

10 June 2026

**Pennon Group plc**  
**Full Year Results 2025/26**

Pennon Group plc ('Pennon' or the 'Group') today announces its results for the full year ended 31 March 2026.

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**

	<b>2025/26</b>	<b>2024/25</b>
Revenue	<b>£1,291.4m</b>	£1,047.8m
Underlying EBITDA <sup>^</sup>	<b>£519.2m</b>	£335.6m
<b>Underlying profit/(loss) before tax<sup>^</sup></b>	<b>£135.1m</b>	(£35.1m)
Non-underlying items before tax <sup>1^</sup>	<b>(£20.7m)</b>	(£37.6m)
<b>Profit/(loss) before tax - statutory</b>	<b>£114.4m</b>	(£72.7m)
<b>Profit/(loss) after tax - statutory</b>	<b>£92.6m</b>	(£56.8m)
<b>Earnings/(loss) per share</b>		
Adjusted basic EPS <sup>^</sup>	<b>28.3p</b>	(10.3p)
Basic EPS <sup>^</sup>	<b>19.4p</b>	(16.1p)
Dividend per share <sup>2</sup>	<b>29.29p</b>	31.57p
<b>Capital expenditure<sup>^</sup></b>	<b>£643.6m</b>	£652.5m

**Financial highlights**

- Return to profitability in 2025/26, with statutory profit before tax of £114.4 million (2024/25: loss of £72.7 million)
- 55% increase in underlying EBITDA as a result of increased revenues and a focus on cost management
- Regulated water revenue up c.25% 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 £643.6 million of capital investment across the Group in 2025/26 - reflecting £588.5 million of investment in our water businesses as we focus on delivering on our AMP8 commitments
- 2025/26 Return on Regulated Equity (RoRE) of 6.7%, with outperformance on financing and totex partly offset by ODI penalties.
- Full year dividend of £138.2 million (2024/25: dividend £133.7 million), resulting in a dividend per share of 29.29p.

### **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% reduction 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 sector leading performance in SES and strong 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>
- Investment in Pennon Power has continued with two of our four sites, Fife and Aberdeenshire, fully energised and generating revenues
- 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

- Our financial performance will continue to improve through increased revenues and ongoing focus on cost management; operational performance will remain in net ODI penalties as we look to improve operational outcomes.
- We are well positioned for anticipated changes in the water sector and stand ready to support the government's Transition Plan.
- Continued drive on efficiency and innovation in our approach as we focus on our strategic priorities – building resilience, fixing storm overflows, powering our net zero ambitions and delivering improved services for customers.
- Strategic update to follow before the end of September 2026.

**Notes:**

<sup>^</sup> Measures with this symbol are defined in the Alternative Performance Measures (APM) section of this document, underlying measures are presented before non-underlying items

<sup>1</sup> Non-underlying items are those that in the Directors' view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance in the year and business trends over time. 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 presentation of results is consistent with internal performance monitoring.

<sup>2</sup> Dividend policy of CPIH. 2025/26 dividend reflects 2024/25 base increased by CPIH of 3.4% at 31 March 2026.

<sup>3</sup> Using the Environmental Agency's EPA metric reflecting increased sewer length.

<sup>4</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

<sup>5</sup> In 2022/23 prices

**Results presentation**

A live presentation of these results hosted by Keith Haslett, Group Chief Executive Officer and Laura Flowerdew, Group Chief Financial Officer, will take place at London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS at 9:00am (BST), today, 10 June 2026. The presentation will be immediately followed by audience Q&A.

The event will be available to view online as a live webcast and can be accessed via our website here: <https://www.pennon-group.co.uk/investor-information>

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**EXECUTIVE CHAIR'S LETTER**

This has been a year of progress, and continued delivery at Pennon in the face of challenging weather patterns, particularly in the second half of the year. It has also been a year of leadership transition and a changing regulatory landscape in the UK water sector.

During the year, the industry has been subject to the most significant review of its regulatory framework since privatisation. The work of the Independent Water Commission, led by Sir Jon Cunliffe, and the Government's subsequent White Paper, 'A New Vision for Water', signal a profound shift in expectations for the sector, with greater transparency, stronger environmental accountability and a renewed focus on long-term infrastructure resilience, all of which we support wholeheartedly.

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 Pennon 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.

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.

With these changes now in place, the work of the temporary Operating Committee that I supported as Executive Chair over the leadership transition period has concluded. I'd like to thank Laura Flowerdew, Sarah Heald and Andrew Garard for their work and dedication serving on the Operating Committee during this period. I resumed my Non-Executive Chair role on 1 April 2026 when Keith joined as Chief Executive and I will continue to ensure continuity of governance and oversight as the Group enters the next phase of delivery.

## **Our Performance**

The Group has returned to profitability during the year, with underlying EBITDA<sup>^</sup> increasing by 55% compared with the prior year to £519.2 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. Group Profit Before Tax was £114.4 million compared to a prior year loss of £72.7 million.

Our first year has seen Water Group RoRE performance of 6.7%<sup>^</sup>, reflecting benefits from financing and totex performance, partially offset by the in-year impact of operational performance challenges from weather extremes.

### *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,

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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

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.

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. SES Water maintained their industry-leading water quality position, whilst 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 and SES fell slightly short of the reduction required to meet the year one target. 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.

We continue to deliver environmental gains, having restored 254 hectares of peatland during the year, engaging 2,370 people in events, volunteer days and school excursions. Pennon Power also plays a central role in driving gains in clean energy, enhancing energy resilience, and reducing exposure to energy market fluctuations, while also delivering sustainable financial returns and contributing to overall Group profitability. Two solar projects were fully constructed by March 2026, with Aberdeenshire at full generation and Fife energised and in commissioning stage. Two further sites are on track for energisation and commissioning in 2026/27.

### *Supporting Customers and Communities*

Supporting customers and communities remains central to Pennon'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.309,000 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 Pennon's history.

Our acceptance of the PR24 Final Determinations enabled us to accelerate mobilisation 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.

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

Pennon 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, Pennon is well positioned to deliver for customers, communities, shareholders and the environment in the years ahead.

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<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

The Group 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 55% year-on-year to £519.2 million (2024/25: £335.6 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.

Underlying operating profit more than doubled year-on-year to £325.5 million (2024/25: £148.5 million), with EBITDA benefits moderated by modestly increased depreciation charges reflecting the Group's expanding asset base from the ongoing capital investment programme.

Non-underlying costs of £20.7 million were incurred (2024/25: £37.6 million) as a result of ongoing restructuring charges, investment in new technology and costs associated with environmental and legal provisions.

Interest costs also increased, reflecting higher borrowing to support the regulated capital programme and investment in Pennon Power. This was partially offset by higher year-on-year interest capitalisation, again stemming from the ongoing capital programme.

As a result, underlying profit before tax<sup>^</sup> was £135.1 million (2024/25: loss of £35.1 million), whilst statutory profit before tax was £114.4 million (2024/25: loss of £72.7 million). Statutory profit after tax was £92.6 million (2024/25: loss of £56.8 million).

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.

We invested significant levels of capital to deliver network resilience and enhancements and benefits for the environment and our customers. Our Group-wide capital investment was £643.6 million<sup>^</sup> (2024/25: £652.5 million), comprising £588.5 million of investment in our water businesses as we focus on delivering on our AMP8 commitments.

Our expenditure was slightly lower than anticipated as a result of reprofiling of spend, to ensure robust modelling and clear design across our major projects, prior to commencing on-site delivery. Across the water business we have delivered key investments in storm overflow reductions,

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

wastewater treatment and infrastructure, clean water treatment works, network resilience, leakage and metering. Outside of the water business we continue to invest in renewable energy sites, with Pennon Power capital expenditure of £54.1 million in 2025/26.

Our current rate of investment for the Group aligns with that required to deliver our five-year programme of £3.2 billion<sup>11</sup> and which will deliver 34% growth in our regulatory asset base to 2030. To support this growth, we are focused on ensuring we have a strong and resilient balance sheet and we end the first year of the AMP8 period with a Water Group gearing of 61.8%, well within our gearing policy of 55-65% and within our anticipated range of 60-65% to 2030 for our Water Group. The continued strong Water Group performance reflects the benefit of significantly improved operating cash flows in 2025/26, supporting investment in our capital programme.

Debt funding is also critical for our growth; both South West Water and SES Water continue to maintain investment-grade credit ratings, enabling access to competitive financing. During the year, the Group has raised £640 million in additional funds to support the AMP8 capital programme and expects to continue to raise this quantum of debt each year through the AMP8 period.

We continue to outperform the regulatory cost of equity. Our RoRE<sup>^</sup> in 2025/26 reflects a 6.7% real return to shareholders, outperforming the equity return allowed by Ofwat of 5.4% as a result of strong financing and totex performance in year, and offset by challenging ODI performance, as operational performance was impacted by adverse weather conditions and a step up in targets in the first year of the five-year period.

