

Capital Markets Day

# **A vision towards a sustainable future – delivering for customers**

13 March 2025

# Disclaimer

For the purposes of the following disclaimers, references to this “document” shall mean this presentation pack and shall be deemed to include references to the related speeches made by or to be made by the presenters, any questions and answers in relation thereto and any other related verbal or written communications.

This document contains certain “forward-looking statements” with respect to Pennon Group’s financial condition, results of operations and business and certain of Pennon Group’s plans and objectives with respect to these matters which may constitute “forward-looking statements”.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as “anticipate”, “aim”, “believe”, “continue”, “could”, “due”, “estimate”, “expect”, “forecast”, “goal”, “intend”, “probably”, “may”, “plan”, “project”, “seek”, “should”, “target”, “will”, “negative” and related and similar expressions, as well as statements in the future tense.

By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not guarantees of future performance and no assurance can be given that the forward-looking statements in this document will be realised. 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.

There are a number of 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 and include all risks described in the Pennon Group Annual Report published in June 2024; changes in the economics and markets in which the Group operates, changes in the regulatory and competition frameworks in which the Group operates, the impact of legal proceedings against or which affect the Group; and changes in interest and exchange rates. Forward looking statements should therefore be construed in light of such risks, uncertainties and other factors and undue reliance should not be placed on them. Nothing in this document should be construed as a profit forecast.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Pennon Group or any other member of the Pennon Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Pennon Group may or may not update these forward-looking statements.

This document is not an offer to sell, exchange or transfer any securities of Pennon Group or any of its subsidiaries and is not soliciting an offer to purchase, exchange or transfer such securities in any jurisdiction.

Without prejudice to the above, whilst Pennon Group accepts liability to the extent required by the Listing Rules, the Disclosure Rules and the Transparency Rules of the UK Listing Authority for any information contained within this document which the Company makes publicly available as required by such Rules:

- a) neither Pennon Group nor any other member of Pennon Group or persons acting on their behalf shall otherwise have any liability whatsoever for loss howsoever arising, directly or indirectly, from use of the information contained within this document;
- b) neither Pennon Group nor any other member of Pennon Group or persons acting on their behalf makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained within this document; and
- c) no reliance may be placed upon the information contained within this document to the extent that such information is subsequently updated by or on behalf of Pennon Group.

Past performance of securities of Pennon Group cannot be relied upon as a guide to the future performance of any securities of Pennon Group.

