



# Bringing water to life

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

Annual Report and Accounts 2022








# Living our purpose, we are bringing water to life

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

Pennon is one of the leading businesses in the UK water sector, providing clean water and wastewater services through our businesses across the Great South West. We believe the role of a responsible business is one of stewardship for sustainable living, supporting communities, customers and the environment to thrive, now and into the future.

## Our businesses and brands

 <p>South West Water</p> <ul style="list-style-type: none"><li>• Water services</li><li>• Wastewater services</li></ul> <p><b>c.1.8</b> million</p> <p>population served plus c.10 million seasonal visitors during the year</p>	 <p>BRISTOL WATER</p> <ul style="list-style-type: none"><li>• Water services</li></ul> <p><b>c.1.2</b> million</p> <p>population served</p>	 <p>Bournemouth Water</p> <ul style="list-style-type: none"><li>• Water services</li></ul> <p><b>c.0.5</b> million</p> <p>population served</p>	 <p>Pennon Water Services</p> <ul style="list-style-type: none"><li>• Water retail services</li></ul> <p><b>c.160,000*</b> business customers</p>	 <p>water business</p> <ul style="list-style-type: none"><li>• Water retail services</li></ul> <p><b>c.160,000*</b> business customers</p>
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\* Refers to number of supply points per retail business.

## Our reporting suite

Clear and transparent reporting is important to us and our stakeholders. This year, our annual report is enhanced by the inclusion of additional disclosures contained in our wider corporate reporting suite. These include:

- Climate adaptation report
- Net Zero plan
- Gender Pay Gap report
- Tax Strategy report

We have also published our first online ESG databook where you can find more detailed reporting on our environmental social and governance performance. Visit [www.pennon-group.co.uk/reportsandpresentations](http://www.pennon-group.co.uk/reportsandpresentations)

## Group reporting

Pennon acquired Bristol Water on 3 June 2021 and subsequently gained CMA clearance on 7 March 2022 following the CMA's acceptance of Pennon's undertaking in lieu of a Phase 2 reference. Where we refer to the Group, this includes Bristol Water data unless otherwise specified. Specific references to Bristol Water performance are also given separately where appropriate.

## Visit us online

Our annual report and the other reports in our corporate reporting suite can be found on our website [www.pennon-group.co.uk/reportsandpresentations](http://www.pennon-group.co.uk/reportsandpresentations)

We have also created an online summary of our annual report which can be viewed here <https://annualreport.pennon-group.co.uk/>



## Alternative performance measures

Measures with this symbol ^ are defined in the alternative performance measures section of the annual report on pages 250 to 253.

## Highlights of the year

### Group revenue

**£792.3 million**

(2020/21: £624.1m)

### Group underlying PBT^

**£143.5 million**

(2020/21: £157.0m)

### Basic (Statutory) EPS

**4.9 pence**

(2020/21: 418.5p)



**£425 million**

Bristol Water acquisition



**Best H&S performance**

on record



**WaterFit launch**

Our plan for healthy rivers and seas launched in April 2022



Became a Living Wage Foundation employer



### Group PBT

**£127.7 million**

(2020/21: £132.1m)

### Dividend per share

**38.53 pence**

(2020/21: 35.61p)

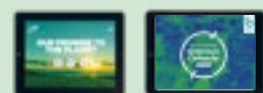
### Adjusted earnings per share^

**50.2 pence**

+5.0%

**£82 million**

to 2025 – Green Recovery investment



**Net Zero 2030**

plans launched in 2021



Centre for Resilience in Environment, Water and Waste research facility launch – a collaboration with the University of Exeter



Global recognition in the 2022 Bloomberg Gender Equality Index for transparency and commitment to gender equality



**Great Place to Work**

accreditation achieved for the second year



Britain's Most Admired Utility Company for the second year in a row

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# How our purpose drives everything we do

As a purpose-led business, committed to the effective stewardship of the environment, we are:

## Shaped by our values and culture

 <p><b>Trusted</b> We do the right thing for our customers and stakeholders</p>	 <p><b>Responsible</b> We keep our promises to our customers, communities and each other</p>	 <p><b>Collaborative</b> We forge strong relationships, working together to make a positive impact</p>	 <p><b>Progressive</b> We are always looking for new ways to improve and make life better</p>
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## Informed by our engagement with stakeholders

 <p><b>Environment</b></p>	 <p><b>Customers</b></p>	 <p><b>People</b></p>	 <p><b>Communities</b></p>	 <p><b>Suppliers</b></p>	 <p><b>Investors</b></p>	 <p><b>Regulators</b></p>	 <p><b>Policy Makers</b></p>
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[Read more on our stakeholders on pages 26 to 33](#)

### Driven by our strategy for growth

- 1 Leadership in UK water
- 2 Efficient Operations
- 3 Sustainable growth, both organic and by acquisition

### Focused on sustainability

- ▶ Environment – read more on pages 36 to 49
- ▶ Social – read more on pages 50 to 65
- ▶ Governance – read more on pages 82 to 125



## Our purpose and strategy brought to life...

Our purpose isn't just what we believe in, it's what we do every day. Continuing to ensure we are doing the right thing for our customers and stakeholders, delivering fresh clean drinking water, protecting the environment and continuing to innovate will help us look after the Great South West now and into the future.



### Expanding services and support across the Great South West

With the acquisition of Bristol Water in 2021, we are bringing the best of the best together to provide more services and support to our customers in the Great South West.

[Read more on page 4](#)



### Innovating to deliver for our stakeholders now and in the future

We continue to look at new ways of working, using technology and nature-based solutions to make progress in protecting the environment and delivering for our stakeholders.

[Read more on page 24](#)



### Enhancing the environment, going further faster

We have been listening to our stakeholders – customers, colleagues and communities and it is clear they want us to go further and faster in protecting and enhancing our rivers and seas. We have recently launched WaterFit – our commitment to our stakeholders and the environment, which sets out how we will play our part.

[Read more on page 34](#)



### Delivering for colleagues, customers and communities

Our people are our greatest asset and we couldn't do what we do without them. Through community programmes, graduate schemes and environmental efforts, we strive to deliver for the region.

[Read more on page 48](#)



### Delivering clean, safe and reliable drinking water

We are committed to ensuring the continuous supply of clean, safe and reliable drinking water to our customers, whilst protecting the natural resources within the Great South West.

[Read more on page 64](#)



### Operating a responsible and sustainable approach to business

With robust risk management and strong governance, we ensure our operations and the long-term decisions we make are for the benefit of all.

[Read more on page 82](#)

Bringing water to life

# Expanding services and support across the Great South West

We are committed to supporting the people and places of the Great South West. Through community programmes, graduate schemes, and environmental efforts, we strive to deliver for the region.

## WaterShare+

We are pleased to be able to expand our innovative WaterShare+ scheme to Bristol Water customers enabling all customers to have a stake and say in our business. Our second scheme of c.£20 million, planned for 2022/23, will provide all our household customers the opportunity to become Pennon shareholders and for the 1 in 16 existing customers who are already shareholders, build their holding.

# c.£20 million

new scheme in 2022/23



## Bristol Water acquisition

One of the key strategic milestones of the year was the c.£425 million acquisition of Bristol Water in June 2021. In line with our growth strategy, the planned merger of Bristol Water with South West Water is about bringing together the best of the best to deliver for our customers, communities, and the environment in the Great South West. We have a track record of delivery and are working across both businesses to deploy our proven integration strategy, which we are confident will deliver meaningful benefits for all stakeholders.



# Supporting the lives of people and the places they love

We're proud to be based in the Great South West, serving customers and communities in nine counties.

## Our key strengths and resources

### Our customers rely on us

We provide over 870 million litres of safe, clean drinking water, to an estimated population of c.3.5 million people every day. And when they've finished with it, over 19,000km of sewers take used water and surface water run-off to one of our 653 wastewater treatment works where it is treated, tested and safely returned to the environment.

We have expanded our support to vulnerable customers in these difficult times with c.100,000 customers benefitting from one or more of our affordability initiatives.

### Our team

We are a dedicated team of c.3,000 people, working 24 hours a day, 365 days a year to deliver essential services for our customers.

### Living our values

We know it's not only what we do, but how we do it that matters to our customers and communities and to ourselves. That's why we live our values across the Group, every day.

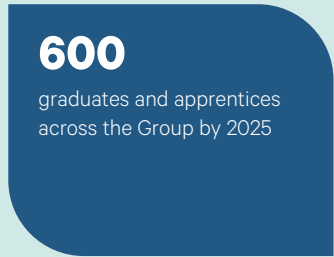
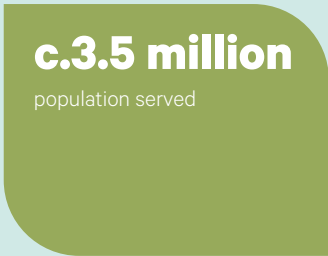
### Investing in our future

We're proud to be investing in future talent through graduate and apprenticeship schemes across the Group. These schemes will give over 500 talented people the opportunity to join us by 2025.

We were also one of the first companies to sign up to the Government's Kickstart programme, offering young people the chance to gain training, support and valuable work experience. Over half of our Kickstarters have now joined our team.

And we are going further, faster with our environmental investment to achieve significant improvements in performance that benefit every one of us.

[Read more on our environment and social performance on pages 36 to 47 and 50 to 63](#)



## Our values



Trusted



Responsible



Collaborative



Progressive

1. Cumulative performance over K7 is the regulatory period 2020-2025.

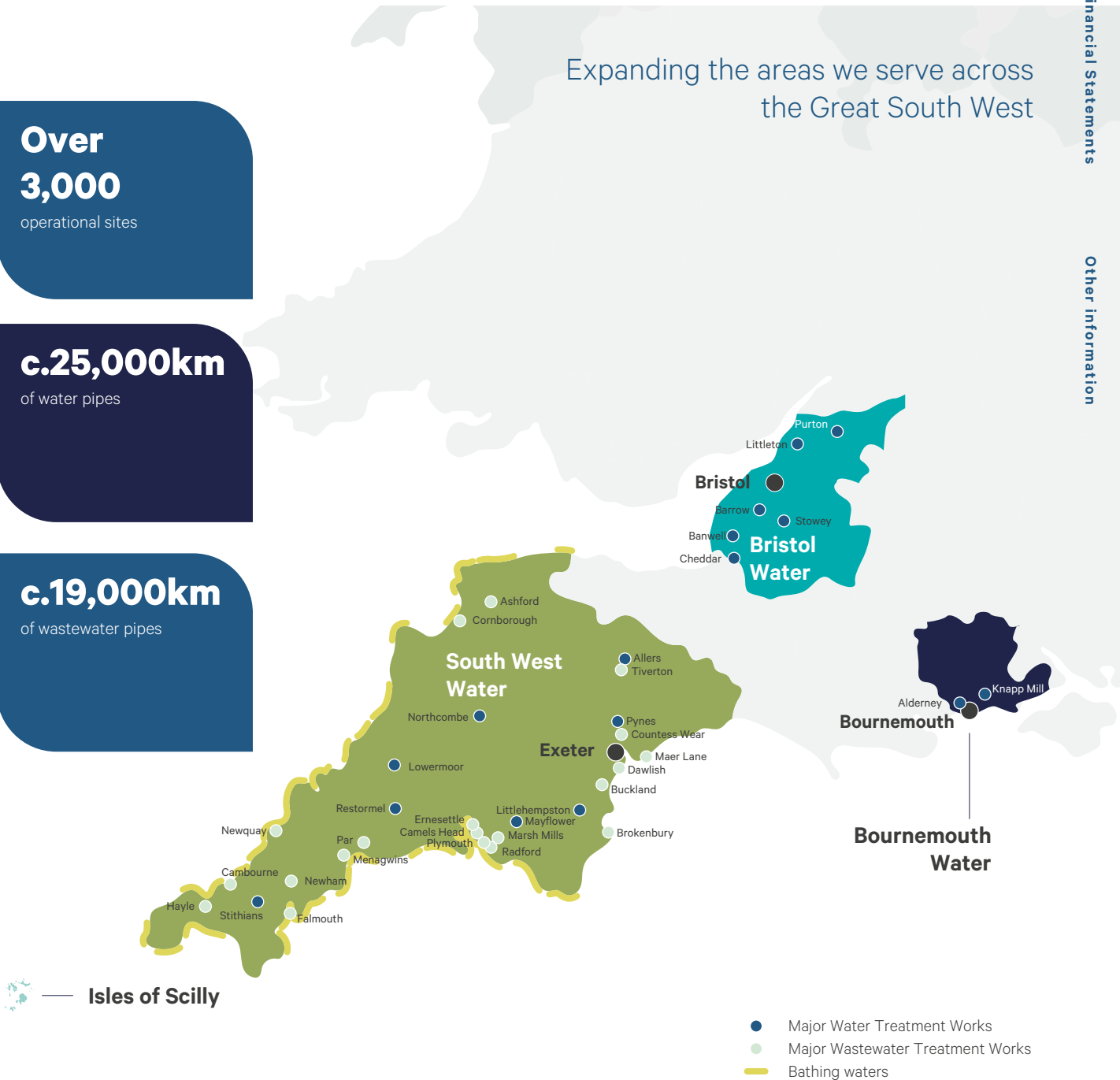


Expanding the areas we serve across the Great South West

**Over 3,000**  
operational sites

**c.25,000km**  
of water pipes

**c.19,000km**  
of wastewater pipes



# Doing what's right



**“We have prioritised listening to our wider stakeholders, so we can set the right priorities for the business, confident we can meet the needs of our customers and communities.”**

I will look back on 2021 as a year Pennon focused on doing what's right. Externally, this has been a difficult year dominated by rising inflation and energy prices, the Russian invasion of Ukraine and the legacy of the pandemic creating uncertainty for many.

In February 2022, we announced that average bills for customers would reduce. Supporting the Board's commitment to eliminate water poverty, South West Water has increased the number of customers on our social tariffs unlocking almost £22 million of affordability support and Bristol Water introduced COVID Assist, supporting those who found themselves unexpectedly in hardship.

We've also achieved 100% coastal bathing water quality for the first time. We acknowledge there's more to do to protect our environment, and our rivers and coastal waters. The Board has focused significant attention on this, working with our regulators, communities and customers to drive a step change in performance. What we do matters and we are privileged to be in a position to respond.

This was also the year in which global action on climate change was rightly demanded. Good progress was made at COP26 in Glasgow, although the UK remains on an uncertain path towards a net zero society. The water sector is leading the way, with ambitious timelines to achieve Net Zero by 2030, ahead of the rest of the UK. Pennon's own promise to the planet is progressing, and an important step has been in engaging our key suppliers to support and align in the effort.

The South West is particularly vulnerable to climate change given its long coastline and adjacency to the western approaches of the Atlantic Ocean. Assessing the impacts and mitigations on our operations, networks and assets is an ongoing and iterative process. This year, we are required to report on Task Force for Climate-Related Disclosures (TCFD), having disclosed voluntarily last year, and receiving positive feedback. We want to build on that feedback by giving shareholders the opportunity to vote on our disclosure, and we look forward to hearing your thoughts.



Our class of 21 graduates presenting to the Pennon Board.



**c.£1.5bn**

special dividend  
payment

**38.53**  
**pence**  
total dividend

The momentum that we built in 2020/21 with our strategic review to focus on UK water has continued steadily. And following the acquisition of Bristol Water in June 2021, we recognised the ongoing loyalty of our shareholders with a £1.5 billion special dividend payment, the implementation of a share buy-back programme as well as making further investment in our pension scheme and much needed investment in the green recovery of our region.

Pennon's sector-leading dividend policy of growth of CPIH +2% reflects the Board's confidence in the Group's sustainable growth strategy and is underpinned by continued RORE outperformance in South West Water, and now Bristol Water.

The Board is recommending a final dividend of 26.83 pence per share for the year ended 31 March 2022. Together with the interim dividend of 11.70 pence per share paid on 5 April 2022, this gives a total ordinary dividend for the year of 38.53 pence. This represents an increase of 8.2% on the adjusted base.

This is the second year in my role as Chair, and I am grateful to work alongside our diverse and talented Board. Everyone who works for Pennon deserves credit for the achievements in the year. With the addition of Bristol Water, we now employ nearly 3,000 people, and it's their dedication and care for each other and to our customers, as well as their passion for the places they live and work in, that has enabled us to deliver another year of robust results. On behalf of the Board, thank you.

**Gill Rider**  
Chair

30 May 2022

## A responsible business, targeting sustainable growth, operational efficiency and improved environmental performance



**“We’re building real momentum, executing our strategy, and driving sustainable growth. We’re doing more for customers today than ever before, and going further and faster, in delivering the step change demanded for the environment.”**

### Reflections on the year

As I reflect on this year, I am heartened that our values have guided and underpinned everything we have achieved. This together with our pioneering spirit has led us to innovate in delivering on our commitments. We have asked a lot of our colleagues and supply chain in a year when we have seen record demands for our services across the region. Their efforts are reflected in our performance, and I want to thank everyone for their hard work, delivering for customers and communities, each and every day.

2021/22 has been another year of resilient performance for Pennon. We’re building real momentum, executing our strategy and driving sustainable growth. We’re doing more for customers today than ever before by focusing on what matters most. And we’re going further and faster, delivering the step-change demanded for the environment, for the Great South West, and for generations to come.

### Listening and reflecting

Over the course of the year, I have prioritised listening and reflecting on the views of others to ensure we are focused on the right things, meeting MPs, regulators, investors and the media. In particular, I’ve been listening to the views of our customers in our public meetings, as part of WaterShare+, hearing first hand about the things that matter most, whether that’s concerns about bills, community investments or hearing their thoughts on the use of storm overflows. It’s this honest and direct feedback that has guided everyone at Pennon to think differently and innovate. Whether that’s through the use of technology, using satellite and thermal imaging to prevent leakage or our approach to nature-based solutions, reducing the impact of phosphorous, ammonia and nitrogen, our test, pilot and replicate approach delivers long-term and sustainable solutions, for the benefit of all.

### Talented people delivering for customers and communities

We couldn’t achieve anything without the pioneering spirit of Pennon’s people. Our c.3,000 colleagues see opportunities when others see obstacles, and show extraordinary care for customers, communities and each other. For the second year running, Pennon was voted by colleagues as a Great Place to Work, and once again, utility peers voted us Britain’s Most Admired Utility.

We believe that everyone who works for and with the Group, should go home safe, every day. With a refreshed focus on HomeSafe, Pennon’s health and safety strategy, we achieved our best ever year by having the fewest number of lost time injuries. Simply put, it meant less employees got hurt on our watch, but we recognise there is always more to do. We also stepped up our support for colleagues during the COVID-19 pandemic, focusing on wellbeing, becoming members of the InsideOut Charter, encouraging leaders and colleagues in ‘Time to Talk’ sessions to be more open about their own experiences of mental health, and launching a comprehensive package of wellbeing support for all employees and their families.

In delivering on our societal commitments and continuing our investment in talent, we are undertaking our most extensive emerging talent recruitment ever. We’re ahead of plans to achieve 500 apprenticeships by 2025, and for the first time, welcomed our class of 21, Pennon’s first phase of our ongoing 100 graduate programme, our leaders of the future, and a particular personal highlight of mine in the year.

Over the past 12 months, we have also made significant progress in creating an inclusive culture where everyone counts, bringing together a greater mix of minds, whether that be through thought, gender, ethnicity or social mobility. Ranking 10<sup>th</sup> in the FTSE 250 Women Leaders Review, we were also recognised as an employer of choice in Great Places to Work



'Women at Work 2021'. Alongside this, we were also awarded Britain's Most Admired Utility for the second year. Determined to show our support and through our participation in the Social Mobility Pledge, we also welcomed our first intake of Ukrainian citizens, who have fled their country, under the most devastating of times.

### A year of growth

Right across the Group, we have delivered on our growth aspirations.

A highlight of the year was the acquisition of Bristol Water in June 2021, increasing the Group's RCV by c.16% and building on the Group's footprint of brands and businesses across the region, which, in addition to Bristol Water now includes South West Water, Bournemouth Water, Pennon Water Services and a stake in water2business.

By working collaboratively with both the Competitions and Markets Authority (CMA) and Ofwat, we were able to conclude the merger review in Phase 1, avoiding a potential lengthy Phase 2 referral. This was a great outcome for Pennon, for customers and for the greater good of the sector.

The integration of Bristol Water with South West Water is well underway, and our approach is all about bringing together the best of the best, whether that is performance, process, talent or efficiency.

For the first time, Pennon Water Services has delivered a profit, in a challenging market, with revenue up by 20% on last year building on new contract wins with prominent brands. In addition, our c.£82 million investment in Green Recovery, approved in May 2021, is focused on initiatives to improve the environment, deliver for customers and create new green jobs, contributing to the levelling up agenda, that is much needed in the South West.

With a strong balance sheet, a flexible financing strategy and diverse debt portfolio, ensuring we are sustainably geared at c.60%, we have the headroom and agility to invest for future growth. Our strategy is to adopt a twin-track approach, targeting both organic and acquisitive growth.

**16%**

Regulated Capital Value (RCV) growth

**20%**

Pennon Water Services revenue growth

**c.£82 million**

Green Recovery investment

**c.3,000**

colleagues now work for the Group

**10<sup>th</sup>**

in the FTSE 250 Women Leaders Review



### Robust results delivery

Organically, underlying revenues<sup>1</sup> have increased by 6.7%, with Bristol Water contributing an additional £104.4 million since acquisition. The Group delivered underlying<sup>1</sup> EBITDA growth of 14.7%, including Bristol Water's contribution of £53.3 million. Underlying<sup>1</sup> earnings per share are up by 5.0%, reflecting the contribution from Bristol Water and the lower current tax charge from super-deductions. Our cumulative regulatory financial outperformance of c.£150 million<sup>1</sup> reflects outperformance in all areas. This has enabled us to reinvest c.£130 million into environmental investments, alongside sharing c.£20 million with customers, as part of WaterShare+. For all stakeholders, this growth has been coupled with the highest capital investment of c.£240 million and regulatory returns.

We are also delivering a robust and resilient performance thanks to the hard work and commitment of our teams. Both South West Water and Bristol Water are on track or ahead with ODI delivery at 80% and 75% respectively, with both moving from a net penalty position to outperformance, and as we look ahead, working more closely together, we know we can do more.

### Delivering more for customers

We have had much to deliver for our customers and communities through a period that has seen the highest population and demand we have ever had in our region. Our customers' top priority is always clean, safe and reliable drinking water. We are investing to ensure the highest quality of our water supplied. Underpinning this is our water transformation programme.

Both South West Water and Bristol Water are delivering robust performance in leakage, supply interruptions, unplanned outages and water resilience – all things that matter to customers.

There are also areas of difference. For example Bristol Water is delivering on C-MeX, an area of focus for South West Water, whereas South West Water is performing better in mains repairs, priority services and per capita consumption. In addition, our combined geographic region makes

up a significant proportion of the West Country Water Resources Group, presenting opportunities.

In a year when rising living costs are front of mind for millions of customers, South West Water announced average bill reductions for 2022/23, lower now than ten years ago, as well as unlocking over almost £22 million in affordability support, and putting more customers than ever onto social tariffs. Bristol Water launched COVID Assist, helping those thrown into unexpected hardship access fast track support.

### Delivering the step change demanded for the environment

The world is changing, and with that, so is the responsibility on businesses to be more purpose-led to protect planet and people. The South West is a unique region and I am proud to call it my home.

Delivering on our largest environmental investment in 15 years, South West Water has always been at the forefront of innovation for the environment. Our award-winning Upstream Thinking programme, is increasing biodiversity in the region, restoring peatland on our moors, improving drinking water and reducing carbon. We also achieved 100% coastal bathing water quality for our 860 miles of coastline.