### Group performance – summary

	Revenue		Underlying EBITDA	
	£m	£m	£m	£m
	2025/26	2024/25	2025/26	2024/25
South West Water	937.8	737.7	481.7	308.6
SES Water	84.2	82.8	29.0	29.6
<b>Total Water Group</b>	<b>1,022.0</b>	<b>820.5</b>	<b>510.7</b>	<b>338.2</b>
Retail	381.7	320.3	9.9	7.5
Other	25.6	12.8	(1.4)	(10.1)
Intra-group	(137.9)	(105.8)	-	-
<b>Group</b>	<b>1,291.4</b>	<b>1,047.8</b>	<b>519.2</b>	<b>335.6</b>

Group revenue for 2025/26 was £1,291.4 million (2024/25: £1,047.8 million), reflecting strong growth across the business.

Water revenue increased by £201.5 million (24.6%), primarily driven by the benefit of increased regulatory allowances and higher consumption. This uplift reflects revised tariff structures and enhanced service obligations under the regulatory framework, supporting our long-term investment and service delivery plans.

Non-household retail revenue increased by £61.4 million to £381.7 million, with new contracts outside South West Water regions contributing c.£10.3 million, in addition to tariff increases. This reflects continued progress in expanding our presence and growing the customer base.

<sup>11</sup> At forecast outturn prices

Overall, the Group's underlying EBITDA<sup>^</sup> has increased 55% from £335.6 million to £519.2 million, driven by higher water revenue and a continued focus on operational efficiency. It also reflects the strength of the business model and the benefits of our investment in transformation, delivered alongside managing inflationary and operational cost pressures.

Cost pressures in the period reflected inflationary costs, coupled with a step up in costs resulting from the new regulatory plan. The impact of both high summer demand and exceptional winter storms on our operations also led to higher in-year costs, as we looked to mitigate the impact on customers and the environment of these conditions, and support and compensate customers – with increased payments - where our service fell short of expectations. These cost impacts were partially offset by a focus on our efficiency initiatives and integration across our regions and businesses, with greater focus on cost control across our four business units.

Our ongoing commitment to affordability and support schemes for those in need will be critical going forward, both to support our customers and to ensure we maintain a strong collections profile. Despite the step up in revenues, cash collection remained strong across the year. Expected credit loss charges were £19.5 million (1.5% of revenue), slightly higher than the prior year (0.9%) but remaining strong within the sector. Our teams continued to focus on both managing older debt profiles and ensuring effective collection of more recent billings, despite the increase in tariffs.

Our non-household retail businesses saw a 32.0% increase in EBITDA, with increase in tariffs added to by a strong focus on gross margin improvement and cost control.

As a result, underlying profit before tax<sup>^</sup> was £135.1 million (2024/25: loss of £35.1 million) and statutory profit before tax was £114.4 million (2024/25: loss of £72.7 million) after non-underlying costs of £20.7 million (2024/25: £37.6 million).

## **Segmental performance – Water businesses**

### *South West Water*

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.

Net finance costs of £170.1 million (2024/25: £170.6 million), reflect an effective interest rate of 5.7%<sup>12</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.

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<sup>12</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.

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.

### *SES Water*

SES Water's revenue for 2025/26 was £84.2 million (2024/25: £82.8 million), EBITDA performance was stable as inflationary cost increases were partially offset by increased revenue and savings from an operational costs efficiency programme.

SES Water's capital investment of £25.2 million has focused on network resilience, leakage detection and repair, lead pipe replacement, and metering.

### **Segmental performance – Non-household retail**

The Group holds interests in two non-household water retailers, Pennon Water Services (80% ownership) and SES Business Water (100% ownership) which are reported as the non-household retail segment. Revenue has increased by 19.2% year-on-year, as a result of tariff increases and new contract wins. Underlying EBITDA increased by 32.0% year-on-year as a result of revenue increases, coupled with a strong focus on margin improvements and cost control within the businesses. The Group also owns 30% of Water2Business, which is reported under the equity method.

#### *Pennon Water Services (PWS)<sup>13</sup>*

Pennon Water Services has delivered a strong financial performance for the year through its continued focus on key strategic initiatives: growing through long-term contracts in targeted business sectors, good customer retention and strong control of operating costs despite additional cost pressures.

Overall revenue increased by 21.2% to £305.8 million (2024/25: £252.4 million) through new contract wins and tariff increases across wholesale water charges.

The business continued to maintain its focus on targeting high-quality, sustainable customers who will benefit from the value-added services that form part of PWS' differentiated service proposition. New business wins contributed £10.3 million additional revenue compared to the prior year.

Operating costs have increased during the year as a result of the pass through of wholesale water costs; other operating costs remain under tight control despite inflationary pressures, leading to stable underlying EBITDA year-on-year.

During the year, Pennon Water Services commenced investment in the implementation of a new billing system to provide improved automation, efficient delivery and better customer self-service. This expenditure will drive efficiencies, support ongoing efficient margins and enable revenue growth. The implementation costs are separately reported as non-underlying costs, given the non-recurring element of this programme of work over time.

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<sup>13</sup> Pennon Water Services (PWS) – 80:20 joint venture with South Staffordshire.

PWS's statutory profit before tax was £5.3 million (2024/25: £5.4 million) after non-underlying costs of £1.6 million (2024/25: nil). The underlying profit before tax in 2025/26 was £6.9 million (2024/25: £5.4 million), an increase of 27.8% compared to prior year.

### *SES Business Water*

SES Business Water's revenue increased by 11.8% from £67.9 million in 2024/25 to £75.9 million in 2025/26 driven primarily by wholesale tariff increases, with EBITDA of £0.9 million (2024/25: loss of £0.1 million).

The business continued to focus on stabilising operations, prioritising portfolio quality and strengthening cash recovery.

### **Segmental performance – Other**

The Other segment comprises the results of Pennon Group plc company and other Group businesses, including Pennon Power and the ancillary businesses of SES. The Other segment contributed underlying EBITDA of a loss of £1.4 million (2024/25 loss of £10.1 million) and an underlying loss before tax of £2.6 million in the year (2024/25: loss of £3.8 million) with non-underlying costs of £3.7 million (2024/25: £1.5 million) associated with the restructuring and the closure of an ancillary business acquired as part of the SES Group.

Pennon Power saw an underlying EBITDA increase in 2025/26 of £1.8 million (increase on £0.3 million loss reported in 2024/25). This has been driven by revenue and other income of £2.1 million (2024/25: nil).

### **Share of post-tax profit from associated companies**

The Group has a 30% interest in Water2Business Limited (W2B), a water retailer joint venture with Wessex Water. This investment is accounted for under the equity method and as the financial performance improves as it has gained scale, we have recognised £1.0 million of profit after tax in our 2025/26 results (2024/25: £0.8 million), an increase of 25.0%.

### **Group finance costs (net)**

The £7.0 million increase in finance costs (net) was primarily driven by new and renewed debt facilities (£34.3 million) as we continue to invest record levels of capital in our water businesses, offset by lower interest rates (£8.9 million), increased interest receivable (£6.3 million), higher levels of capitalised interest (£12.8 million), given ongoing investment and other movements amounting to £0.7 million.

The Group continues to efficiently secure funding through its Sustainable Financing Framework and to ensure interest rate risk is mitigated in line with the Group Treasury Policy, this is achieved both through issuing fixed rate debt issuances and effective interest rate hedging, whilst a further component of the debt portfolio is index-linked.

### **Non-underlying items**

Non-underlying items<sup>^</sup> for 2025/26 were a net charge before tax of £20.7 million (2024/25: net charge of £37.6 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:

- £9.9 million of technological enhancement costs in connection with the implementation of new customer technology platforms in both South West Water and Pennon Water Services
- £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
- £4.1 million of costs in connection with ongoing restructuring and reshaping actions

The non-underlying<sup>^</sup> charges in the year give rise to a net tax credit of £4.1 million in relation to the above items.

## **Tax**

The overall 2025/26 tax charge for the Group was £21.8 million (2024/25: credit of £15.9 million). On an underlying basis, the tax charge for 2025/26 for the Group of £25.9 million (2024/25: credit of £7.0 million) consisted of:

- Deferred tax charge of £25.3 million (2024/25: credit of £7.8 million). This charge primarily arises in relation to capital allowances in excess of depreciation charged across the Group, largely due to full expensing. This is partially offset by a current year deferred tax credit in relation to tax losses carried forward for utilisation in later periods
- Current tax charge of £0.6 million (2024/25: charge of £0.8 million) predominantly relating to prior year items.

There was also a non-underlying current tax credit in the year of £0.8 million (2024/25: credit of £0.5 million) and a deferred tax credit in the year of £3.3 million (2024/25: £8.4 million) relating to the non-underlying items.

The Group continues to generate tax losses, all of which are carried forward for future relief. These tax losses arise as a result of the enhanced capital allowances available because of full expensing and first year allowances, pension payments made during recent years where tax relief is now due, and capitalised interest, which for tax purposes is deductible in the year incurred.

