Bringing water to life

Supporting the lives of people and the places
they love for generations to come

Pennon

Task Force on Climate-related Financial Disclosures 2026

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD)

We are driven by our purpose of bringing water to life and remain focused on our strategic priorities, delivering for our customers, communities, and the environment.

We operate in a changing environment where the impacts of climate change and biodiversity loss are increasingly evident. To remain resilient, we monitor climate risks, assess their implications, and embed these insights into our strategic planning and investment decisions. Our disclosures under the TCFD and TNFD frameworks reflect our commitment to transparency, accountability, and continuous improvement. Our regulated water business is the focus of our TCFD and TNFD disclosures, with most of our assets, revenues, and expenditures related to this area of our business.

TCFD recommendations

Created by the Financial Stability Board (FSB), the TCFD published its recommendations in June 2017. This is our seventh year of TCFD reporting.

In alignment with the FCA Listing Rule 6.6.6(8) we have taken into account available knowledge and guidance concerning the Listing Rule and climate-related risks to develop our TCFD disclosure, which is consistent with the TCFD framework. We have addressed the 11 recommended disclosures and have considered the best practice guidance from the TCFD.

TNFD recommendations

The TNFD published their final framework in September 2023 and published sector guidance for water utilities in June 2025. This is our fifth year of voluntarily reporting against the TNFD framework and we have now embedded our long-term commitment to managing nature-related risks and opportunities across the Group, through becoming an official TNFD adopter. We continue to integrate TNFD into our TCFD disclosures, recognising the substantial overlap and synergies between action on climate change and the nature emergency. At the same time, we also recognise some trade-offs in meeting our goals around resilience, Net Zero, and nature. There is further work to do on the recommended TNFD disclosures, and we are continuing to monitor the inclusion of nature risks in the UK sustainability disclosure requirements.

Our approach to managing climate and nature risks

As weather extremes intensify, greater risks are posed to our water and wastewater services which our customers rely on. We are making adaptation progress in key areas, detailed in our Climate Adaptation Report published in 2024.

↗ **Read our Climate Change Adaptation Report:** https://www.southwestwater.co.uk/siteassets/documents/environment/climate-change-adaptation-report_2024.pdf

The challenges posed by climate hazards, combined with heightened customer and regulatory expectations, mean we need to go further to manage the impacts of extreme weather. A key area of focus for us is to reduce the impacts from storm overflows and sewer flooding.

We are investing £3.2 billion[1] into our services and infrastructure across 2025-2030, focusing on four strategic priorities: water quality and resilience, storm overflows and pollution, Net Zero and environmental gains, and addressing customer affordability. These investments will strengthen our management of climate and nature risks, and enable us to deliver opportunities which benefit our customers and the regions we operate in.

We are focused on delivering for our customers and stakeholders. We are continuing to embed climate change resilience, sustainability, and nature-positive practices into decision-making within our business, as well as managing near-term inflationary pressures, including energy prices. We also continue to manage changes to our investments to explore new technology, materials, and nature-based solutions, within global capacity and supply chain constraints, to deliver both affordability and fairness for our customers.

We've demonstrated our commitment to action on climate change and nature through our transparency in voluntary reporting to CDP since 2013. We have been recognised on CDP's A List for Climate in 2025, placing us at the leadership level and in the top 4% of disclosers globally. You can read more about our work to enhance resilience on pages 78 to 80, and about our Net Zero performance on page 81 of our Annual Report 2026.

As a UN Global Compact signatory, we embed its principles on human rights, labour, environment, and anti-corruption into our ESG approach and report progress annually.

We recognise that climate change, the nature emergency, and the transition to Net Zero influence several of the Group's principal risks (see our Principal Risks report on pages 62 to 69 of our Annual Report 2026). Principal risks are reviewed as part of our audit governance processes.

South West Water and SES Water have their own boards, which report to the Pennon Group Board. The boards oversee climate- and nature-related risks within their operations. New board members are briefed on key climate-related and nature-related risks, for example through site visits and strategic discussions. For more information see our Corporate Governance report on pages 96 to 159 of our Annual Report 2026. Further information on Board Committees and ESG skills can be found on page 96 and pages 117 to 132 of our Annual Report 2026.

Management's role

Our C-suite Executives play a key role in identifying, assessing, and managing climate-related and nature-related risks and opportunities, including through relevant Executive committees. We have also appointed a Chief Sustainability and Natural Resources Officer (CSNRO), who is accountable for climate and nature policies and targets.

Our business is divided into four business units: Clean Water, Wastewater, Pennon Power, and Retail; all supported by our Corporate Functions. Management within each business unit are responsible for identifying, assessing, and managing climate-related and nature-related risks in their business units – including risks related to water resources, wastewater, regulation, procurement, engineering, natural resources/biodiversity, and finance.

Risk is identified and categorised within each business unit prior to being formally passed on to senior management responsible for those business units. Each business function and department maintains a risk register, and management escalates risks to the Executive teams through meetings as appropriate. We are continuing to raise awareness and the capacity of teams and executive management to identify, assess, and manage climate-related and nature-related risks and opportunities. The Executive Directors' Remuneration Policy is set to incentivise the achievement of key performance objectives. This includes ESG objectives and broader environmental performance including our Group's programme of ESG targets, that align with our ESG approach. You can read more about our ESG approach on pages 72 to 73 of our Annual Report 2026.

Charlestown Beach

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Climate and nature-related governance

TCFD/TNFD Recommendation: Disclose the organisation's governance around climate-related and nature-related risks and opportunities.