Last year, we launched our plans to achieve Net Zero by 2030, setting out our ambition to transform how we produce and reduce energy. Our c.£82 million investment to 2025 in Green Recovery focused on initiatives to improve the environment, deliver for customers and create new jobs. Our Pollution Incident Reduction Plan has helped achieve our best performance and our lowest number of pollutions for ten years, reducing pollutions by one-third. However, we're not yet where we need to be, and we recognise there is more to do to in this area as our targets become more stringent, impacting our relative EPA performance.

Understandably, the bar is getting higher, as societal expectations grow, and we all recognise that we need to demand less of our environment and do more.

1. Based on Ofwat's RORE approach.



**6.7%**

organic revenue growth

**14.7%**

EBITDA

**£240  
million**

capital investment

**100%**coastal bathing water  
quality compliance**c.2.35  
million**

visitors to our sites

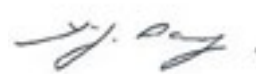
**WaterFit**launched our plans for  
healthy rivers and seas in  
April 2022

WaterShare+, our unique take on a mutual society in the water sector, continued to be a highlight. Sharing our performance with customers, WaterShare+ gives customers a greater say and a stake. With regionally focused customer challenge panels in place, public meetings, and a dedicated AGM, the real benefit of WaterShare+ has been in the direct and honest dialogue my executive team and I now have regularly with many customers. Planning is underway to extend the scheme to Bristol Water customers, and we will also expand uptake with a second scheme.

### Outlook

As we look towards our next price review, which we will submit in October 2023, the Board is already focused on ensuring we can continue to develop and deliver innovative and sustainable solutions for the things that matter most, doing what's right for customers and communities, and in delivering even greater environmental and social value across the Great South West.

With a strong balance sheet, we're building real momentum, delivering for all, executing our strategy and driving sustainable growth. Our sector-leading dividend policy recognises the ongoing support of our shareholders, underpinned by Pennon's confidence in our strategy, and in building a sustainable future for all.



**Susan Davy**  
Chief Executive Officer

30 May 2022

In response, we have launched WaterFit, our plan to protect the region's rivers and seas, bringing together existing plans to deliver multiple benefits on a catchment by catchment, community by community approach. Outlining how we can all play our part, working with partners, customers, visitors and local communities, with clear and measurable objectives, we can and will make a tangible difference to river and sea health over the next three years, with no impact on bills.

### Responsible business, living our values

The Group continues to deliver on its commitments to customers, stakeholders and shareholders. Over half of Pennon's share register are UK-based investors including pension funds, savings and charities, with almost half of the Group's employees also being shareholders. Our considered approach to the return of capital and share buy-back scheme recognised the ongoing loyalty of our shareholders and positioned the Group sustainably. We've degeared the Pennon balance sheet, ensuring the pension scheme is well positioned and on a technical provisions basis is fully funded. Gearing across the water business has fallen to c.60%, giving us resilience and the opportunity for further growth as opportunities arise.

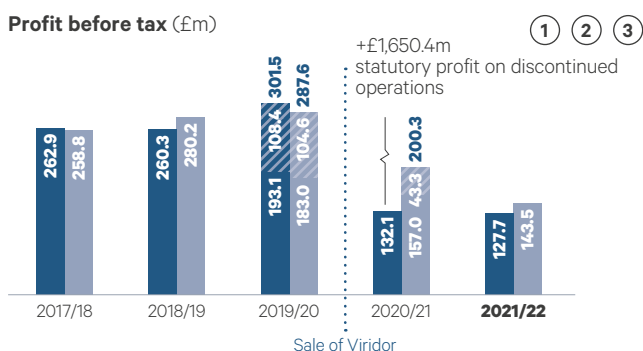
# Measuring our success – 2021/22 performance

We measure our performance in delivering our strategy through a range of financial and non-financial metrics. As we operate in the regulated UK water sector, we have numerous non-financial metrics to meet the requirements of our stakeholders. These non-financial metrics have a strong ESG and sustainability focus and are set out in more detail across our operational performance ESG pages on 36, 50 and 84 .

## Annual<sup>1</sup>

### Operational

#### Profit before tax (£m)



- Statutory (containing/discontinued)
- Underlying\* (containing/discontinued)

#### Why is this KPI important to us

Profit before tax is a key measure of the Group's financial performance after deducting all operating and finance costs. Underlying Profit before tax is measured to exclude any distorting non-underlying items as explained in our Alternative Performance Measures on pages 250 to 253.

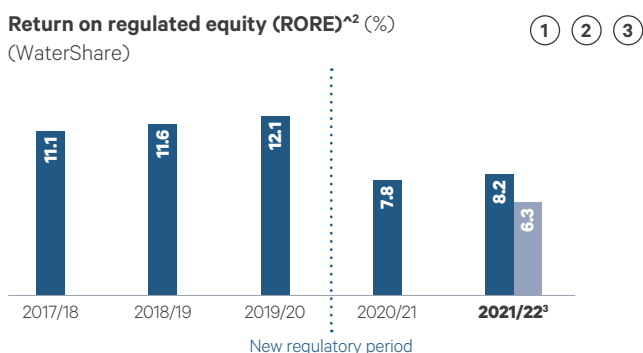
#### Our performance in 2022

Commentary on performance is set out in the Group Finance Director's review on pages 74 to 81.

#### Link to remuneration, bonus/LTIP

Annual bonus performance measure.

#### Return on regulated equity (RORE)<sup>2</sup> (%) (WaterShare)



- South WestWater
- Bristol Water

#### Why is this KPI important to us

Return on regulated equity (RORE) expresses the return the water businesses have managed to earn above and beyond expectations set by the regulator through financial and operational performance as explained in our Alternative Performance Measures on pages 250 to 253.

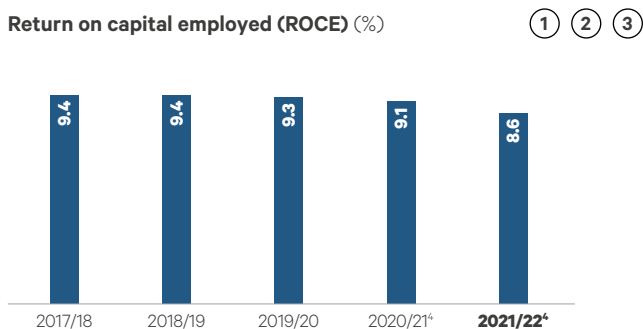
#### Our performance in 2022

This reflects a doubling of base returns. Commentary on performance is set out in the operational performance review on page 66.

#### Link to remuneration, bonus/LTIP

Annual bonus performance measure.

#### Return on capital employed (ROCE) (%)



#### Why is this KPI important to us

ROCE provides a measure of the return being generated by the Group compared to the total equity and debt capital deployed to generate that return.

#### Our performance in 2022

Commentary on performance is set out in the Group Finance Director's review on pages 74 to 81.

#### Link to remuneration, bonus/LTIP

LTIP performance measure.

1. For further information on the relevance to Executive Directors' remuneration see page 162.  
 2. Calculated using WaterShare methodology using K7 CPIH inflation forecasts.  
 3. Cumulative K7 measure.  
 4. South West Water ROCE measure used for 2020/21 and 2021/22. This provides a comparative figure to previous period Group performance. See calculations provided in the alternative performance measures section on pages 250 to 253.



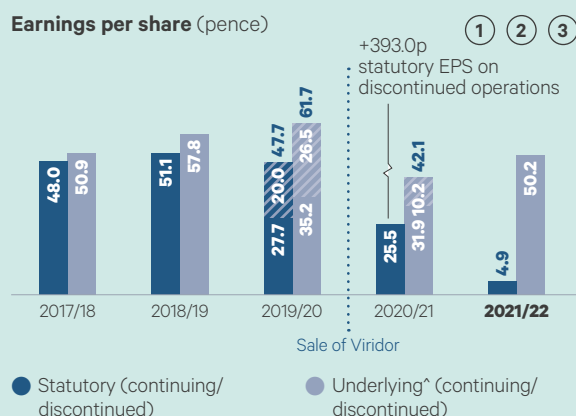
## Alignment with strategy

Our KPIs are aligned to our three long-term strategic priorities.

- ① Leadership in UK water    ② Efficient operations    ③ Sustainable growth

## Long-term

### Earnings per share (pence)



### Why is this KPI important to us

Earnings per share (EPS) is a key financial metric indicating the Group's profitability after tax and provides a relative measure of profitability in comparison to the Group's share price. Underlying\* EPS excludes the impact of potentially distorting non-underlying items as explained in our Alternative Performance Measures on pages 250 to 253.

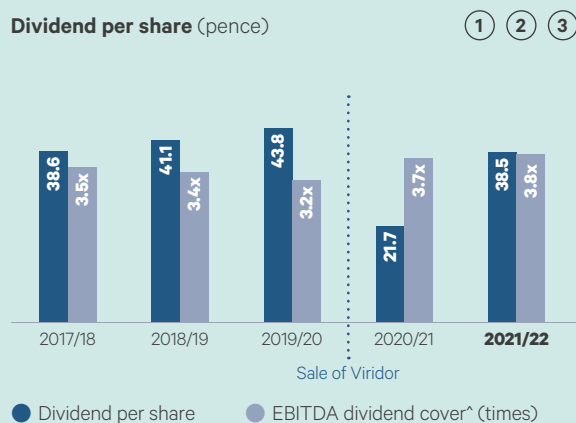
### Our performance in 2022

Commentary on performance is set out in the Group Finance Director's review on pages 74 to 81.

### Link to remuneration, bonus/LTIP

LTIP performance measure.

### Dividend per share (pence)



### Why is this KPI important to us

Our sector-leading dividend policy is a key measure of the success of our sustainable growth strategy.

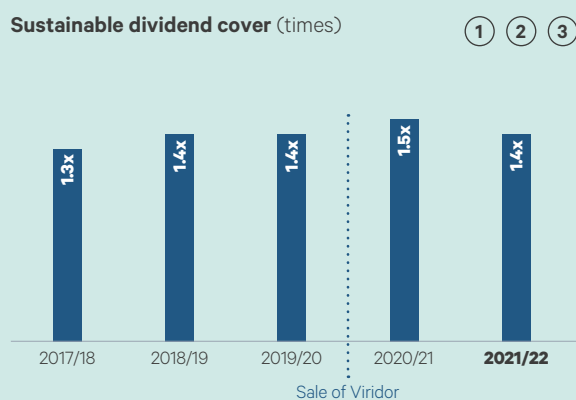
### Our performance in 2022

Commentary on performance is set out in the Group Finance Director's review on pages 74 to 81.

### Link to remuneration, bonus/LTIP

Sustainable dividend measure.

### Sustainable dividend cover (times)



### Why is this KPI important to us

Sustainable dividend cover, which has been introduced this year, ensures that the profitability of the Group supports the sustainable delivery of our sector-leading dividend policy.

### Our performance in 2022

Commentary on performance is set out in the Group Finance Director's review on pages 74 to 81.

### Link to remuneration, bonus/LTIP

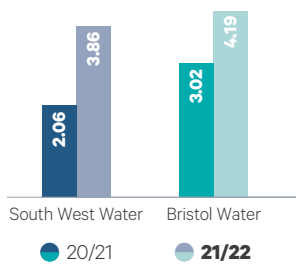
Sustainable dividend measure.

# Delivering against our purpose and business plan outcomes

We continue to deliver against our purpose and business plan outcomes with c.80% of all South West Water’s and c.75% of Bristol Water’s ODIs on track or ahead of target this year – continuing our strong start to this regulatory period. We use the following key operational performance indicators to measure how we are performing.

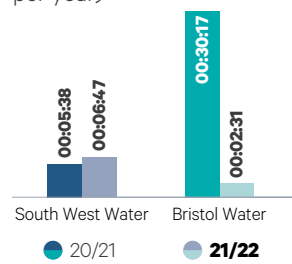
## Clean, safe and reliable water

### Water quality (CRI score)



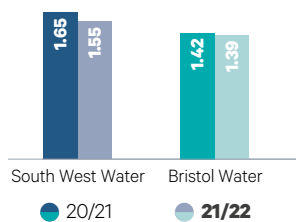
Compliance Risk Index (CRI) is the Drinking Water Inspectorate’s measure of water quality. 2021/22 performance has been impacted by one-off events. We continue to invest in advanced treatment including ceramic membranes and granular activated carbon to drive improvements.

### Supply interruptions (Duration per property per year)



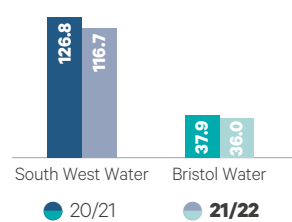
Our performance in South West Water was impacted by a one-off event in Gunnislake, Cornwall, whilst Bristol Water recovered from a challenging previous year with a 90% reduction and outperforming its target.

### Taste, smell and colour (contact per 1,000 population)



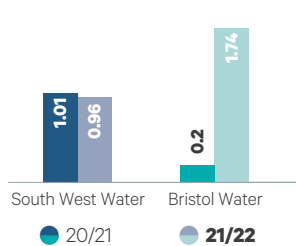
We recognise that customers expect their drinking water to look and taste great and this is important in maintaining customers’ trust in the quality of our supplies. Our continued investment in improving our treatment processes as well as network cleansing is driving improved performance across the Group.

### Leakage (3 yr average – Megalitres per day)

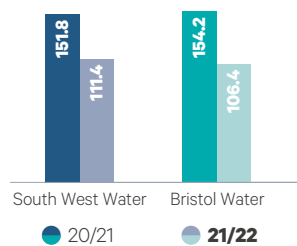


Reducing leaks is a critical component of ensuring a sustainable water supply. In 2021/22 our leakage reduction plan delivered results at South West Water, with Bristol Water maintaining sector-leading performance – in line with our regulatory targets across the Group.

### Unplanned outages (%)



### Mains repairs (Number of repairs per 1,000km)

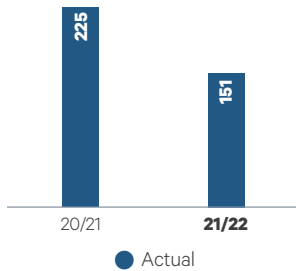


Asset Health is essential for ensuring a robust supply of water to our customers. 2021/22 delivered a c.30% reduction in mains repairs outperforming our targets. Our unplanned outages at our sites are outperforming our targets for the year with proactive maintenance, asset health checks and site MOTs ensuring that we have maintained strong performance against this industry wide measure.

[Read more on pages 67 to 69 for further detail on our operational performance.](#)

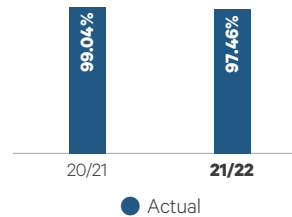
## Protecting the Environment – robust wastewater delivery

### Pollution incidents (number of wastewater incidents)



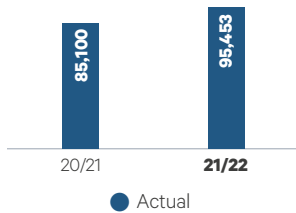
Our targeted Pollution Incident Reduction Plan is delivering results with a one-third reduction this year, our best ever performance – but we know there is more to do and we continue to target a further step change in performance.

### Numeric Compliance (%)



We measure the compliance of our discharges against our permits. This has reduced slightly this year as a result of Bournemouth Water discharges included (due to a change in reporting) and third-party incidents.

### Biodiversity (Hectares)

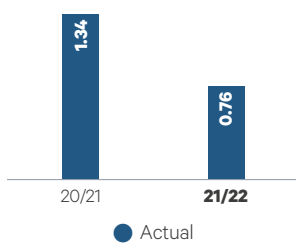


We are continuing our pioneering catchment management approach with over 95,000 hectares of land restored, including 300 hectares of peatland restoration ahead of our target.

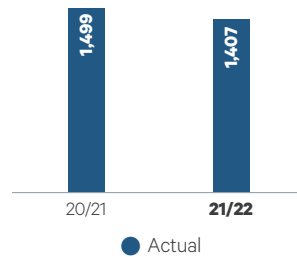
### Environmental Performance Assessment

A combination of a basket of measures, the EPA is the Environment Agency's assessment of environmental performance. With a planned strategy of achieving 4 star by 2024, there is much to focus on.

### Internal sewer flooding (Incidents per 10,000 sewer connections)

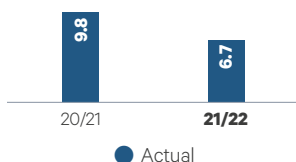


### External sewer flooding (Number of incidents)

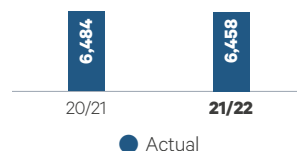


Sewer flooding is a key area that significantly impacts on customers. 2021/22 has continued our positive performance with a c.40% reduction in internal and c.6% external reduction in flooding incidents – delivering our best ever performance.

### Sewer collapses (Incidents per 1,000km)



### Sewer blockages (Number)

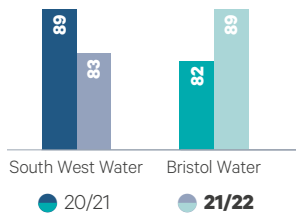


These measures reflect service impacts to our customers as well as being a lead indicator of asset health. We have seen a further c.30% reduction in collapses and continue to see positive performance in our work to reduce blockages through pro-active management of our network.

[Read more on pages 70 to 71 for further detail on our operational performance.](#)

## Delivering for our customers

### Overall satisfaction with PSR (%)



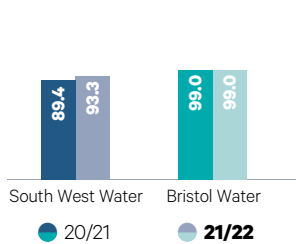
We have over c.79,000 customers on the Priority Services Register (PSR) across the Group and we measure customer satisfaction with these services each year. South West Water at 83% and Bristol Water at 89% are both ahead of our target.



### Customer Measure of Experience (C-MeX)

C-MeX is Ofwat's measure for customer experience both for those customers who contact us as well as the perceptions of all our customers. Across the Group, our C-MeX rankings have remained consistent year-on-year.

### Customer affordability (%)



### Customer affordability

We are targeting zero water poverty by 2025 and our range of affordability schemes are helping around 100,000 customers. South West Water and Bristol Water have a measure which assesses customer affordability which is improving year-on-year.



### Developer Measure of Experience (D-MeX)

D-MeX is Ofwat's measure of service experience for developers which directly compares us with our peers. South West Water and Bristol Water are expecting to be around the industry average for this year.



# Creating long-term sustainable outcomes and value

Our purpose, with sustainability at its heart, guides the decisions we make in delivering our strategy. We believe this clear focus drives the best sustainable outcomes for all our stakeholders.

## Our Strategy – Bringing water to life

### ① Leadership in UK water

As a purpose-led business, we aim for our businesses in the sectors we operate to drive forward performance to deliver for all our stakeholders. We believe being a leader provides the Group with the right platform to meet future challenges and create value from opportunities. For example, we have been able to put forward and have approved in 2021, Green Recovery investment plans of £82 million.

### ② Efficient operations

We focus on operating our businesses in a cost effective way and we continually look for efficiency opportunities through innovation and synergy benefits through bringing businesses together. We believe ensuring our businesses are leaders in efficiency provides benefits to all stakeholders. For example, whilst cost efficiency helps keep bills lower for our customers, it also provides headroom for reinvestment such as our £45 million programme in our WaterFit priorities to the benefit of all.

### ③ Sustainable growth, both organic and by acquisition

It is important to us that, in addition to maintaining and improving our current performance, we grow sustainably as a Group – driving further long-term value. We have a twin-track approach to capital allocation of organic and acquisition based growth. Over this regulatory period, K7, we expect our regulatory capital value to have increased by around 40%. Around half from organic investments in line with our PR19 regulated business plans and half from the Bristol Water acquisition, Green Recovery new investments and taking on the responsibility for the Isles of Scilly.

Our purpose – supporting the lives of people and the places they love, for generations to come

#### Our Natural Capital

#### Our Social & Human Capital

#### Our Manufactured, Intellectual & Financial Capital

Environment	Social	Governance
<ul style="list-style-type: none"> <li>Freshwater</li> <li>Land (including soils)</li> <li>Species</li> <li>Ecological communities</li> <li>Coasts</li> <li>Atmosphere</li> <li>Waste</li> </ul>	<ul style="list-style-type: none"> <li>Colleagues</li> <li>Customers</li> <li>Communities</li> </ul>	<ul style="list-style-type: none"> <li>Supply chain</li> <li>Responsible business</li> <li>Stakeholders and partnerships</li> <li>Finance</li> </ul>

We take our responsibilities to ensure the environmental, social and economic wellbeing of the Great South West region with the utmost importance, which is why everything we do is underpinned by our ESG approach. We take pride in measuring ourselves against national and international benchmarks of responsible business practice, and ensure we stay in touch with issues on both a local and a global scale.

[Read more:](#)

[Our stakeholder engagement on page 26](#)

[Our links to SDGs on page 31](#)

[Our multi-capitals approach on page 31](#)

[Our TCFD disclosure on page 106](#)

# Creating long-term, sustainable value for all our stakeholders

## Role of the Group

The Group provides strong pillars of strategic direction, financial management, risk management and governance.

## Our key strengths and resources

### Environmental – Natural Capital

#### High-quality assets

- Investing in world-class facilities and plants, using innovation and technology to help safeguard our natural resources.

#### Environmental stewardship

- Constantly seeking more sustainable ways of working to protect, enhance and reduce our impact on the natural environment.

### Social – Social and Human Capital

#### Strong reputation and customer service record

- Britain's Most Admired Companies (Utilities) and market-leading customer service.

#### The best people

- Outstanding talent, providing training and development, with their health, safety and wellbeing our absolute priority.

### Governance – Manufactured, Intellectual and Financial Capital

#### Effective governance

- A strong governance framework, supporting robust decision-making and performance management.

#### Efficient financing

- Well-funded with efficient long-term financing.

#### Well-managed risk

- Comprehensive and fully embedded risk management processes to help deliver the Group's strategy and objectives.

#### Strong acquisition expertise

- Track record of success in acquisition integration.

#### Strong relationships with our suppliers

- Always ensuring their performance meets our expectations uphold our standards, align with our policies, protect human rights and promote good working conditions.

## Services and our core activities



### Upstream catchment

Managing water in the landscape alongside landowners and partner agencies.

### Raw water reservoirs/water resources

Ensuring an available and sufficient supply of raw water collected from rivers, reservoirs and a small number of boreholes.



### Recycling waste into bio-resources

Supporting local communities and businesses.

