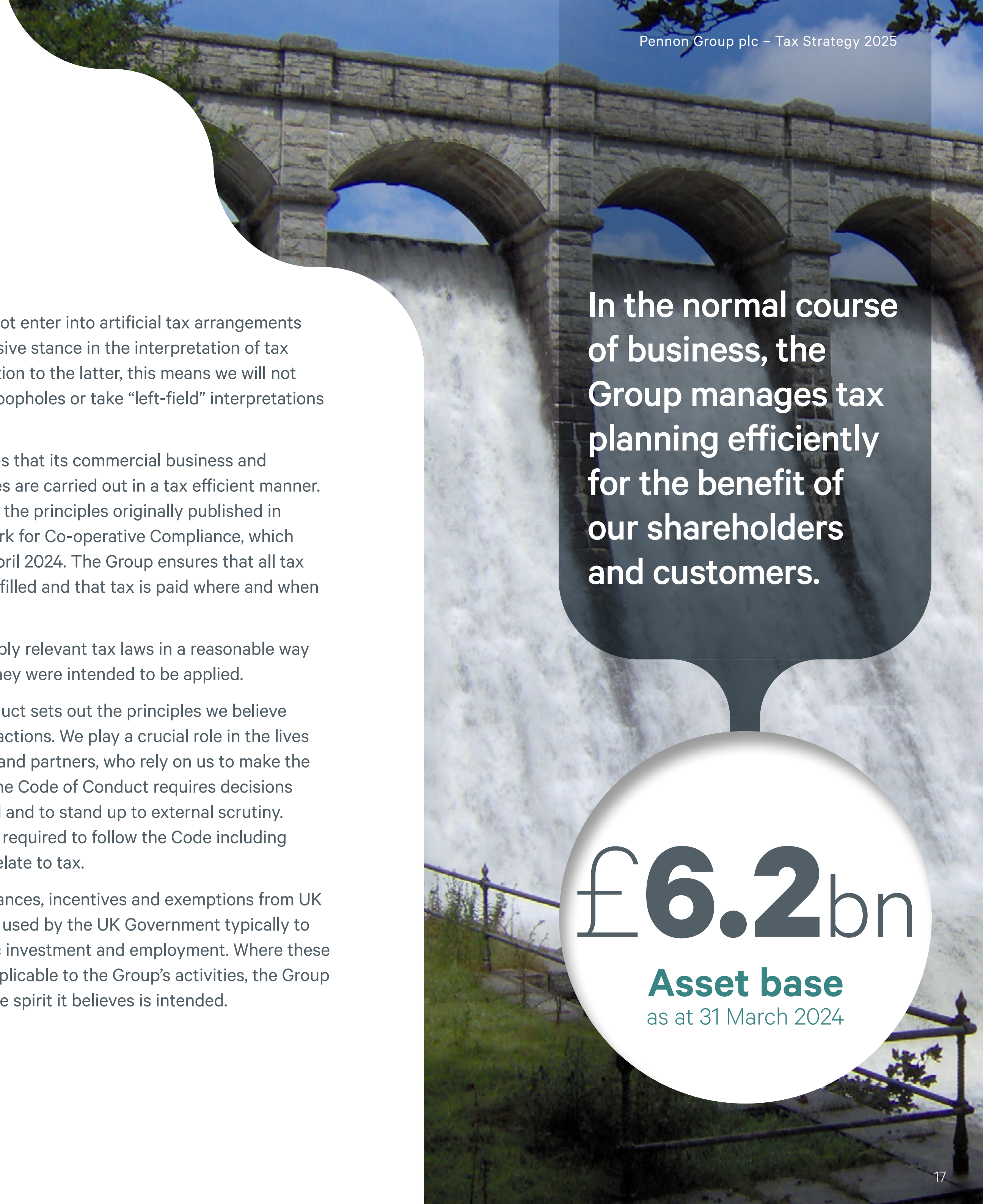
The Group does not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation. In relation to the latter, this means we will not make use of any loopholes or take “left-field” interpretations of tax legislation.