Given the Group's continued capital investment programme and full expensing deductions together with 50% first year allowances on long life assets and integral features, the Group does not expect to generate taxable profits or make any corporation tax payments for the foreseeable future.

The UK Finance (No.2) Act 2023 introduced the Pillar Two global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax in line with OECD BEPS Pillar Two principles. The UK is the only jurisdiction in which the Group operates therefore an assessment of any potential Pillar Two tax exposure has been performed focusing solely on the application of the UK domestic top-up tax rules. The assessment performed by the Group, based on country-by-country reporting principles and financial statements has determined that no top-up tax is expected to arise.

## **Earnings per share (basic and diluted)**

The Group has recorded a statutory earnings per share of 19.4 pence per share for the year ended 31 March 2026 (2024/25: loss of 16.1 pence per share). This includes a net non-underlying<sup>^</sup> charge before tax of £20.7 million (2024/25: £37.6 million) and a net non-underlying tax credit of £4.1 million (2024/25: charge of £8.9 million).

Our adjusted earnings per share excludes the impact of deferred tax charges and non-underlying<sup>^</sup> items. For the Group, we have generated basic adjusted earnings per share<sup>^</sup> for 2025/26 of 28.3 pence (2024/25: loss of 10.3 pence).

### **Movement in net debt**

The Group's cash flow from operations for 2025/26 was £529.7 million (2024/25: £233.6 million). Our improved operating cash flows reflect the higher levels of underlying profitability, benefitting from higher tariffs and operational efficiencies, added to by improved working capital management, partially offset by cost pressures from inflation and delivering on our operational performance commitments.

Net interest payments were £154.6 million (2024/25: £132.0 million) with the higher payment in 2025/26 driven by increased debt consequent on our ongoing record levels of capital investment.

Capital investment has resulted in slightly lower cash outflows of £33.9 million to £632.8 million (2024/25: £666.7 million). Capital investment included £54.1 million (2024/25: £40.7 million) for the investment in Pennon Power.

Other significant movements in net debt in 2025/26 include payment of our interim and final dividends for 2024/25 totalling £133.7 million (interim and final dividends for 2023/24: £126.9 million). In addition, there was non-cash indexation on our loan instruments totalling £43.3 million (2024/25: £33.4 million).

<b>Pennon Group – summarised net debt flow (£m)</b>	<b>2025/26 flows</b>
Net debt excluding other non-cash indebtedness - 1 April	(3,936.2) <sup>14</sup>
<b>Opening balance 1 April</b>	<b>(4,078.2)</b>
Cash generated from operations	529.7
Corporation tax received	1.0
Net interest paid	(154.6)
Capital investment <sup>^</sup>	(632.8)
Proceeds from dividend forfeiture	1.7
Share Issue transaction costs	(5.6)
Ordinary dividends paid	(133.7)
Non-cash index-linked accretion	(43.3)
Other movements <sup>15</sup>	6.9
<b>Closing balance 31 March</b>	<b>(4,508.9)</b>
Net debt excluding other non-cash indebtedness - 31 March	(4,379.6) <sup>14</sup>

### **Net debt and liquidity**

<sup>14</sup> Excluding the carrying value of fair value acquisition adjustments and other non-cash indebtedness

<sup>15</sup> Includes unwind of fair value adjustments and other non-cash indebtedness.

The Group's net debt at 31 March 2026 was £4,508.9 million (31 March 2025: £4,078.2 million). This includes fair value adjustments of £96.5 million (31 March 2025: £106.8 million) which are released over the life of the related debt instruments and other non-cash accounting adjustments of £32.8 million (31 March 2025: £35.2 million). The Group's net debt position excluding these adjustments is £4,379.6 million (31 March 2025: £3,936.2 million).

As at 31 March 2026, the Group had £998.3 million of liquidity through a combination of cash and committed facilities (31 March 2025: £1,036.1 million). This consists of cash and cash deposits of £388.3 million (31 March 2025: £476.1 million), including £55.6 million (31 March 2025: £58.2 million) of restricted funds representing deposits with lessors against future lease obligations, and £610.0 million (31 March 2025: £560.0 million) of undrawn committed facilities.

### Group debt

<b>Group debt at 31 March 2026 (£m)</b>	<b>Gross debt</b>	<b>Net debt</b>
<b>Pennon Group Plc</b>	<b>365.3</b>	<b>364.9</b>
<b>Water Group</b>	<b>4,388.6</b>	<b>4,019.3</b>
- South West Water	4,087.5	3,787.3
- SES Water	301.1	232.0
Other Group companies	233.5	214.9
Intercompany borrowing eliminations	(219.5)	(219.5)
<b>Total adjusted Group (excluding FV and non-cash indebtedness)</b>	<b>4,767.9</b>	<b>4,379.6</b>
Non-cash indebtedness	129.3	129.3
<b>Total Group</b>	<b>4,897.2</b>	<b>4,508.9</b>

During the year, the Group has secured c.£640 million of new debt, through its diverse portfolio, consisting of:

- £150 million in US private placements with an average maturity of four years
- £300 million through our inaugural public bond issuances under our EMTN<sup>16</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.

The Group has secured an additional £320 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.

Water Group net debt at 31 March 2026 is a mix of fixed (£2,763.8 million, 68.7%), floating (£211.4 million, 5.3%) and index-linked borrowings (£1,044.1 million, 26.0%), which reflects our diverse debt portfolio. Where appropriate, derivatives are used to fix the rate on floating rate debt.

<sup>16</sup> Euro Medium Term Note

At 31 March 2026, the Water Group's net debt to RCV ratio stood at 61.8% (31 March 2025: 61.8%). This reflects a stable position as increasing RCV offsets in year debt funding of our investment programme.

At 31 March 2026 South West Water's<sup>17</sup> net debt to RCV ratio<sup>18</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.

SES Water's net debt portfolio predominantly reflects index linked and fixed rate debt, based on the legacy portfolio acquired at the date of acquisition. Subsequent to the equity injections in 2024/25, SES Water's gearing levels relative to RCV remain stable at 60.1%, with recognition from Ofwat of their improving financial resilience as a result of Pennon's ownership.

The effective interest rate on the SES debt book is 9.0%. This is due to the high percentage of indexed-linked debt seen in this water only business. Over a period of time inflation levels will rise and fall, and will directly impact the rate reported. In addition, as the debt book matures, we anticipate it will benefit from being part of the wider portfolio of debt and hedging strategies employed by the wider Group.

### Investment grade ratings

The Group, through 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.

SES Water maintains strong credit ratings with Moody's and S&P, Moody's upgraded SES in November 2024, in recognition of the benefit gained from being part of the wider Pennon Group and the subsequent support provided to its balance sheet in the form of new equity.

### 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.

Following its acquisition, SES Water continues to maintain its current Group structure whilst it operates under its own regulatory licence.

Funding for other parts of the Group, including PWS and Pennon Power, is predominantly provided by Pennon Group Plc. Pennon will continue to use funds to support the Group's ongoing operations as appropriate.

### Creating economic value in the regulated business

#### Regulatory Capital Value <sup>^</sup>

Regulatory Capital Value (RCV)	31 March 2026
SWB	5,362.6

<sup>17</sup> Based on South West Water Group, including Bristol Water excl. SES (SBB)

<sup>18</sup> Based on South West Water Group including Bristol Water (SBB) net debt/RCV.

BRL	756.4
<b>SBB</b>	<b>6,119.0</b>
SESW	386.2
<b>Water Group</b>	<b>6,505.2</b>

The total water business RCV<sup>^</sup> of £6,505.2 million reflects the inclusion of regulatory reconciling items from the PR24 Final Determination and inflation of 3.5% as at March 2026.

#### *Return on Regulated Equity (RoRE)<sup>^</sup>*

During the year, the water business delivered a RoRE of 6.7% (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>19</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>Water Group</b>	<b>SWB</b>	<b>BRL</b>	<b>SESW</b>
<b>Base return</b>	5.4%	5.4%	5.4%	5.2%
<b>Financing</b>	1.4%	1.7%	1.3%	(2.4%)
<b>Totex</b>	2.0%	2.1%	1.1%	3.5%
<b>ODI</b>	(2.1%)	(2.3%)	(2.0%)	(1.0%)
<b>Cumulative RoRE 2025/26</b>	<b>6.7%</b>	<b>6.9%</b>	<b>5.8%</b>	<b>5.3%</b>
Cumulative RoRE 2024/25	5.1%	6.0%	5.1%	4.2%

#### **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

<sup>19</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

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.

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.

## **Dividends**

The Group continues to focus on delivering on its commitments to customers, shareholders and stakeholders. Around 50% of Pennon's shareholders are UK-based investors including individuals, pension funds, and charities. Over a third of the Group's c.3,500 employees (excluding SES Water) are shareholders and following the second issuance of our unique WaterShare+ initiative, around 80,000 customers are now also shareholders.