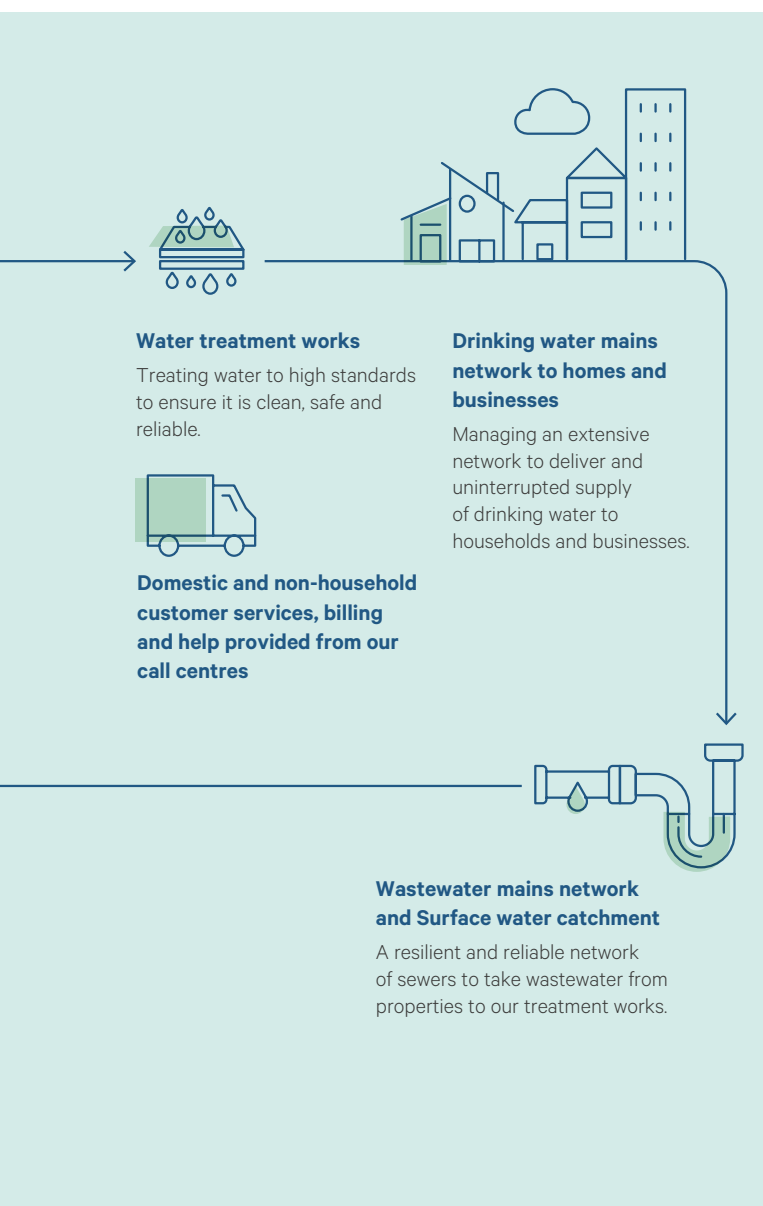


### Wastewater treatment works (including businesses)

Ensuring treated wastewater is returned to the environment safely.

Underpinned by our purpose, twin-track growth strategy, continuous innovation and environmental commitments

Our business model is shaped by our purpose, Bringing water to life – supporting the lives of people and the places they love for generations to come which means we are not only seeking to create value for our stakeholders today but to reinvest in our business in a carefully planned and sustainable way for the future.



## Benefits and value we create for:

### Environment

**2030**

Net Zero commitment

**150,000**

trees planted to date in K7, on track to plant 250,000 by 2025

### Customers

**0%**

water poverty target

### Employees

**c.3,000**

Largest employer in the region, providing skills for c.3,000 people

### Investors

**40%**

growth in our water businesses' regulatory capital value (RCV)

### Suppliers

**c.2,600**

suppliers in our Group supply chain

# Market and regulatory overview

Pennon is one of only three FTSE-listed companies supplying water and wastewater services in the UK, to a population of c.3.5 million people across the South West of England.

### The UK water sector

Customers in England and Wales receive their services from 11 regionally appointed water and wastewater companies, alongside six water-only companies. Historically the sector was comprised of only these incumbent companies but today they operate alongside new appointees which are licensed to serve specific geographic areas, predominantly new developments. Together, they provide services to over 50 million household and non-household customers.

### Regulatory framework

Water companies operate in the public interest, with a vital role in providing customers with safe, clean and reliable drinking water, with the added importance this has on health and hygiene. They also have a unique role to play societally and environmentally. To balance these sometimes conflicting demands the sector operates within a highly regulated framework with Defra providing strategic direction to the economic regulator, Ofwat and environmental regulator the Environment Agency, as well as to other policy makers. Inevitably tensions between the requirements of our various regulators arise and maintaining good relationships enables us to engage positively with all stakeholders and contribute to direction of travel and future policy.

While the sector in which we operate is established, numerous and significant challenges are requiring us to react and evolve more rapidly than has previously been the case. Macro environment issues such as climate change, population growth and evolving consumer needs and expectations are driving regulators and companies to think and operate in new ways to ensure that we deliver environmental and customer value.

### The non-household retail market

The non-household retail market allows up to 1.2 million businesses and other non-household customers across the country to choose which retailer they buy water and wastewater services from.

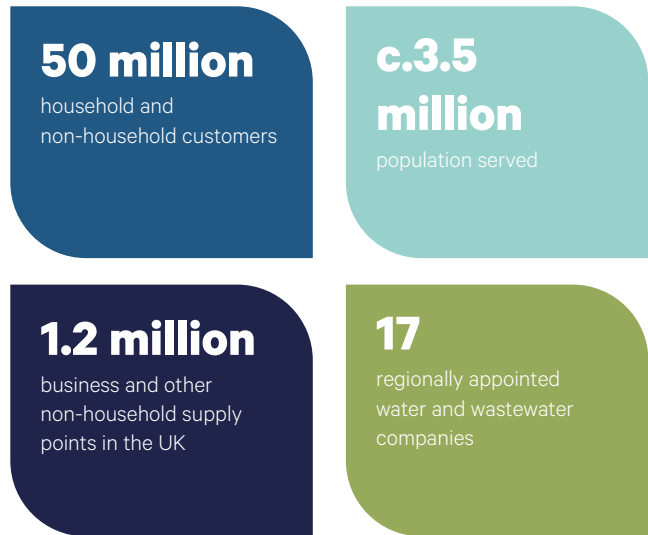
The non-household market operates through a controlled portal operated by Market Operator Services Limited. This has required the separation of the wholesale and retail arms of water businesses.

Pennon Water Services was established to manage the non-household retail business for Pennon via a retail venture with South Staffordshire plc.

Since acquiring Bristol Water we also have a 30% stake in water2business, a retail venture with Wessex Water.

### Well-positioned for market change

In the medium-term, we expect the sector to undergo a step-change in how it delivers services to customers. This will create challenges but also opportunities, and we welcome the development of market mechanisms within the sector to drive innovation and value for customers, the environment and stakeholders.





Our expertise and financial stability make us well-positioned to leverage these opportunities and to be at the forefront of shaping the future water sector.

Within the regulated framework we will actively seek opportunities and continue to work with partners to unlock the potential for water trading. With experience of working with financing partners and a proven track record of delivery of similar contracts through its previous ownership of Viridor, Pennon is ideally placed should opportunities within Ofwat's Direct Procurement for Customers framework arise.

However, there is more to do to unlock the potential for the trading of bioresources, to remove barriers and create value for money while delivering essential environmental protection.

Our ambition is to lead the sector on innovation. In partnership with the University of Exeter, South West Water has established a pioneering new collaborative research centre, designed to address some of the most pressing environmental challenges facing the water sector. The Centre for Resilience in Environment, Water and Waste (CREWW) will accommodate state-of-the-art, specialist laboratory facilities to help academics and our own experts conduct world-leading research that will help us deliver environmental improvements whilst safeguarding water supply, improving wastewater management and service to customers.

### Preparing for the next regulatory period

Our PR24 strategic business plan for 2025-30, will be submitted to Ofwat in October 2023. Ofwat's key themes for PR24 will be increasing focus on the long-term; delivering greater environmental and social value; reflecting a clearer understanding of customers and communities; and driving improvements through efficiency and innovation. Regulators and stakeholders will expect to see a step change in our plans with respect to long-term outcomes. We will engage with customers and stakeholders to balance all needs and the pace of investment for optimal outcomes, whilst maintaining focus on affordable bills at a time of rising costs of living.

We are well-positioned to meet this challenge:

- Long-term planning processes are underway, with the water resource and drainage management planning processes considering long-term investment needs for our region.

- We understand our climate change investment needs and how they shape our resilience plans and operations.
- We understand market and commercial opportunities for Pennon which are also good for the sector and the environment.

Ofwat's Asset Management Maturity Assessment (AMMA), and ISO 55001 accreditation, confirmed South West Water's leading capability in the sector. AMMA has confirmed that we have the right building blocks to assess future asset and environmental risks, and the impact of uncertainties on our assets and communities.

The PR24 strategic business plan will bring together a number of plans alongside other aspects of performance. It will demonstrate that the entire plan is deliverable and financeable, and in line with long-term outcomes.

Every five years, companies develop a Water Resources Management Plan (WRMP) setting out how they will meet the demands for water now and for the next 25 years. The water sector is facing uncertainty and change, stemming from climate change, population growth, and greater environmental protections. To respond to these challenges, water companies are also working in regional groups to co-ordinate approaches to water resource planning. These regional plans set out how the supply of water should be managed in the region, recognising that it may be optimal to share resources across company boundaries.

On the wastewater side of the business, Drainage and Wastewater Management Plans (DWMP) are a new feature of the Price Review. They are long-term plans, with a 25 year horizon, to improve drainage and wastewater planning by increasing transparency, robustness and clarity of investment decisions.

Development of DWMPs is led by water companies, bringing together organisations that have a role to play in ensuring drainage and wastewater systems are sustainable, robust and resilient to future pressures such as climate change and population growth.



Bringing water to life

# Innovating to deliver for stakeholders now and in the future

Innovation is fundamental to our environmental approach. As part of our innovation strategy, we're investing in research and development to ensure that our customers and the environment benefit in the short and longer term.

## Building on our success of Mayflower Water Treatment Works

Our pioneering track record meant we were the utility of choice for the first UK trials of an emerging ceramic membrane technology. Our fundamental knowledge of ceramic membranes, which we first implemented at Mayflower Water Treatment Works, has accelerated the delivery of the Bournemouth treatment works at Alderney and Knapp Mill Water Treatment Works.

# c.£165 million<sup>1</sup>

replacement of our two strategic Water Treatment Works in the Bournemouth area underway.

1. Based on forecast outturn inflation.







## A new kind of partnership – Centre for Resilience in Environment, Water and Waste

Working with the University of Exeter, we have developed our Innovation Centre for Resilience in Environment, Water and Waste (CREWW). All of our innovation, research and development is being steered through this research facility. This will be a unique collaboration to develop solutions to some of the most pressing industry challenges. The new facility will incorporate state of the art laboratory facilities and designated spaces to encourage collaborative research between academics, experts from the water industry and SMEs.

**>£20 million**

worth of research and innovation projects targeted in collaboration by 2027.

# Stakeholder engagement

Engaging with our wide group of stakeholders is important to us. Regular engagement, feedback and input from our stakeholders supports the long-term success of the Group and helps us continue to deliver long-term sustainable value and benefits for all.

We listen, engage and reflect our stakeholders needs and priorities in our business plans and operations. Our engagement approach involves regular dialogue so that we can build open, meaningful relationships, based on trust and transparency. Understanding our stakeholders needs and priorities helps to shape our strategy and social purpose as well as shape our Board decisions. For more information on how stakeholder feedback shapes our Board decisions, read our Section 172(1) statement on page 32.

## Customers

**Who they are**

Our businesses supply water and wastewater services to around one million household customers in the South West and over 160,000 business customers nationally, through Pennon Water Services.

### Why we engage

We engage regularly with our customers, about their day-to-day interactions with us and on future plans and strategy. Regular engagement provides feedback to our teams to help deliver the services our customers want.

We also engage with trade and customer bodies including the Consumer Council for Water (CCW) – the voice of water consumers aiming to work together to the benefit of our customers and water consumers.

### How we engage

- Regular customer satisfaction surveys
- Customer support centre
- Focus groups
- Co-creation workshops
- Forums
- Customer AGM (the first of which was held in November 2021)
- Quarterly public customer meetings
- WaterShare+ Advisory panel.

### Key challenges and how we are responding

Our customers continue to tell us that the provision of safe drinking water is always considered the most important. Our aim is to prevent any issues which cause customers to contact us about to their water supply. This is the foundation of our customer service strategy. Where there is an issue, we resolve it as quickly as possible.

This year, c.95% of contacts were resolved first time – exceeding our annual target for the sixth year in a row.

As part of the nationwide effort for companies to play their part in the green economic recovery from COVID-19, and after consulting with our customers on the challenge faced, South West Water responded with a Green Recovery plan to increase environmental investment by c.£82 million with six projects focused on improving public health, protecting the environment and addressing climate change.

**93%**

**Target: 30%**

Customer Trust Score for South West Water and Bournemouth Water

**>50%**

Reduction in complaints across the water business

## People

**Who they are**

A total of c.3,000 people work across the Group and its brands, in corporate and operational roles. It's our people that keep things moving 24/7 to deliver wastewater services and to ensure our customers receive clean and safe drinking water.

### Why we engage

Our employees are our greatest asset. We provide the opportunity for them to be engaged at multiple levels of the business and through a variety of two-way dialogue and feedback channels so we can listen to them and make improvements based on their feedback of what's important to them. We continually engage and communicate with our people on their health, safety and wellbeing, our organisational culture, promoting diversity and inclusion, training and development. We use our annual colleague Great Place To Work trust and engagement survey as a mechanism to measure progress and obtain feedback.

### How we engage

- Annual colleague Great Place To Work trust and engagement survey and work with senior leaders to develop local action plans
- RISE employee engagement forums – Represent, Inspire, Share and Energise
- Trade Union partners (GMB and Unite).





- Two-way communication activities including – fortnightly Big Chats, 'Ask Susan' email, monthly senior leadership calls and focus groups
- Executive and Board site visits
- Employee training programmes
- Internal communication activities including – weekly internal newsletter, social channels e.g. Yammer and our Group-wide intranet
- Monthly 'Time to Talk' sessions, primarily focusing on wellbeing, featuring both internal and external speakers
- Regular 'This is Me' features including videos and podcasts
- Regular appraisals and 1:1s.

#### Key challenges and how we are responding

- Proactively recognising and addressing employees' mental health and wellbeing by delivering a broad and comprehensive programme of offerings for all employees' and their family members
- Maintaining focus on Health and Safety with continued investment through HomeSafe
- Supporting diversity and inclusion by launching our new employee networks
- Involving existing colleagues as we recruit and train the next generation of employees through our apprenticeship, kickstart and graduate programmes
- Addressing employee survey feedback by enhancing group communications and employee pay and bonuses.

## 85%

Completion rate for our Great Place To Work survey

## Communities

### Who they are

Our businesses operate in the heart of local communities.

### Why we engage

We are integral to the communities across our region and we are committed to listening and engaging regularly to understand their needs, working together to ensure water for all and protecting our environment today and for future generations.

Our charitable donations and community funds support hundreds of amazing causes making a real difference to the lives of people and the places they love. Our education programme aims to inspire future champions across the region to learn about the value of water in fun and interactive ways. Our community outreach programme works directly in the communities we serve offering support to those who need a little extra help when it matters most and talking directly to customers about environmental challenges and how we can work together to secure the future we all want to see.

Over the past decade we have been working with local community partners to protect and restore our environment, including working with our local farming community to help create more sustainable farming practices and restoring the South West's precious peatlands. Our partnerships with charities also seek to provide health and recreational benefits to local communities through the use of our lakes and reservoirs – helping us support the health and wellbeing in our region.

### How we engage

- Regular community outreach meetings across the region
- Print, digital and social media – e.g. engaging our communities in behavioural change campaigns including Love Your Loo, and Think Sink!

- Bi-annual Conservation and Recreation Forum
- Specific partner engagement to support access to our land and sites for recreation in the South West – e.g. South West Lakes Trust
- 'Value of Water' educational programme
- Community outreach programme working directly within the communities we serve – e.g. with local support groups.

#### Key challenges and how we are responding

- Our region has over a third of all the UK's bathing waters and it is important that we protect these vital recreational areas – we already support charitable partnerships to provide access through the use of our lakes and reservoirs. We are seeking to go further by making bathing water accessible, within less than an hour drive for our communities and visitors supporting the health and wellbeing of the communities in our region.

## 59 million litres

of water estimated saved through our Water-Saving Community Fund

## c.£600,000

contributed by Pennon to our communities during 2021/22

## Environment

### Who they are

Beaches, bathing waters, rivers, our natural environment set us apart as a region. We recognise that is what makes us unique. It also creates a similarly unique set of challenges and opportunities. We also recognise that to meet these properly, we need to collaborate and to build strong, value-filled partnerships with the wide range of environmental stakeholders in the region. These stakeholders include South West Lakes Trust, Westcountry Rivers Trust, The Wildlife Trusts, Natural England and various conservation, environmental and recreational interest groups and charities.

### Why we engage

We seek to identify and build strategic relationships around shared ambitions and objectives. By working in collaboration with our partners we can amplify the impact of our work

Our core activities are directly linked to the health and wellbeing of the people and environment of our unique region. We seek to carry out our business in a sustainable and responsible way and recognise that to do this, collaboration and partnership working are key

It is our role to listen and respond, innovate and help find solutions to the challenges we all face today and for generations to come. We see that we need to work collectively to do this. For example, through our CREWW partnership with the Exeter University

We want to ensure we are delivering on our environmental commitments and support stakeholders in the work they do, in partnership with us

We want to bring together partners to help manage, protect and enhance our catchment areas.

### How we engage

- Regular meetings and liaison with partners such as the Wildlife and River Trusts in our operational areas in relation to specific strategic projects and objectives
- Regular attendance by operational colleagues at local, regional and national working groups, forums and partnership meetings to ensure business position and narrative are represented and that information gathered is fed back into the business
- Our senior leadership team, including CEO Susan Davy, meets routinely with CEOs and leaders of environmental organisations and charities
- Regular meetings with the Environment Agency as environmental regulator, both at strategic and catchment level.

### Key challenges and how we are responding

- We keep stakeholders abreast of latest news and messaging from the business through regular review and revision of our stakeholder communication and engagement strategy
- We ensure the business keeps abreast of stakeholder news and development through regular review and revision of our engagement strategy.

**100%**

Coastal bathing water quality achieved

## Suppliers

### Who they are

As a large organisation we work with a large and diverse supply chain. Our supply chain partners play a vital role in supporting sustainable growth and cost base efficiency across the business.

### Why we engage

We are committed to ensuring our supply chain partners align with the same values, standards and behaviours we expect of ourselves. Through rationalising and segmenting our supply base to reflect either strategic, key, preferred or transactional relationships, we are developing an approach that maximises our engagement with each supply chain partner. As a signatory to the EU Skills Accord, we work collaboratively to support skills development and investment throughout the supply chain and as part of our ESG and Net Zero strategies we engage our supply chain so that we can better understand and manage our collective environmental impact through collaboration.

### How we engage

- Regular meetings and communications
- Supplier reviews and audits
- Code of Conduct for Supply Chain Partners
- Sustainable Procurement Policy
- Formal contracts and framework agreements
- E-procurement and Risk Management platforms.

### Key challenges and how we are responding

- We minimise risk of supplier failure and/or insolvency through comprehensive due diligence checks and continually seek to strengthen resilience within our supply chain
- We mitigate current market and macro environmental impacts through collaborative working with our suppliers to ensure early awareness and joint resolution to potential issues.

**100%**

of our supply chain engaged with our Code of Conduct for Supply Chain Partners and key Environmental, Social and Governance (ESG) commitments

## Investors

### Who they are

We have a range of quality debt providers and equity investors, retail investors, and more recently customers following the launch of WaterShare+ when one in 16 customers in the South West Water region opted to become shareholders.

Over half of Pennon's share register are UK-based investors including pension funds, savings and charities, as well as more than half of the Group's employees being shareholders.

### Why we engage

As a FTSE 250 listed company, access to capital markets is vital. We run an extensive global investor relations programme to ensure that debt providers and equity investors, shareholders, analysts and financial media are informed of our business strategy, key developments and performance.

### How we engage

- We engage regularly with our investment community on a range of aspects including financial performance, strategy, risks and opportunities and macro themes
- Over the course of the year, alongside our standard full and half year reports and trading updates, we met virtually with over 64%<sup>1</sup> of our shareholder register, attended 13 conferences for UK, US, Australian and European investors, and hosted a hybrid Capital Markets Day at our flagship Mayflower Water Treatment Works in Plymouth.

### Key challenges and how we are responding

#### Bristol Water merger review

In line with standard procedure, Pennon's acquisition of Bristol Water was referred to the Competition and Markets Authority (CMA) for a merger review. Investors were keen to understand the progress and status relating to this review.

We ensured that clear updates were provided to the market on the progress of the review, and following merger clearance, achieved in March 2022, held a spotlight presentation and Q&A with the Group CEO and Group FD to provide further details on our integration plans.

**122**

meetings and calls were held with investors during the year

1. % of active institutional investors met in 2021/22 (based on the proportion of shareholding in Pennon Group).



## Regulators

### Who they are

We have an open dialogue and meet regularly with our regulatory bodies: Ofwat, the Department for Environment, Food & Rural Affairs (Defra), the Environment Agency, Drinking Water Inspectorate and the Health and Safety Executive (HSE).

### Why we engage

We ensure that our business plans address our regulators' priorities and concerns for our strategy, performance, risks and opportunities and delivery for customers.

We also engage with key trade and customer bodies, including CCW – the voice for water consumers. We have a well-established independent WaterShare+ customer panel which reviews and challenges our performance against our business plan commitments and, to support the development of our five-year business plan, we have established an independent WaterShare+ advisory panel.

### How we engage

- Regular meetings
- Reports and reviews
- Consultations
- Workshops.

### Key challenges and how we are responding

With technological advances and a heightened focus on the environment, our customers and stakeholders want us to go further to protect the environment by assessing and responding to water quality and water scarcity issues. This is against the backdrop of changing weather patterns, increased growth and urbanisation, and wider pressures on household incomes. We are collaborating with our regulators to ensure the regulatory framework can meet these challenges, and support the identification of the right business plans to meet current and future needs.

# 100%

regulators engaged each year

As one of the largest employers and businesses in the Greater South West, we have a responsibility to support the local economy and support growth in the region.

### How we engage

- We are a member of Water UK, which works with government, regulators and stakeholders to develop policy on water and the sustainable delivery of water services in the UK
- At a local level, we meet on a regular basis with MPs, hosting site visits and constituency-based meetings. We also contribute to round table debates as and when relevant to do so
- We regularly respond to all consultations, and over the past 12 months, appeared before the Environmental Audit Select Committee into river water quality
- We are one of the founding members of Back the South West campaign, and in July 2021, published our response to the G7 legacy, 'Levelling Up the Great South West'. This has helped focus our social mobility activity and recruitment opportunities across the region, offering varying roles and opportunities for the range of our communities, providing jobs across our operations and bringing talent and diversity into the business.

### Key challenges and how we are responding

Over the next 25 years and beyond, the water sector faces challenges from population growth, climate change, rising environmental standards from the Environment Act and evolving customer priorities.

These challenges will require further investment, and continuing evolution of the sector's regulatory framework, to be able to flex to meet changing priorities and meet the needs sustainably, whilst keeping customer bills low.

We continue to work collaboratively with policy makers, to ensure we can deliver these commitments, now and in the future, playing our societal role as well as investing for the future.

For example, South West Water's c.£82 million investment in Green Recovery for the region, our Net Zero plans to 2030, and most recently WaterFit, which sets out our plan to improve river and sea health, working in collaboration with others in the region.

# 100%

of corporate partnerships aligned with the stewardship of responsible business, community and environment



## Policy Makers

### Who they are:

Our stakeholder strategy includes building an open and transparent relationship with the widest range of policy makers, from local MPS, who seek to reflect the local priorities of their constituents, to UK government who ultimately set water priorities and policy, through bodies such as Defra, Natural England, and the Environment Agency.

In addition, and as a FTSE listed business, we collaborate with third parties such as the CBI and Chambers of Commerce helping to ensure that the voice of business in the UK is heard.

### Why we engage

In 2020, we reoriented our strategy to focus exclusively on the water sector in the UK, building on a strong history and heritage.