# **We're doing this**

---

**A growing footprint – strong platform for delivery**

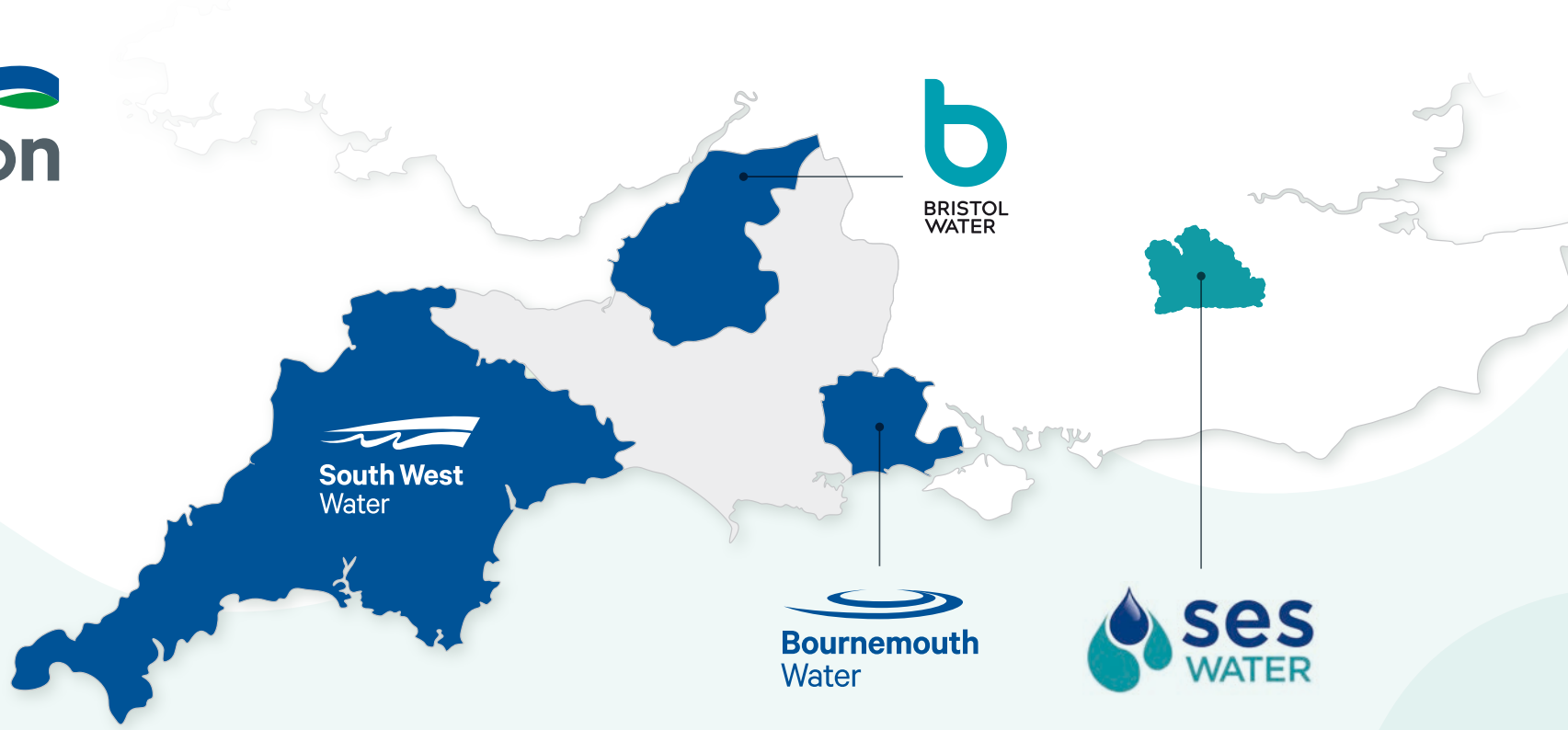
**Delivering for our customers in K7**

**Largest ever investment programme – across 4 strategic priorities**

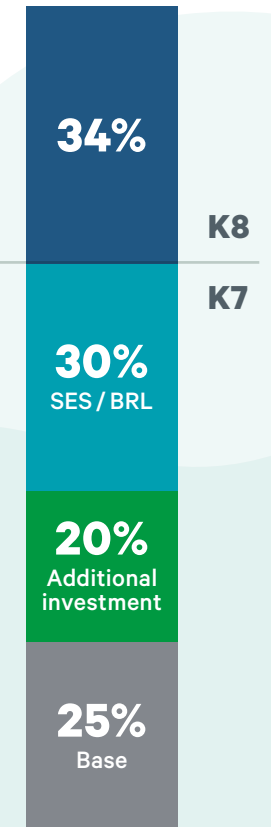
**Confident in delivery – working with an innovative supply chain**

**Focus on continued outperformance underpinned  
by a strong balance sheet**

# A growing footprint – strong platform for delivery



## RCV growth



### Water retail services



### Renewable energy generation



# Delivering for our customers in K7

## Created WaterShare+

**First**  
of its kind  
**innovative scheme**  
– c.100,000 customers  
becoming shareholders

**WaterShare+**

**Sharing**  
financial benefits  
**with customers**  
giving them

*A stake and a say  
in our business*

## Supporting customers who need it most

**£110m**  
of support  
unlocked

**Kept bills as  
low as possible**  
through drive  
for efficiency

**100%**  
**affordability**  
achieved for  
the first time

**115,000** customers on  
support tariffs

## Reducing impacts of wastewater for customers

**Over 60%**  
reduction  
internal sewer  
flooding

**20%**  
reduction  
in external  
floodings

Keeping  
blockages  
**low**

**100%** bathing water  
quality

## Delivering clean, safe drinking water

**Industry  
leading  
water quality  
in SES**

**Reducing  
supply  
interruptions**

**Meeting CRI  
deadband**  
in Devon &  
Cornwall for  
the first time

# Largest investment programme across our four priorities

## Four strategic priorities being delivered

**Building water resources, improving water quality**



**Tackling storm overflows and pollutions**



**Delivering net zero and environmental gains**



**Supporting affordability, delivering for customers**



## Confident in delivery – working with an innovative supply chain

**c.£625m**  
**of projects**  
already handed over



**amplify**

**Clancy**

**Network Plusenvolve**

**MMB**

**MWH TREATMENT**

**bam**

**+23**  
**frameworks**

**Tilbury Douglas**



# Delivering through our colleagues

**c.4,000**  
**brilliant colleagues**

– delivering for customers  
and the environment



**Supporting**  
**2,000**  
**jobs across our region**

**Funder**

of the Social  
Mobility Business  
Partnership



**Member**  
of the #blackinterns  
programme



**c.4,000**  
**courses**

through our training centres

**680**  
**graduates &**  
**apprentices**



# Delivering through our colleagues across the supply chain

## Establishing our delivery alliance – Amplify

**amplify**

Established April 2024

**£3.2bn**  
investment  
programme

**23**  
frameworks

### Collaboration with our partners – governed by Pennon

- Working together with a shared vision and values
- Bringing the best and brightest together
- Drawing on best practise and innovation – through our partners