In January 2025, the Board announced our dividend policy to 2030 of growing the base dividend in line with CPIH. As a result, it has recommended a final dividend of 20.03 pence per share for the year ended 31 March 2026. Together with the interim dividend of 9.26 pence per share paid on 1 April 2026 this gives a total dividend per share for the year of 29.29 pence. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

The proposed total dividend for 2025/26 has increased by 3.4% year-on-year to £138.2 million (2024/25: £133.7 million). This reflects an increase in line with CPIH on the 2024/25 dividend. Current year dividends are covered 3.8 times by underlying EBITDA<sup>^</sup> (2024/25: 2.5 times). Pennon

Group plc has sufficient retained earnings and a sustainable balance sheet to support its stated dividend policy. The strong fundamentals of its principal operating subsidiary, South West Water Limited, underpin this policy through strong target RoRE<sup>^</sup> and growing RCV<sup>^</sup>. Dividends are charged against retained earnings in the year in which they are paid.

### **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 both South West Water and SES 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>20</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.

### **Financial Outlook<sup>21</sup>**

Looking to 2026/27, we anticipate continued strengthening in the Group's profitability. This results from Water Business revenue continuing to increase in line with the Final Determination and inflation, leading to an expected increase of Water Group revenues of c.£50-£70 million. Non-household retail revenues will increase by c.10% - 15% driven by sector wide tariff increases and increases in Pennon Power as energy generation increases.

We expect total operating costs across the regulated Water Group to increase broadly in line with inflation, with efficiencies offsetting cost pressures from the growth in the asset base. The non-regulated costs are expected to grow at a faster rate and in line with the wider water tariff increases as this drives up the wholesale costs they face.

The increase in revenue along with the cost increases set out, are expected to result in underlying EBITDA<sup>^</sup> increasing in 2026/27 by 5% - 10% compared with 2025/26. It is anticipated the Group will remain in net ODI penalty next year.

Depreciation and amortisation charges are expected to increase by c.5% - 10% as a result of the ongoing capital investment programme.

Overall capital expenditure is expected to be in the range of £620-£700 million driven by investment in the water business as projects progress through the delivery cycle, which will deliver benefits to customers and communities across our regions. As the build out of Pennon Power nears completion the investment here will decrease.

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<sup>20</sup> In 2022/23 prices

<sup>21</sup> All guidance measured on an underlying basis.

Net debt requirements to support our record AMP8 investment programme, both from the full year effect of current year financing and into 2026/27 are expected to increase net finance costs at a Water Group and therefore Group level, leading to an increase in net interest costs of 10-15%.

## TECHNICAL GUIDANCE FOR FY 2026/27

		FY 2025/26	Change
Revenue	<ul style="list-style-type: none"> <li>Water Group revenue c.£50-£70 million higher year-on-year due to allowed revenues</li> <li>c.10-15% revenue growth in non-regulated businesses due to tariff increases and new contract wins.</li> </ul>	£1,291m	▲
Operating costs*	<ul style="list-style-type: none"> <li>2-5% higher year-on-year within the Water Group due to inflationary increases</li> <li>15-20% higher year-on-year within the non-regulated businesses as a results of wholesale cost pass through</li> </ul>	£772m	▲
EBITDA*	<ul style="list-style-type: none"> <li>5-10% higher year-on-year, driven by higher revenues.</li> </ul>	£519m	▲
Depreciation*	<ul style="list-style-type: none"> <li>5-10% increase year-on-year as a result of the ongoing investment programme.</li> </ul>	£(194)m	▲
Net interest	<ul style="list-style-type: none"> <li>Net financing costs at Group level increasing by 10-15% with higher levels of net debt.</li> </ul>	£(191)m	▲
Capital expenditure	<ul style="list-style-type: none"> <li>Expected to be in the range of £620 million - £700 million as projects progress through the delivery cycle.</li> <li>Lower capex in Pennon Power year-on-year.</li> </ul>	£644m	▲

\*Underlying basis

## **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.

## **FINANCIAL TIMETABLE**

10 June 2026	Full Year Results 2025/26
16 June 2026	Annual Report and Accounts Published
8 July 2026	Annual General Meeting 2026
8 July 2026	Pennon Q1 Trading Update
23 July 2026*	Ordinary shares quoted ex-dividend
24 July 2026*	Record date for final dividend
10 August 2026	Final date for receipt of DRIP applications
4 September 2026*	Final dividend payment date
1 December 2026	Half Year Results 2026/27

\* Subject to obtaining shareholder approval at the 2026 Annual General Meeting

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

This Report contains forward-looking statements relating to the Pennon Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon 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 Pennon 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 Pennon Group 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.

#### UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

A number of companies, including Pennon Group plc, continue to be aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters which imply a connection to the company concerned. If shareholders have any concerns about any contact they have received, then please refer to the Financial Conduct Authority's website [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart). Details of any share dealing facilities that the Company endorses will be included in Company mailings.

PENNON GROUP PLC

Consolidated income statement for the year ended 31 March 2026

	Notes	Before non- underlying items 2026 £m	Non- underlying items (note 4) 2026 £m	Total 2026 £m	Before non- underlying items 2025 £m	Non- underlying items (note 4) 2025 £m	Total 2025 £m
<b>Revenue</b>	3	1,291.4	-	1,291.4	1,047.8	-	1,047.8
<b>Operating costs</b>							
Employment costs		(131.3)	(4.8)	(136.1)	(151.1)	(11.7)	(162.8)
Raw materials and consumables used		(40.0)	-	(40.0)	(51.7)	(0.2)	(51.9)
Other operating expenses		(581.4)	(15.9)	(597.3)	(499.7)	(25.7)	(525.4)
Financial assets impairment		(19.5)	-	(19.5)	(9.7)	-	(9.7)
<b>Earnings before interest, tax, depreciation and amortisation</b>	3	519.2	(20.7)	498.5	335.6	(37.6)	298.0
Depreciation and amortisation and impairment		(193.7)	-	(193.7)	(187.1)	-	(187.1)
<b>Operating profit/(loss)</b>	3	325.5	(20.7)	304.8	148.5	(37.6)	110.9
Finance income	5	21.9	-	21.9	15.0	-	15.0
Finance costs	5	(213.3)	-	(213.3)	(199.4)	-	(199.4)
<b>Net finance costs</b>	5	(191.4)	-	(191.4)	(184.4)	-	(184.4)
Share of post-tax profit from associated companies		1.0	-	1.0	0.8	-	0.8
<b>Profit/(loss) before tax</b>	3	135.1	(20.7)	114.4	(35.1)	(37.6)	(72.7)
Taxation (charge)/credit	6	(25.9)	4.1	(21.8)	7.0	8.9	15.9
<b>Profit/(loss) for the year</b>		109.2	(16.6)	92.6	(28.1)	(28.7)	(56.8)
<b>Attributable to:</b>							
Ordinary shareholders of the parent				91.5			(57.9)
Non-controlling interests				1.1			1.0
<b>Earnings per ordinary share</b> (pence per share)	7						
• Basic				19.4			(16.1)
• Diluted				19.3			(16.1)

The above results were derived from continuing operations.

**PENNON GROUP PLC**

**Consolidated statement of comprehensive income for the year ended 31 March 2026**

	Before non- underlying items 2026 £m	Non- underlying items (note 4) 2026 £m	Total 2026 £m	Before non- underlying items 2025 £m	Non- underlying items (note 4) 2025 £m	Total 2025 £m
<b>Profit/(loss) for the year</b>	<b>109.2</b>	<b>(16.6)</b>	<b>92.6</b>	<b>(28.1)</b>	<b>(28.7)</b>	<b>(56.8)</b>
<b>Other comprehensive (loss)/income</b>						
<i>Items that will not be reclassified to profit or loss</i>						
Remeasurement of defined benefit obligations	(1.5)	-	(1.5)	3.5	-	3.5
Tax relating to components of other comprehensive income	0.9	-	0.9	(0.9)	-	(0.9)
Total items that will not be reclassified to profit or loss	<b>(0.6)</b>	<b>-</b>	<b>(0.6)</b>	<b>2.6</b>	<b>-</b>	<b>2.6</b>
<i>Items that may be reclassified subsequently to profit or loss</i>						
Loss on cash flow hedging	(6.7)	-	(6.7)	(19.7)	-	(19.7)
Hedging losses recycled to profit or loss	7.5	-	7.5	15.4	-	15.4
Tax relating to components of other comprehensive income	(0.2)	-	(0.2)	2.4	-	2.4
Total items that may be reclassified subsequently to profit or loss	<b>0.6</b>	<b>-</b>	<b>0.6</b>	<b>(1.9)</b>	<b>-</b>	<b>(1.9)</b>
<b>Other comprehensive (loss)/income for the year net of tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.7</b>	<b>-</b>	<b>0.7</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>109.2</b>	<b>(16.6)</b>	<b>92.6</b>	<b>(27.4)</b>	<b>(28.7)</b>	<b>(56.1)</b>
<b>Total comprehensive income/(loss) attributable to:</b>						
Ordinary shareholders of the parent			<b>91.5</b>			<b>(57.2)</b>
Non-controlling interests			<b>1.1</b>			<b>1.1</b>