The Group ensures that its commercial business and economic activities are carried out in a tax efficient manner. This is in line with the principles originally published in HMRC’s Framework for Co-operative Compliance, which was updated in April 2024. The Group ensures that all tax obligations are fulfilled and that tax is paid where and when it is due.

The Group will apply relevant tax laws in a reasonable way and in the spirit they were intended to be applied.

Our Code of Conduct sets out the principles we believe should guide our actions. We play a crucial role in the lives of our customers and partners, who rely on us to make the right decisions. The Code of Conduct requires decisions to be legal, ethical and to stand up to external scrutiny. All employees are required to follow the Code including decisions which relate to tax.

Specific tax allowances, incentives and exemptions from UK tax legislation are used by the UK Government typically to support economic investment and employment. Where these allowances are applicable to the Group’s activities, the Group applies them in the spirit it believes is intended.



In the normal course of business, the Group manages tax planning efficiently for the benefit of our shareholders and customers.

£6.2bn

Asset base
as at 31 March 2024

Salary sacrifice

The Group offers salary sacrifice arrangements, which are fully supported by the UK Government, to its employees in areas which include:

- Payments into pension schemes
- Cycle to work

Each of these arrangements is administered by specialist third-party providers. The Group does not offer any non-Government supported salary sacrifice schemes.

Capital allowances

The Group claims capital allowances on its qualifying capital expenditure. With a significant asset base, these allowances are important to the Group.

Capital allowances are available when a business incurs qualifying expenditure on capital items such as infrastructure assets. Capital allowances provide tax relief on these items in place of accounting depreciation, which is not tax deductible. Capital allowance rates are set by the UK Government and every business receives the same rates of allowance.

With effect from 1 April 2023, the UK Government introduced new capital allowance rules for companies which typically allow for either 100% or 50% first year tax deductions for qualifying capital spend (generally referred to as "full expensing"). These new rules, when taken together with the Group's high levels of capital investment (£650m for the year ended 31 March 2024, an 81% year-on-year increase), have a significant impact on our tax profile and mean that the Group is unlikely to be in a UK Corporation Tax paying position in the immediate future. Instead, the Group will generate either excess capital allowances or tax losses, with the latter being carried forward for offset against future taxable profits arising.

Tax relief is available through capital allowances on these items, but requires us to maintain a very detailed and thorough analysis of what is being spent because the amount of relief given depends on the type of expenditure.

Our relationship with tax authorities

The Group engages with HMRC in a proactive and transparent way to identify potential areas of uncertainty in real time.

Where differences of opinion arise, the Group seeks to resolve these in a co-operative and timely manner.

The Group works with HMRC to enable them to understand the tax risks the Group faces and how these are managed. The same approach is taken for both routine and non-routine matters.

We hold regular calls with the Group's Customer Compliance Manager at HMRC to provide updates on the business and to discuss the tax implications of the Group's commercial activities.

Due to the complexity of tax legislation, which can sometimes be interpreted in different ways, the Group and HMRC may occasionally have conflicting opinions on the treatment of certain tax items. Calls and meetings between the Group and HMRC, covering all of the Group's tax affairs, enable potential tax issues and areas of uncertain tax treatment to be highlighted at the earliest opportunity. This enables the Group and HMRC to reach resolution as promptly as possible.

Our tax risk management and governance

The Board of Pennon Group plc (the Board) has ultimate responsibility for the Group's approach to tax and receives regular updates on tax matters and risks.