**MMB**  
MOTT MACDONALD  
BENTLEY



**Clancy**



**MWH**  
TREATMENT

Network  
Plusenvolve<sup>3</sup>



### Programme excellence – driving efficiency

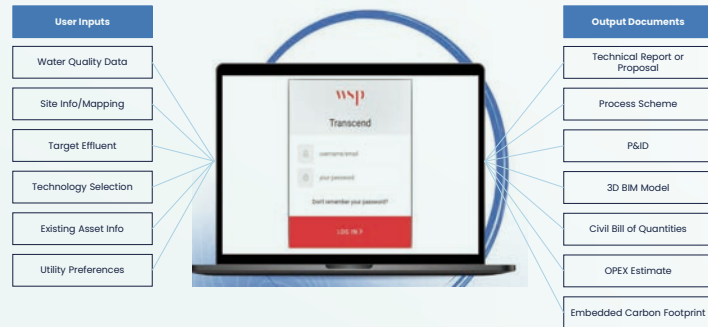
- Early procurement securing cost certainty
- Adopting nature-first approach
- Targeting innovation
- Driving core ‘off the shelf’ designs



# Delivering our investment – driving for innovation & efficiency

## How we're doing this

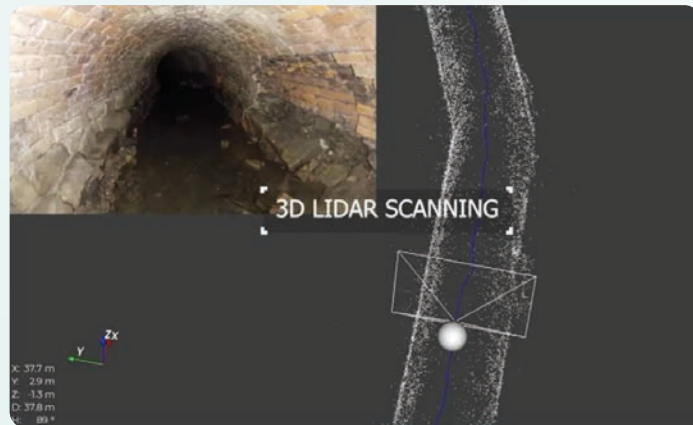
### Employing AI to expedite concept to outline design



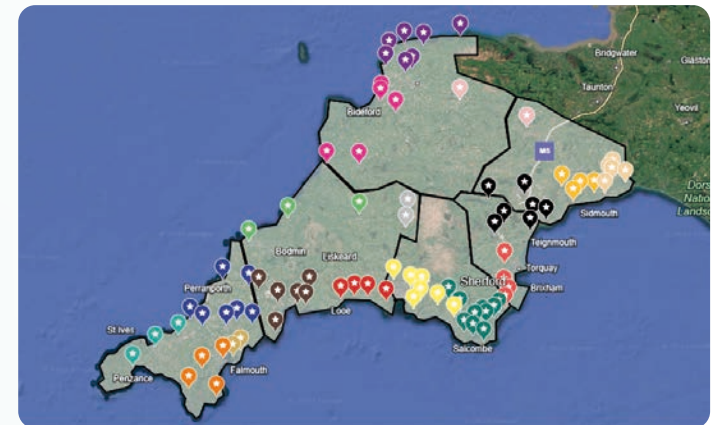
### 'Off the shelf' solutions and 'off-site build' techniques