**PENNON GROUP PLC**

**Consolidated balance sheet at 31 March 2026**

	Notes	2026 £m	2025 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill		179.9	179.9
Other intangible assets		67.5	62.2
Property, plant and equipment		6,297.5	5,841.5
Investment properties		6.3	7.9
Other non-current assets		7.1	8.7
Financial assets at fair value through profit or loss		-	0.6
Derivative financial instruments		21.4	22.4
Investments in associated companies		2.8	1.8
Retirement benefit obligations		20.5	22.0
		<b>6,603.0</b>	<b>6,147.0</b>
<b>Current assets</b>			
Inventories		15.3	12.8
Trade and other receivables		452.4	391.8
Current tax receivable		-	0.9
Financial assets at fair value through profit or loss		0.6	-
Derivative financial instruments		9.0	9.8
Cash and cash equivalents	11	332.7	417.9
Restricted funds		55.6	58.2
Retirement benefit assets		11.4	9.2
		<b>877.0</b>	<b>900.6</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	11	(151.2)	(257.4)
Financial liabilities at fair value through profit		-	(0.3)
Derivative financial instruments		(0.6)	(0.5)
Trade and other payables		(422.3)	(331.0)
Provisions		(6.1)	(6.8)
		<b>(580.2)</b>	<b>(596.0)</b>
<b>Net current assets</b>		<b>296.8</b>	<b>304.6</b>
<b>Non-current liabilities</b>			
Borrowings	11	(4,746.0)	(4,296.9)
Other non-current liabilities		(188.0)	(171.3)
Derivative financial instruments		(1.9)	(1.6)
Deferred tax liabilities		(551.9)	(530.6)
Provisions		(0.4)	(0.5)
		<b>(5,488.2)</b>	<b>(5,000.9)</b>
<b>Net assets</b>		<b>1,411.6</b>	<b>1,450.7</b>
<b>Shareholders' equity</b>			
Share capital	9	288.1	288.1
Share premium account		755.1	755.0
Capital redemption reserve		157.1	157.1
Retained earnings and other reserves		207.7	248.0
<b>Total shareholders' equity</b>		<b>1,408.0</b>	<b>1,448.2</b>
Non-controlling interests		3.6	2.5
<b>Total equity</b>		<b>1,411.6</b>	<b>1,450.7</b>

**PENNON GROUP PLC**
**Consolidated statement of changes in equity for the year ended 31 March 2026**

	Share capital (note 9) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Non- controlling interests £m	Total equity £m
At 31 March 2024	174.6	398.2	157.1	431.3	1.4	1,162.6
(Loss)/profit for the year	-	-	-	(57.9)	1.1	(56.8)
Other comprehensive income for the year	-	-	-	0.7	-	0.7
Total comprehensive (loss)/income for the year	-	-	-	(57.2)	1.1	(56.1)
<i>Transactions with ordinary owners of the parent:</i>						
Dividends paid	-	-	-	(126.9)	-	(126.9)
Rights issue*	113.5	377.5	-	-	-	491.0
Transaction costs arising on rights issue	-	(20.5)	-	-	-	(20.5)
Transaction costs arising on shares issued	-	(0.2)	-	-	-	(0.2)
Adjustments in respect of share-based payments (net of tax)	-	-	-	2.0	-	2.0
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(1.2)	-	(1.2)
Total transactions with ordinary owners of the parent	113.5	356.8	-	(126.1)	-	344.2
At 31 March 2025	288.1	755.0	157.1	248.0	2.5	1,450.7
Profit for the year	-	-	-	91.5	1.1	92.6
Total comprehensive income for the year	-	-	-	91.5	1.1	92.6
<i>Transactions with ordinary owners of the parent:</i>						
Dividends paid	-	-	-	(133.7)	-	(133.7)
Dividends forfeited	-	-	-	1.7	-	1.7
Transaction costs arising on rights issue	-	(0.5)	-	-	-	(0.5)
Sale of share forfeiture shares	-	0.6	-	-	-	0.6
Adjustments in respect of share-based payments (net of tax)	-	-	-	2.6	-	2.6
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(2.4)	-	(2.4)
Total transactions with ordinary owners of the parent	-	0.1	-	(131.8)	-	(131.7)
<b>At 31 March 2026</b>	<b>288.1</b>	<b>755.1</b>	<b>157.1</b>	<b>207.7</b>	<b>3.6</b>	<b>1,411.6</b>

\* On 17 February 2025 the Company completed a rights issue to existing shareholders on the basis of 13 ordinary shares for every 20 fully paid ordinary shares held. As a result, 185,928,002 ordinary shares with an aggregate nominal value of £113.5 million were issued for cash consideration of £491.0 million. In the year ended 31 March 2025 transaction costs directly attributable to the rights issue of £20.5 million were incurred and have been accounted for as a deduction from share premium. In the year ended 31 March 2026 an additional £0.5 million transaction costs directly attributable to the rights issue have been accounted for as a deduction from share premium. Cash paid in relation to the transaction costs amounted to £15.4 million in the year ended 31 March 2025 and £5.6 million in the year ended 31 March 2026.

**PENNON GROUP PLC**

**Consolidated statement of cash flows for the year ended 31 March 2026**

	Notes	2026 £m	2025 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	10	529.7	233.6
Interest paid	10	(172.0)	(143.1)
Tax received		1.0	3.0
Net cash generated from operating activities		<u>358.7</u>	<u>93.5</u>
<b>Cash flows from investing activities</b>			
Interest received		17.4	11.1
Purchase of property, plant and equipment		(629.4)	(663.1)
Withdrawal/(deposit) of restricted funds		2.6	(20.8)
Purchase of intangible assets		(8.1)	(5.5)
Proceeds from sale of property, plant and equipment		4.7	1.9
Net cash used in investing activities		<u>(612.8)</u>	<u>(676.4)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares		-	491.0
Share issue transaction costs		(5.6)	(15.4)
Purchase of ordinary shares by the Pennon Employee Share Trust		(2.4)	(1.2)
Proceeds from new borrowing		569.9	920.0
Repayment of borrowings		(305.7)	(328.5)
Cash inflows from lease financing arrangements	10	90.0	25.0
Lease principal repayments		(45.3)	(97.2)
Dividends paid	8	(133.7)	(126.9)
Proceeds from dividend forfeiture		1.7	-
Net cash received in financing activities		<u>168.9</u>	<u>866.8</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(85.2)</b>	<b>283.9</b>
Cash and cash equivalents at beginning of year	11	417.9	134.0
<b>Cash and cash equivalents at end of year</b>	11	<u><b>332.7</b></u>	<u><b>417.9</b></u>

**Notes****1. General information**

Pennon Group plc is a public limited company, listed by shares, which is listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. It is registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 41. Pennon Group's business is operated through its principal subsidiaries. South West Water Limited provides water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire, Wiltshire and Bristol. Sutton and East Surrey Water plc provides water only services in the South East region. Sutton and East Surrey Water Services provides water and wastewater retail services to non-household customer accounts. Pennon Group plc is the majority shareholder of Pennon Water Services Limited, a company providing water and wastewater retail services to non-household customer accounts across Great Britain. The Company owns a 30% share in Water 2 Business Limited, a joint venture with Wessex Water Limited, operating in the same sector as Pennon Water Services Limited and Sutton and East Surrey Water Services.

**2. Basis of preparation**

The Group's financial information has been prepared in accordance with the recognition and measurement requirements of UK adopted international accounting standards. It has been prepared on a basis consistent with that adopted in the previous year. The financial statements have been prepared under the historical cost convention (except for fair value items, principally acquisitions, transfer of assets from customers and certain financial instruments as described in the 2025 Annual Report and Accounts which are available on the Company website [www.pennon-group.co.uk](http://www.pennon-group.co.uk)). Whilst the financial information included in this Preliminary Results Announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Preliminary Results Announcement does not constitute the Company's statutory accounts for the years ended 31 March 2026 and 31 March 2025 within the meaning of Section 435 of the Companies Act 2006 but is derived from those statutory accounts. The Group's statutory accounts for the year ended 31 March 2025 have been filed with the Registrar of Companies. The Group's Financial Statements for the year ended 31 March 2026 were approved by the Board on 10 June 2026. They have been reported on by the Group's auditors and will be delivered to the registrar of companies in due course. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The going concern basis has been adopted in preparing these financial statements. At 31 March 2026 the Group has access to undrawn committed funds of £610.0 million and cash and cash equivalents and restricted funds of £388.3 million, totalling £998.3 million. The Group has an expected headroom of £186.7 million at 30 September 2027.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Group's going concern status, to do this the Group's business plan has been stress-tested. Whilst the Group's risk management processes seek to mitigate the impact of principal risks, individual sensitivities against these risks have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Group's annual budget for the financial year ended 31 March 2026, and longer-term strategic business plan for the remainder of the going concern period to 30 September 2027.