Water is a precious national resource, requiring water companies and policy makers to work together to deliver the best possible outcomes for the environment, customers and communities.



# What matters most to our stakeholders

## Refining our material issues

In 2021, we consulted more than 20 key stakeholders representing the customers and communities we serve, our people, our regulators, investors, lenders, and other regional interest groups. They told us which issues mattered most to them, allowing us to identify areas of highest importance to focus our future ESG targets. These findings were supplemented by desktop research, analysis of sector ESG best practice, and horizon scanning of issues likely to impact our sector in the coming years. The outcome of this analysis is our updated materiality assessment shown below.

Highest Importance to all Stakeholders	What it means to all stakeholders
Net Zero	Taking action to mitigate our own emissions
Freshwater stewardship	Taking care of precious water resources
Water quality – river and coastal	Taking action to deliver a step change in both river and coastal water quality
Climate resilience	Our preparedness for climate change
Drinking water quality	The provision of clean, safe drinking water
Amenity and recreation	Access to high standard bathing water across our region’s coasts and inland waters
Trust and transparency	Being open and transparent in a time of increased water sector scrutiny

Environmental issues	
(A)	Circular economy
(B)	Catchment stewardship
(C)	Biodiversity
(D)	Plastics reduction
(E)	Net Zero
(F)	Freshwater stewardship
(G)	Water Quality – river and coastal
(H)	Climate resilience

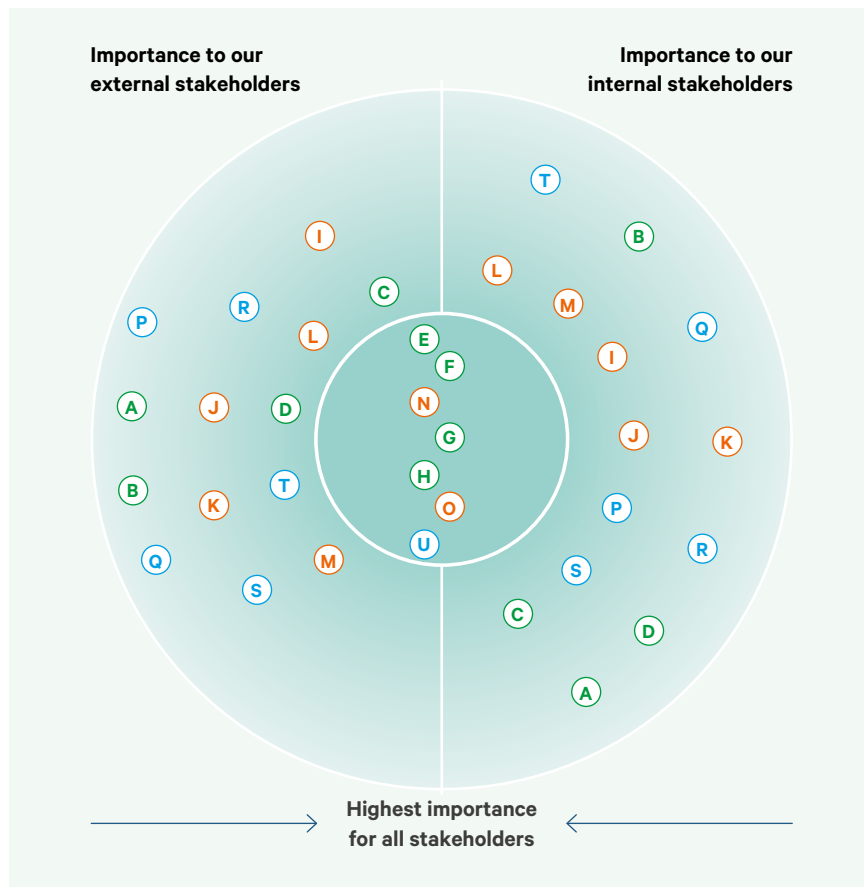
[Read more on pages 36 to 49](#)

Social issues	
(I)	Customer and community engagement
(J)	Diversity and skills
(K)	Vulnerable customers
(L)	Health, safety and wellbeing
(M)	Customer service and experience
(N)	Drinking water quality
(O)	Amenity and recreation including bathing water quality

[Read more on pages 50 to 65](#)

Governance issues	
(P)	Sustainable finance
(Q)	Cyber security
(R)	Stakeholders and partnerships
(S)	Supply chain resilience
(T)	Asset Health and performance
(U)	Trust and transparency

[Read more on pages 82 to 125](#)





### Creating value through our ESG approach

Everything we do links to a capital in some way, whether that is our freshwater stewardship (Natural capital), ensuring the wellbeing of our employees (Social & Human capital) or the governance we apply to how we run our business (Manufactured, Intellectual & Financial capital) – the development of our capitals framework is integral to better decision-making for the future.

Our ESG capitals framework tracks a wide range of metrics to manage our capitals performance, and our materiality assessment has been fundamental in helping inform and update our future ESG targets. By taking all these factors into consideration when planning for the future, we will maximise our value and impact for each of the capitals, deliver more sustainable outcomes for the Great South West and make decisions based on what matters most.

### Our ESG capitals progress

We are on track with our plans to develop appropriate measures, benchmarking our approach and identifying tools and methodologies to help us value these metrics in line with our materiality assessment, keeping close alignment with our Net Zero and Green Recovery ambitions.

Our first Capitals net impact report is due to be published in late Autumn 2022 and is part of a phased delivery programme.

### Our ESG capitals programme



## SUSTAINABLE DEVELOPMENT GOALS

### UN Sustainable Development Goals (SDGs)

We actively engage with the UN SDGs to inform our approach and better understand our impact. We have mapped which of the UN SDGs our ESG targets most directly support. Our primary contribution is to SDG 6: Clean water and sanitation. Read more on our ESG targets on page 87 and 88 and to read more on our contribution towards the SDGs, visit our website [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability)

### SDGs in action



### 8 beaches

Deliver bathing water improvement schemes at eight beaches by 2025, and maintain our excellent bathing water quality standards all year round

### 1/3

Target to improve river quality by 1/3 by 2025

### Drinking water

Increase drinking water quality\*

### 15%

Reduce leakage by 15% by 2025 (from 2019/20 baseline)

### Water Saving Community Fund and education programmes

We are supporting our communities to increase their water efficiency through our Water Saving Community Fund, as well as running primary school education programmes that have reached 818 children, teaching them how to be more water efficient and how they can help reduce pollution.

### WaterAid partnership

WaterAid is one of our most important partners. This year alone, we have leveraged c.£800,000 to WaterAid to help address water accessibility, quality and sanitation in developing countries.

\* As measured by reduced number of customer contacts regarding taste, smell and colour

# Stakeholder engagement – Section 172(1) statement

## Overview

All of our decisions are considered against the importance of acting in a sustainable, ethical and collaborative way, understanding the views of our different stakeholders and weighing their competing interests.

Our Board leads and sets the tone by carefully noting the priorities of our stakeholders during its discussions and when it takes decisions. We also know the importance of continually assessing the long-term impacts of our decisions. This helps us live our purpose and our values, as a responsible, trusted and sustainable business acting in a way which benefits all our stakeholders as much as possible. Properly understanding the impact of what we are doing has become part of how we operate, and it permeates everything we do at Pennon.

## Our s.172 approach

Each Director has a duty to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of members as a whole, and in doing so, must have regard to a range of broader issues. Therefore, when we make decisions, we always take full account of the following:

- the long-term consequences of our decisions
- ensuring we maintain our reputation for the highest standards of business conduct
- the interests of our employees
- the impacts our operations have on our communities and our environment

- we will always act fairly between our shareholders
- the importance of having excellent business relationships with suppliers, customers and anyone else who we impact.

As part of every decision we make, we look at how we will impact our stakeholders. To enable us to understand the points of view of our stakeholders and where our decisions could affect them, we have a stakeholder engagement programme. We see stakeholder engagement both as fundamental to development and delivery of our purpose and strategy and as critical for our long-term sustainable success. Although there are often competing interests and priorities involved, being clear on what matters to our stakeholders, allows our Board to weigh-up all relevant factors.

## Our stakeholders



Environment



Customers



People



Communities



Suppliers



Investors



Regulators



Policy Makers



## Net Zero strategy

### Section 172 considerations

We recognise our essential role in playing our part to tackle climate change by reducing our carbon footprint, leading by example. The Board recognised that in order to show proper climate leadership, our plans to achieve Net Zero by 2030 needed to reflect our engagement with our customers and stakeholders who require us to deliver against climate change priorities. Likewise, preparation of our PR24 plans needed to respond to Ofwat's positioning statement calling on water companies to do more to achieve net zero.

### Our engagement

In line with our strategy, we therefore developed our Net Zero plans following discussion with our regulators and government, presentations to customer focus groups including the WaterShare+ Advisory Panel, and reviews with suppliers. We received feedback from our shareholders and investors who are consistently supportive of our net zero ambitions, with many shareholders now having a climate-focussed ESG agenda. We also worked closely with the Water UK Carbon Removals Group on an industry approach to capturing carbon benefits. With the Government Net Zero Strategy: Build Back Greener, issued in late 2021, our Net Zero plans were able to take on board the national policies and proposals for decarbonising all sectors of the UK economy to meet the UK net zero target by 2050. We also remain engaged with Water UK via a number of committees and working groups to support our planning and approach.

### The Board's role

The Board approved our Net Zero plan in 2021. The Board understood that the plans needed to be flexible enough to respond to changing circumstances and ever more stringent regulatory and public scrutiny. The Board therefore considered and refined our Net Zero plan and aspirations through a number of Board meetings in 2021. The Board's decision-making process took into account the long term interests of all those who would be affected by its plans, with ongoing Board tracking and follow-up in place to ensure progress and stakeholder impacts are being carefully monitored.

### Key stakeholders





## Pollution reduction

### Section 172 considerations

We have a vital role to play in pollution reduction within our region, which speaks to our determination to operate in an environmentally sustainable and responsible manner. We developed our Pollution Incident Reduction Plan following intensive review and engagement with stakeholders and alignment with our wider customer engagement processes.

### Our engagement

In building our processes around pollution reduction, we deliberately focused on environmental and related societal impacts, based on key deliverables and metrics agreed with our regulators. We listened to customer focus groups, including the WaterShare+ Advisory Panel and other relevant stakeholders in assessing our environmental impacts and planning our response. This has allowed us to deliver a Pollution Incident Reduction Plan achieving:

- significant reduction of the number and impact of pollution incidents on customers, communities and the environment
- reduction of the financial and regulatory impact of pollution incidents
- through aligned initiatives, providing other positive impacts on the environment
- improvement of environmental outcomes and better public perceptions.

### The Board's role

The Board's approval process around our plan and roadmap was based on its objective to ensure that the business is environmentally and socially sustainable in the long-term, with a real understanding of the points of view and interests of relevant stakeholders. During development and review of the Pollution Incident Reduction Plan, the Board specifically considered the outcome of engagement with all those whose interests would be affected. The final Pollution Incident Reduction Plan includes mechanisms allowing monitoring of plan progress and regulatory/environmental compliance ensuring that we can meet and react appropriately to ever more stringent scrutiny from our stakeholders, including regulators, Government and the public.

### Key stakeholders



## Acquisition of Bristol Water, the special dividend, share consolidation and share buy-back

### Section 172 considerations

The enactment of the Board's strategic plan required to position Pennon favourably for the next phase of its growth strategy and refocus on UK water was considered by the Board to be essential for Pennon's long-term success.

### Our engagement

We reviewed our acquisition intentions and proposals to deploy the capital received from the Viridor sale in an appropriate manner with stakeholders, including investors and regulators. The interests of all stakeholder groups were examined, to identify optimal means of returning value while continuing our strategy of sustainable growth both organic and by acquisition, with fair treatment of all shareholders. Also considered were our Green Recovery plans and the importance of positioning the business sustainably for customers into the future. The reviews and engagement resulted in a special dividend/ share consolidation and share buy-back programme together with an injection into the pension scheme and our subsidiary water business.

### The Board's role

The acquisition of Bristol Water and the special dividend, share consolidation and share buy-back, as part of a return of capital for shareholders, arose following the strategic review of the business overseen by the Board. This started in 2020 with the disposal of Viridor and covered consideration of how best to use the proceeds to maximise shareholder value. A working group was appointed by the Board to explore and then manage the process with reference back to the Board at all key stages of the process. The Disclosure Committee maintained constant oversight of the process given the potential for inside information developing and to ensure compliance with the Company's disclosure obligations.

### Key stakeholders



## COVID-19 response

### Section 172 considerations

The continuing safety of our employees, customers and other stakeholders, whilst maintaining operational effectiveness was paramount during the pandemic and we were quick to put in place appropriate measures to mitigate any adverse impacts.

### Our engagement

We continued the measures implemented in 2020, which required working closely with our employees, regulators and customers, including many customers who were vulnerable. Our employee engagement included regular briefings and question and answer sessions both at a company and team level around measures to ensure their ongoing health, safety and wellbeing, whilst delivering our essential operations during sustained periods of lockdown and uncertainty for many. Our engagement with regulators included two-way reviews both of our business continuity plans and our specific and company-wide health, safety and wellbeing measures across our entire operation and all sites.

### The Board's role

The Board receives ongoing updates via its H&S reports, with particular focus on the following:

- Health, safety and wellbeing of employees and customers
- Continued delivery of essential services
- Helping vulnerable customers
- Financial security for employees

This has resulted in maintaining a solid funding and liquidity position, with no requirement for government financial support and strong Board support for measures taken by the management team and maintained throughout the year.

### Key stakeholders



Bringing water to life

# Enhancing the environment, going further faster

Protecting the places we and our customers love is critical. That's why we're making significant investment and new commitments to deliver for the benefit of all.

## Launching WaterFit – our plan for healthy rivers and seas

Launched in April 2022, we have developed WaterFit, building on our existing plans to ensure we can deliver across a wider range of commitments, as well as going faster and further with a new ambition. By front-loading and rebalancing c.£330 million investment, we will focus on those projects that will deliver multiple benefits, using a catchment by catchment, community by community investment approach, ensuring all areas in our region are benefiting with no additional impact on bills.

# 100%

coastal bathing water quality achieved in 2021/22





## Our promise to the planet

In July 2021, we launched our Net Zero plan, mapping out our ambition and strategy to accelerate becoming Net Zero by 2030. We are already making good progress through our three strategic pillars – sustainable living, championing renewables and reversing carbon emissions. With our continued innovation and an expert team, we are striving to make even more progress in 2022/23, including the roll out of our first new fleet of EV vans.

# 50%

renewable energy at our sites by 2030

# Environmental performance – 2021/22

Our purpose is to protect and enhance the environment for generations to come. As a business so closely associated with the environment, we are very aware of our environmental impact and obligations.

We recognise that the abstraction, treatment and delivery of clean, safe drinking water, and the removal and safe disposal of wastewater all have implications for river and sea water quality, and we understand that the scale of our operations brings with it a scale of responsibility in how we manage our operational activities.

As a responsible business, we are taking seriously our responsibility to do better with those things within our control and have robust plans in place to minimise impact during those times outside of our control – for example during extreme weather events. During 2021, we trialled the innovative use of smart water butts to reduce storm response and impacts of bad weather.

Our performance across several key areas remains excellent most notably our freshwater stewardship performance and enhancing biodiversity by exceeding our target for habitat restoration. While we've made significant progress with our bathing water quality targets, we recognise we need to go further, which is reflected in both our pollutions performance and our EPA status. Our WaterFit plan targets c.£330 million investment to 2025 with delivery already in progress, driving performance improvement to further protect river and coastal water quality.

Our plans to deliver against climate-related matters remains positive. Despite progress with our energy efficiency programme, higher water demand combined with less than expected energy generation resulted in Pennon being marginally behind target. New solar installations at 15 sites are already underway whilst we continue to seek opportunity to drive energy efficiency and demand reduction across our operations.

## Environmental

Measure	Type	2021/22 Actual	2021/22 Target	2025 Target	Annual Performance
<b>Water quality – river and coastal</b>					
Pollution incidents (Cat 1-3 per 10,000km)	ODI	86.58	23.47	19.50	●
Average storm overflow spills	Ops	39	–	20	–
EPA	ODI	*/**	***	****	●
<b>Freshwater stewardship</b>					
Reduction in leakage (%)					
SWW – South West Water	ODI	6%	6%	15%	●
BRL – Bristol Water	ODI	11.5%	11.4%	21.2%	●
<b>Biodiversity</b>					
SWW Biodiversity enhancement* (Hectares)	ODI	83,209	95,152	123,209	●
BRL Biodiversity Index (Score)	ODI	17,678	17,678	17,711	●
Tree planting (Cumulative number)	ESG	148,726	148,820	250,000	●
<b>Net Zero</b>					
Reducing Greenhouse Gas emissions <sup>1</sup> (%)	ESG	3.8%	3%	70%	●
Increase renewable energy generation <sup>2</sup> (%)	ESG	8.3%	10%	13%	●
<b>Climate Resilience</b>					
Internal Sewer flooding (per 10,000 sewer connections)	ODI	0.76	1.63	1.34	●
External Sewer flooding (Number)	ODI	1,407	1,530	1,123	●

\* Includes Green Recovery targeted outputs

- Increase renewable energy: We are targeting renewable energy as a % of total energy use (excluding transport) towards our longer term 2030 target of 50% 'net' energy use from renewables. 'Renewable energy' includes: Renewable electricity, heat and biogas generated or produced within our sites and network, or associated direct private connection on a net basis (excluding transport). 2021/22 performance excluded Bristol Water. Future targets include Bristol Water.
- GHG emissions reductions against 2020/21 baseline align to Net Zero Plan baselines. 2021/22 performance excluded Bristol Water. Future targets include Bristol Water.

ESG target definitions and performance are available on our website at [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability)

### Key

● Area of focus ● Target met or exceeded ● Marginally below target

### Measure definition:

**ODI** Outcome Delivery Incentive target

**Ops** Operations Service Measure

**ESG** ESG target

# Mitigating the impact of climate change

Climate change is the single biggest risk facing the planet according to the 2021 Intergovernmental Panel on Climate Change (IPCC).

Our Group businesses are already experiencing many climate change impacts, and these are expected to increase, with temperatures anticipated to be at least 1.5°-2°C this century.

In November 2021, the world came together in the UK at COP26 to drive action to address climate change. The Glasgow Climate Pact seeks to increase the global pace of action across mitigation, adaptation, finance and collaboration, with the ultimate aim to ensure the goal of limiting temperature increases to 1.5°C remains in reach. But addressing climate change is not just a global issue, local impacts will be felt and local action needs to be taken. Our region is particularly vulnerable to climate change as we have 860 miles of coastline, and our proximity to the Atlantic Ocean means our area is exposed to impacts from rising sea levels and storm intensity.

Future trends for the South West show that by 2050 we could see a 3°C increase in average summer daily temperatures, with a 5°C increase by

2080, rainfall will become more variable with much drier summers and a fivefold increase in heavy rainfall events and by the end of the century sea levels are predicted to be 0.5-0.8m higher than they are today.

In December 2021, we published our climate change adaptation report. We have invested to ensure that we have the tools and data to understand the impact of climate change on our operations and services and have assessed over 60 climate related risks that could affect the services and the environment we rely on, each of which has been assessed using our Corporate Risk Framework. Assessing climate change risks, and the potential impacts, and possible mitigations on our various operations, assets and networks, is an ongoing and iterative process.

The key headline risks and themes, which reflect the most significant risks and how we will address them are show below.



## Risks to the natural environment and biodiversity

- Catchment management
- Biodiversity enhancement and protection.



## Risks to public water supply from drought and low river levels

- 50% leakage reduction plans
- Developing new water resources
- Smart metering
- Smarter operation
- Helping customers to use less water



## Risks of poor water quality

- Leading edge treatment technology
- Catchment management
- Cross-sector collaboration.



## Risks of household water supply interruptions

- 50% leakage reduction plan
- Developing new water resources
- Helping customers to use less water.



## Risks of coastal flooding and erosion

- Asset protection or relocation
- Drainage management plans
- Changes to treatment technology
- Sustainable urban drainage.



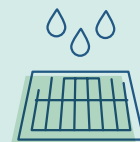
## Risks from river or groundwater flooding

- Asset protection
- Catchment management
- Drainage management plans
- Partnership programmes.



## Failures of other infrastructure networks

- Renewable energy generation
- Mains duplication
- Flood protection
- Leakage reduction
- Central control room.



## Risk of sewer flooding from heavy rainfall

- Drainage management plans
- Sustainable urban drainage
- Customer engagement to prevent blockages.

All our assets will be affected in some way by climate change. Climate change will increase inundation at wastewater treatment works and pumping stations. Sewers and water mains will be impacted by sea level rises and coastal erosion. Water resources will be impacted by increased demand and reduced availability caused by droughts and heatwaves.

Many parties have an important role to play, and we will continue to work with stakeholders and partners to deliver cross-sector solutions in areas such as flood prevention, coastal protection and improved water quality in the environment, to mitigate climate risks and keep costs affordable for our customers.

Our customer research shows that climate change and the environment are increasing in importance and customers tell us that these are significant issues that will require transformational changes, dealing with the highest priorities quickly and effectively with well-placed and prioritised investment.

Action we have taken and will take to mitigate and adapt to climate change will have broader environmental benefits for our region and the communities we serve. Our holistic approach to planning means that many of our existing activities will have a direct benefit on adapting to and mitigating the effects of climate change. For example, our ongoing commitment to catchment management and peatland restoration through our Upstream Thinking programme not only addresses raw water quality, but also provides environmental benefits and mitigates the impacts of climate change. Peat bogs are 'carbon sinks' that draw in carbon dioxide from the air. Damaged and drained peatlands lose their ability to hold greenhouse gases. Our peatland restoration projects allow those peat bogs to gain the water they need to recover and once again become carbon sinks. Additionally restored bogs release one-third less water during storms helping to prevent flooding.

This holistic, multi-benefit approach is also evident in our Green Recovery plans where tackling climate change and protecting the environment are key outcomes from our investments, which include:

- bringing forward our upgrade of Knapp Mill water treatment works
- increasing water supply resilience by supporting water transfers
- trialling ways to help customers save water, protect customers from the costs of supply pipe failures, and reducing health risks from lead pipes
- using nature-based solutions to reduce flood risk and enhance natural habitats
- reducing harm from storm overflows and improve river quality.

We have already made great progress in mitigating the impacts of climate change, but the risks from climate change are growing over time so we need more action in the future and our plans will reflect this. Our Net Zero and WaterFit plans demonstrate our commitment to deliver real change and benefits to protect and enhance our region. These are driven through:

- South West Water and Bristol Water water resource plans for the next 25 years
- South West Water drainage plans for the next 25 years
- South West Water and Bristol Water five-year business plan covering the period 2025-2030.



# Net Zero: our promise to the planet

In 2021, we set our ambitious plans to reduce our operational carbon emissions and hit our Net Zero target by 2030. Since then we have gone further, adding a Race to Zero commitment to reduce greenhouse gas emissions (GHG) across our entire value chain by 2045.

As a Group, we have also committed to setting both near and long-term Science Based Targets (SBT) in accordance with the Science Based Targets Initiative (SBTi) criteria and Corporate Net Zero Standard.

Both our regulated water businesses have published their Net Zero 2030 plans on their company websites.