### Drone technology, Lidar and laser mapping in early design



### Utilising latest technology – providing live updates on site progress



# Building water resources, improving water quality

What we're investing in

Powered by  
**amplify**



Driving outcomes  
in our operations

Updating  
**1/3**  
of treatment  
works

**c.440km**  
of water mains  
replacement  
or renewing

**800,000**  
Smart Meters  
– 1/3 of our  
customer  
base

**Cheddar 2**  
reservoir and  
**interconnectors**

**38,000**  
customer  
lead pipe  
replacements

**Leakage reduction of 14-19%**

**Water quality levels  
<1 on CRI**

**Supply interruptions for  
customers of 5 minutes**

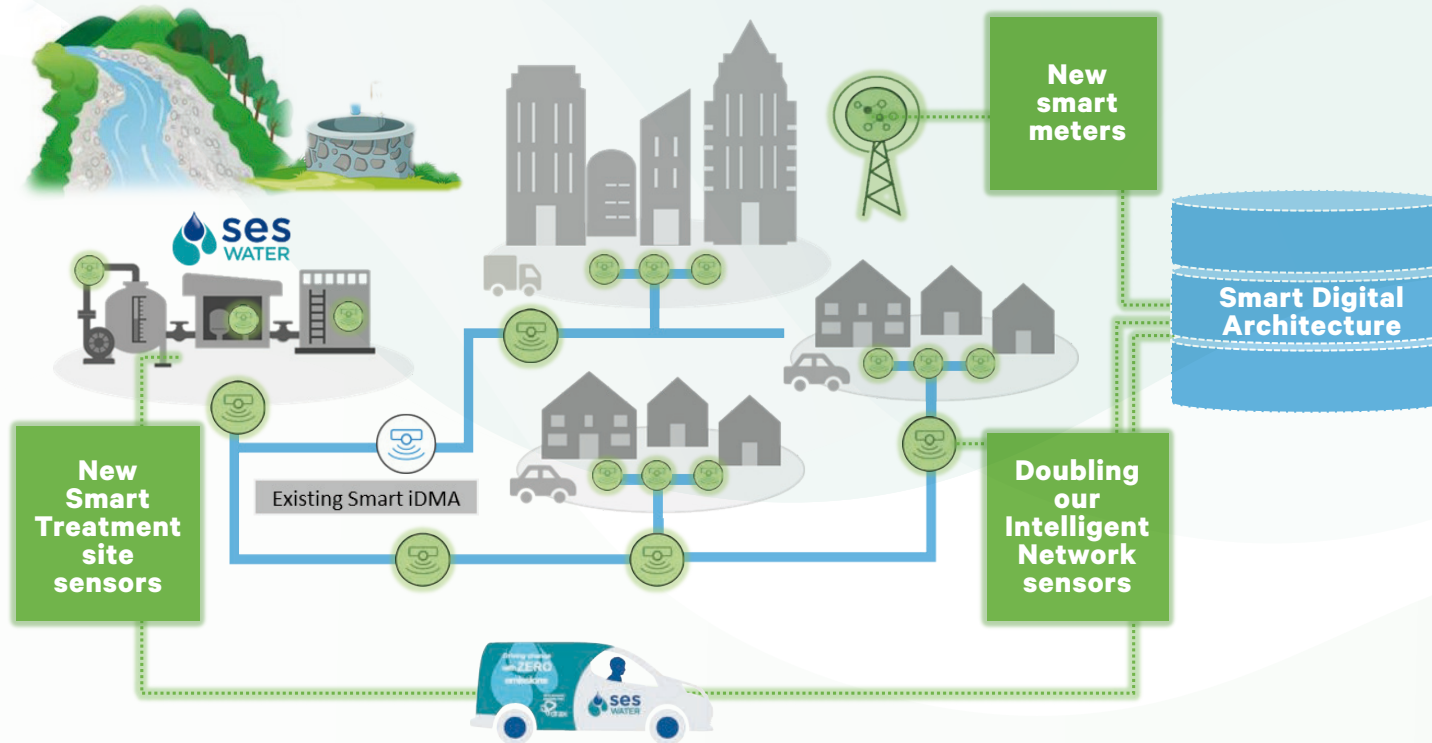
**Reducing bursts and  
outages**

**All regions in surplus  
through Water Resources  
Management Plans**

**Sharing expertise across our regions**

# Building water resources, improving water quality

## How we're doing this: Smart networks from source to tap



### Greater continuous monitoring

- AI to overlay feeds in real-time
- Expanding innovation from SES across our regions
- c.800,000 customers smart meters

### Targeted leakage detection

- Satellites to enhance leak detection
- Increasing intelligent network sensors
- Utilising smart technology such as leak bots in customer premises

### Responding to incidents effectively

- Treatment works upgrade and control improvements
- Using technology to test the integrity of our mains
- Optimising our supply chain

# Tackling storm overflows

What we're investing in

Powered by  
**amplify**



Driving outcomes through our operations

**c.300**  
overflows  
at beaches

**Tackling**  
highest  
spilling  
sites

**Removing  
350 ha**  
of equivalent  
flows from  
our sewers

**250,000m<sup>3</sup>**  
of storage

**62% reduction in storm overflow spills**  
(from 2023 levels)

**Continuing industry-leading bathing  
water quality**

# Tackling pollutions

What we're investing in

Powered by  
**amplify**



Driving outcomes through our operations

**c.10**  
rising mains  
replacement

Power  
resilience  
and control  
**upgrades**

**Upgrading  
200km**  
of sewer  
network

**Maintaining industry-leading internal  
sewer flooding**

**c.25% reduction in external flooding**

**c.30% reduction in sewer collapses**

**Pollution reduction programme**





# Tackling storm overflows and pollutions

## How we're doing this: Smart Monitoring Strategy



**Proactive control** – over 1,800 successful interventions, preventing pollutions

- 12,000 sewer monitors installed
- Focused on blockage and burst detection
- AI monitoring of storm overflows

meniscus

**Situational awareness**

- Increased focused resource in our control centres
- Combined alert visualisation and prioritisation