Board oversight

The Group has a strong governance structure in place to oversee the effective operation of our business and to manage all risks, including climate-related and nature-related risks and opportunities. Overall ownership and responsibility for risks, opportunities, and mitigation actions rests with the Pennon Group Board, which regularly reviews principal risks as part of its risk management processes.

The Board considers climate-related and nature-related risks and opportunities throughout its duties – including when considering the Group's strategy and objectives, monitoring business and operational performance, business planning and annual budget setting, reviewing major capital expenditures and existing investments, and in considering acquisitions/divestitures. Several Board Committees support this oversight.

ESG Committee

The ESG Committee provides the platform for discussion of the Group's ESG agenda, environmental performance and related climate and nature risks and opportunities, as well as setting and reviewing key metrics relating to ESG targets and goals.

↗ **ESG Committee report pages 126 to 128 of our Annual Report 2026**

Audit Committee

The Audit Committee oversees risk management and internal controls and monitors the Group's financial reporting, including how the impacts of climate and nature risks are accounted for in financial statements. The Committee also reviews key risks and opportunities (including climate-related risks) and challenges and tests the Group's internal control processes including risk management and internal audit.

↗ **Audit Committee report pages 120 to 125 of our Annual Report 2026**

Remuneration Committee

The Remuneration Committee considers the Group's objectives and responsibilities and advises the Board on the framework of executive remuneration for the Group and for the wider workforce, including mechanisms to incentivise achievement of the Group's objectives related to climate change, Net Zero, and sustainability goals.

↗ **Remuneration Committee report pages 130 to 132 of our Annual Report 2026**

Nomination Committee

The Nomination Committee supports Board composition and succession planning, including consideration of ESG and climate-related expertise. It considers competencies related to climate-related risks and opportunities when reviewing the structure, size, and composition of the Board and senior executives across the Group.

↗ **Nomination Committee report pages 117 to 119 of our Annual Report 2026**

Health and Safety Committee

The Health and Safety Committee monitors risk across all areas of health and safety – including areas impacted by climate-related risks such as extreme weather events. The Committee also reviews the effectiveness of the Group's procedures for Health and Safety reporting and performance.

↗ **Health and Safety Committee report page 129 of our Annual Report 2026**

Pennon Executive Board (PEx), headed by Group Chief Executive Officer

The Committee monitors, approves and reviews business objectives and plans, and provides challenge and feedback to investment decisions. Throughout these processes, climate-related and nature-related risks and opportunities are considered and actions to manage risks are embedded in business planning and investment decision-making. The CSNRO reports to PEx monthly, providing updates on sustainability and nature-related issues. There are several Executive committees which report to PEx, including business unit senior leadership teams.

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Climate-related strategy

TCFD/TNFD Recommendation: Disclose the impacts of climate-related and nature-related risks and opportunities on the organisation's business, strategy, and financial planning where such information is material.

Climate scenario analysis

In alignment with the TCFD guidance, we have assessed the risks and opportunities associated with climate change and the transition to a Net Zero climate-resilient economy. We have used plausible contrasting scenarios to explore the potential range of impacts in the future and in turn the possible range in our strategic responses required to mitigate risks and build adaptive capacity in an uncertain future.

Our **physical risk scenarios** are informed by the IPCC's Representative Concentration Pathways (RCPs) from the IPCC's 5th assessment (2014), including a high and a low emissions scenario, which were also used as the basis for planning by Ofwat as part of the PR24 methodology and align with Ofwat's climate change principles published in February 2026.

Our **transition risk scenarios** align with scenarios developed by the Network for Greening the Financial System (NGFS), which are widely adopted in the UK. The two NGFS transition scenarios used are: (1) Orderly transition, aligned to the NGFS Net Zero 2050 and (2) Hot House World aligned to the NGFS Current Policies. The NGFS Net Zero 2050 aligns closely with the IEA Net Zero 2050 scenario. We have selected these contrasting scenarios as they span a range of possible futures, and present different challenges and opportunities for our business. The NGFS Disorderly Transition Scenario has also been considered, but our view is that negative impacts for our Group are more significant under the NGFS Current Policies Scenario, so it has been the focus of our scenario analysis to provide a stress test of our resilience.

For our scenario analysis, the following assumptions were made:

- Scenarios focus on the UK policy and regulatory context and are semi-independent of global action and temperature pathways.
- It is assumed energy prices remain high throughout the next decade.
- The Government's ambition around environmental protection and conservation remains high, regardless of the pace of transition.
- No significant change to Pennon Group's business activities.
- Population increases across the regions we serve, however overall water demand remains unchanged from today (due to leakage reduction and water efficiency measures), and overall volume of wastewater treated remains unchanged from today (due to actions taken to reduce surface water flows to sewers).

Short, medium and long-term horizons for climate risks

In shaping our strategy, we consider short, medium and long-term horizons for climate risks and opportunities.

Short-term: 1-10 years

Over this horizon we define key targets (operational, financial, sustainability) and we consider changing regulatory frameworks and emerging policies. We develop business plans every five years, defining our actions and investments over this period. Operational risks are planned and budgeted for over this time frame, and planning begins during this period for the next regulatory period. Transition risks and opportunities are likely to have the largest impacts to our business across this period, with physical risks projected to increase over time.

Medium-term: 10-25 years

Our WRMP and DWMP strategic plans consider requirements up to 25 years. Major projects and operational plans will be renewed and managed over this time frame to ensure projects meet the correct regulatory period plans. Our Net Zero targets fall within this horizon, as well as the UK's 2050 Net Zero target, which will continue to present emerging policy and market changes. Transition risks and physical risks will both impact our business across this period to varying levels, depending on global GHG emissions and the Net Zero pathway taken by the UK and globally.