## PENNON GROUP PLC

### Notes (continued)

#### 2. Basis of preparation (continued)

The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic impacts such as inflation and interest rate increases and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Group collectively. The combined weighted impact of the risks occurring is a cash outflow of c.£101.5 million; this value is considered equivalent to an extreme one-off event that could occur over the 15-month period of the assessment to 30 September 2027, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Group over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. In the combined scenario to ensure that the Group was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. In the combined stress test scenario, the Group has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Group. However, if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

We have considered the Group's funding position and financial projections which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Having considered these factors, the Directors have a reasonable expectation that the Group will meet the requirements of its covenants and has adequate resources to continue in operational existence for the period to at least the end of the going concern assessment period of 30 September 2027, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, management has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosure. The expected environmental impact of climate change on the water business has been modelled noting that the physical risks are increasing. It is likely that the Group will need to invest to protect certain assets such as sewage works and pumping stations against sea level inundation and these considerations form part of the planning process for new capital expenditure. Longer term investment, outlined in the strategic plans, will be needed to manage future risks. To achieve this, combined regulatory and government support within their policy frameworks will be essential. Whilst it is estimated additional spend will be required to manage future risks, the current available information and assessment did not identify any risks regarding the sufficiency of funds available to the Group to support this additional spend or any risk that would require the useful economic lives of assets to be reduced in the year or identify the need for impairment that would impact the carrying values of such assets or have any other impact on the financial statements. The impact assessments will be continuously updated to reflect the latest available information on the impact of climate change.

**PENNON GROUP PLC**

**Notes (continued)**

**3. Segmental information**

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker (CODM), which has been identified as the Pennon Group plc Board. The earnings measures below are used by the Board in making decisions.

The Group is organised into two operating segments. The water segment comprises the regulated water and wastewater services undertaken by South West Water and the regulated water services undertaken by SES Water. The non-household retail business reflects the services provided by Pennon Water Services and SESWS. The other segment comprises smaller ancillary business as well as intermediate holding companies not further separated in reports to the Board.

Segment assets include goodwill and other intangible assets, property, plant and equipment, inventories, trade and other receivables and cash and cash equivalents. Segment liabilities comprise operating liabilities and borrowings and exclude taxation. The other segment liabilities include the Company's financing arrangements and Group taxation liabilities. Capital expenditure comprises additions to property, plant and equipment.

	<b>2026</b>	2025
	<b>£m</b>	£m
<b>Revenue</b>		
Water	<b>1,022.0</b>	820.5
Non-household retail	<b>381.7</b>	320.3
Other	<b>25.6</b>	12.8
Less intra-segment trading <sup>(1)</sup>	<b>(137.9)</b>	(105.8)
Total underlying revenue	<b>1,291.4</b>	1,047.8
<b>Operating profit before depreciation, amortisation and non-underlying items (underlying EBITDA)</b>		
Water	<b>510.7</b>	338.2
Non-household retail	<b>9.9</b>	7.5
Other	<b>(1.4)</b>	(10.1)
	<b>519.2</b>	335.6
<b>Operating profit before non-underlying items</b>		
Water	<b>321.7</b>	153.8
Non-household retail	<b>9.1</b>	7.2
Other	<b>(5.3)</b>	(12.5)
	<b>325.5</b>	148.5
<b>Profit/(loss) before tax before non-underlying items</b>		
Water	<b>132.0</b>	(35.6)
Non-household retail	<b>5.7</b>	4.3
Other	<b>(2.6)</b>	(3.8)
	<b>135.1</b>	(35.1)
<b>Profit/(loss) before tax</b>		
Water	<b>116.6</b>	(71.7)
Non-household retail	<b>4.1</b>	4.3
Other	<b>(6.3)</b>	(5.3)
	<b>114.4</b>	(72.7)

(1) Intra-segment trading between different segments is under normal market based commercial terms and conditions. Intra-segment revenue of the other segment is at cost.

**PENNON GROUP PLC**

**Notes (continued)**

**3. Segmental information (continued)**

All revenue is generated in the United Kingdom. The grouping of revenue streams by how they are affected by economic factors, as required by IFRS 15, is as follows:

<b>Year ended 31 March 2026</b>	<b>Water</b>	<b>Non-household retail</b>	<b>Other</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Segment revenue	<b>1,022.0</b>	<b>381.7</b>	<b>25.6</b>	<b>1,429.3</b>
Inter-segment revenue	<b>(120.0)</b>	<b>(0.2)</b>	<b>(17.7)</b>	<b>(137.9)</b>
Revenue from external customers	<b>902.0</b>	<b>381.5</b>	<b>7.9</b>	<b>1,291.4</b>
<b>Significant service lines</b>				
Water	<b>902.0</b>	-	-	<b>902.0</b>
Non-household retail	-	<b>381.5</b>	-	<b>381.5</b>
Other	-	-	<b>7.9</b>	<b>7.9</b>
	<b>902.0</b>	<b>381.5</b>	<b>7.9</b>	<b>1,291.4</b>
<b>Year ended 31 March 2025</b>				
	<b>Water</b>	<b>Non-household retail</b>	<b>Other</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Segment revenue	820.5	320.3	12.8	1,153.6
Inter-segment revenue	(100.6)	(0.2)	(5.0)	(105.8)
Revenue from external customers	719.9	320.1	7.8	1,047.8
<b>Significant service lines</b>				
Water	719.9	-	-	719.9
Non-household retail	-	320.1	-	320.1
Other	-	-	7.8	7.8
	719.9	320.1	7.8	1,047.8

The Group's country of domicile is the United Kingdom and this is the country in which it generates the majority of its revenue.

**PENNON GROUP PLC**

**Notes (continued)**

**4. Non-underlying items**

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance in the year and business trends over time. 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 presentation of results is consistent with internal performance monitoring.

	<b>2026</b>	2025
	<b>£m</b>	£m
<b>Operating Costs</b>		
Restructuring/Transformational costs <sup>1</sup>	<b>(14.0)</b>	<b>(15.8)</b>
Costs of Brixham water quality incident and other regulatory investigations <sup>2</sup>	<b>(6.7)</b>	<b>(21.0)</b>
SES Water Group acquisition costs <sup>3</sup>	-	<b>(0.7)</b>
Renewables projects acquisition related costs <sup>4</sup>	-	<b>(0.1)</b>
<b>Earnings before interest, tax, depreciation and amortisation</b>	<b>(20.7)</b>	<b>(37.6)</b>
Net tax credit arising on non-underlying items above <sup>5</sup>	<b>4.1</b>	<b>8.9</b>
<b>Net non-underlying charge</b>	<b>(16.6)</b>	<b>(28.7)</b>

- (1) £4.1 million (2025: £15.8 million) of costs were incurred in connection with the ongoing restructuring of the Group and £9.9 million of technological enhancement costs were incurred in connection with the business transformation of the Group. £4.8 million (2025: £10.9 million) of the total costs were employment costs. Due to the one-off nature and incidence of the costs they have been classified as non-underlying.
- (2) £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. £15.8 million prior year costs relate to the operating costs for remediation of the Brixham water quality incidents and include £0.8m of directly attributable employment costs. Due to the one-off nature and incidence of the costs they have been classified as non-underlying.
- (3) In the prior year the Group incurred expenses of £0.7 million in connection with the acquisition of SES Water Group. Due to the one-off nature and incidence of the costs they were classified as non-underlying.
- (4) In the prior year expenses in connection with the strategic review of renewable energy generating investments, not directly attributable to the intangible assets acquired, totalled £0.1 million. Due to the one-off nature and incidence of the costs they have been classified as non-underlying.
- (5) The net tax credit arising on non-underlying items relates to a deferred tax credit in respect of tax losses carried forwards. The prior year credit reflected an £8.9 million current tax credit also in respect of tax losses carried forwards.

**PENNON GROUP PLC**

**Notes (continued)**

**5. Net finance costs**

	<b>2026</b>		<b>2025</b>		
	<b>Finance costs</b>	<b>Finance income</b>	<b>Total</b>	<b>Finance costs</b>	<b>Finance income</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost of servicing debt</b>					
Bank borrowings and overdrafts	(156.8)	-	(156.8)	(138.6)	-
Interest element of lease payments	(48.7)	-	(48.7)	(49.9)	-
Other finance costs	(7.8)	-	(7.8)	(10.9)	-
Interest receivable	-	17.4	17.4	-	11.1
Amortisation of unamortised hedging amount	-	2.3	2.3	-	2.3
	<b>(213.3)</b>	<b>19.7</b>	<b>(193.6)</b>	<b>(199.4)</b>	<b>13.4</b>
<b>Notional interest</b>					
Retirement benefit obligations	-	2.2	2.2	-	1.6
	<b>(213.3)</b>	<b>21.9</b>	<b>(191.4)</b>	<b>(199.4)</b>	<b>15.0</b>

In addition to the above, finance costs of £40.5 million (2025: £27.7 million) have been capitalised on qualifying assets included in property, plant and equipment, at an average borrowing rate of 5.4% (2025: 5.7%).