DETECTRONIC

**AI in CCTV**

- Machine learning and AI techniques to improve the efficiency of CCTV sewer surveys
- Working with University of Exeter and third-party to drive innovation – with potential future commercial benefits

OVARRO  
CONNECTING  
TECHNOLOGIES

# Driving Environmental Gains

**What we're investing in**



**Delivering outcomes for customers**

**Upgrading  
34 sites**  
to improve  
water quality

**Continued  
investment**  
in renewable  
generation

**Delivering  
12,500 ha**  
of catchment  
management

**Targeting greenhouse gas emission  
reductions and introducing whole life carbon  
accounting for capital works**

**Delivering c.350 measurable  
biodiversity units**

**10% reduction in the amount of phosphorous  
entering our rivers**

# Driving Environmental Gains

## How we're doing this

### Renewables supporting our Net Zero aims



- Targeting c.40%<sup>1</sup> generation of Group energy requirements
- Onsite renewable generation via private wire arrangements
- Recovering energy from wastewater to offset the amount of energy we purchase

### Energy efficiency



- Pump efficiency programmes reducing operational energy use
- Intelligent source pumping
- Improving aeration monitoring and efficiency

### Biodiversity net gains



- Green-first approach to capital investment increasing use of nature-based solutions
- Investing over £45m in local nature recovery
- Raising awareness of biosecurity risks with 5,000 people and taking action at 300 sites

# Supporting affordability, delivering for customers

## What we're investing in

**800,000 smart meters**

– covering a 1/3 of our customer base

**Fusion – investing in best in class technology**

**£200m**  
– largest package of affordability support

## Delivering outcomes for customers

**Supporting homes and businesses to use water efficiently**

**Improving customer service and experience**

- Residential customers
- Developers
- Businesses and retailers

**Expanding WaterShare+ across our regions**

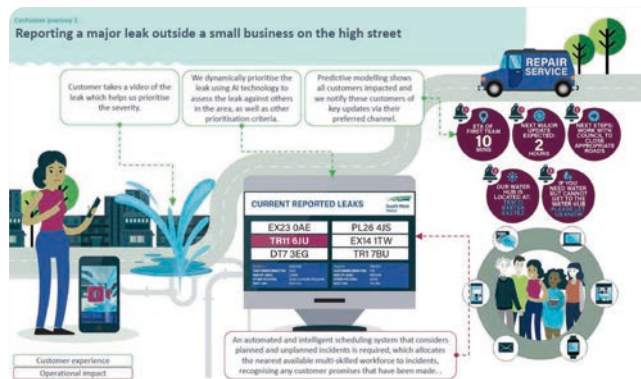
**WaterShare+**

# Supporting affordability, delivering for customers

## FUSION driving customer service



- Enabling our Customer Experience Strategy – Serve, Conserve, Care, Share
- Working with smart technology to put customers in control
- Sharing open, transparent data to communities to understand our impact on water quality and the environment

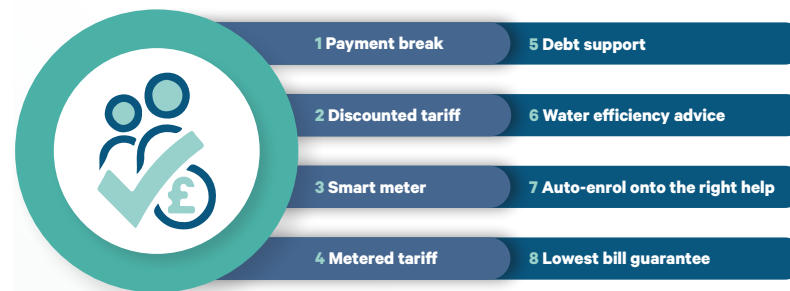


- Business wide focus on customer service
- Enabling customer-led intelligent operations
- Using AI to support customer experience



## Ensuring affordability for all

### Our affordability toolkit



- Supporting progressive and innovative tariffs
- £200m of support through our affordability toolkit