Long-term: 25 years and beyond

Typically for longer-term strategic direction, risk, and resilience planning. Investment requirements for our long-life assets are considered, such as mains pipes and reservoirs. Physical risks become very significant over this period. Current projections are that by 2100 the planet will have warmed by up to 3°C, however there is much uncertainty.

Physical climate risk scenarios:

<2°C **RCP2.6 – Lower Physical Impacts:** Less than 2°C warming by the year 2100 – corresponding to a low emissions 'optimistic' scenario.

4°C **RCP8.5 – High Physical Impacts:** Up to 4°C warming by the year 2100 – corresponding to a high emissions 'business-as-usual' scenario, which is appropriate to use when considering high risks.

Transition climate risk scenarios:

<2°C **Net Zero 2050:** The UK puts in place strong policies and actions to mitigate climate change and keep warming to under 2°C by 2100, aligned with the Paris Agreement. Supportive policies are introduced quickly and smoothly, enabling rapid technology and system change.

4°C **Current Policies:** The UK makes incremental progress to mitigate climate change, but no major policies change, resulting in limited action to keep warming below 4°C by 2100, and missing the targets of the Paris Agreement. Technology and system change is slow and stalls.

Countess Weir WWRW

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Scenario analysis – physical climate risks continued

Our key physical climate risks

Principal risk	Time horizon	Current risk rating and trend
Chronic: Increasing frequency and intensity of droughts	Short, medium and long-term	● ⊖
Chronic: Increasing average and high temperatures	Short, medium and long-term	● ⊖
Chronic: Increasing frequency of heavy rainfall and floods	Short, medium and long-term	● ⌄
Chronic: Rising sea levels and coastal erosion	Short, medium and long-term.	● ⊖
Acute: Increasing frequency of extreme weather events, heatwaves and storms	Short, medium and long-term.	● ⊖

Key impacts of physical climate risks

- **Climate impacts will affect our ability to provide reliable services to customers**. Climate change will impact water resources and pose greater risks of supply shortages, as well as to our water and wastewater treatment and networks. Without adaptation, this would result in increased service disruptions and reduced outcomes for customers and the environment. For example, climate change is driving increases to rainfall which could contribute to greater storm overflows if left unmanaged and pose risks of flooding and damaging our assets.
- **Investment required is high, but the cost of inaction is much higher.** Our risk assessment clearly shows long-term significant risks if the impacts of climate change are not mitigated. For example, we have 36 major sites/assets at high-risk of coastal flooding and erosion. We operate over £7 billion of assets, the majority of which relate to water and wastewater and will be impacted by climate change in some way. Drought in the South West in 2022 cost the Group around £20 million, and following this we have continued to invest to enhance resilience.
- **Unmitigated risks would have material impacts on our business.** This would include additional expenditure (Opex and Capex) to recover from service interruptions and repair or replace deteriorated assets, and would result in more frequent and greater ODI penalties.
- **Impacts are worse with every bit of additional warming.** Impacts would increase over each time horizon as extreme weather events increase in frequency and magnitude and are compounded by chronic climate change. Additionally, the natural environment which we are dependent on would also decline over time, creating greater costs and impacts for us (e.g. reducing water quality and quantity).

Key

Risk ratings	Risk trend
● High	⌃ Increasing
● Medium	⊖ Stable
● Low	⌄ Decreasing

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Our strategic responses to physical climate risks

Our strategy for managing physical climate risks and financial impacts is underpinned by the following principles in order to maintain and improve our Group's performance to the year 2050:

- Adapt to climate change
- Enhance resilience
- Innovate
- Become more efficient
- Collaborate
- Balance investment over time

This will require significant action and investment by our Group, as well as action by our supply chain partners and wider actors (e.g. Government agencies, local authorities, and major landowners in our regions).

Longer-term investment, as outlined in our strategic plans, will be needed to manage future risks to acceptable/tolerable levels. To achieve this, regulatory and Government support within their policy frameworks will be needed.

In the South West of England, the combined characteristics of low population density, high coastline to land area ratio, and tourism-based seasonal flux on water demand present a unique set of challenges. Through the years, by innovating, investing, and adapting, we have achieved industry-leading results in many areas of the business. Our extensive programme of environmental improvement with Upstream and Downstream Thinking catchment management has resulted in some of the finest bathing waters in Europe.

This has been instrumental for us to tackle these challenges and meet the expectations of our customers. Having seen record visitors to our region following the COVID-19 pandemic, it is expected that further investment will be required to continue building on the progress made by Pennon Group to protect the environment and our bathing waters. Our strategic responses within our WRMP24 and DWMP23 for delivering reliable, efficient, and high-quality drinking water and wastewater services are driven by best-value adaptive planning.

We have developed adaptive investment programmes which: 1) fulfil immediate and most probable future needs; 2) respond to external pressures in the future with alternative investment options that are triggered under specific conditions; and 3) identify low and least-regret investments that enable future options or return benefits under the broadest range of potential futures. Subsequently, our strategies for mitigating climate risks and building adaptive capacity are similar under the high and low emissions scenario in the short to medium-term, however, additional options will be required under the high emissions scenario, or options may need to be implemented earlier than the low emissions scenario over the long term.

Investments in natural capital will be central to our climate adaptation. Healthy and functioning ecosystems are critical for resilient water and wastewater operations. Therefore, we are investing in natural capital schemes, catchment management, partnerships, and research and development in this area, as well as implementing our comprehensive Biodiversity Strategy and Environment Plan 2050. Our 'Green First' Framework prioritises nature-based solutions to improve climate adaptation and resilience.