South West Water Race to Zero (2045)			
South West Water and Bristol Water Net Zero (2030)			
Scope 1	Scope 2	Scope 3	
Water and wastewater treatment process and fugitive emissions	Electricity	Outsourced activities	Waste
Own and leased vehicle emissions		Power transmission & distribution	Employee commuting
On site fossil fuel combustion		Business travel	Well-to-tank emissions
Refrigerant gases (F-gases)		Grey fleet (private vehicles used on company business)	Embedded carbon: <ul style="list-style-type: none"> <li>• Purchased goods &amp; services</li> <li>• Capital goods</li> </ul>



## Leading the way with our Net Zero pioneers

The way to Net Zero will be led by our brilliant people. In November 2021, many responded to our invitation to become Net Zero Pioneers. Our pioneers will be crucial in shaping and delivering our plan and helping to galvanise the business to deliver the change necessary to reach Net Zero.



## Our Net Zero strategy

Our Net Zero strategy is driven by three pillars:

- **Sustainable living** – reducing emissions through operational practices, including our on-site water usage, increasing energy efficiency and using lower carbon fuel sources
- **Championing renewables** – investment is underway to support the achievement of 50% renewable energy generation at our sites by 2030
- **Reversing carbon emissions** – working in partnership to deliver natural carbon sequestration through peatland restoration and tree planting. We restored around 500 hectares of peatland in K7, and we are now targeting planting 250,000 trees by 2025 after having achieved our initial five-year plan of 100,000 trees in 2021.

Our strategy also depends on communication and engagement with all our stakeholders. We've made great progress in our first year which will continue but we cannot get there alone.

Our strategy is about doing the right thing for the environment and the planet. We also recognise that as a regulated business managing the region's water resources, we have to balance our Net Zero ambitions with other important priorities for our customers and the environment. Net Zero objectives may sometimes be challenged by the need to deliver environmental improvements. For example, achieving higher environmental standards may demand increased energy intensity, and new capital investments may increase carbon impacts. Our capital carbon programme will ensure we seek capital carbon reductions where possible.

We are already seeing the impact of climate change on our operations as well as associated energy use and GHG emissions. Our strategic planning frameworks seek to actively manage these risks now and in the future. Read more on how we are mitigating the impact of climate change on page 37 and our Task Force on Climate-related Financial Disclosures (TCFD) on pages 106 to 122.



## Sustainable Living

We use standalone power generators at our operational sites as back up so that we can provide an uninterrupted continual service in the event of a power cut. The majority of these generators run on diesel. As part of our Net Zero fuel switching strategy, we have undertaken a trial of the use of Hydrotreated Vegetable Oil (HVO) biofuel, as a diesel substitute. The trial demonstrated using HVO reduced GHG emissions as well as reducing air quality emissions (NOx, CO), when compared to diesel. Importantly the trial demonstrated no adverse impact to the generators operation. As a result of the successful trial, we are exploring roll out of HVO to all our wastewater sites.

## Championing Renewables and innovation

Achieving our Net Zero plan will require significant expansion of renewable energy across our sites. This will include both tried and tested technology which we already use, for example, Solar PV and Hydropower but will also require new and innovative solutions. Our first year of championing renewables has focused on both. We've approved investment in a large expansion of our solar schemes with an additional 4MW to be deployed during 2022. The projects are a mixture of rooftop and ground mount schemes across our sites including a 440kW array at Lords Meadow wastewater treatment works in Crediton. We are also investigating the potential role of hydrogen, geothermal energy and floating solar in our future energy mix. Where we cannot generate enough to meet all our needs ourselves, 100% of the electricity we purchase will be from renewable sources.



## Park Pit – a new woodland for biodiversity and carbon sequestration benefit

In March 2022, a group of colleagues from across Estates, Commercial, Property, Drinking Water, Asset Management, Communications and Natural Resources teams went out to Park Lake on Bodmin Moor in Cornwall on a mission to plant 335 trees.

Professional arboriculturalist, Steve Evans from Tree Investment, gave a lesson on how to successfully plant the trees to encourage growth and diversity. The gorgeous location, a field very close to Colliford Lake, is now the home to Oaks, Hawthorns, Willows and Birch trees and is one of many tree planting initiatives we have planned.



## Our progress

In July 2021, our regulated businesses launched their respective Net Zero plans, pledging to reduce their carbon footprints and move toward more sustainable ways of operating.

It's been a progressive first year of Net Zero action. In addition to mobilising for the delivery of their Net Zero plans, we have also taken steps to better understand our impacts across the value chain, in particular through engagement with our key suppliers.




Our continued engagement with customers and communities on water efficiency will yield carbon savings towards our Net Zero goals, an issue we know from our recent materiality assessment is a priority for them. Read more on our Materiality Assessment on page 30.

## Bristol Water's Routemap to Net Zero Carbon by 2030

Last year, Bristol Water published its Routemap to Net Zero, setting out its proposed decarbonisation pathways to achieve Net Zero by 2030.

Bristol Water's Scope 2 emissions have continued to fall. This is primarily driven by continued decarbonisation of UK grid electricity (Scope 2) which made up 83% of their operational emissions footprint in 2021/22. Bristol Water is currently developing options for new renewable generation at its sites alongside the potential to extend its 'whole network optimisation system' to maximise the use of renewable generation. Read more on our Streamlined energy and carbon performance (SECR) on pages 89 to 92.

The highlights and next steps of our Net Zero journey are set out below.

Pillar	Progress	Next steps
 <h3>1. Sustainable Living</h3> <ul style="list-style-type: none"> <li>Reducing emissions through changes to operational practices, increasing energy efficiency, and switching to lower carbon fuel sources.</li> <li>Meeting our commitments to reduce leaks and help customers to use less water – protecting the environment and saving carbon.</li> </ul>	<ul style="list-style-type: none"> <li>Extension of existing energy and water efficiency programmes.</li> <li>Launched Net Zero pioneers programme</li> <li>First trial of 'HVO' bio-fuel for stand-by generation.</li> <li>Established new governance to drive and manage our Net Zero delivery.</li> <li>Delivered and embedded carbon and energy training across the business with energy management programme rolled out to c. 1,000 colleagues.</li> <li>Engaged our top suppliers on our Net Zero plans and how they can support and align.</li> </ul>	<ul style="list-style-type: none"> <li>First 53 EV vans to be rolled out in 2022</li> <li>Deploy new 'capital carbon' tool to model life cycle carbon impact of different investment choices.</li> <li>Expand Net Zero research opportunities with the University of Exeter through our CREWW partnership and further international research collaboration on fugitive emissions.</li> <li>Working with key partners to support and align our shared journeys to Net Zero.</li> </ul>
 <h3>2. Championing Renewables</h3> <ul style="list-style-type: none"> <li>Maximising self-generation from renewables at our sites across the South West – working with partnerships and utilising our expertise.</li> <li>Where we cannot generate enough electricity to meet all our needs ourselves, 100% of what we purchase will be from renewable sources.</li> </ul>	<ul style="list-style-type: none"> <li>Agreed renewables delivery plan.</li> <li>Approved first business case for new solar schemes.</li> <li>Health check and optimisation of existing renewables assets.</li> <li>Actively explored opportunities for further third-party renewables supply agreement.</li> <li>Developed strategy for biomethane as part of developing enhanced bioresource strategy.</li> </ul>	<ul style="list-style-type: none"> <li>15 new solar schemes to be installed in 2022/23 doubling our solar installed capacity.</li> <li>New Renewable Energy Guarantees of Origin (REGOs) contract started in April 2022 guaranteeing 100% power purchased is green.</li> <li>Progress exciting collaboration with Welsh Water and Thames Water on 'cold-digestion' through Ofwat's Innovation fund.</li> <li>Investigations of biomethane applications within operational sites and transport.</li> </ul>
 <h3>3. Reversing Carbon Emissions</h3> <ul style="list-style-type: none"> <li>Reversing carbon emissions from our core activities.</li> <li>Working in partnership to ensure our core activities reverse carbon emissions through solutions such as peatland restoration.</li> <li>Supporting the development of innovative solutions to develop low carbon footprint processes through research and development.</li> </ul>	<ul style="list-style-type: none"> <li>First tree planting schemes through Woodland Code verification.</li> <li>Committed to additional 1,000 Ha of peatland restoration by 2025.</li> <li>Research collaboration at Water UK and UKWIR including development of land-based carbon sequestration model.</li> </ul>	<ul style="list-style-type: none"> <li>Continue tree planting programme towards our ambitious 250,000 trees by 2025 target.</li> <li>Modelling of wider environmental and societal benefits from nature-based activity.</li> </ul>

# Protecting rivers and seas through WaterFit

## Delivering for the environment

In the last few years, we have seen an increased focus on the need to improve river and sea quality. The popularity of water-based activities, such as wild swimming and paddle boarding has increased, and through the pandemic, we saw greater appreciation for our green and blue spaces. Alongside this, since we submitted our last business plan, there has been a broader policy shift with the Government's 25-year Environment Plan, COP26, the race to Net Zero, and the new Environment Act 2021.

We have always valued and prioritised our water environment, with our coastal bathing waters now achieving 100% quality.

We have always been committed to delivering for the environment and have already taken steps in the right direction. South West Water were early pioneers of catchment management through our award-winning Upstream Thinking programme – working with local stakeholders to restore habitats, protect river water quality, reduce flooding and reverse climate change through managing agricultural land use practices and restoring peatlands across the catchments. Since 2015 over 95,000 hectares of land have been improved with schemes that have delivered low cost, low carbon ways of reducing harmful nutrient run-off (phosphates and ammonia) into rivers.

South West Water's Green Recovery initiative outlined c.£82 million of investment, including pilots for storm overflows, improving river quality, smart metering, water resource development and peatland restoration.

We have set out our Net Zero ambitions, outlining our commitment to transform how we produce and use energy to become carbon neutral by 2030 through our three pillars – sustainable living, championing renewables and reversing carbon emissions. Initiatives such as planting trees are an important part of this strategy and we plan to plant 250,000 trees by 2025, more than doubling our original target achieved four years early. To date we've planted c.150,000 trees.

Over 10 million visitors come to the South West every year, in addition to the 2.3 million people that live in the region. We want the South West to be the destination for water quality.

South West Water is reducing pollutions year on year, with 2021's performance the best ever and lowest for 10 years. However, it's clear there is a need to go further and faster now to reduce spills from our sewage system and reduce our impact on river water quality.

**“ We have always valued and prioritised our water environment, with our coastal bathing waters now achieving 100% quality.”**



Launched in April 2022, WaterFit has been developed, to build on existing plans to ensure we can deliver this ambition of going further and faster across a wider range of commitments. By front-loading and rebalancing c.£330 million of investment, we will focus on those projects that will deliver multiple benefits, focused on a catchment by catchment, community by community investment

approach, ensuring all areas in our region are benefiting with no additional impact on bills.

Overall, WaterFit will enable us to deliver a step-change in both river and coastal water quality. It will enable us to expand our 100% excellent bathing water quality standards all year round, allowing everyone to enjoy our 860 miles of coastline. We'll also reduce our impact on river water quality by one-third by 2025, reducing spills from storm overflows to an average of 20 per year per overflow, increasing capacity in our infrastructure to the equivalent of 20 Olympic swimming pools. And we'll target delivering zero serious pollutions by 2025, with year-on-year reductions in all pollutions.

We have engaged with our customers through focus groups, to explore reaction to our plans and commitments. All of those who took part expressed support for WaterFit, with support strongest for our commitments on coastal bathing waters and reducing storm overflow spills. The focus on rivers and lakes was welcome and customers recognise the wider benefits that the plan can deliver, for the economy, jobs, health and wellbeing.

We therefore know that our plans meet the wants of customers and communities and we will be seeking continued feedback and engagement with all of our stakeholders on our plans, about what we prioritise, and what we do first in each community, ensuring all areas in our region benefit.

Our plans involve a total investment of c.£330 million over the next three years in our wastewater assets to deliver on our six WaterFit commitments.



## Our WaterFit commitments



### 1. Nurturing healthy rivers and seas

#### We will:

- Reduce our impact on rivers by 2025 by one third and put forward plans to target zero harm by 2030
- Reduce spills from storm overflows to an average of 20 per year by 2025
- Maintain our excellent bathing water quality standards, all year round, so that everyone can enjoy our 860 miles of coastline, whatever the time of year
- Deliver zero serious pollutions by 2025, and target a year-on-year reduction in all pollutions.



### 2. Putting nature on everyone's doorstep

#### We will:

- Make bathing water accessible, less than an hour's drive, for 100% of our residents and visitors
- Provide access to our 40 inland lakes and reservoirs, so that local communities can continue enjoying them for health and recreation
- Achieve the region's first bathing quality river, using learnings from our current pilots on the River Dart and Tavy.



### 3. Creating and restoring habitats

#### We will:

- Stop pollutants from 120,000 hectares of regional farmland getting into rivers and seas by 2025, by working with local partners
- Restore an additional 1,000 hectares of peatlands by 2025, to create new habitats, improve river quality and reduce flooding
- Plant a quarter of a million trees by 2025, to help combat climate change, support river health and create new wildlife habitats.



### 4. Inspiring our local champions

#### We will:

- Donate 25% of our Community Fund to local groups that share our passion for river and sea health
- Launch our WaterFit Warriors programme, to inspire thousands of water quality champions in schools and communities across the region
- Share progress with our customers through our unique WaterShare+ scheme at quarterly public meetings and our annual Customer AGM.



### 5. Creating a sustainable future

#### We will:

- Work collaboratively on the building of new developments in our region to help us manage our network
- Back the ban on non-flushable or plastic-containing wet wipes to help prevent blockages
- Work with our 10 million visitors, and 2.3 million customers, so they understand the important role they play in protecting our region, through our Love Your Loo campaign.



### 6. Putting people in control

#### We will:

- Work with partners to provide water quality information for residents and visitors, making it easily accessible on our website by the end of this year
- Help people understand river health, by sharing real-time river water quality information, just as we do for our bathing waters, by 2023
- Provide 100% monitor coverage at our treatment works and on our storm overflows, by 2023.

South West Water's base plans for 2025 were already delivering much of WaterFit but going further and faster we are reinvesting efficiency achieved over the last two years to deliver this. By doing this customer bills will not be affected.

[Read more on the WaterFit plan and wider environmental commitments on the South West Water website](#)



# Pioneering for success – bringing water to life through innovation

With the expectations of our customers and stakeholders increasing, the impact of climate change, uncertainty in world economic markets and the importance of the environmental agenda, the need for us to innovate is critical.

Fast, flexible innovation, coupled with long-term research is essential if we are to respond to this changing landscape and meet the needs of our customers, stakeholders and environment now and for the future.

Fostering an innovative mindset is at the heart of our business. Using innovation to drive efficiency, we can make significant improvements to performance. We have a dedicated innovation team that works to support our business and external partners who deliver and realise the benefits from our latest innovations.

## Our innovation strategy

Innovation, new technologies and a progressive approach underpin our commitment to delivering service improvements and long-term value. Our innovation strategy is mapped to our core values to guide not just how, but ultimately for what purpose and towards what aims we innovate. These core values form the pillars of our strategy.

1

### Collaborative research

Embracing partnerships and mutuality in our research for the benefit of our customers, employees, society and the environment.

2

### Progressive solution development & technology scouting

Leveraging new technologies, data, diversity and new ways of working.

3

### Responsible ideation and problem definition

Being led by sustainability, environmental, social and economic purpose.

4

### Trusted partnering

Transparency, robust governance and accountability in all that we do.



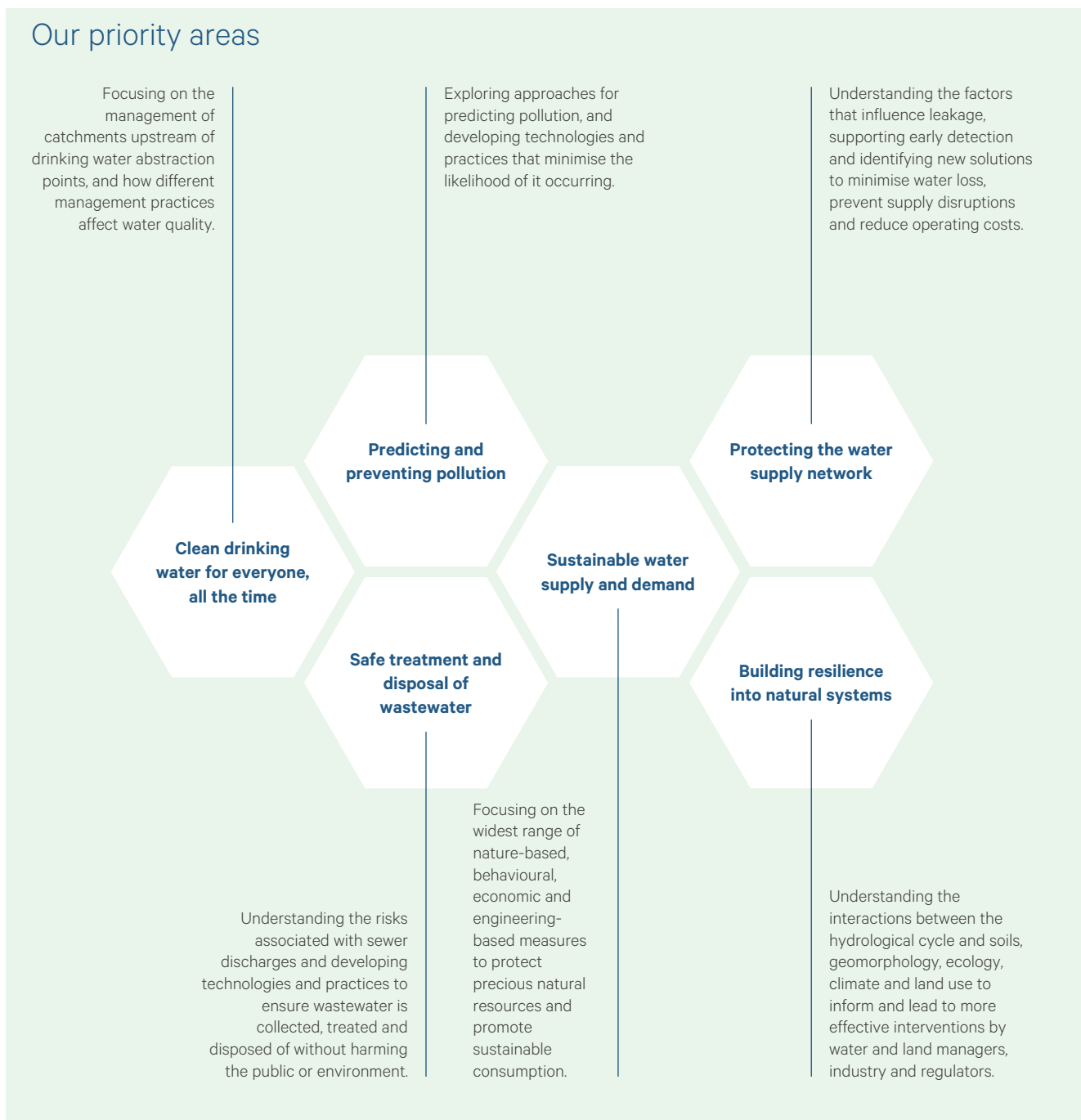
**“It has never been more important for us to innovate. The heightening external challenges that face us, for example from climate change, alongside the increasing targets and expectations we set for ourselves, will not be met if we do things the same as we always have.”**

### Why we innovate

We need to be resilient to the changes happening around us and meet the demands asked of us by our customers and Government. To do this, we need to not only continuously improve our processes and the quality of our services, but actively seek new solutions with long reaching and cross cutting benefits. For example, innovations that deliver a step-change in reducing carbon emissions, make environmental improvements, secure a resilient service and where possible, lower our costs.

### Our priority areas

Our innovation strategy sets out our key themes and challenges. We need to balance our innovation activity across these priority areas to realise our long-term ambitions.



## Day-to-day innovation

### Meniscus – rainfall prediction and CSO (combined storm overflows) pollution prevention tool for wastewater

In early trials, the Meniscus platform successfully predicted the performance of our wastewater network in controlling pollution events. Seven significant pollution events have been prevented since the trial began in August 2021. We are now in the latter stages of scaling up and planning wider deployment in our effort to better predict storm events and prevent Combined Sewer Overflows (CSOs) and outfalls flooding within the hydraulic network.

### I-Phyc – Phosphorus removal using algae – Broadwoodwidge Wastewater Treatment Works trials

We continue to research and optimise the phosphorus removal process, using live algae cultures, through our trials at Broadwoodwidge wastewater treatment works. We have found that learning about the algae lifecycle is key to efficient phosphorus removal. For example, we have learned that algae work best when in a “hungry” state. An added benefit found in the trials was that algae can also remove other unwanted pharmaceuticals and toxins present in the waste stream. There is still some way to go to achieve full roll-out but these trials have already improved our understanding of how natural systems can clean our waste.

## Strategic Research Projects

### The Centre for Resilience in Environment, Water and Waste – CREWW

CREWW is both a collaborative research centre and programme of activity set over a 25-year partnership term with the University of Exeter, which will see more than £20 million of funding from South West Water. The centre and the accompanying research programme are designed to solve some of the most pressing global environmental challenges of our time, conducting world-leading research into the provision of safe and resilient water services in the UK and overseas.

The Joint Venture agreement was signed between the University of Exeter and South West Water in November 2021, and the CREWW research centre will be operational from spring 2023. This dedicated research and innovation hub will include 760m<sup>2</sup> of laboratory space, housing new, world-leading analytical, field-monitoring and computing facilities, plus 430m<sup>2</sup> training and collaboration space. It has been designed to promote interaction between researchers from a range of academic disciplines including geography, biosciences, engineering, economics, psychology, and data science, as well as experts and industry colleagues from South West Water and our supply chain.

The associated Research, Development and Innovation (RD&I) programme will transform innovation for us. It will deliver tangible benefits to customers and the environment, and drive transformational change in the way we innovate, bringing research excellence and collaborative innovation to bear as we co-design and co-develop solutions to some of the operational challenges we face across five key themes.

Research will be based around five themes:

1. Drinking Water Quality
2. Wastewater Quality
3. Pollution Incidents
4. Resilience
5. Leakage

The global challenges of climate change and population growth, together with increasing expectations of environmental quality and operational efficiency, will not be addressed by a business as usual approach. A new approach is needed, one that looks not only to engineering solutions and the built environment, but also one which leverages nature, behaviour, technology and finance-based management solutions that deliver multiple benefits to the environment, society and the economy. For us, CREWW provides this platform to make a positive difference, supporting the lives of people and the places they love for generations to come.

Below is a snapshot of some of the outcomes and impact we will be looking to achieve through CREWW by 2027:

10

collaboration case-studies developed by November 2026. Co-location of researchers and South West Water colleagues by September 2023

10

UK tech firms working with South West Water and other water industry partners, via the Centre, to operationalise research-led solutions by 2027

5

industry-oriented examples of research-led solutions by April 2026

>£20m

worth of research and innovation projects delivered in collaboration by 2027

250

colleagues upskilled and 100 highly skilled jobs created within South West Water and its supply chain by 2027. Wider Knowledge Exchange programmes to be implemented by 2027, that will be recognised and promoted by LEPs.

2

spin-out companies established by 2027.

## Ofwat innovation fund projects

In 2021, we joined with other water companies and industry leading partners to apply for funding from the £200 million Ofwat Innovation Fund. We have successfully partnered on four winning bids. These research projects cover: advanced smart systems that autonomously control both clean and wastewater networks; upstream catchment advance modelling and citizen science data gathering; a novel low power cold wastewater treatment process; a novel approach to open data in the water sector; and community rainwater incentivisation. Further details of the larger projects and how they contribute to our innovation themes and ODIs are provided below.