# Positive Final Determination outcome – supporting long-term growth



**'good / standard'**  
ses WATER

**'Outstanding'**  
South West Water

Received  
**100%**  
revenue levels  
requested for  
the Group

Delivering  
**34%**  
nominal RCV  
growth  
for K8

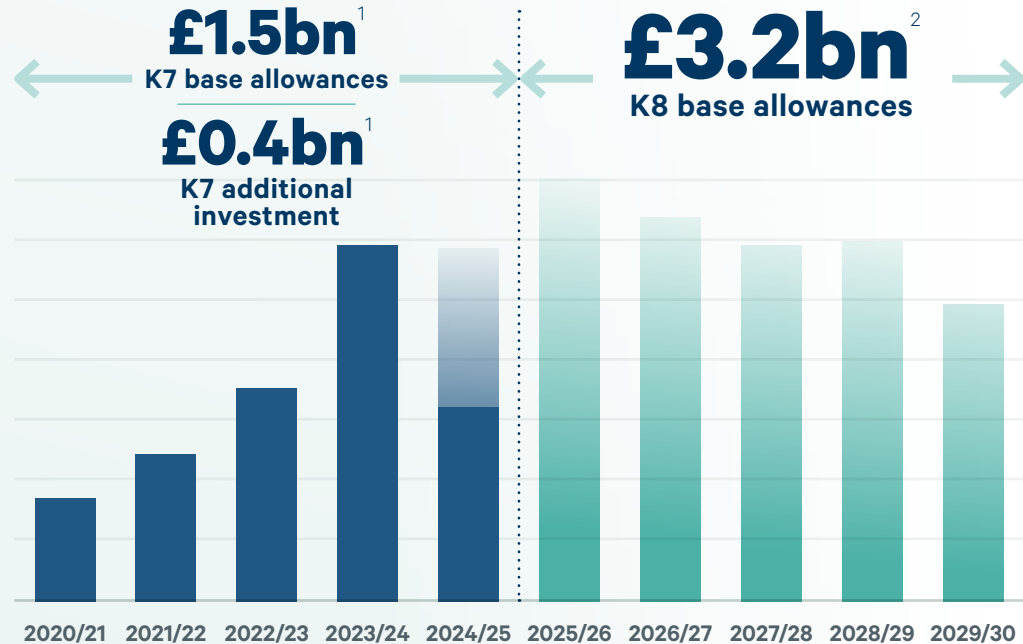
**£5.6**  
billion<sup>1</sup>  
Totex allowed

Allowed cost  
of capital  
**improved**  
by **31 bps** to  
**4.03%**  
from Draft  
Determination

## Stretching Final Determinations – confidence in delivery

# Step change in investment will drive growth in RCV

## K8 step change in capital investment



- Already ramped up to deliver increased run-rate
- Front loaded profile drives operational improvements and performance
- Start of a 15-year investment programme with growth continuing to 2040 and beyond