Climate change adaptation is a continual, evolving and iterative process. We regularly review our adaptation progress, and as we did during the 2022 drought, we learn from the challenges we have faced to inform our future adaptation actions. As part of our adaptive planning approach, we have predefined trigger points to implement strategies of the appropriate pathway sufficiently early, so that we can have a proactive and more resilient response to climate change, including greater opportunity to implement nature-based solutions – rather than more costly reactive approaches which may have higher operational and embodied carbon.

Impacts on financial planning

Impacts from not mitigating risks: Compared to today, overall our revenue is unlikely to be impacted significantly by climate change as we operate in a regulated environment funded through Price Reviews, although impacts could be felt on annual revenue recovery. However, there is a higher risk of reduced regulatory rewards and increased penalties (ODIs) due to climate change. Our operating costs are likely to increase compared to today due to climate change (e.g. Opex and Capex to recover from service disruptions and repair assets).

The value of our assets and our cost of capital could decrease if assets become degraded / impaired, and if we were perceived as high-risk by financiers.

Impacts from mitigating risks: Our revenue is unlikely to be impacted significantly due to the regulatory Price Review system as explained above, however by investing in climate adaptation we have greater ability to achieve regulatory rewards (ODIs). Our Capex would increase to build resilience to climate change, and this investment would aim to prevent our operating costs from changing significantly from today (as we would experience fewer service disruptions than in a scenario where risks are unmitigated). The value of our assets and our cost of capital would remain relatively unchanged compared to today if we continue to enhance our resilience.

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Scenario analysis – climate transition risks

Our key climate transition risks

Transition risk	Time horizon	Current risk rating and trend
Regulation and policy: Challenges balancing trade-offs in regulation in the water sector between agendas of infrastructure delivery, Net Zero, climate resilience, environmental enhancement, and other objectives, posing the risk of increasing costs and carbon	Short and medium-term	Medium, Increasing
Regulation and policy: Regulatory funding risk for achieving Pennon's Net Zero ambitions and adapting to climate change	Short and medium-term	Medium, Increasing
Technology: Capacity and readiness of technology, employees and supply chain to achieve Net Zero	Short and medium-term	Medium, Decreasing
Market: Increased costs of energy and materials due to the transition to Net Zero, impacts of climate change, and wider factors	Short and medium-term	Medium, Decreasing
Reputational: Negative public and stakeholder relations due to Pennon failing to be a seen as a leader in environmental sustainability	Short and medium-term	High, Increasing
Reputational: Customer affordability and fairness concerns for achieving Net Zero and adapting to climate change	Short and medium-term	Low, Stable

Key impacts of transition risks

- **The cost to our business of achieving our Net Zero target rises, and there is less ability to recover costs through the regulatory pricing system.** Misalignment in policies and low incentives make reaching Net Zero more costly and impose greater investment risks to our business. Additionally, our supply chain could also lag in decarbonising, impacting our Scope 3 emissions.
- **Current UK policies are not sufficient to deliver the necessary carbon emission reductions.** Therefore, meeting our Net Zero targets would require greater use of carbon offsets or we would be at risk of missing targets. Low readiness and capacity could stall our progress to reduce emissions and realise opportunities. This could result in higher costs for access to low-carbon technologies and related skills (due to the UK's previous under-investment), and increased costs related to both our own renewable energy generation, and the purchasing of green electricity from external suppliers.
- **Environmental targets require additional energy use.** New guidance on targets for both nutrients and storm overflows will require a significant increase in energy use and associated capital and operational carbon. While nature-based solutions will form part of the solution (our Green First Principle), there will be significant reliance on engineered solutions due to potential inflexibility in regulation and deadlines to improve outcomes. The increased energy and carbon use compounds impacts above.
- **Reputational risks are significant and require careful management.** Some of our customers and stakeholders may have differing priorities and preferences for actions to meet our climate targets. Some may be highly sensitive to affordability, and increasingly scrutinise our investment choices.
- **Current UK policies and markets are not sufficient to enable us to realise some of our climate-related opportunities.** Low incentives and low-maturity markets reduce opportunities for our business relating to resource efficiency, carbon sequestration, bioresources etc.

Key

Risk ratings	Risk trend
High	Increasing
Medium	Stable
Low	Decreasing

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Scenario analysis – climate transition opportunities

Our key climate-related opportunities

Climate-related opportunities	Time horizon	Current opportunity rating and trend
Resilience: Enhancing resilience across Pennon's operations, asset base, and supply chain to avoid costs and enhance value	Short and medium-term	Medium, Increasing
Energy source: Reducing carbon and enhancing energy resilience and revenue by using and generating renewable energy	Short and medium-term	Medium, Increasing
Markets: Generating value and reducing our financing costs through sustainable financing	Short and medium-term	Medium, Increasing
Resource efficiency: Saving water, energy, materials, and carbon by enhancing efficiency, using low-carbon and nature-based solutions, and reducing emissions across Pennon's supply chain	Short and medium-term	Medium, Increasing
Products and services: Enhancing revenue through providing resilient water solutions, bioresources, and expertise to other water companies	Short, medium, and long-term	Medium, Increasing

Key impacts of climate-related opportunities

- **Costs to our business of achieving our Net Zero targets could be reduced.** With greater regulatory support towards the step-change in investment required, the cost and availability of technologies, skills, and resources could be reduced. We are already benefiting from reducing our energy costs through investment in renewable energy.
- **The regulatory environment may be more favourable for nature-based solutions (NBS) which can also sequester carbon.** More stringent carbon management requirements across the economy and more mature carbon/biodiversity markets would provide more incentives for NBS.
- **Our reputation could benefit from realising climate opportunities, provided we support customers in need.** Fairness in the distribution of the costs of the UK's transition to Net Zero is a key concern among stakeholders. Increased support to some customers may be required, and our investments will need to be carefully planned and phased to ensure they are efficient and avoid sudden price impacts.
- **We can increase our revenue and decrease our operating costs**. A more favourable enabling environment would mean that our climate-related opportunities are enhanced and easier to realise. Investing and innovating on energy and resource efficiency can reduce our operating costs, and delivering SROs and bioresources could enhance our revenues.