Other finance costs include £1.1 million (2025: £1.1 million) of dividends payable on listed preference shares issued by Bristol Water plc, which are classified as debt.

**6. Taxation**

	<b>Before non-underlying items</b>	<b>Non-underlying items (note 4)</b>	<b>Total</b>	<b>Before non-underlying items</b>	<b>Non-underlying items (note 4)</b>	<b>Total</b>
	<b>2026</b>	<b>2026</b>	<b>2026</b>	<b>2025</b>	<b>2025</b>	<b>2025</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Analysis of charge/(credit) in year</b>						
Current tax charge/(credit)	0.6	(0.8)	(0.2)	0.8	(0.5)	0.3
Deferred tax charge/(credit)	25.3	(3.3)	22.0	(7.8)	(8.4)	(16.2)
Tax charge/(credit) for the year	<b>25.9</b>	<b>(4.1)</b>	<b>21.8</b>	<b>(7.0)</b>	<b>(8.9)</b>	<b>(15.9)</b>

UK corporation tax is calculated at 25% (2025: 25%) of the estimated assessable profit for the year.

UK corporation tax for the Group is stated after a credit relating to prior year current tax of £0.2 million (2025: £0.3 million charge) and a prior year deferred tax credit of £8.3 million (2025: £0.7 million charge). Of the prior year deferred tax credit, £8.0 million relates to capital losses that require recognition on consolidation. This is due to the existence of deferred tax liabilities arising on the fair value of land acquired through business combinations. The remaining elements are in respect of capital allowances claimed in accordance with UK tax legislation.

**PENNON GROUP PLC**

**Notes (continued)**

**7. Earnings per share**

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares. The Group has two types of dilutive potential ordinary shares – those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; and the contingently issuable shares under the Group's Performance and Co-investment Plan, the Long-term Incentive Plan and the deferred shares element of the Annual Incentive Bonus Plan, based on performance criteria for the vesting of the awards.

Potential ordinary shares, as discussed above, that could dilute basic earnings per share in the future, were not included in the calculation for statutory earnings per share because they were anti-dilutive for the current year. The weighted average number of shares and earnings used in the calculations are detailed in the table below.

	<b>2026</b>	2025
<b>Number of shares</b> (millions)		
<b>For basic earnings per share</b>	<b>471.8</b>	360.5
Effect of dilutive potential ordinary shares from share options	<b>1.5</b>	-
<b>For diluted earnings per share</b>	<b>473.3</b>	360.5

*Basic and diluted earnings per ordinary share*

Earnings per ordinary share before non-underlying items and deferred tax are presented as the Directors believe this measure provides a more useful year on year comparison of business trends and performance. Deferred tax is excluded as the Directors believe it reflects a distortive effect of the level of long-term capital investment. Earnings per share have been calculated as follows:

	<b>2026</b>			(Loss)/profit after tax £m	<b>2025</b>	
	<b>Profit after tax £m</b>	<b>Earnings per share</b>			<b>Earnings per share</b>	
		<b>Basic p</b>	<b>Diluted p</b>		<b>Basic p</b>	<b>Diluted p</b>
Statutory earnings attributable to ordinary shareholders of the parent	<b>91.5</b>	<b>19.4</b>	<b>19.3</b>	(57.9)	(16.1)	(16.1)
Deferred tax (credit)/charge before non-underlying items	<b>25.3</b>	<b>5.4</b>	<b>5.4</b>	(7.8)	(2.1)	(2.1)
Non-underlying items (net of tax)	<b>16.6</b>	<b>3.5</b>	<b>3.5</b>	28.6	7.9	7.9
Adjusted earnings	<b>133.4</b>	<b>28.3</b>	<b>28.2</b>	(37.1)	(10.3)	(10.3)

**PENNON GROUP PLC**

**Notes (continued)**

**8. Dividends**

	<b>2026</b>	2025
	<b>£m</b>	£m
<b>Amounts recognised as distributions to ordinary equity holders in the year:</b>		
Interim dividend paid for the year ended 31 March 2025: 12.14p (2024: 11.60p) per share	<b>42.0</b>	40.1
Final dividend paid for the year ended 31 March 2025: 19.43p (2024: 25.07p) per share	<b>91.7</b>	86.8
	<b>133.7</b>	126.9

**Proposed dividends**

Interim dividend paid for the year ended 31 March 2026: 9.26p (2025: 12.14p per share)	<b>43.7</b>	42.0
Final dividend paid for the year ended 31 March 2026: 20.03p (2025: 19.43p per share)	<b>94.5</b>	91.7
	<b>138.2</b>	133.7

The proposed interim and final dividends have not been included as liabilities in these financial statements.

The proposed interim dividend for 2026 was paid on 2 April 2026 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting.

**9. Share capital**

**Allotted, called-up and fully paid**

	Number of shares		£m
	Treasury shares	Ordinary shares	
At 1 April 2024 ordinary shares of 61.05p each	5,628	286,045,323	174.6
For consideration of £21,000, shares issued under the Company's Sharesave Scheme	-	3,386	-
Rights issue	-	185,928,002	113.5
At 31 March 2025 ordinary shares of 61.05p each	5,628	471,976,711	288.1
For consideration of £4,000, shares issued under the Company's Sharesave Scheme	-	6,883	-
<b>At 31 March 2026 ordinary shares of 61.05p each</b>	<b>5,628</b>	<b>471,983,594</b>	<b>288.1</b>

**PENNON GROUP PLC**

**Notes (continued)**

**9. Share capital (continued)**

Shares held as treasury shares may be sold, re-issued for any of the Company's share schemes, or cancelled.

On 17 February 2025 the Company completed a rights issue to existing shareholders on the basis of 13 ordinary shares for every 20 fully paid ordinary shares held. As a result, 185,928,002 ordinary shares with an aggregate nominal value of £113.5 million were issued for cash consideration of £491.0 million. Transaction costs directly attributable to the rights issue of £20.5 million were incurred and have been accounted for as a deduction from share premium. In the year ended 31 March 2026 an additional £0.5 million of transaction costs directly attributable to the rights issue have been accounted for as a deduction from share premium.

**10. Analysis of the cash flows given in the statement of cash flows**

Reconciliation of profit for the year to cash generated from operations:

	2026 £m	2025 £m
<b>Cash generated from operations</b>		
Profit/(loss) for the year	92.6	(56.8)
Adjustments for:		
Share-based payments	2.6	2.0
Profit on disposal of property, plant and equipment	(3.6)	(1.2)
Depreciation charge	190.6	184.7
Amortisation of intangible assets	2.4	2.3
Intangible impairment charge	0.3	1.3
Impairment of investment properties	0.4	-
Share of post-tax profit from associated companies	(1.0)	(0.8)
Finance income	(21.9)	(15.0)
Finance costs	213.3	199.4
Taxation charge/(credit)	21.8	(15.9)
Changes in working capital:		
(Increase)/decrease in inventories	(2.5)	0.4
Increase in trade and other receivables	(59.1)	(42.5)
Increase/(decrease) in trade and other payables	94.6	(30.5)
(Decrease)/increase in provisions	(0.8)	6.2
Cash generated from operations	<b>529.7</b>	<b>233.6</b>

	2026 £m	2025 £m
<b>Reconciliation of total interest paid</b>		
Interest paid in operating activities	172.0	143.1
Total interest paid	<b>172.0</b>	<b>143.1</b>

**PENNON GROUP PLC**

**Notes (continued)**

**11. Net borrowings**

	<b>2026</b>	2025
	<b>£m</b>	£m
<b>Cash and cash equivalents</b>	<b>332.7</b>	417.9
<b>Restricted funds</b>	<b>55.6</b>	58.2
	<b>388.3</b>	476.1
<i>Borrowings – current</i>		
Bank and other current borrowings	<b>(118.1)</b>	(224.5)
Lease obligations	<b>(33.1)</b>	(32.9)
<b>Total current borrowings</b>	<b>(151.2)</b>	(257.4)
<i>Borrowings – non-current</i>		
Bank and other non-current borrowings	<b>(3,666.2)</b>	(3,265.1)
Listed preference shares	<b>(12.5)</b>	(12.5)
Lease obligations	<b>(1,067.3)</b>	(1,019.3)
<b>Total non-current borrowings</b>	<b>(4,746.0)</b>	(4,296.9)
<b>Total net borrowings</b>	<b>(4,508.9)</b>	(4,078.2)

**12. Contingent liabilities**

	<b>2026</b>	2025
	<b>£m</b>	£m
Guarantees: Performance bonds	<b>28.8</b>	20.0

Guarantees in respect of performance bonds relate to changes to the collateral requirements for the non-household retail business with other wholesalers. The possibility of the bond being required is remote hence the fair value of the bond is not material.