## Unprecedented growth from UK water



# Targeting continued outperformance in K8

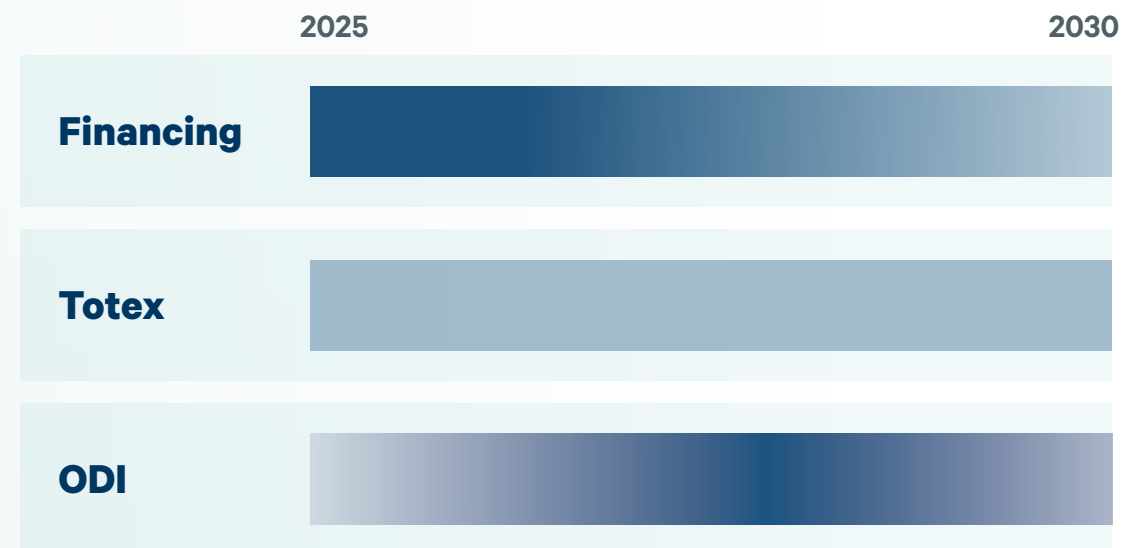
## Driving outperformance

### Delivered strong outperformance in previous regulatory periods

#### Return on Regulated Equity – RORE (% real)



### Targeting c.7% RORE returns over K8 – within Ofwat’s expected returns



# Efficiency driving outperformance

## Driving efficient delivery

Bristol Water integration



→ c.£20m  delivered

Reshaping the business



→ c.£55m

SES Water integration



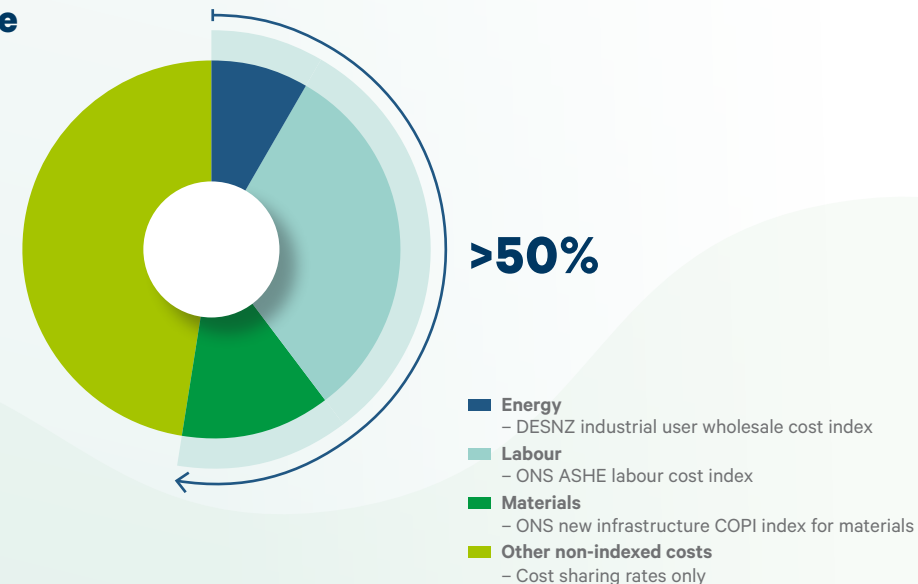
→ c.£11m

- Opportunities through:
  - Synergies of integration
  - Reshaping the business
  - Right sourcing and supplier efficiency
- Cost protections minimising downside costs seen in K7

**c.£86m**  
K8 run rate annualised savings

## Cost protections mitigating downside risks

Totex spend by type



- Over 50% of totex covered by true-up indices
- Back stop protections of notified items for specific investments

# Outcome Delivery Incentives

## Measures

			
Unplanned outage	✓	✓	✓
Internal sewer flooding	✓		
Bathing water quality	✓		
Biodiversity	✓	✓	✓
Water supply interruptions	✓	✓	✓
Compliance risk index	✓	○	✓
C-MeX	○	✓	○
Leakage	✓	✓	✓
Repairs to burst mains	✓	✓	✓
Customer contacts about water quality	✓	✓	
D-MeX	✓	✓	○
External sewer flooding	✓		
Sewer collapses	✓		
Discharge permit compliance	✓		
Serious pollution incidents	○	✓	✓
Per Capita Consumption	✓	○	○
Total pollution incidents	○		

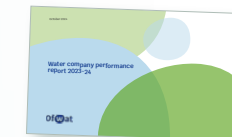
## New measures

- ✓ Embodied greenhouse gas emissions – bespoke
- ✓ Operational greenhouse gas emissions (water)
- ✓ Operational greenhouse gas emissions (wastewater)
- ✓ River water quality (phosphorus)
- Storm overflows
- ✓ Business demand
- BR-MeX

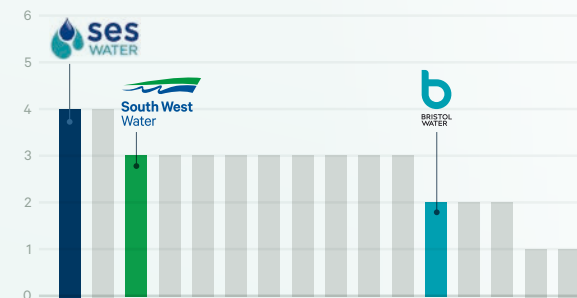
- ✓ Met in at least one year in K7
- ✓ Industry upper quartile in 2023/24
- ✓ On track for shadow 2024/25
- Area of focus

## Strong comparative performance in K7

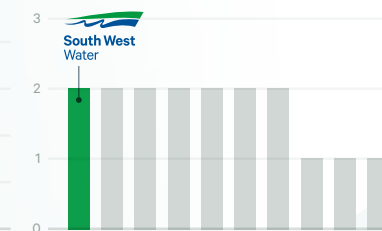
### Ofwat 2023/24 Water Company Performance Report<sup>1</sup>