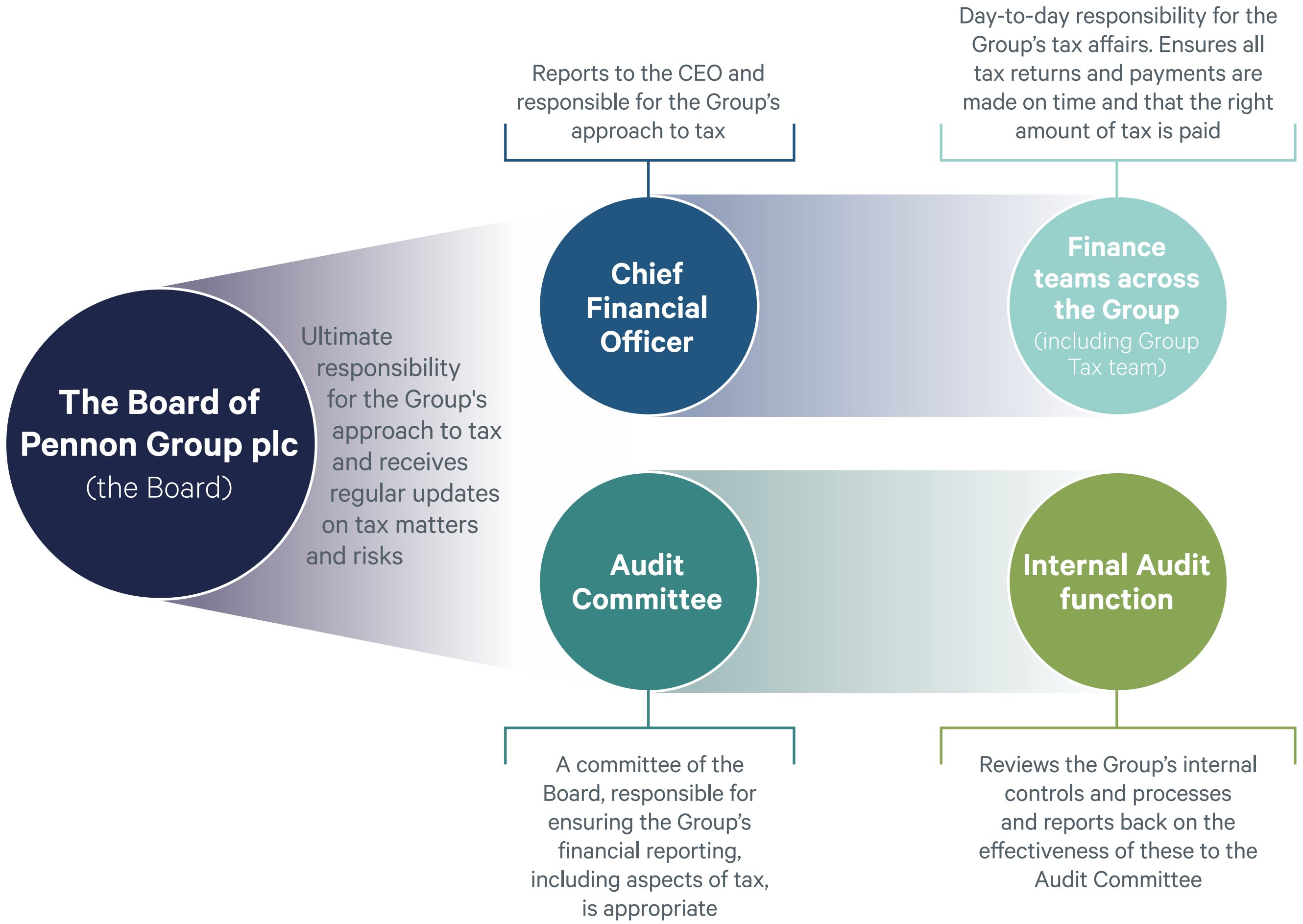
The Board is responsible for the Group's strategy, risk management and policies, including those in relation to tax.

The Audit Committee is a committee of the Board and is responsible for ensuring the appropriateness of financial reporting, reviewing and challenging the ongoing effectiveness of the internal control environment and reviewing and considering the scope of risk management processes across the Group.

The Board aims to adopt a low-risk approach to tax risk management.

Our tax risk management and governance

The diagram below sets out the Group's governance structure in relation to its tax affairs:



Further assurance is provided by the Group's external auditors that the taxes borne and collected by the Group are reported correctly.

The Board is responsible for identifying principal risks and ensuring appropriate risk mitigation is in place to manage those risks effectively. The Board is supported in this by the Audit Committee, which provides a 'top down' assessment of the Group's risks. This is supplemented by 'bottom up' risk assessments undertaken by each operating subsidiary. The Group's risk report within its Annual Report and Accounts contains more information on the risk management framework. South West Water has its own board and audit committee, which operate in the same way as those of the Group and adopt the same tax policies and procedures.