### Safe Smart Systems

#### Business area – Drinking Water Services

This three-year £8.7million research project will build a prototype smart water system to predict, control and self-configure the clean water network to reduce supply interruptions, manage supply pressures, ensure water quality, reduce energy use and maintain continuous service for our customers. The project moved through its mobilisation phase in January 2021 and is currently researching the necessary elements to create the Artificial Intelligence decision engine and smart sensory technology needed to run a systems-wide approach to network calming.

#### Innovation Themes

- Delivering resilient infrastructure systems
- Protecting and enhancing natural systems
- Taking a whole life approach to responsible consumption and production.

#### ODIs

- Supply interruptions
- Leakage
- Net Zero
- Water quality.

### Artificial intelligence of things

#### Business area – Wastewater Services

This three-year £2.8 million research project will design an artificial intelligent “brain” to automatically compute the best sequence of controlling pumping and control gates to manage capacity in the wastewater network. Using near live data fed to it from smart sensors deployed on the network, the AI brain will predict flood events and take actions to control flows, reduce pollution events, reduce overall energy consumption and help plan improvements. The project began in January this year and we are in the early stages of collaborating with project partners to research the data and system architecture needed to feed the AI engine. A major part of this project will be taking our operational colleagues on this innovation journey, so that they have faith in and trust the automatic decisions made by the AI engine.

#### Innovation Themes

- Delivering resilient infrastructure systems
- Protecting and enhancing natural systems
- Taking a whole life approach to responsible consumption and production.

#### ODIs

- Pollution
- Wastewater treatment works quality
- Net Zero.

### Catchment Systems Thinking Co-operative

A 2.5 year £7.1million advanced Upstream Thinking project on a national scale, engaging the public in data gathering (citizen science) and modelling the best targeted interventions for economic future investment (PR24+).

#### Innovation Themes

- Providing the services society needs, expects and values
- Taking a whole life approach to responsible consumption and production
- Providing Clean Water for All.

#### ODIs

- Water treatment works quality (CRI)
- Biodiversity improvements

Bristol Water, in partnership with third parties, have been awarded £620,000 to explore a local lower carbon alternative to drought planning, involving the piloting and development of local water supplies by third parties, seeking to develop safe and assured mechanisms which would not be subject to current market restrictions. If successful, the project has the potential to significantly realign the wholesale water market as we know it.

## Mayflower Water Treatment Works, Plymouth

Harnessing innovation and new technologies, South West Water has been able to increase its fundamental knowledge of ceramic membranes to improve water quality and scale down the footprint and energy needed to treat the city of Plymouth’s drinking water as well as reduce treatment costs, enabling us to pass savings on to our customers. The learnings and new knowledge acquired through our innovative Mayflower project has also accelerated our progress into pilot trials for our upgraded flagship water treatment facilities for Bournemouth at Alderney and Knapp Mill.

Our pioneering track record meant we were the utility company of choice for the first UK trials of the emerging ceramic membrane technology, which is now being used at Mayflower WTW. Thanks to our global research alliances with leading utilities such as Singapore PUB, PWN and DeWatergroup, as well as with academia and technology providers, we continue to provide shared insight in water industry challenges and embed the latest innovation and technologies that benefit our customers and the environment.

## Outlook

The future is bright for research, development and innovation as we continue to make substantial investment into local, sector-wide and global partnerships that bring forward solutions to our most pressing operational challenges and bring benefits to our customers, society and the environment.



Bringing water to life

# Delivering for colleagues, customers and communities

We couldn't do what we do without our c.3,000 colleagues working to deliver for our customers, communities and the environment. We continue to invest in training and development, increase employee engagement, prioritise health and wellbeing and diversity and inclusion to support our talented people.

## Recruiting our future leaders

In 2021, we successfully launched our brand new Graduate programme, committing to graduate recruitment for many years to come. We set a commitment to recruit 100 new graduates on a structured two-year programme of training, work experience and career development over the next five years.

# 100

graduate recruitment commitment





## Health and safety at our core

Our Group-wide health and safety programme, HomeSafe, continues to ensure our people go home safe every day. We continue to invest in the health and safety of all of our colleagues and this is reflected in our improved performance. This year, we are pleased to see the number of Lost Time Injuries at their lowest level.

# 22

Lost Time Injuries in 2021/22 compared to 29 in 2020/21 – our lowest ever.<sup>1</sup>

1. 2021/22 performance and target excludes Bristol Water – Actual LTIs for Bristol was 10 giving a Pennon Group total of 32 for the year. Future targets to 2025 include Bristol Water.

# Colleagues, customers and communities performance 2021/22

Our purpose is to support our people and communities to increase our social value. Therefore as a business serving a population of c.3.5 million customers and c.3,000 employees, it's no wonder we go to great lengths to protect one of our most precious resources.

We continue to provide excellent service to our customers through our talented employees, with most targets achieved across these areas. We remain on track with our plans targeting 9<sup>th</sup> position in the industry in 2025.

Our drinking water quality (CRI) performance across the Group was impacted by one-off events in 2021/22, however underlying performance remains strong with both achieving above the industry average of 3.56.

Our future plans include innovative research into advanced treatment technologies, including ceramic membranes and granular activated carbon, which are designed to ensure compliance measures improve in future years. Further resilience improvements being delivered across a number of our water treatment works will enable us to proactively intervene before failures occur.

In September 2021, Pennon successfully implemented the globally recognised B4SI framework to capture the qualitative outputs our community investments generate. In 2021/22, Pennon invested c.£600,000 in local businesses and charities across the Great South West, with this planned to increase by 30% in 2025.

## Social

Measure	Type	2021/22 Actual	2021/22 Target	2025 Target	Annual Performance
<b>Health, safety and wellbeing</b>					
Employee Health and Safety (LTI)*	ESG	22	23 (Group)	11 (Group)	●
Great Place to Work accreditation	ESG	Maintain	Maintain	Maintain	●
<b>Diversity &amp; skills</b>					
Increase REACH recruitment	ESG	8.9%	3.5%	10%	●
Female representation	ESG	30%	30%	33%	●
Apprentices and Graduates	Ops	315	220	600	●
<b>Customer service and experience</b>					
C-MeX (Industry Ranking)					
South West Water	ODI	12 <sup>th</sup>	9 <sup>th</sup>	9 <sup>th</sup>	●
Bristol Water	ODI	6 <sup>th</sup>	9 <sup>th</sup>	9 <sup>th</sup>	●
South West Water customers who find their bill affordable (%)	ODI	93.3	92.8	100	●
Bristol Water customers in water poverty (%)	ODI	1	0	0	●
Supply interruptions (minutes/property/year)					
South West Water	ODI	6m47s	6m08s	5m0s	●
Bristol Water	ODI	2m31s	6m08s	5m0s	●
Priority Services Register – Customer Satisfaction (%)					
South West Water	ODI	83	78	93	●
BRL		89	85	85	●
Pennon Water Services Trust Score	Ops	4.8	>4.5	>4.5	●
<b>Drinking water quality</b>					
Drinking water quality (Compliance Risk Index)					
South West Water	ODI	3.86	2	2	●
Bristol Water	ODI	4.19	2	2	●
<b>Amenity and Recreation</b>					
Bathing water quality (% meeting standard)	Ops	100	100	100	●
Visitors to South West Water sites (number)	Ops	2.35m	2.34m	2.5m	●
<b>Customer and community engagement</b>					
Bristol Water Local community satisfaction	ODI	92.6	85	85	●
Community investment	ESG	£0.6m	£0.5m	+30%	●

\* 2021/22 performance and target excludes Bristol Water – Actual Employee LTI's for Bristol was 10 giving a Pennon Group total of 32 for the year. Future targets to 2025 include Bristol Water.

ESG targets and definitions and performance are available on our website at [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability)

### Key

● Area of focus ● Target met or exceeded ● Marginally below target

### Measure definition:

ODI Outcome Delivery Incentive

Ops Operations Service Measure

ESG ESG target

[Read more on our people, customers and communities performance on pages 51 to 63.](#)



# Our people strategy

Our people strategy is all about, ‘talented people doing great things for customers and each other’.



## Recruiting the next generation of employees

### 100

Graduates being recruited to 2025. We're halfway there with 28 recruited in 2021 and 22 offers made so far in 2022.

### 112%

Over achieved against our Kickstart target to offer 50 paid six-month work placements by supporting 56.

### 500

Apprenticeships to be created by 2025. Strong progress with 209 apprentices currently in training.

### x2

Doubled the number of placements offered on the 10,000 Black Interns programme from 6 to 13.

This means that we are focused on doing everything we can to recruit, train, develop and support all of our employees, whatever their background, experience or outlook, unlocking their potential now and for the longer term.

At Pennon, we believe our people are our most valuable asset. We are proud of the values we live by in all that we do.



We were delighted to be recognised as the winner in the longest-running annual survey of corporate reputation in the UK – Britain's Most Admired Companies awards (Utilities) for the second year in a row. This award demonstrates our commitment to engaging employees in our strategy and the important role they play in delivering it.

During the year, we have made significant step-change improvements in the following people activities:

- Emerging talent programmes
- Leadership development
- People engagement
- Employee wellbeing.

## Supporting the development of our talented people

### Training and development

We have a strong commitment to investing in the development of our employees and in building and recognising talent across the Group. Training and development is available for employees at all levels within the Group and is actively encouraged. Our aim is to increase productivity, job satisfaction and safety, and to equip the next generation of leaders and employees with appropriate knowledge, skills and the competencies they need to thrive.

To demonstrate our commitment to investing in the next generation further, we signed up to the 5% Club committing to have at least 5% of our employees on structured apprenticeship or graduate programmes. We are delighted to report that we currently exceed this target with over 10% of Group employees on these programmes.

During the year, we delivered 14,540 training days for our 2,813 employees, ensuring that on average each employee received 38 hours of training.



**14,540**

Employee training days

**£789,000**

Invested in apprenticeship training

**92**

New senior leaders talent development programme

**782**

New apprentices since 2017



### Launching our new Graduate programme

In 2021, we successfully launched our brand-new Graduate Programme, committing to graduate recruitment for many years to come. We set a commitment to recruit 100 new graduates on a structured two-year programme of training, work experience and career development by 2025.

In year one, we set out to recruit 20 high calibre graduates largely undertaking placements rotating across Drinking Water, Wastewater,

Engineering and Customer Services to ensure they develop a broad understanding of these vital functions of the business and develop their operational and managerial knowledge. The quality and diversity of applicants was high so we extended the number of placements to 28. More business functions have been keen to join the programme which has supported the increase. 57% of the graduates are female and 54% are from ethnic minority backgrounds or from outside of the UK which is supporting our aim to make our workforce more diverse.

## Leadership Development at Bristol Water

This year saw Bristol Water launch its first future leaders programme – LEAD Aspire. The course, run over four days, gives budding managers an insight into what is required to be a successful modern day leader whilst equipping them with some of the tools required to make a success of it. Topics range from general management and leadership techniques, how to adopt a growth mindset, assessing your own strengths through self-reflection and how to be an inclusive leader to name a few. A key aspect of the course is helping the employees understand who they are, what makes them unique and how they can leverage these traits and attributes to influence others. At the end of the course, each employee walked away with a development plan that they created to help them stay on track with their personal and career goals.

32 employees have taken part so far, with extremely positive feedback from both the attendees and their managers who have seen the benefits back in the business. As a result, further cohorts are being planned for later in the year. Pleasingly, 42% of those who have completed the course so far have been female, supporting our commitment to reducing the gender pay gap and number of females in senior positions not only within Bristol Water, but the Water industry as a whole.





## From Kickstarter to Apprentice

David is a new Operational Apprentice Technician within the Wastewater Services team. David is 20 years old and joined us in October 2021 on the government supported Kickstart scheme that offered paid work experience to help young people get into work. David excelled on his work experience placement, and his passion and enthusiasm was clear so we offered him a permanent position and an apprenticeship. Based at South Molton, David works on 25 wastewater treatment sites within North Devon whilst undertaking a Level 3 Water Process Technician apprenticeship.

He chose to do the apprenticeship because it offers structured training alongside very interesting and varied work experience and enables him to work outdoors in a part of the country he loves. David loves the roles as there is lots to learn and many options for him to grow and develop new skills and progress his career with South West Water. He has an incredibly supportive team who help with his training and development and have made him feel like part of the team. He really likes the combination of work and training as it allows him to develop practical skills, whilst learning key principles within the formal training sessions.

David is expected to complete his apprenticeship in around 18 months and we wish him well with his studies and progression through his course and in becoming a fully qualified Wastewater Treatment Technician. Keep up the excellent work!

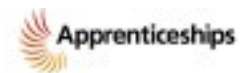
### Kickstart



We continued to live our values and demonstrate we are a responsible employer during the year, doing what we can to support communities in the South West.

Penon was one of the first water companies and the first in the South West to sign up to participate in the Government's new Kickstart scheme in 2021, offering 16-24 year olds, deemed at risk of long-term unemployment, six-month paid work placements. We committed to offering 50 placements and we are delighted to have exceeded this number, offering a total of 56. It is also very pleasing that over 60% of those completing their training and work placements have chosen to take up offers of employment with us.

### Apprenticeships



We continue to embrace apprenticeships. 136 new apprentices started with us in the last year. This brings the total number of new

apprentices we have supported since 2017 to 782. We continue to have a strong focus on recruiting operational apprentices to ensure we have the future skills to deliver our essential services. To demonstrate our ongoing commitment to apprenticeships further, we set a target to offer 500 new apprenticeships over the next three years to the end of 2025. We are ahead of schedule with 209 currently in training.

### Leadership development

We have continued to invest in our senior leaders talent development programme to provide structured assessment and development workshop opportunities for our top 92 leaders. This programme was rolled out across the whole Group, including the newly acquired Bristol Water during the year.

### Listening and acting on employees' views

Under the Financial Reporting Council's (FRC) code of standards, companies are required to explain how they are incorporating employee views in Board decisions. You can read more on how the Board are engaging and making decisions in our Section 172(1) statement on pages 32 to 33.

Over the course of this year, we have continued to develop and evolve the opportunities for employees' views and input, as well as enabling employee forums across the Group to ensure employees are represented and have opportunities to understand and feed into discussions on matters that impact them and the work they do.

## Creating the best place to work



Responsible and trusted businesses today have a duty to make a positive societal contribution – whether that's through promoting social mobility, addressing racial and gender inequality, or in providing secure and meaningful employment where all employees are paid fairly for the work they do.

We know companies with high trust cultures enjoy better financial results, outperform the market by 2-3% a year over a 25-year period, have strong leadership, a talented workforce and are more collaborative and innovative.

We are officially a 'Great Place to Work' for a second year. We asked employees how it feels to work for Penon using the Great Places to Work Best Workplace Survey™. We achieved our highest ever participation rate of 85% and again passed the threshold to become accredited as a Great Place to Work for the second year in a row.

The survey measures effectiveness in a range of categories including Innovation, Maximising Human Potential, Values, Leadership Effectiveness and Wellbeing. We were extremely pleased to see very high scores supporting our diversity, equity and inclusion priorities, with employees believing people are treated fairly regardless of race (92%) or their sexual orientation (91%) and gender (89%). This is strong recognition of the Group's approach to diversity, equity and inclusion. Equally, our unwavering determination to further improve health and safety were supported in the employee responses to the questions, 'my manager takes health and safety seriously' (91%) and 'my safety related responsibilities have been explained' (89%). It was also pleasing to hear colleagues believe 'the organisation has supported me well during COVID-19' (85%).

These results show we have made good progress during the year in embedding the Group's people strategy and ensuring our employees have felt supported.

## Employee engagement

### Employee forums



The South West Water Employee Engagement Forum is a well-established forum which meets regularly to create two-way communication between senior managers of the Group and employees.

During the year the forum has been relaunched and rebranded as RISE. It will be more inclusive and employee-led, with each area of the business establishing its own forum that feeds into the broader, Group-wide forum chaired by the Group Chief Executive Officer. We received 72 employee applications from colleagues to join RISE, pleasingly significantly higher than our initial target of 50. This forum helps to influence and support business changes and ensures that our employees are front and centre in all that we do, including being the employee voice in the evolving changes to working arrangements in response to COVID-19 during the year.

We also have trade union recognition agreements in place for our Craft and Industrial employees and continued to meet frequently across the year to discuss relevant topics including employee health, safety and wellbeing, pay awards, business planning, employee survey and engagement, IT system developments and innovation. During 2021/22, we refocused our employee forums to ensure they remain relevant to employees, focus on the key activities which impact employees and effectively engage with the wider workforce.

### Speak Up

Our Speak Up whistleblowing policy continued to operate throughout 2021/22, providing another engagement channel. Speak Up helps to create an open, transparent and safe working environment, where employees feel able to speak up and are supported if they do so.

## Launching our new employee networks

We recognise and appreciate the importance of creating an environment in which all employees feel valued, included and empowered to do their best and share new ideas. Employee networks play a key role in encouraging and supporting employees in bringing the best version of themselves to work, contributing to an inclusive environment and building a sense of community.

Our employee networks provide:

- Peer to peer support, providing psychological safety to the group's members
- Awareness, sharing stories and learning opportunities with the wider business
- Accountability, providing support and contributing to the broader Diversity, Equity and Inclusion strategy, especially through lived experience.

The nine employee network groups support:

- Race, Ethnicity and Cultural Heritage
- LGBTQ+
- Women
- Menopause
- Grief
- Financial Wellbeing
- New Parents
- Carers
- New Starters

### Enhancing our employee communications

During the year, we developed a new employee communications and engagement programme reflecting improved and multiple approaches. Our Big Chat – our regular all employee virtual meeting via Microsoft Teams, where all employees have the opportunity to attend and enables all employees access to the Group Executive. It creates opportunities to ask questions and suggest topics that employees would like to hear more about. The new fortnightly frequency ensures regular and timely updates are provided to employees. We continued to receive positive feedback from employees who welcome the opportunity to hear from the Executive team and ask them questions on key business matters.

Throughout the year and in line with Government guidelines, where possible, many of our office-based teams have been working from home, placing greater importance on supporting our employees with regular communications. Discussions have largely focused on health and safety, COVID-19 working arrangements, employee wellbeing, business plan delivery, investments in graduates, apprenticeships and Kickstarters and future workforce development.

For our remote teams working tirelessly during the pandemic, we hosted regular virtual breakfast briefings with the Group Chief Executive Officer and other senior leaders. These have proved to be helpful in promoting more effective two-way communication. Additionally, all employees are invited to pose questions or comments to our Group Chief Executive Officer following the introduction of 'Ask Susan', and this has developed into a popular route for further engagement.

During the year, our employee communication enhancements have delivered:

- New Hub Intranet launch for all colleagues – making connecting with the latest updates, news and sharing files across teams easier
- Increased frequency of Big Chats, accessible for all colleagues. More varied topics and wider speaker programme including the Board and CEO, for the most important business updates
- Virtual colleague and leadership meetings to showcase the improvements in Microsoft Office 365 tools and the new digital spaces we have
- Weekly news roundup for all colleagues across multiple channels and developing how we tell the internal business story
- Yammer launch as a way for all colleagues to socially engage with each other in a more informal setting but with all the security, accessibility and ease of use that 365 offers
- Internal recruitment campaigns with spotlight vacancies and highlighted opportunities across apprenticeship, graduate and Kickstarter programmes
- Continuous colleague updates on COVID-19 and measures to ensure every colleague can carry out their role in a safe manner
- Ensured that our business vision and values were prominent in communications as we launched our 'Uniting colleagues against climate change' Yammer community and focused on the work that our Net Zero Pioneers are doing
- Celebrated our achievements through 2021 with a roundup of the good work we've done through the pandemic – showcased every colleagues hard work, dedication and drive to be able to bring water to life
- HomeSafe Heroes launch to celebrate the work of our colleagues across the business who make sure that everyone goes home safe every day.

## Prioritising health and wellbeing

### Our wellbeing strategy

As a responsible employer, we have a vital role to play in ensuring colleagues' wellbeing and mental health is the best it can be. During the year, we made significant progress on our wellbeing strategy. Our activities are based on four wellbeing pillars: mental, community, financial and physical.

Our wellbeing strategy is about developing a culture where health, safety and wellbeing are as important as anything else we do and we want to make sure everyone goes home safe and well each day. Positive interventions around health and wellbeing have been proven to be an effective way of driving employee engagement and reducing absence levels and form the cornerstone of our approach.

Mental health remains an important issue in society, and is one of our top five reasons for absence, requiring continued focus, engagement and prioritisation.

### 2021/22 achievements

We have launched a number of initiatives this year to position us as a leader in health and wellbeing and create a culture where mental health is an everyday conversation. Our achievements include:

- Signed up to the InsideOut Charter – a social enterprise providing a tangible way of demonstrating leadership and action to the mental health agenda by committing to a number of core, actionable principles
- Trained 55 new Mental Health First Aiders in the year. We now have the same ratio of MHFAs to employees as we do for physical first aid at around 1:40
- Redelivered our e-learning module on mental health to all employees
- Delivered 'Mental Wellbeing in the Workplace' training for managers to help them gain a broad understanding of stress, mental wellbeing and mental health conditions as well as tools and techniques to assist them in promoting positive mental wellbeing and discussing mental wellbeing with individuals and their teams
- Took part in national wellbeing events with external speakers to support in educating our teams and provide tangible actions to improve wellbeing. These included: Mental Health Awareness Week and Movember. During Mental Health Awareness week all colleagues were sent a 'Bee Bomb' (handmade wildflower seed balls) to encourage them to support the 2021 theme of spending time in nature
- Established our 'Time to Talk' and 'This is Me' sessions to encourage open conversations between colleagues and break down the stigma that surrounds mental ill health. The aim is to encourage open discussions and improve attitudes and behaviours towards people with mental ill health, dispelling myths and crucially, raise the importance of mental wellbeing. In the monthly *Time To Talk* sessions, internal or external speakers focus on topics that are of interest to employees including sessions on Mental Health and Wellbeing and WaterAid, our charitable partner. The *This is Me* initiative explores mental health challenges where internal and external speakers explain the challenges they have faced and how they have dealt with them
- Launched an internal Wellbeing Champions network. The purpose of this group is to deliver campaigns, increasing awareness of all aspects of wellbeing;
- Launched the new Champion Health portal for all employees – a wellbeing platform that covers every area of health, complementing existing wellbeing services and campaigns. It covers mental health, women's health, men's health, financial wellbeing, performance, activity, energy levels, parenting, nutrition, musculoskeletal health, leadership, cardiovascular health, cognitive functioning and much more. The data from the platform will be used to identify trends, gaps and opportunities and help focus our wellbeing activities in the right areas.

## Our wellbeing strategy



Mental

Taking care of our minds, coping effectively with life and creating satisfying relationships



Community

Encompassing the major external and internal factors such as social health



Financial

Taking care of our financial wellbeing, being in control over our financial future



Physical

Taking care of our bodies, acknowledging the importance of activity, nutrition and sleep



### What's next

Whilst we have made excellent progress this year, we have further plans for the coming year with initiatives including the launch of our Wellbeing Awards, a focused Group-wide Wellbeing survey, the expansion of the Champion Health app, the development of our training and speaker programmes and the introduction to our first Mental Health focused annual reporting.



**HomeSafe – our flagship health and safety programme**



The Group’s flagship health and safety programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities. HomeSafe is built on the six strategic pillars: Managing Risk, Sharing & Learning, Working Together, Protecting Health, Enabling Leaders and Being Resilient.

We are developing a culture where every person takes ownership to ensure they and their colleagues go HomeSafe every day. In pursuit of this, Rich Rogers joined us in March 2022 as Director of Health and Safety, bringing 30 years of operational water sector experience and a track record for delivering best in class health and safety cultural change programmes, translating to sector-leading performance. Within four months of Rich joining us, we had refreshed our HomeSafe strategy, targeting the key areas against each strategic pillar to improve risk management and reduce harm.