**Other contracted and litigation uncertainties**

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 Limited and its decision to accept South West Water Limited'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 misuse 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 Limited from the EA in relation to alleged breaches of permits in relation to the illegal 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. Sentencing was held on 12 and 13 March 2026 although the value of any fine will not be known until the judgement takes place on 30 July 2026.

On 23 May 2023 Ofwat announced an investigation into South West Water Limited'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 as part of this investigation.

## PENNON GROUP PLC

### Notes (continued)

#### 12. Contingent liabilities (continued)

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 Outcome Delivery Incentives (ODI). 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 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 therefore 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. Full provision was recognised in the 2025/26 financial year for the fine.

The Group establishes provisions in connection with contracts and litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where it is uncertain that these conditions are met, a contingent liability is disclosed unless the likelihood of the obligation arising is remote or the matter is not deemed material. An amount of £6.7 million has been included in non-underlying costs in respect of the above.

## PENNON GROUP PLC

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## PENNON GROUP PLC

### Alternative performance measures

Alternative performance measures (APMs) are financial measures used in this report that are not defined by International Financial Reporting Standards (IFRS). The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group as well as enhancing the comparability of information between reporting periods.

As the Group defines the APMs they might not be directly comparable to other companies' APMs. They are not intended to be a substitute for, or superior to, IFRS measurements. For the year ended 2025/26, the following APMs were added to or amended to those presented previously:

- The APM 'Effective interest rate' has been amended and is now calculated for the Water Group which includes SES Water. Previously this was for South West Water only.
- The APM 'Effective cash cost of interest rate' has been amended and is now calculated for the Water Group which includes SES Water. Previously this was for South West Water only.

### (i) Underlying earnings

Underlying earnings are presented alongside statutory results as the Directors believe they provide a more useful comparison on business trends and performance. Note 4 in the notes to the financial statements provides more detail on non-underlying items, and a reconciliation of underlying earnings for the current year and the prior year is as follows:

Underlying earnings reconciliation 31 March 2026	Non-underlying items				Statutory results £m	Earnings per share p
	Underlying £m	Brixham and regulatory investigations £m	Restructuring / Transformation £m			
EBITDA (see below)	519.2	(6.7)	(14.0)		498.5	
Operating profit/(loss)	325.5	(6.7)	(14.0)		304.8	
Profit/(loss) before tax	135.1	(6.7)	(14.0)		114.4	
Taxation	(25.9)	0.7	3.4		(21.8)	
Profit after tax					92.6	
Non-controlling interests					(1.1)	
Profit after tax attributable to shareholders					91.5	19.4

Underlying earnings reconciliation 31 March 2025	Non-underlying items					Statutory results £m	Earnings per share p
	Underlying £m	Brixham £m	SES acquisition £m	Renewables acquisition £m	Transformation £m		
EBITDA (see below)	335.6	(21.0)	(0.7)	(0.1)	(15.8)	298.0	
Operating profit/(loss)	148.5	(21.0)	(0.7)	(0.1)	(15.8)	110.9	
Loss before tax	(35.1)	(21.0)	(0.7)	(0.1)	(15.8)	(72.7)	
Taxation	7.0	5.2	-	-	3.7	15.9	
Loss after tax						(56.8)	
Non-controlling interests						(1.1)	
Loss after tax attributable to shareholders						(57.9)	(16.1)

### (ii) Underlying EBITDA

Underlying EBITDA (earnings before interest, tax, depreciation and amortisation and non-underlying items) is used to assess and monitor operational underlying performance.

## PENNON GROUP PLC

### Alternative performance measures (continued)

### (iii) 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
Net finance costs before non-underlying items (note 5)	191.4	184.4
Remove: net finance income before non-underlying items not associated with the Water Group	(1.7)	5.0
<b>Net finance costs before non-underlying items associated with the Water Group</b>	<b>189.7</b>	<b>189.4</b>
Net interest on retirement benefit obligations	2.0	1.5
Capitalised interest	34.2	23.3
Non-debt related interest	2.4	(2.2)
<b>Net finance costs for effective interest rate calculation</b>	<b>228.3</b>	<b>212.0</b>
Group net debt (opening) (note 11)	4,078.2	3,844.8
Remove: unamortised hedging adjustment	(35.2)	(37.5)
Remove: opening net debt not associated with the Water Group	(344.9)	(238.2)
<b>Opening net debt for calculation</b>	<b>3,698.1</b>	<b>3,569.1</b>
Group net debt (closing) (note 11)	4,508.9	4,078.2
Remove: unamortised hedging adjustment	(32.8)	(35.2)
Remove: closing net debt not associated with the Water Group	(456.8)	(344.9)
Add: equity injection from parent company	-	380.0
<b>Closing net debt for calculation</b>	<b>4,019.3</b>	<b>4,078.1</b>
<b>Average net debt (opening net debt + closing net debt divided by 2)</b>	<b>3,858.7</b>	<b>3,823.6</b>
<b>Effective interest rate (%)</b>	<b>5.9</b>	<b>5.5</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)	228.3	212.0
Remove non-cash interest accrued (income statement indexation charge)	(44.9)	(33.4)
<b>Net finance costs for effective cash cost of interest calculation</b>	<b>183.4</b>	<b>178.6</b>
Opening net debt (as above)	3,698.1	3,569.1
Closing net debt (as above)	4,019.3	4,078.1
Average net debt (opening net debt + closing net debt divided by 2)	3,858.7	3,823.6
<b>Effective cash cost of interest (%)</b>	<b>4.8</b>	<b>4.7</b>

**(v) Underlying interest cover**

Underlying net finance costs (excluding pensions net interest cost) divided by operating profit before non-underlying items.

	2026	2025
	£m	£m
Net finance costs before non-underlying items (note 5)	191.4	184.4
Net interest on retirement benefit obligations (note 5)	2.2	1.6
<b>Net finance costs for interest cover calculation</b>	<b>193.6</b>	<b>186.0</b>
Operating profit before non-underlying items (see 'Underlying earnings' above)	325.5	148.5
<b>Interest cover (times)</b>	<b>1.7</b>	<b>0.8</b>

**(vi) Underlying EBITDA dividend cover**

Underlying EBITDA for the Group divided by proposed combined interim and final dividends.

	2026	2025
	£m	£m
Underlying EBITDA (see 'Underlying earnings' above)	519.2	335.6
Proposed dividends (note 8)	138.2	133.7
<b>EBITDA dividend cover (times)</b>	<b>3.8</b>	<b>2.5</b>

**(vii) Underlying Group dividend cover**

Proposed dividends divided by profit for the year before non-underlying items and deferred tax

	2026	2025
	£m	£m
Proposed dividends (note 8)	138.2	133.7
Profit/(loss) for the year attributable to ordinary shareholders	91.5	(57.9)
Deferred tax charge/(credit) before non-underlying items (note 6)	25.3	(7.8)
Non-underlying items after tax in profit/(loss) for the year (note 4)	16.6	28.7
<b>Adjusted profit/(loss) for dividend cover calculations</b>	<b>133.4</b>	<b>(37.0)</b>
<b>Group dividend cover (times)</b>	<b>1.0</b>	<b>-</b>

**(viii) Capital investment**

Property, plant and equipment and intangible asset additions. The measure is presented to assess and monitor the total capital investment by the Group.

	2026	2025
	£m	£m
Additions to property, plant and equipment	635.5	647.0
Additions and 'other' movements to intangible assets	8.1	5.5
<b>Capital investment</b>	<b>643.6</b>	<b>652.5</b>

**(ix) Capital payments**

Payments for property, plant and equipment (PPE) and intangible asset and investment property additions, net of proceeds from sale of PPE, intangible assets and investment properties. The measure is presented to assess and monitor the net cash spend on PPE, intangible assets and investment properties.

	2026	2025
	£m	£m
Cash flow statements: purchase of property, plant and equipment	629.4	663.1
Cash flow statements: purchase of intangible assets	8.1	5.5
Cash flow statements: proceeds from sale of property, plant and equipment and investment properties	(4.7)	(1.9)
<b>Capital payments relating to the Group</b>	<b>632.8</b>	<b>666.7</b>

## Alternative performance measures (continued)

### (x) 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 and SES 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) and [www.seswater.co.uk/about-us/publications/our-annual-performance-report](http://www.seswater.co.uk/about-us/publications/our-annual-performance-report) respectively.

### (xi) Total Expenditure (Totex)

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

## PENNON GROUP PLC

## Alternative performance measures (continued)

### (xii) 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.

### (xiii) 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.

### (xiv) Water Group Gearing

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

2026

2025

	£m	£m
Net debt	<b>4,019.3</b>	3,698.3
RCV/Shadow RCV	<b>6,505.0</b>	5,983.1
<b>Water business gearing</b>	<b>61.8%</b>	61.8%