Key

Risk ratings	Risk trend
● High	Increasing
● Medium	Stable
● Low	Decreasing

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Our strategic responses to climate transition risks and opportunities

Although there are important differences in the impacts between the different transition scenarios we've considered, there are a number of common elements which will require us to implement a common strategic response. The relative importance of each, and specific elements within the response, will vary across the scenarios, but we have identified six key focus areas which will enhance resilience to transition risks, and better position the Group to take advantage of opportunities:

Investing in efficiency.
Significant carbon savings and performance improvements can be achieved by driving greater efficiency across our operations. This includes energy efficiency (for example, more efficient pumping to reduce water losses), as well as optimising processes, reducing waste, and deploying smart technologies to improve the performance of our water and wastewater systems and networks. Many of these opportunities will reduce costs. We are investing in programmes to streamline operations, enhance resource efficiency and reduce energy use and carbon across our operations. This will accelerate our progress toward Net Zero and help manage the cost of the transition.

Enhancing our resilience.
We will continue to invest in building resilience across our operations to address climate, physical and transition risks. This includes generating more of our own renewable energy to reduce exposure to energy price volatility and to enhance our options for energy supply. We are strengthening our ability to respond to physical climate impacts such as flooding and drought – by improving the robustness of our infrastructure, increasing water storage and supply flexibility, and integrating adaptive technologies and nature-based solutions.

Enhancing our access to green economy resources.
Skills and resources across key areas of the green economy will continue to be in high demand. To ensure our access, we will diversify our supply chain of low-carbon suppliers, and invest in a programme of internal capacity-building to ensure access to the skills needed. We will also work with partners across the industry and engage with peers, regulators, and Government to enable rapid investment in the skills and capacity needed to support Net Zero.

Engage with regulators on environmental targets and trade-offs.
New ambitious targets on nutrients and storm overflows will require increased energy use and new infrastructure, and subsequently higher operational and capital carbon. There is a trade-off between action to meet these targets and action on decarbonisation, with implications for the balance between nature-based and engineering solutions. We will engage in ongoing regulatory consultations on environmental targets and strategies for meeting them, and seek clear guidance on managing different trade-offs. We will advocate for policies which enable flexibility and time to scale up nature-based solutions so we can maximise co-benefits for our customers and the environment.

Enhance our stakeholder and customer engagement.
There are significant reputational risks associated with different climate scenarios, although the balance of concerns will vary. We will develop plans for enhanced programmes of engagement and communication with our customers and stakeholders, in particular focusing on explaining the costs and benefits of the investments we are making, potential trade-offs and synergies between Net Zero and other environmental targets, and affordability.

Pursue opportunities to deliver more value for customers and shareholders.
We will continue to pursue opportunities to reduce costs and enhance sustainability. This includes reducing our financing costs through our sustainable finance framework, investing in our environmental programme which includes restoring ecosystems to capture carbon, and working with partners and suppliers to enhance our resilience and reduce carbon emissions across our supply chain. We will also continue to explore opportunities to enhance our revenue through water resource options, selling renewable energy, and markets for bioresources and natural capital.

Impacts on financial planning

Impacts from not mitigating risks and not delivering opportunities: Our revenue is unlikely to be impacted significantly due to the regulatory Price Review system, but our non-water revenue (eg sale of bioresources) is less able to grow. We may also miss out on regulatory rewards (ODIs) if we fell behind in our carbon and biodiversity targets. Our Capex and Opex to achieve Net Zero would increase relative to our current plans. The value of our assets and our cost of capital would remain relatively unchanged compared to today.

Impacts from mitigating risks and delivering opportunities: Our revenue is unlikely to be impacted significantly due to the regulatory Price Review system, but our non-water revenue has greater potential to grow. We have greater confidence in receiving regulatory rewards (ODIs) related to meeting our carbon and biodiversity targets. Our Capex and Opex to achieve Net Zero may remain largely unchanged compared to our current plans, and while Capex investment will be required to reduce risks and deliver opportunities, we expect to recover costs as opportunities reduce our Opex and our exposure to risks. The value of our assets may increase as we decarbonise and enhance our natural capital, and our cost of capital may decrease compared to today as financiers recognise us as low-risk and sustainable.

Statement of resilience

There are clear impacts on our business under different climate scenarios, in particular:

- Higher costs in the short and medium term to meet our Net Zero targets under the 'Current Policies' scenario.
- Higher costs in the short, medium, and long term under the RCP8.5 Higher Physical Impacts scenario.

Several of the strategic responses outlined above are already included in our strategic plans and business plan. We have confidence that our Group has a range of strategic options to manage the impacts and take advantage of opportunities, in order for us to remain resilient under the different climate scenarios considered.

We will need to invest more to improve our resilience to climate change and deliver Net Zero. Assets are likely to require additional protection, and planning for new assets will require a greater level of embedded climate resilience and sustainability. Significant action and investment will be required by our Group, as well as action by our supply chain partners and wider actors (eg government, local authorities, major landowners/users, and other providers of infrastructure and services).