The Group maintains a register of tax risks for taxes borne and collected, with material risks being discussed with the Audit Committee to ensure adequate controls and processes are in place to monitor and report against such risks. Risk reviews and deep dives are undertaken periodically across the different tax areas. The Board is regularly updated on tax matters and any tax implications arising from commercial activities are highlighted to the Board via a risk matrix to help assess the appropriateness of a proposal. The risk matrix considers the strategic fit of any commercial activity against any risk factors, benefits and costs.

The Group manages its tax risks carefully and accounts for areas of tax uncertainty in line with accounting standards requirements, where appropriate.

The Group's tax team is expected to:

- Maintain a tax risk framework.
- Provide tax training and guidance to non-tax specialists so that they have appropriate tax knowledge relevant to their role.
- Apply professional care and judgement when considering direct and indirect tax risks in line with the Group's risk management framework.
- Thoroughly document and explain conclusions reached where tax risks are identified, ensuring there is a strong technical position for such conclusions.
- Where appropriate, seek specialist external advice to ensure tax risks can be managed effectively.

Tax risks and management

Principal tax risks, and details of how the Group manages them, are shown below:

1. Complexity and changes in legislation
   The Group is subject to a range of different taxes in the UK, each of which is governed by complex tax legislation. Such legislation is typically updated on an annual basis. To keep up to date with these changes, the Group ensures that its tax team is appropriately qualified and has access to daily tax updates and specialist tax resources, as well as the opportunity to attend technical briefings. The Group also use the services of external tax advisers as and when required.

2. Compliance and reporting risk
   The Group is required to meet many different statutory filing and payment obligations. If these are not complied with, the Group could incur interest and penalties as well as an increased risk rating being applied by HMRC. The Group uses a combination of tools to ensure that all compliance and reporting obligations are met in accordance with statutory deadlines.

Our tax risk management and governance

2 Compliance and reporting risk (continued)

The Group Tax team works across the business to obtain the necessary commercial understanding of the Group's operations and to obtain the financial information to ensure that the tax computations and returns are complete and accurate. Explanations are provided in the tax computations to assist HMRC in understanding the transactions and their tax implications. A note highlighting key points is submitted alongside the submission of the Corporation Tax computations which are due for filing by 31 March 2025. This highlights transactions where HMRC may seek to gain a greater understanding, thus enabling the tax treatment to be agreed proactively.

Where there are points to be highlighted to HMRC with regard to indirect taxes and associated returns, these are typically raised ahead of the returns being submitted.

Senior Accounting Officer (SAO)

Additionally, the UK's SAO regime requires the SAO to certify that each entity within the Group has appropriate tax accounting arrangements in place, focusing attention on the processes and systems used as part of these arrangements. Clearly defined and documented processes are followed for the filing of tax returns. These are completed prior to the returns being submitted to HMRC. Internal certification is also provided by the preparer and reviewer of the different tax returns so that the SAO is satisfied that the Group meets its obligations under the regime.

The Group Internal Audit function, performs an SAO assurance review each year as further support in this area.

Corporate Criminal Offence (CCO)

CCO was introduced as part of the Criminal Finance Act 2017, applying new criminal offences to apply to corporations that fail to prevent an 'associated person' (someone acting for them or on their behalf), from criminally facilitating tax evasion.

The only defence against a criminal conviction is if the relevant body (e.g. the Group) can evidence that it has put in place reasonable procedures to prevent associated persons from facilitating tax evasion.

As part of the Group's overall framework for demonstrating compliance with the requirements of the CCO regime, a risk assessment was undertaken which identified existing controls and processes that mitigate the Group's risk exposure. This risk assessment is reviewed periodically.

Our Group Internal Audit team perform an annual review of the controls identified and rely upon management to ensure compliance with the requirements of the CCO legislation are in place and operating effectively.

In addition, the Group has a Board approved policy in respect of the "Anti-facilitation of tax evasion" which all employees are required to read and sign. This is supported by a suite of CCO e-training modules for employees in key areas to complete.