#### Water performance



#### Wastewater performance



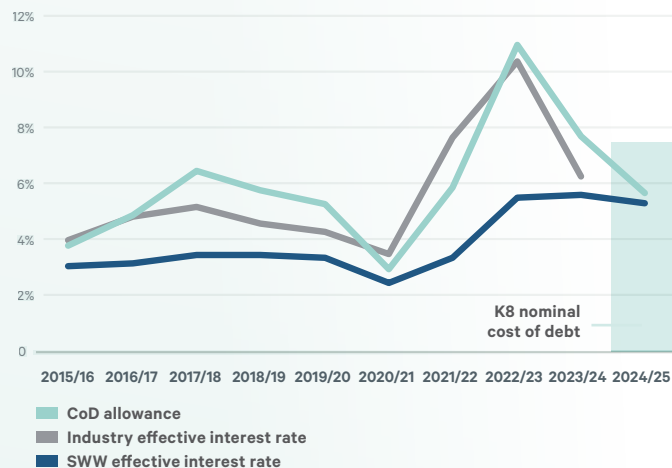
### Upper quartile performance in common ODIs

		
<ul style="list-style-type: none"> <li>• Water quality</li> <li>• Supply interruptions</li> <li>• Unplanned outage</li> </ul>	<ul style="list-style-type: none"> <li>• C-MeX</li> </ul>	<ul style="list-style-type: none"> <li>• Internal sewer flooding</li> <li>• Unplanned outages</li> <li>• Water quality</li> <li>• Bathing water quality</li> <li>• Biodiversity</li> </ul>



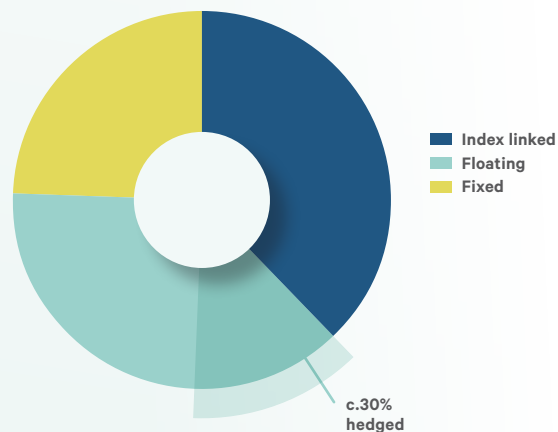
# Driving financing outperformance

## Efficient & effective financing



- Historically achieved the lowest effective interest rates in the sector
- c.£300m of outperformance delivered in K7 – equivalent to c.3.5% RORE
- Protection mechanism for cost of new debt

## Diversified debt portfolio



- Diversified debt portfolio for K8
  - EMTN programme
  - Bilateral agreements
  - Leasing

## Hedging strategy to manage risk



- Hedging policy locks in financing outperformance against Ofwat's allowed cost of debt<sup>1</sup>

# Supported by our comprehensive financing package

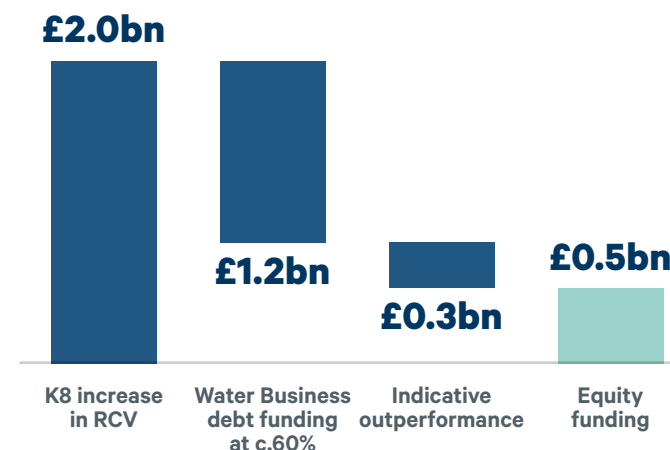
## Key pillars of our approach

- Portfolio**
- Driving an efficient cost base, already targeting £86 million of annual benefits from reshaping the business, and realising acquisition cost synergies
  - Pennon Power: remaining investment to be fully debt funded – continuing to review and optimise value

- Debt & Gearing**
- Anticipated water business gearing for K8 of 60-65%, consistent with our long-term gearing policy of 55-65% debt to RCV – strong investment grade credit rating profile
  - Group leverage<sup>1</sup> expected to be a few percentage points higher than the water businesses – unlikely to exceed c.5%
  - Flexible and diversified debt portfolio

- Equity**
- c.£490m Rights Issue
  - Approach to funding in line with Ofwat Framework
  - WaterShare+ customer shareholders to benefit from Rights Issue via forthcoming top-up issuance

- Dividend**
- Maintaining the total dividend in absolute terms, dividend per share rebased to reflect the Rights Issue
  - Rebased DPS then targeted to grow in line with CPIH to 2030



**Prudent and sustainable leverage over K8**

# **We're doing this**

---

**A growing footprint – strong platform for delivery**

**Delivering for our customers in K7**

**Largest ever investment programme – across 4 strategic priorities**

**Confident in delivery – working with an innovative supply chain**

**Focus on continued outperformance underpinned  
by a strong balance sheet**