At Board level, we set out the ambition to have our best year ever on health and safety, measured by delivering our lowest ever injury numbers. We set out to achieve this through increasing Senior Manager engagement, improving incident investigations leading to better learning and sharing, improving collaboration through the new HomeSafe working group comprised of employee representatives at all levels to help shape, test and drive our strategy, increasing local ownership through hazard identification and our highest ever investment levels.

Reconnecting face to face with our employees has seen over 210 Senior Manager site visits across our region in the year, providing leaders with the opportunity to see work as it is done and better support a healthier and safer working environment. 97% of visits have been described as useful or very useful by the hosts. We trebled investment to improve the safety of our working environments and targeted specific improvement programmes as a direct result of comprehensive learning from incidents.

To showcase the great behaviours seen in many areas, we launched our HomeSafe Heroes scheme, where an employee can nominate a colleague for an award for any activity or intervention in support of our Homesafe principles and ambition. We have seen 48 nominations in the six months since launch and this is increasing as more people celebrate the great work their colleagues are doing, sharing great ideas and behaviours encouraging others to join the HomeSafe revolution.

Lost Time Injury Frequency Rate (LTIFR) LTIFR continues to be the Group’s primary measure of H&S performance. Against our ambition of our best year ever, (no more than 23 LTIs across the Group), we outturned at 22 Lost Time Injuries compared to 29 reported last year, delivering this ambition.

**Bristol Water<sup>1</sup>**

Bringing Bristol Water into the Group gives us the opportunity to further share best practice and work together to deliver HomeSafe. We are consolidating the improvement plans and initiatives at Bristol Water into the HomeSafe strategy, and are developing a Bristol Water specific HomeSafe plan during 2022.

Two key areas Bristol Water have made great progress on are:

- Working with the contract partners implementing the “Dig, No Damage” campaign, targeting reductions in service strikes and injuries working in the highway. This not only seeks to avoid damage to infrastructure, but also to protect the local environment eliminating damage to trees. This has seen, service strikes per 1,000 crossing reduce by over a third in the last two years and their programme will continue to drive strikes further.
- While 2021/22 has seen an increase in LTIFR, the underlying health and safety measures have remained stable during this period. Using best practice from Bristol Water and South West Water, we aim to deliver tangible improvements in 2022/23.

**Our health and safety strategy**



1. 2021/22 performance and target excludes Bristol Water – Actual LTIs for Bristol was 10 giving a Pennon Group total of 32 for the year. Future targets to 2025 includes Bristol Water

**Our eight HomeSafe modules**





## HomeSafe Hero spotlight

Dave is one of our Wastewater catchment operators based in Launceston. Dave was nominated by a colleague to be recognised as a HomeSafe hero because, in the words of his colleague, "Dave is a consistent champion of HomeSafe and provides support to anyone and everyone". He works tirelessly with colleagues to help understand any health and safety concerns, develop solutions, arrange for new safe working methods, and provides training to his colleagues.

Dave embodies the HomeSafe values and demonstrates what "Putting the me into HomeSafe" really means, by taking ownership for HomeSafe and supporting his colleagues to go HomeSafe every day.

On receiving his award Dave said "I'm very honoured and appreciative of this award, I've been trying to improve the workplace for colleagues across the Group, and I have the full support of my managers, allowing me the time and funding to help ensure everyone goes HomeSafe everyday"

A true HomeSafe Hero!

## Our HomeSafe roadmap to 2025



### Managing risk

We're implementing effective assurance programmes and getting up to speed with the ISO45001 managing standards.



### Sharing & learning

Improving health and safety at Pennon depends upon all of us building our skills and understanding to better protect ourselves and each other.



### Working together

Collaborating effectively means we'll bring everyone with us on our safety journey, including our contractors. Our HomeSafe Network will keep everyone engaged with this vital work.



### Protecting health

We're introducing a range of measures to support everyone. This will reduce absences from work and enable everyone to perform at their best.



### Enabling leaders

Leaders have a central role to play in keeping everyone safe and well, so we're providing extra focus to boost their skills.



### Being resilient

To keep everyone safe, we need robust business continuity plans. And everyone needs to take a lead in ensuring the security of our sites.

### Engagement programme

Building on the HomeSafe six strategic pillars, we launched a Group-wide engagement programme, bringing HomeSafe to life for everyone. This was built on a new multimedia platform, broken into eight bitesize modules, providing a full HomeSafe education programme. This was designed to set us up to deliver our best year ever again.

Our targets are ambitious, however ensuring everyone who works for us, with us or interacts with us goes HomeSafe everyday is paramount, and that requires us to have ambitious plans.

### Future Plans

HomeSafe is not a project to be completed. It is the way we work and deliver all our performance commitments. We recognise any injury is one too many, and have very ambitious HomeSafe 2025 plans to improve health and safety across the Group, requiring us to have our best year ever, year-on-year. We have set out our roadmap to 2025 to move us towards being leaders in health and safety in the water sector.

## Diversity, equity and inclusion

### Creating a diverse workforce

We are now one of a handful of top FTSE businesses to have both a female CEO and Chair. Ranking number 10 in the FTSE Women Leaders Review (previously Hampton Alexander) of the FTSE 250 for number of females on the Board, we're also pleased to be exceeding the 40% target.

If there was ever a time for us to put gender and ethnic diversity at the top of our agenda, then that time is now. Building a sustainable, agile and diverse workforce is a key pillar of our People strategy. Once again, we were listed in the 2022 Bloomberg Gender Equality Index, as one of 418 companies globally committed to disclosing their efforts to support gender equality through policy development, representation and transparency.

We have continued to make progress in this area through strong leadership and our gender diversity has improved for the third year running. With a workforce of almost 3,000 employees, the gender split is 70% male and 30% female.

Pennon largely operates and employs people in the South West of England which traditionally has some of the lowest proportions of ethnic diversity in the country. However, as a responsible business, we believe we have an important role in ensuring we support mobility of all types. Over the last year, we have increased our proportion of ethnically diverse employees significantly, from around 0.5% to almost 2.5%. This increase has come from our more targeted recruitment approaches clearly acknowledging we welcome applications from ethnically diverse applicants as well as the Bristol Water acquisition. Despite the good progress we have made during the last year, we recognise there is still much more to do if we are to achieve our ambition to have a much more diverse workforce.

**Accessibility Audit**

In 2021/22, we carried out access audits across our head office in partnership with EMBED who are supporting us on our Diversity, Equity and Inclusion journey. Being part of an inclusion journey means feeling included and part of conversations to review existing services, policies and procedures, alongside knowledge and information sharing to create and build up inclusive workplaces and services. As part of that journey, we are looking at how accessible we are as an employer, particularly in the locations and facilities we make available for all our colleagues. Ensuring our sites are inclusive is important as they represent the collective services and practices which customers, colleagues and potential talent identify and engage with. The sites, can indicate to customers and employees what the organisations commitment is to accessibility and inclusion throughout the physical building and how services are understood and initiated to be inclusive. We are now working with EMBED following the outcome of the audit to create an action plan to further improve our locations and facilities. We have recently installed a multi-faith prayer room in our Peninsula House office.

But it doesn't stop there. We recognise that our offices are not the sole representation of Pennon. Colleagues out in the field are a vital part of serving our customers and are critical to the conversation of understanding lived experience and in identifying what positive actions

are required to improve accessibility and inclusion for all. Therefore, whilst we started with these two locations, we will be auditing other locations throughout 2022.

**CBI Change the Race Ratio initiative**



In 2020, Pennon pledged its support to the CBI Change the Race Ratio initiative, a campaign to increase racial and ethnic participation in the senior leadership of companies, as a route to encouraging more diversity at all levels and was the first water company to do so. During 2021/22,

our pledge and ongoing commitment continued to help shape our business activities and decisions.

**10,000 black interns initiative**



We are proud to be a supporter and sponsoring business of the 10,000 black interns initiative. We initially set out to offer six paid work experience internships. We were so impressed with the quality of applicants and the wider support from the business that we have offered 13 placements with the hope that many of these talented graduates will continue to work for us beyond

their placements. This important scheme not only offers black students an opportunity to understand our business but also to improve the levels of ethnic diversity across our industry.

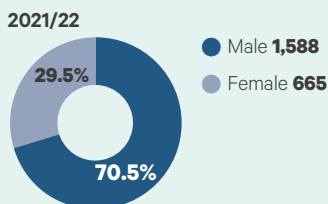
**Recruitment**

Changing our approach to diversity and inclusion has also changed the way we monitor diversity in all Group job applications. The Group uses a software gender decoder tool which allows us to check all of our job advertising for masculinity to reduce the potential risk of alienating female applicants. In addition, we have refreshed our equal opportunities forms to be included in all onboarding packs. The new version allows us to monitor, analyse and utilise diversity data to inform and shape our business activities to become a more diverse workplace. We also refreshed our job

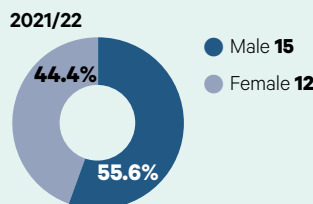
**Gender Diversity dashboard**

As one of the few FTSE businesses to have both a female CEO and Chair, we are delighted to have reached the top 10 in the FTSE 250 Women Leaders Review and continue to make progress in gender diversity across the wider Group.

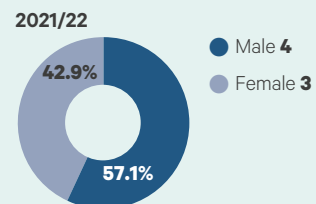
**Gender – Employees**



**Gender – Senior Management**

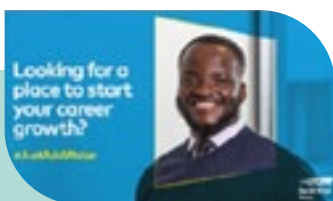


**Gender – Board**



● Male ● Female

The dashboard figures quoted are for Pennon Group excluding Bristol Water. Bristol Water have a 2021/22 all employee gender split of 29.7% (165) Female / 70.3% (391) Male.



## Refreshing our recruitment brand

Launching our new Graduate Programme during the year provided us with the opportunity to rethink and refresh our employment brand with a stronger focus on diversity and inclusion.

Building on last year's success, we asked our current graduates to be the face of the campaign. Our new campaign is called #JustAddWater and also sees the expansion of the universities we are working with.

We are delighted to have received well over 1,000 applications and extremely pleased that 56% of them are from ethnically diverse candidates. The diversity successes we have achieved through our graduate recruitment are now being incorporated into our wider recruitment activities.

advertises to ensure they clearly demonstrate that we are a diverse employer and welcome applications from all ethnicities. Our recent success is most notably seen in our 2022 Graduate Programme recruitment which received 1,064 applications with 56% of them coming from ethnically diverse applicants.

### Training

We have continued our programme of Unconscious Bias training and have rolled this out to the majority of our senior leadership and hiring managers during the year.

We held Lived Experience group sessions to understand what it is like to work at Pennon for employees from minority groups. The outputs have been shared with our Diversity Committee to understand these perspectives and consider appropriate actions when issues are raised.

### Women in Water network

South West Water is part of the Women in Water network, supported by Water UK, and aims to encourage women into the water industry, support their development into more senior roles and ensure that their industry voices are heard.

### Our gender pay gap

The aggregated gender pay gap for the Group in 2021 stood at 9.2%. There has been strong improvement in our diversity and progression for female colleagues, although the changing Group structure has led to a small increase in the mean gender pay gap. For Pennon Group plc, the company gap has improved significantly standing at 6.7%, representing a closure in the gap of 14.8%. For South West Water and our customer service function, Source, the results have remained steady at 6.7% and 2.9% respectively.

During 2021, we recognised colleagues loyalty and dedication to customers with an additional discretionary bonus. The full bonus was paid to all employees irrespective of whether they work full or part-time and this one-off payment has inflated the mean bonus pay gap artificially. This has contributed to a negative mean bonus pay gap of -43.1%. The median bonus gap which compares the male and female employee at the 50% percentile of each gender group was 0%. The gender pay gap calculations for 2022 will include Bristol Water.

The Group continues to develop greater gender alignment in middle manager and senior positions and is seeing strong progress in this area. Pennon is an active supporter of the Women in Water initiative.

During the year, we were recognised for our progression in gender equality by external bodies. In early 2022, Pennon was recognised in the FTSE Women Leaders review, previously the Hampton Alexander review). Pennon came first in the Utilities sector, ranking 10<sup>th</sup> overall in the FTSE 250 group compared with 23<sup>rd</sup> in 2021 and positioned 16<sup>th</sup> as a Best Workplace for Women. Our performance in the Bloomberg Gender Equality Index also showed improvement. The index measures gender equality across five key areas. The report showed the Group had built on its performance in 2021 with an overall score of 64.87%, up from 59.9% in 2021. Within the European Women in Boards survey, our ranking within the UK improved to 41<sup>st</sup> up from 44<sup>th</sup>.

### Social Mobility Pledge



We continue to be a signatory of the Social Mobility Pledge, the cross-party campaign to improve social mobility in the UK established by the Rt Hon Justine Greening MP. This pledge reflects our social commitments through our partnerships with local schools, our open-door approach to visitors and our

provision of work experience opportunities. As part of our Social Mobility Pledge, we are undertaking a gap analysis to help us develop a detailed action plan to drive further improvements during this year. Our Head Office and customer call centre are based in Exeter, providing jobs and investment to the local community. In addition to directly employing c.3,000 employees, Pennon employs a further 114 temporary employees and contractors.

### Slave-Free Alliance membership



Pennon has maintained its membership of the Slave-Free Alliance, which is part of Hope for Justice, the global anti-slavery charity. Our membership demonstrates our commitment to the highest employment standards for both

our direct employees and those within our supply chain.

Our Modern Slavery Report is published annually and can be found on our website [www.pennon-group.co.uk](http://www.pennon-group.co.uk)

### Human rights

We are fully supportive of the principles set out in the UN Declaration of Human Rights and the Group ethics policy outlines the high standards of employment practice with which all employees of Pennon Group are expected to comply with. The Group also supports the International Labour Organisation's core conventions for the protection and safety of employees wherever they may work throughout the Group. These standards are also embedded in our sustainable supply chain and documented in our procurement policy and Code of Conduct for supply chain partners.



# Our customers and communities

## Building a deeper relationship with customers through WaterShare+

We believe there's no better way to respond to or capture public sentiment than building a deeper relationship with customers – really engaging with them and putting them at the heart of our decision-making.

That's why, as part of our New Deal Business Plan, we launched our innovative and pioneering WaterShare+ scheme, sharing £20 million of outperformance with customers and giving them not only a say in what we do but a stake too.

Shaped by customers for customers, its origins were in the largest ever customer consultation we have undertaken. One in 16 households in the South West Water region are now shareholders as well as customers, heralding a new era in customer ownership – a true partnership.

Sharing our success with customers is at the heart of WaterShare+ and put simply, if we deliver, customers also benefit.

With the announcement of the Bristol Water acquisition, our intention is to include Bristol Water customers in the second run of our pioneering WaterShare+ scheme (subject to Shareholders approval at the 2022 Pennon AGM), sharing the benefits of common ownership with Pennon.

Our independent WaterShare+ Advisory Panel, chaired by Lord Matthew Taylor, also provides a strong platform to empower customers, having held four quarterly public meetings this year in addition to the industry's first Customer Annual General Meeting in November 2021, enabling our customers to talk directly with the executive team about those matters most important to them. This is just the start of real and honest customer engagement, resulting in a richer and deeper relationship with customers.

Membership of the Panel is strengthened with expert advisors from the Consumer Council for Water (CCW), the Environment Agency (EA) and Natural England. All provide specialist insight and challenge to the company on behalf of our customers.

**“An advisory panel of this type is a new concept and provides an additional dimension and purpose to engagement and involvement by putting the interest of customers at the heart of South West Water’s New Deal.”**

Carole Theobald, WaterShare+ Advisory Panel member

## Helping when it matters most

South West Water's New Deal included a pledge to eliminate water poverty by 2025 by expanding the toolkit of affordability support to those who need it most. Similarly, Bristol Water has a target for zero Customers in Water poverty.

We have continued to work hard to deliver quality services at an efficient cost, so that bills remain as low as possible. South West Water's bills are lower in real terms than they were ten years ago thanks to our continued focus on driving efficiency through innovation. Announcing average bills would be lower in 2022/23 was particularly important for our customers meaning that whilst the majority of Utilities are increasing prices, our average bill will be reducing at this critical time. In 2021/22, we increased the number of customers benefiting from one or more of our affordability initiatives to c.100,000 across the Group, including tariffs providing discounts to bills or a level of bill certainty to suit customers' circumstances. We are targeting a further increase in 2022/23 as we work to address water poverty for all our customers by 2025.

Alongside ensuring our bills remain as low as possible, South West Water's innovative WaterCare+ programme continues to offer support to customers through a number of initiatives including direct account





## Air ambulance

We've been proud supporters of our region's Air Ambulances. They're one of the main organisations we support through our sponsorship programme. They do a phenomenal job carrying out life-saving work, and we can't thank them enough for everything they do.

During the pandemic, they needed extra funding, which we were happy to support.

Devon Air Ambulance were finding it very time-consuming to sterilise all their equipment between calls to meet COVID-19 guidelines. Through our funding, they were able to purchase kit that eliminates drying time. This means extra time is saved for them to respond to call-outs.

Cornwall Air Ambulance applied for funding to regenerate an area of their charity shop in Bodmin. Their shop helps bring people together in the community, and they wanted a place where volunteers, supporters and shoppers could relax and hold events and activities. They named this space the HeliHub.

reviews and benefit entitlement checks, in addition to working in partnership with organisations such as social housing providers and carer organisations to ensure that our schemes are promoted and easy for our customers to access, through a programme of physical and virtual home visits to help customers ensure they are receiving all eligible benefits. As a result, they are financially better off – 93.3% of customers now find bills affordable, up from 89% last year.

Bristol Water offer three discounted tariffs to make sure customers who find it hard to pay their water charges are given the help they need with over 21,000 customers receiving assistance through these measures, an increase of 4% on the previous year. In addition to the affordability schemes, almost 4,000 households are currently benefiting from the 'Restart' scheme to help clear their water bill debt. During 2021, the company introduced 'COVID Assist', which encourages customers who have been unexpectedly thrown into severe financial hardship to apply for the scheme without needing to be in debt or having to seek third-party debt advice. These customers can receive help with their bill for six months before applying for support on a longer-term basis if needed. Bristol Water's work with debt advice partners continues to be key to promoting the help available to customers, alongside marketing and key messages on bills. Since the start of this regulatory period, we have unlocked almost £22 million<sup>1</sup> of support for customers across the Group.

At Bristol Water, an additional c.8,000 households have been included on the Priority Services Register (PSR) during the year, taking the number registered from c.13,000 to c.21,000. This c.60% increase in registered households has enabled the company to get back on track after missing the performance target for the previous year. Encouragingly, 89% of Bristol Water's vulnerable customers rated the service they receive through the PSR as 'very satisfied' or 'satisfied' compared to the 2021/22 target of 85%.

This measure is in line with the progress made against Bristol Water's published Vulnerability Action Plan, which is reviewed by the Bristol Water Challenge Panel.

In South West Water c.79,000 are registered on our PSR with 93% satisfied with this area of service.

## Striving for service excellence

During the year, South West Water saw a c.60% reduction in written complaints, maintaining our position as an upper quartile company. The level of total complaints has fallen significantly, reflecting customer experience improvements implemented along with shortening resolution timescales.

Bristol Water has almost halved the total number of complaints during the year in comparison to the same period last year. Complaint resolution and handling is a key focus of Bristol Water's customer experience strategy, and root cause information feeds directly into future improvements to prevent repeat complaints.

Customer satisfaction as measured by Ofwat's Customer Measure of Experience (C-MeX) differs across the Group and presents the opportunity for us to share best practice. At South West Water, performance is not where we would like it to be (ranked 12<sup>th</sup>), and is an area where we're focusing our improvement efforts. Improved customer communications, using new channels convenient to our customers and a new education campaign form part of our plan to improve performance in this area.

At Bristol Water, C-MeX continues to perform well, ranking as 6<sup>th</sup> in the industry, continuing the strong performance from the previous year. A variety of projects have contributed to this performance, which will continue into year three of the regulatory period, including the 'In their shoes' campaign, which has been embedded within the culture of our customer facing operational teams. During the latter part of the year, Bristol Water increased the focus on messages to help customers with their bill, which included the launch of the two-year 'Money Back Guarantee' aimed at helping Customer Care teams provide confidence to customers to try a meter 'risk free' for two years.

1. Cumulatively to date over the current K7 regulatory period (2020-25)

### Our communities

There are many amazing community projects which make a real difference to the lives of our region's people and the places they love. That is why we are tapping into the social consciousness of our customers in new ways through the industry's first Water-Saving Community Fund, empowering customers to champion and drive initiatives to save water locally, as well as our Neighbourhood Fund which is supporting communities with much needed help.

Since launching our two funds in 2020, we've supported over 100 brilliant causes across the region. Our Neighbourhood Fund has supported vital local projects such as repairing buildings and providing sports equipment, to helping vulnerable people. Through our Water-Saving Community Fund, we've inspired communities to get involved in saving water. This has already resulted in an estimated yearly saving of c.59 million litres!

Playing our part in the community, South West Water's revamped school's education programme is aimed at developing and delivering classroom material to local schools. This programme is focused on teaching school children the importance of water conservation and environmental protection, and illustrating the part they can play through being careful with what is discarded through the wastewater network. Following its relaunch in January 2022, we have directly taught 752 pupils about where our clean water comes from and how wastewater is treated.

Our ambition in this space is to engage with a further 500 pupils outside of the school term. We're also creating new partnerships to support our ambition to drive behavioural change across the region. In the coming year, we are extending our reach by working with our partners, including Devon Wildlife Trust and South West Lakes Trust.

We not only service the South West community, we are also part of it. South West Water's Awesome Water programme has been launched this year and aims to connect directly with our local communities, creating new, fun and interactive ways to promote and educate our communities about what we do, helping us support behavioural change initiatives, and helping us reach people beyond a traditional transactional relationship.



Bristol Water's local community satisfaction target recognises the importance of working together with local stakeholders to jointly tackle the issues which the city faces. This means challenging ourselves on the way that we work to deliver a safe and reliable supply to customers, so that we can maximise additional economic, environmental and social value. This approach is underpinned by Bristol Water's Social Contract which provides the framework and governance process for the delivery of this wider public value. 93% of the local community who were surveyed in 2021/22 were either fairly or very satisfied with Bristol Water's contribution to the communities. This is compared to the committed performance level of 85% and last year's result of 88.2%.



We are working to better understand the impact we have through our community programmes, through the adoption of the well-established Business for Social Impact (B4SI) framework. In addition to providing consistency in how we measure our community activity, our aim is that through working with our community partners in applying the framework we can better support projects and programmes that deliver the greatest impact aligned to our purpose. The full set of B4SI assured data can be found in our online ESG databook which can be found on our website [www.pennon-group.co.uk/reportsandpresentations](http://www.pennon-group.co.uk/reportsandpresentations).

## Tapping into the amazing world of water

Having opened the doors to our educational visitor centre at Roadford Lake last year, this year South West Water launched a new educational programme to help us inspire future generations to be environmental champions right across the South West. Since the relaunch of our programme in primary schools in January 2022, 70% of children went away from these lessons saying they had learnt something new.







## Water saving community initiatives

Saving tap water makes sense. To help our communities get involved in saving water we've funded 22 projects – big and small – which have an estimated yearly saving of c.59 million litres!