The Chief Financial Officer is responsible for the implementation of the Group's approach to tax and reports on this to the Pennon and subsidiary Boards and Audit Committees on a regular basis.

The senior management teams of the Group's subsidiaries are responsible for ensuring that their businesses follow this tax strategy and that processes and procedures are adopted and followed.

Examples of the day-to-day responsibilities for tax operations of the Group are as follows:

a) UK Corporation Tax – Group Tax team

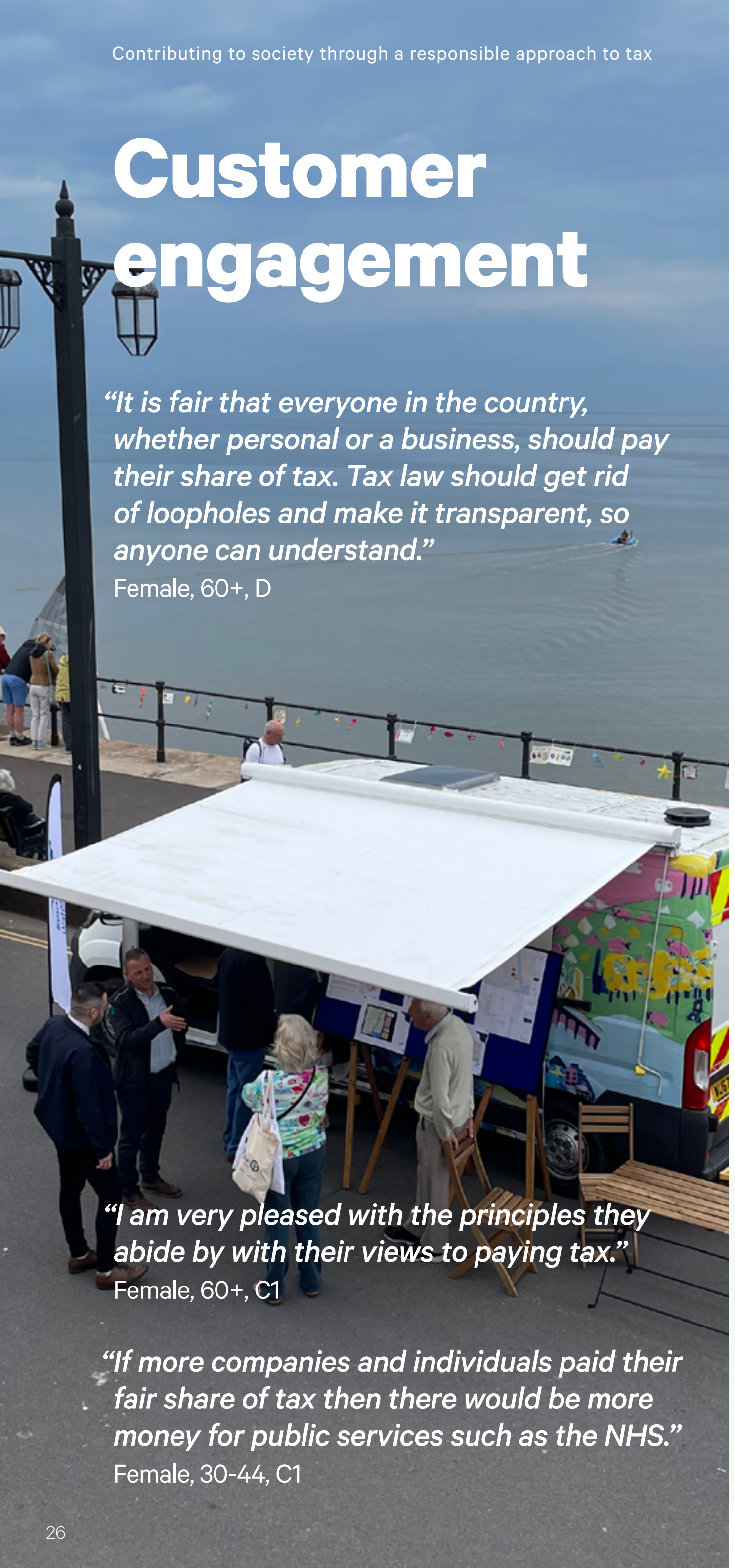
b) Value Added Tax (VAT) – Finance team of subsidiaries

c) Employment taxes (Pay As You Earn/National Insurance Contributions/Apprenticeship Levy) – Group Human Resources and Group Tax team

d) Stamp Taxes – Group General Counsel and Company Secretary

e) Other applicable tax matters (e.g. CIS returns) – Finance team of subsidiaries.