Early investment in decarbonising our business remains more cost-effective in the long-term, and reduces the risk to our Group and our customers from potential future measures such as carbon pricing, as well as safeguarding our reputation on environment and climate change.

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Nature-related strategy

Our nature-related impacts and dependencies

Our most material nature-related impacts and dependencies for our direct operations are in the freshwater, land, and atmosphere realms. We rely on water supply from the environment, and we recycle water back to the environment from our wastewater treatment facilities. We also discharge treated biosolids to land, and emit gases to the atmosphere in our treatment processes.

We are currently developing a roadmap to strengthen our alignment with the TNFD recommendations. As part of this work, we are conducting the Locate (L) and Evaluate (E) stages of a LEAP assessment for South West Water's direct operations for water infrastructure, focusing on identifying our interfaces with nature and improving our understanding of our material dependencies and impacts. This is due to be completed in 2026. The LEAP process is advocated by TNFD and will support the development of nature-related targets and actions while also helping to understand how nature-related risks and opportunities could influence our business model and long-term resilience.

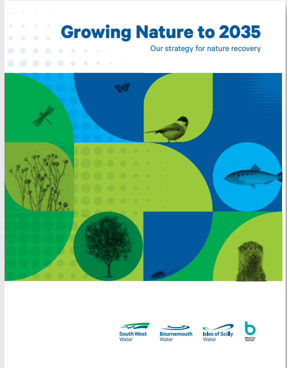
We are building an understanding of 'priority locations' (as defined by TNFD) within our operations and value chains. Key examples include:

- In early 2024, our Board approved a pilot programme of bespoke, evidence-based 'Natural Catchment Management Plans' (NCMPs) at selected catchments in Devon and Cornwall. These will create a blueprint for some bathing water catchments from this year onwards, primarily in relation to bathing water quality issues.
- We have used remote-sensing technology to determine a baseline condition assessment of habitats on our landholdings. This information will be used to help us target positive biodiversity interventions.

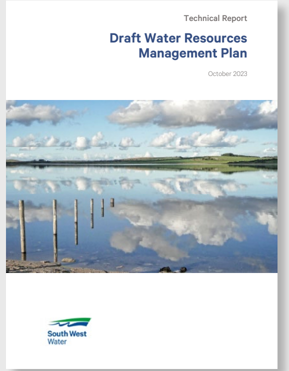
Our nature-related strategies

Our business planning and financial planning are underpinned by a series of nature-related strategies, plans and commitments that interlink up to 2050.

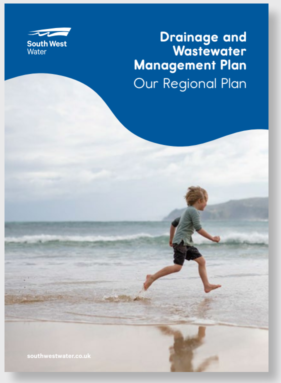
- Key examples include: **Growing nature to 2035**: Our strategy for nature recovery, sets out the key activities that we will take to support nature recovery and biodiversity on our land, in our everyday operations and beyond. There are three principles in the strategy: 1) Protect the best – take action to protect the valuable biodiversity that we have on our landholdings, 2) Restore and enhance the rest – take action across our landholdings and assets to enhance biodiversity in the everyday management of our sites, and 3) Beyond our landholdings – work in partnership with others across the region, taking a catchment approach to deliver biodiversity enhancement and nature recovery. These principles align with the LEAP process advocated by the TNFD, by taking a site approach (Locate), formulating plans to monitor those sites via undertaking biodiversity baselines and natural capital assessments (Evaluate), and creating management plans (Assess) with actions to work across the estate with our own staff (e.g. Nature Safe) and external partners, to improve the biodiversity condition. The outputs of these plans will enable us to prepare to respond to and report on material nature-related issues.
- **'Green First' Framework:** Published in 2023, the framework sets out our approach to using NBS and natural flood management wherever possible and practicable to do so. As such, our planning assumptions are based on achieving 50% reduction in surface water flow entering sewers, through nature-based solutions and a minimum removal of 10% of impermeable surfaces.
- **WRMP and DWMP:** These 25-year strategic plans identify key nature-related dependencies and impacts across Water Resource Zones, particularly those linked to leakage, water use, and water supply, and set out actions being implemented to address them.
- **Habitat Management Plans:** These have been developed for several South West Water sites, including species records and biodiversity enhancement recommendations which are available to operators.



↗ **Read more here:**
https://www.southwestwater.co.uk/siteassets/documents/environment/biodiversity-strategy-report_2023.pdf



↗ **Read more here:**
https://www.southwestwater.co.uk/siteassets/documents/about-us/wrmp/revised-wrmp/sww-dwrmp-main-technical-report-v2.pdf



↗ **Read more here:**
https://www.southwestwater.co.uk/siteassets/documents/about-us/dwmp/our-plan/dwmp-our-plan.pdf

↗ **Read more here:**
https://www.southwestwater.co.uk/siteassets/documents/about-us/dwmp/our-plan/our-green-first-framework_final.pdf

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Key actions to manage nature impacts and risks

We are carrying out many actions to enhance nature recovery, manage our dependencies on nature sustainably, and limit our negative impacts. Key examples include:

- We are investing in research on new and emerging risks such as microplastics, invasive freshwater mussel species, and on the sustainable management of sludge applied to land.
- NatureSafe launched in 2024, is a cultural change initiative supporting our employees and contractors across operational sites to understand and protect nature – in alignment with our Biodiversity Strategy.
- In preparation for Asset Management Period AMP8, our Tier 1 suppliers were tested for their ability to deliver NBS for wastewater and drinking water. In March 2025, we became a partner of the Supply Chain Sustainability School (SCSS), reinforcing our commitment to upskilling our supply chain and colleagues across key sustainability topics, including climate and nature. This partnership provides access to industry-leading training and resources, enabling our teams and suppliers to deepen their understanding of key topics, and drive positive change across our operations. By working collaboratively with SCSS, we are empowering our supply chain to meet higher sustainability standards as we move into AMP8.
- South West Water has renewed its commitment to improving the management of natural assets and resources by re-signing the Catchment Management Declaration. The declaration promotes collaborative, cross- sector working in order to better manage water resources.
- We have published our Biodiversity Enhancement Case, a portfolio programme of investigations and actions to deliver environmental gains and biodiversity benefit across the South West. It aligns statutory WINEP requirements with our Biodiversity Strategy, Local Nature Recovery Strategies, and our commitments toward the Ofwat Biodiversity Performance Commitment to inform ongoing investment and planning.
- Our Biosecurity and Invasive Non-Native Species (INNS) Plan sets out how employees and contractors understand impacts linked to INNS, identify priority species, and implement controls on-site, embedding INNS risk management into operational decision-making.
- Our Natural Resources team provides internal advice on nature-related issues, helping teams resolve challenges and ensure alignment with our Biodiversity Strategy.
- Our catchment management initiative, Upstream Thinking, applies natural solutions to reduce agricultural impact on biodiversity and water quality. It does so whilst supporting farmers and the rural economy, by: installing waterside fencing, building ponds, improving farm tracks, increasing slurry storage and planting trees and buffer strips to catch and filter water.

Going forward

Over the coming years, we will continue to develop our approach to embedding nature-related risks, dependencies and opportunities across the Group. As a first step, we will integrate the findings from the South West Water LEAP assessment into our ongoing nature strategy development. Building on this pilot, we will progressively expand the scope of our LEAP assessments covering more of our operational footprint, additional value chain stages, and a wider set of ecosystems and interfaces with nature. This phased expansion will support more comprehensive, decision-useful disclosures and ensure our reporting keeps pace with the ambition of the TNFD framework.

Bough Beech Nature Reserve

Climate and nature-related risk management

TCFD/TNFD Recommendation: Disclose how the organisation identifies, assesses, and manages climate-related and nature-related risks.

The Group's risk management framework is explained in detail on pages 62 to 64 of our Annual Report 2026, including the methodology for assessing risks.

We are continuing to integrate climate-related and nature-related risk management within the Group's overall risk management process. Climate-related and nature-related risks and opportunities are assessed using the same methodology and materiality ratings as other business risks. In the past few years we have undertaken specific work to identify and assess climate-related risks and opportunities, and we are moving towards this risk identification and assessment being integrated within business subsidiaries/functions. We have the processes in place to enable this integration, and a key area we are continuing to work on is raising awareness and competency so that the key people across our subsidiaries/business functions can effectively identify climate-related and nature-related risks, like they do with other risks (in many cases, climate and nature risks are an amplifier or additional driver to risks we have already identified, rather than presenting novel risks). For the past four years we have convened workshops with senior management from across business functions to re-visit and re-assess climate-related risks and actions, and management will take forward the responsibility to integrate climate risks into risk registers owned by each business subsidiary/function.

Furthering our progress, the Group has identified several principal risks which are impacted or influenced by physical and transitional climate and nature risks and opportunities, and as such we are increasingly cognisant that climate and nature risk management is integral to the performance and resilience of our business and strategy. The link between climate-related and nature-related risks and opportunities on our principal risks is shown on pages 66 to 69 of our Annual Report 2026.

Risks have been assessed by senior managers across Pennon Group using Pennon's risk assessment methodology (see risk management framework is explained in detail on pages 62 to 64 of our Annual Report 2026).

Risk ratings are based on assessing likelihood and consequence on a 4 x 4 risk matrix. Materiality is determined based on the impact of risks across a range of criteria: financial, safety, environmental, stakeholders & customers, reputation, management effort, quality.

For the climate-related risks that have been identified, a desired 'target' net risk level is documented within the Group's risk framework. This target risk level or tolerance level reflects the acceptable level of risk by the Group and also stands as a target and equitable measure for alleviatory measures to approach the risk going forward. We seek to minimise risks on operational activities within the regulatory environment. Climate-related risks are approached with a minimal level of appetite, and this is subject to Board approval where all appetite levels are established. Environmental compliance requirements are high, so our risk appetite for environmental impacts is low. Where there is no risk to regulatory compliance, we are willing to take more risks to innovate (eg Nature Based Solutions).

The appropriate action then follows from the level of difference between the net risk and the desired risk appetite. Actions to manage risks cover four response types:

- **Tolerate:** Where decisions are taken to tolerate a risk, subject to ongoing monitoring. An example is climate-related risks where uncertainty is high and therefore we might decide to monitor risks until such time as it may be necessary to take further action.
- **Treat:** Where actions are taken to manage and reduce risks, such as implementing operational measures in our drought plan or capital investments to enhance our resilience to droughts.
- **Transfer:** Used where possible to transfer risks to other organisations – such as through insurance or through contracting out responsibilities. We recognise it is not possible to fully transfer risks, rather this approach helps to reduce our exposure. For example, reducing our exposure to the impacts of flooding through flood insurance.
- **Terminate:** Where decisions are taken to stop activities so that we are not exposed to particular risks. For example, we may decide not to undertake a capital project if risks cannot be effectively mitigated – for example, due to high costs for energy, materials, and specialist resources related to Net Zero or climate adaptation.

Actions to mitigate risks are allocated to action owners and progress is monitored through the risk review process.

Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) continued

Climate and nature-related metrics and targets

TCFD/TNFD Recommendation: Disclose the metrics and targets used to assess and manage relevant climate-related and nature-related risks and opportunities where such information is material.

We use a range of metrics to quantify key climate and nature risks, and to monitor progress towards managing risks and achieving our targeted objectives.

We continue to disclose comprehensive data relating to our GHG emissions and energy consumption (SECR report on pages 81 to 82 of our Annual Report 2026). We report on all Scope 3 categories which are relevant and material to our business (ESG Databook). Our TNFD-aligned metrics and SASB disclosures are reported in the ESG Databook. We report on progress against our ODIs, performance commitments and WINEP delivery in our Annual Performance Report. All material data for TCFD compliance is in this TCFD report.

↗ **Access our ESG Databook**
https://www.pennon-group.co.uk/investor-information/financial-reports-and-presentations

Across GHG metrics, performance continues to improve year-on-year, with reductions in scopes 1 and 2 and work ongoing to progress scope 3 reduction, which remains a key challenge for our Net Zero transition. Climate-related physical risk metrics are also trending positively, with improvements in storm overflow and pollution indicators reflecting the impact of targeted interventions, while further work is needed to meet long-term resilience goals.

Climate-related transition risks are moving in the right direction, including improved affordability in SES Water. Climate-related opportunities are being realised, with Pennon Power now operational and contributing to renewable generation, and a step-change in performance expected next year.

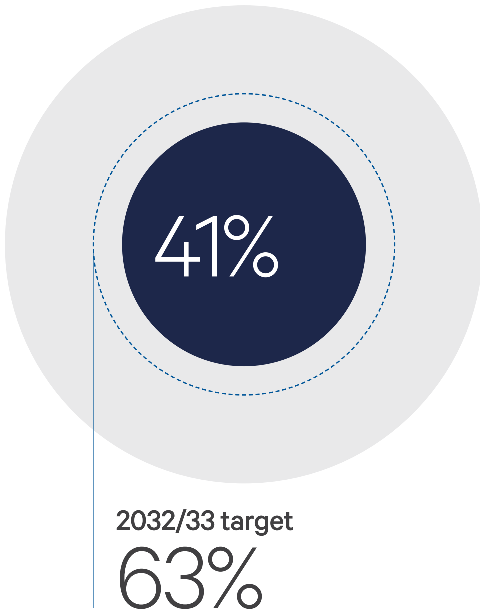
For capital deployment, remuneration and internal carbon value, progress is being made in embedding climate considerations into business decision-making, including directing investment towards Net Zero and environmental outcomes, linking incentives to ESG performance, and applying an internal carbon price aligned with Ofwat performance commitments.

	2025/26	2024/25
GHG metrics[1]		
Scope 1, 2 and 3 GHG emissions (in tCO_2e).	**373,982**	403,110
Reduce Scope 1 and 2 GHG emissions by 63% by 2032/33 from a 2021/22 base year (science-based target).	**41%**	36%
Reduce absolute Scope 3 GHG emissions from fuels and energy-related activities, wastes generated in operations, business travel, employee commuting, upstream leased assets and use of sold products by 30% by 2032/33 from a 2021/22 baseline (Science Based Target).	**-2%**	4%
Climate-related physical risks metrics		
Number of major sites/assets at high-risk of coastal flooding and erosion.	**36**	36
Pollution incidents (Number of wastewater incidents, calendar year).	**124**	189
Annual average number of spills from each storm overflow (number per calendar year).	**34.0**	41.3
Climate-related transition risks metrics		
Risk of increased energy costs: Proportion of our operational expenditure on electricity (%).	**12.7%**	14.6%
Managing transition risk in our supply chain: 60% of suppliers by emissions covering purchased goods and services, capital goods and upstream transportation and distribution will have science-based targets by 2027/28 (Science Based Target).	**33%**	35%
Risk of customer affordability in achieving Net Zero and adapting to climate change: our customer affordability measure.	**99% SWB 100% BW 99.7% SESW**	100% SWB 100% BW 91.6% SESW
Climate-related opportunities		
Renewable Electricity Generation (GWh/year)	**27**	26
The Group commits to increase annual sourcing of renewable electricity to 100% by 2030 (Science Based Target).	**92%**	85%
Value (£) of finance raised through our sustainable financing framework	**£490m**	£800m
Capital deployment		
Investment deployed on Net Zero and environmental gains	**£13.3m**	£13.5m
Remuneration		
Proportion of our management incentive schemes linked to ESG outcomes, including climate change.	**28.6%**	27.4%
Internal carbon value		
Value of carbon used in business cases and whole life carbon assessments (£/tCO_2e)	**Ofwat Performance Commitment Price £188/tCO_2e**	£294/tCO_2e (Sensitivity testing: Low: £147/High: £442)

1. Emissions restated for 2024/25, see page 93 of our Annual Report 2026 for details on the Group's GHG emissions and restatements.

Reduction in GHG emissions

Scope 1 and 2 GHGs from 2021/22 baseline (Science Based Target)



Reduction in GHG emissions for Scope 1 and 2 (from a 2021/22 baseline, science-based target) has strengthened year-on-year, with a 41% reduction now achieved, up from 36% in the previous year. This improvement reflects reduced market-based Scope 2 emissions, driven by increased renewable electricity procurement, despite a modest increase in Scope 1 emissions linked to operational responses to dry weather conditions.

Performance is reported on a rebaselined methodology aligned to the latest climate science, which increases the relative contribution of Scope 1 process emissions.

↗ **Read more in Our Net Zero Transition on pages 78 to 82 of our Annual Report 2026**

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