Customer engagement



"It is fair that everyone in the country, whether personal or a business, should pay their share of tax. Tax law should get rid of loopholes and make it transparent, so anyone can understand."
Female, 60+, D

"I am very pleased with the principles they abide by with their views to paying tax."
Female, 60+, C1

"If more companies and individuals paid their fair share of tax then there would be more money for public services such as the NHS."
Female, 30-44, C1

The **majority of customers surveyed** agreed with **the Group's attitude to tax planning.**

To assist in the initial development of our tax strategy, we originally carried out customer and stakeholder research through focus groups and qualitative surveys. Key feedback included:

- Tax is a key aspect of corporate responsibility.
- The view that a company that gets its tax right is highly likely to get other aspects of corporate social responsibility right.

Key priorities for our customers are:

- Companies paying their fair share of tax.
- Clearer tax policies for everyone to understand, not just tax experts.
- Stronger legislation in place to ensure that companies who provide services in the UK pay the right level of Corporation Tax.

As a result of this research, we have:

- Been transparent about our approach to tax strategy in this report.
- Sought to make the tax strategy accessible to all.
- Included real-life examples to demonstrate how the tax approach works in practice.

95% of customers surveyed **broadly supported our tax strategy**

Glossary

Apprenticeship Levy	A tax on employers which can be used to fund apprenticeship training.
Artificial tax arrangements	These involve carrying out or entering into an arrangement which is not a reasonable course of action in relation to the tax provision(s) in question or lacks economic or commercial substance.
Business rates	A tax on non-domestic property.
Capital allowances	Tax relief given when a business incurs qualifying expenditure on capital items such as plant and machinery which are used by the business. As such the business is allowed to deduct some or all of the cost of the item from its taxable profits over a number of years.
Climate Change Levy	A tax on energy delivered to non-domestic users.
Corporation Tax	A tax on the profits of the business.
Fuel Excise Duty	A tax on fuel used in the business.
HMRC	His Majesty's Revenue and Customs, the UK tax authority.
Insurance Premium Tax (IPT)	A tax charged on insurance premiums.
National Insurance Contributions (NICs)	Paid by both employers and employees. Employee NICs are deducted at source from an employee's pay. Employer NICs are a cost to the business and are charged based on an employee's pay and benefits. All NICs are paid over to HMRC.
Pay As You Earn (PAYE)	Income tax which is deducted at source from an employee's pay. This tax is paid over to HMRC.
Salary sacrifice	An agreement to reduce an employee's entitlement to cash pay, usually in return for a non-cash benefit. Tax and NIC exemptions are available on the following non-cash benefits: 1. Payments into pension schemes 2. Employer provided pension advice 3. Childcare vouchers, workplace nurseries and directly contracted employer provided childcare 4. Bicycles and cycling safety equipment (including cycle to work). Where an employee sacrifices salary in return for one of these government supported exemptions, they save the tax and NICs on the sacrificed salary up to certain limits set by the Government. The employer also saves employer's NICs on the salary sacrificed.
Stamp Taxes	Taxes on the acquisition of chargeable securities or the acquisition of land or property.
Tax allowances, incentives and exemptions	Tax reliefs offered by the Government to encourage certain behaviours and actions by business. For example, to encourage investment in capital expenditure the UK Government offers capital allowances.
Value Added Tax (VAT)	A tax levied on the sale of goods and services.

Fair Tax

This document complies with the Group's duty under Paragraph 16(2) of Schedule 19 of the Finance Act 2016 to publish a group tax strategy for the year ended 31 March 2025

Pennon

Peninsula House, Rydon Lane, Exeter EX2 7HR
Registered In England No 2366665