- Water butts at a community allotment halved their water bill
- New taps installed at a school lowered the amount of water they used
- Toilet transformation on the Isles of Scilly saved up to a whopping 150,000 litres of water.

### Heathfield Allotment Trust

In Autumn 2020, Heathfield Allotment Trust carried out an investigation of their water usage across their site in Lymington, Devon. Carrie, one of the trustees, was shocked to find how much was being wasted. People were leaving hoses on, not watering efficiently, and using the tap more than was necessary.

Convinced that something could change, Carrie began actively educating plot-holders about the importance of saving water. Policies were put in place to keep it at the forefront of their minds, and leaving the hosepipe on and using sprinklers was strictly banned.

But it still wasn't enough. That's where we stepped in. In 2021, the trust applied to our Water-Saving Community Fund for 25 water butts and we surprised them by sending 30.

The results speak for themselves.



### Putting nature on everyone's doorstep

From the very bottom of Cornwall all the way to Somerset, Bristol and Bournemouth, the South West is home to over 40 inland waters which play a critical role in keeping the region's water supplies plentiful. Our local lakes are natural marvels, not only for capturing and storing rainwater, they are also important for people and wildlife. Millions of people from across the UK visit our lakes every year, making them destinations in their own right and putting nature on the doorstep of our communities.

**Almost  
£22 million**

of support unlocked for customers across the Group

**c.£600,000**

contributed by Pennon to our communities during 2021/22

**>50%**

>50% reduction in complaints across the Group

**c.100,000**

customers supported through one or more of our affordability initiatives

**121**

organisations impacted by Pennon during the past year

**c.752**

school children taught during 2021/22

**£824,748**

for WaterAid from employee and customer donations



# Delivering clean, safe and reliable drinking water

We are committed to ensuring the continuous supply of clean, safe and reliable drinking water to our customers, whilst preserving the natural resources within the Great South West and protecting the environment with reliable wastewater delivery.

We recognise that customers expect their drinking water to look and taste great, and that water quality plays an important part in maintaining our customers' trust in the quality of our supply.

Our dedicated teams, ongoing investment and use of innovative technologies ensure that we are able to respond to challenges such as those posed by the COVID-19 pandemic, severe weather and fluctuating demand from seasonal visitors to the region.





## Ensuring quality bathing waters

We are improving the resilience of the region's wastewater services to minimise our impact on the environment. We care deeply about sustainability and take our guardianship of the natural environment very seriously and want to do more.

We are pleased that our investments since privatisation have now led to all bathing waters in our region achieving the quality standard, as measured by the Environment Agency.

# 100%

coastal bathing waters achieving quality standard



# Robust financial and operational performance for 2021/22

Performance across the Group continues to be operationally resilient, delivering against our business plan commitments and realising benefits for all stakeholders.

Performance as measured by our outcome delivery incentives (ODIs) was c.80% for South West Water, maintaining last year's strong performance and c.75% for Bristol Water, an increase from c.60% in the previous year.

Key common areas of good performance across both companies include asset health measures, leakage and mains repairs with a relentless drive to maintain and invest in our assets. Following the launch of our dedicated plan, South West Water saw a big improvement in the number of pollutions, reducing by a third year-on-year pollution incidents and significantly reducing the penalty incurred.

Both companies have delivered cumulative RORE outperformance with South West Water's cumulative RORE of 8.2% representing a more than doubling of base returns, and Bristol Water's cumulative RORE achieving 6.3% also higher than base returns.



**c.80%**

ODIs on track.

Efficient totex delivery supports lower customer bills and provides headroom for re-investment

**8.2%**

Return on Regulated Equity (RORE) – K7 cumulative



**c.75%**

ODIs on track

**6.3%**

Return on Regulated Equity (RORE) – K7 cumulative



# Regulated Water



## c.93%

Reservoir storage for both South West Water and Bristol Water

## 7%

Reduction in leakage across the Group

## Clean, safe, reliable drinking water

Across the Group, we are committed to ensuring the continuous supply of clean, safe and reliable drinking water, whilst preserving the natural resources within the South West. Our dedicated teams and ongoing investments ensure that we are able to respond to challenges, such as those posed by the COVID-19 pandemic and severe weather, such as Storm Eunice in February 2022.

### Water quality

#### CRI

The Compliance Risk Index (CRI) score as reported by the Drinking Water Inspectorate (DWI) measures water quality compliance. Performance across the Group was impacted by one-off events in 2021/22, however underlying performance remains strong.

South West Water CRI was 3.86 with Bristol Water at 4.19. These are above the industry average of 3.56 and the target of 2 and this continues to be a key focus for 2022/23, to improve this performance.

Continued investment in research and implementation of advanced treatment technologies, including ceramic membranes and granular activated carbon, is designed to ensure compliance measures improve in future years.

Further enhanced maintenance and resilience improvements are being delivered across all of our water treatment works as part of our innovative site MOT programme to again ensure we proactively intervene before failures occur.

#### Taste, smell and colour contacts

We recognise that consumers expect their drinking water to look and taste great and that this is important in maintaining consumers' trust in the quality of our supplies and we continue to invest in all aspects of our operations from source to tap to maintain that trust.

South West Water contacts per 1,000 population decreased slightly to 1.55 from 1.65 and achieved the performance commitment target of 1.59. Bristol Water performance at 1.39 was adverse to their target of 1.09 with increased contacts due to air in supply.

2021/22 was another challenging year with the ongoing change in water usage patterns associated with COVID-19 and an increase in third party damage to our mains. This national problem was exemplified by the accidental damage to both of our strategic water mains supplying Cornwall this year. Whilst supplies were restored quickly, consumers reported discolouration over the coming days and secondary bursts and disruption were seen for several weeks.

Our long-established operations and maintenance flushing programmes will be enhanced this year and we continue to progress well in delivering enhanced manganese removal schemes at Restormel and St. Cleer in Cornwall. To address taste and smell, we are progressing further significant investments in advanced granular activated carbon treatment at Stithians in Cornwall and Littlehempston in South Devon.

#### Bournemouth Water treatment upgrades

As part of our business plan, we committed to building two state of the art water treatment works in the Bournemouth area. Good progress continues on both of these schemes at Alderney and Knapp Mill. As part of Green Recovery, work at Knapp Mill has been accelerated to enable improved water quality and resilience in the Bournemouth area, which will improve both CRI and taste, smell and colour contacts in the future.

#### Reducing leakage and supply interruptions

##### Leakage

We recognise that the prevention of water being lost in leakage from our pipes and assets is a key issue for all customers, and is something we work continuously to reduce. Across the Group in 2021/22, leakage levels reduced by c.7% compared to the prior year.

At South West Water, the specific investments made since the start of the regulatory period, teamed with the launch of our targeted action plan, are delivering results. Improved leakage performance for the year has resulted in us achieving our three-year average target and represents a c.8% reduction on the prior year's performance. Whilst we know there's still more to do to find, fix and prevent leaks on our network, we're encouraged by the progress we've made to date, and continue to focus on delivering further improvements to achieve a 15% reduction over the K7 period.

Bristol Water also improved on its strong leakage performance during the year, reducing leakage by c.5% and meeting its three year average target. A focus on customer leaks along with out-of-hours work has played a significant part in driving stubborn leakage areas down.

##### Minimising customer supply interruptions

As a Group, we understand the inconvenience that supply interruptions can cause.

At South West Water during 2021/22, performance was impacted by two large events, including one in Gunnislake, Cornwall and a significant third-party incident<sup>1</sup>, and reflects the way in which performance against this target can be impacted by a one-off issue. As a result, performance in 2021/22 of 6 minutes 47 seconds is higher than our target of 6 minutes 8 seconds for customer supply interruptions. Excluding the issues noted above, South West Water's core performance continues to remain robust with our strategy of a dedicated, in-house supply continuity and alternative water supply team making long-term improvements to customers, reducing the number and duration of supply interruption events.

1. In late August 2021, a third-party utility company, performing work unconnected with South West Water, damaged mains supply pipes at Carland Cross in Cornwall, causing a localised loss of supply. Any impact from this event in terms of ODI mechanism remains under evaluation.





## Rising to the challenge of unexpected events

Storm Eunice was only the second ever red weather warning issued by the Met Office for the South West, the first being the 'Beast from the East' in 2018. Across the Group, South West Water and Bristol Water colleagues worked tirelessly to ensure minimal operational impact occurred with the largest operational challenge being the effects of power outages. We worked closely with the local power distribution supply to minimise outages and ensure continuity of supply for most customers during the storms.

Bristol Water have made a number of changes in their approach to supply interruptions over the past three years to improve performance. The impact of these changes is now being seen, with Bristol Water delivering a c.90% reduction on the prior year, and outperforming their 2021/22 target.

### Investing to secure resilience, now and into the future

#### Per capita consumption (PCC)

This is an important metric to help the industry be more resilient into the future and help incentivise companies to conserve the natural resources around us. Per capita consumption is measured in percentage terms from a baseline.

In the year, South West Water reduced its three year average to 142.1 l/day/person, beating the performance commitment for the year. While overall consumption increased, the population served in the South West was also at record levels, with high numbers of tourists visiting the region and utilisation of second homes also at very high levels by historical standards.

For Bristol Water, the impact of COVID-19 continues to drive high levels of household demand driving per capita consumption higher than the target at 154.1 l/day/person.

To help customers reduce their consumption, we provide donations to charities supporting water conservation to help promote and educate customers. This is in addition to our schools outreach programme, which aims to teach children about the importance of looking after our natural resources.

#### Water availability

In 2021, South West Water celebrated a silver jubilee – the 25<sup>th</sup> consecutive year without water restrictions. Bournemouth Water's track record of no water restrictions was also successfully maintained. Despite high demand over the year and hot weather over the summer, we successfully managed our water resources, taking advantage of the wetter periods over the winter. This strategy enabled us to replenish water storage and as we enter the summer period, our water resources are in a robust position with reservoir storage at c.93% at the end of March 2022.

We continue to look for strategic value enhancing opportunities in this area, having recently procured a site for development of a new reservoir on Bodmin Moor, Devon.

At Bristol Water, the drought risk measure did not achieve its target for the year due to the ongoing higher than forecast distribution input and the higher than forecast unplanned outages. Bristol Water's water resources are also in a robust position with reservoir storage at c.93% at the end of March 2022.

#### Smarter healthier homes

Increased water usage and unexpected repair bills from leaking service pipes can result in acute financial pressures for individual customers and particularly for those who are financially vulnerable. As part of our Green Recovery plan, "Smarter, healthier homes" focuses on investments that directly benefit our customers and help improve supply resilience.

We plan to complete a large scale pilot programme across our North Devon supply area focused on installation of smart meters – enhancing customer engagement to help them manage their water use and bills more easily, carrying out a supply pipe 'adoption' trial, to relieve the worry of sudden unplanned financial demands arising from leaking and/or failed service pipes and embarking on a proactive lead pipe replacement programme.

These measures will help directly reduce consumption and help inform our wider plans in the future for all our operating areas.

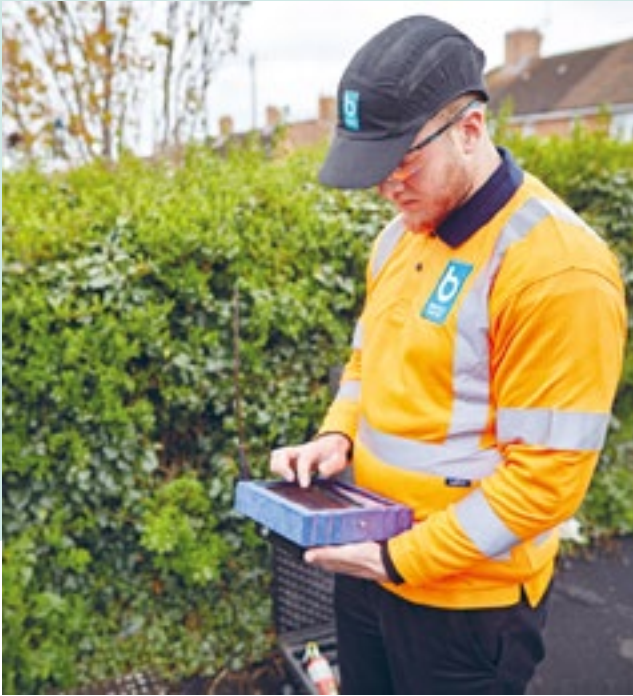
#### Maintaining asset health

##### Mains repairs

Decreasing the number of mains failures is vital to ensuring we maintain a continuous supply of water to our customers.

The work to optimise the operation and control of our network by pressure management and other 'network calming' activities, along with targeted replacement of sections of water mains with higher failure rates has led to a significant lowering of overall numbers of mains failures across the year and across the Group.

At South West Water we are pleased to have significantly reduced the number of reactive repairs compared to 2020/21 by c.30%. This year, we have substantially outperformed our target of 147 mains repairs per 1,000 km of mains with our year end position of 111.4 per 1,000 km of mains.



## Bristol Water's 175<sup>th</sup> Anniversary

Bristol Water celebrated a significant birthday on 16 July 2021, marking the 175<sup>th</sup> anniversary of the passage through Parliament of the Bristol Waterworks Act. The occasion was marked with a range of activities, including the publication of a new social history of Bristol Water to reinvigorate Bristol Water's story for future generations. The celebrations reflected the philanthropic purpose of Bristol Water's founders including Francis Fry, Sir John Kerle Haberfield and Dr William Budd, whose connection of public health to clean drinking water was ground-breaking. Bristol Water's birthday was a good reminder that solving the challenges faced by society, climate and ecological emergencies, still depend on local community-based solutions.

At Bristol Water, we minimise the likelihood of bursts on our mains by replacing targeted sections or whole areas of poorly performing pipes. We minimise high pressure risks where we can and monitor the network for 'transient' pressure spikes that can lead to mains failures. Alongside this, in line with South West Water, our network teams employ calm network operational techniques.

This year, these interventions meant that Bristol Water has outperformed the challenging target of 136.5 mains repairs per 1,000km of mains, with our year end position of 106.4km per 1,000km of mains.

### Unplanned outages

Water treatment unplanned outage is a new measure for the 2020-25 regulatory period and provides a means of assessing asset health (primarily for non-infrastructure, above ground assets), for water abstraction and water treatment activities. It tracks the temporary loss of production capacity across all water treatment works, resulting from unplanned breakdowns and asset failure.

The Group is performing well in this area, outperforming the industry wide target.

South West Water's performance in 2021/22 has remained strong and compares favourably with the rest of the industry. This is founded on effective investment and maintenance regimes, ensuring that unplanned failures are minimised. This in turn minimises the risk of any production outages resulting in service impacts for our customers. Our performance for 2021/22 resulted in an unplanned outage figure of c.0.96%, achieving a better performance than the industry wide target of 2.34%.

At Bristol Water, due to some extreme weather events, such as Storm Eunice, and supply chain issues in obtaining replacement parts, there has been an increase in unplanned outage over 2021/22, though performance still remains favourable to target at 1.78%.

## Sharing our success – WaterShare+

Through South West Water's New Deal business plan (2020-25), we committed to share our success with customers through our pioneering WaterShare+ scheme. Last year, we shared c.£20 million of outperformance from the previous regulatory period with South West Water and Bournemouth Water customers, through a choice of either a £20 reduction in their bill or through the ownership of shares in Pennon Group plc. We were delighted that one in 16 households in the region opted to become shareholders, giving them a greater stake in the business and the opportunity to share in our success, as investors do.

We also committed to hold quarterly meetings in public, along with a dedicated customer Annual General Meeting (AGM) – the first of which we held just before Christmas, accessible to all customers and chaired by our independent WaterShare+ Chair, Lord Matthew Taylor.

With the announcement of the Bristol Water acquisition, we confirmed the intention for a second WaterShare+, further evolving South West Water's pioneering scheme. We are pleased that this accelerated WaterShare+ scheme of c.£20 million outperformance in 2022/23 will also include Bristol Water customers (subject to shareholder approval at the 2022 Pennon AGM), sharing the benefits of common ownership under Pennon.

# Regulated Wastewater



## Protecting the environment – robust wastewater delivery

At South West Water, we continue to target and drive improvements in wastewater services through innovation by constantly seeking out new ideas, pioneering and piloting new technologies with a focus on nature-based solutions where possible and by enhancing governance and working in partnership with others.

### Reducing flooding incidents

During 2021/22, the number of internal sewer flooding cases decreased year-on-year by c.40% compared to the prior year with 0.76 incidents per 10,000 sewer connections. This is a significant outperformance against target and places us as one of the best performers in the industry on this measure. External sewer flooding events also decreased, with a c.6% year-on-year reduction to 1,407 incidents maintaining our strongest performance yet, supported by the use of Artificial Intelligence (AI), such as the Meniscus platform, enabling proactive interventions based on predictive analytics.

We have adopted a multi-faceted approach to improve our performance on sewer flooding with key activities including the installation of sewer depth monitors at key points within the network to alert us to potential issues and enhanced data collection and analysis, as well as the use of HYBACS technology to help peak network demand. This informs our forward plans for identifying repeat flooding risk areas and locations that require further sewer cleansing and defect remediation.

## Improving asset health

### Sewer collapses

Sewer collapses and blockages are a key cause of flooding, pollutions and service impacts to our customers as well as a lead indicator of assets health. We have seen a further c.30% reduction in collapses to 6.72 collapses per 1,000km of sewers and continue to see positive performance in reducing our blockages through proactive management of our network, including a relentless drive to investigate, clean, and repair sewers. We are using Artificial Intelligence to produce automated sewer condition surveys and to detect and code faults accurately, resulting in faster proactive repairs at a lower cost.

### Sewer blockages

The number of sewer blockages is already below the 2025 target, with focused education programmes influencing customer behaviours, thereby reducing wet wipes, fat, oil and grease disposed of through the sewer network. South West Water also actively supports lobbying for retailers to stop selling wet wipes containing plastic to reduce the impact of micro-plastics entering the environment. The number of sewer blockages during the year was 6,458, substantially lower than our target of 7,280.

### Pioneering catchment management for over 15 years

We maintain that our pioneering catchment management approach for over 15 years is fundamental to help unlock the environmental challenge we all face. Approximately 95,000 hectares have been improved to date with catchment management being undertaken across 80% of our region, working with over 1,700 farmers.

These activities lead to reduced ammonia and phosphate run-off, improving overall river quality. We're also well advanced with our plans to plant 250,000 trees by 2025, more than doubling our original target of 100,000, which we achieved four years early. An additional c.50,000 trees were planted in 2021/22, bringing the total planted to 150,000.

Thanks to the additional investment secured as part of the Green Recovery initiative, we will expand our nature-based solutions through increased peatland restoration, reducing the risk of flooding and improving

**c.95,000**

hectares improved through catchment management

**8**

Bathing water scheme enhancements delivered to date

biodiversity, plant life and habitats with additional hectares of peatland restored.

### Targeting improvements in EPA

A combination of a basket of measures, the EPA is the Environment Agency's assessment of environmental performance. With a planned strategy of achieving 4 star by 2024, there is much to focus on.

### Pollution incident reduction plan delivering results

South West Water's Wastewater Pollutions Incident Reduction Plan continues to deliver results after being launched in September 2020. This level of improvement has continued into 2021/22 reducing by a third, from the previous year – 151 compared to 225 in the prior year.

Our steadfast focus remains in this area as we work to deliver a meaningful step change in performance. The year-on-year improvement was achieved through adopting best practice, focused on predictive modelling and using innovative techniques such as the Meniscus AI platform. These solutions use asset data coupled with weather forecast models to predict potential pollution risks, which are identified and fixed in advance of an issue occurring.

2021/22 saw the completion of the first phase of 210 'hotspot' investments (sites with multiple previous incidents) where issues identified were fixed during the year. A second phase has been identified for resolution in 2022, which in addition to other planned maintenance and enhancements to assets, support our trajectory to improve our overall position and target continued reductions in pollutions incidents.

In addition, we continue to collaborate with others in the industry to share best practice and operational insights, are enhancing the root cause analysis processes to deliver greater insight into developing risks and are helping customers to understand how their behaviour impacts on our assets and ultimately their local environment.

### Numeric compliance

Numeric permits place measurable conditions on the final effluent discharged to the environment and measure compliance with these conditions. South West Water's wastewater treatment compliance reduced slightly in the year to 97.5% from 99% last year driven by the inclusion of Bournemouth Water treatment works (and the wastewater generated from their processes) following a change in reporting requirements, and third-party incidents.

Our ongoing MOT programme and planned improvements to our wastewater treatment sites will help us return to target in future years.

## Rivers and coastal water quality

Since our Final Determination, there has been a marked shift in the focus on the environment from customers, the media, government and other stakeholders. During 2021, we saw COP26 in Glasgow and the G7 meeting in Cornwall with climate change at the forefront of discussions.





## Isles of Scilly

South West Water was appointed and began operating the water and sewerage services on the Isles of Scilly in April 2020, at the very start of the COVID-19 pandemic.

During 2021/22, investments have been delivered on the islands that include improved communication and control systems on key assets, and an enhanced water sampling programme which provides improved water quality data that will be used to design the new water treatment systems the islands require and completion of a programme of tank cleaning.

In addition, we completed the first phase of smart metering, with c.90% of customers now covered. This forms part of a focus on remote operations and communities. During the year, we worked with customers on St Mary's to reduce natural radon impacts.

We have also bolstered our teams, recruiting locally to strengthen the island-based team that effectively manage these critical services.

All specified targets agreed with the DWI and the Environment Agency have been achieved, in addition to extra commitments made to the DWI based on further water quality data that has been gathered since April 2020.

The programme now moves to the next stage of detailed design regarding replacement treatment processes that provide the resilience targeted on-island and deliver the environmental resilience through abstraction and discharge needed.

Improving river and coastal water quality has taken centre stage, as water based recreation, such as wild swimming and paddle boarding, have become more popular, and the pandemic has strengthened the bond our customers want to have with more open green and blue spaces, now and for generations to come.

A key concern and priority of our customers is protecting and enhancing the beautiful environment in the South West, and this has helped shape our brand new investment programme, WaterFit, which is focused on protecting rivers and seas together. This programme brings together existing plans to deliver multiple benefits, as well as going further and faster with a new ambition, and piloting and proving the case for future investment, and in preparation for the next regulatory agreement, PR24.

WaterFit will see us nurturing healthy rivers and seas, reducing our impact on rivers by one-third by 2025, maintaining our excellent bathing water quality standards all year round and developing plans to target zero harm on river quality by 2030 with six pledges underpinned by specific targets.

### Record quality levels recorded at our bathing waters

South West Water has over 860 miles of coastline to protect, representing over one-third of the UK's bathing waters. This is something we, and our customers, have always valued and prioritised, working tirelessly across the region to improve bathing water quality around our coastline, which now for the first time ever, has achieved 100% water quality, as measured by the Environment Agency.

We have advanced expenditure in this area and already delivered eight bathing water scheme enhancements, six of these ahead of schedule, pioneering nature-based solutions, restoring, protecting and enhancing land to reduce pollution levels running off into our seas.

At Combe Martin, this amenity has regained designation status, meeting quality standards following investment and collaboration with other agencies, landowners and customers in this area. This demonstrates our strategy to work with multiple stakeholders using a mixed investment approach, and using nature-based solutions, which really delivers results.

### Driving river water quality improvements

As part of our Green Recovery investments, we are piloting schemes on the Rivers Dart and Tavy to understand the whole river health with the ambition of moving these rivers to bathing water status in the future, and are engaging with stakeholders to inform our plans and priorities.

We have made an early start in going further and faster to improve river water quality by installing new monitors to measure quality and enable greater transparency with regulators and customers who wish to use the amenities in the South West.

Recognising that there are many contributing factors to river water quality, including farming and industry, we are taking the lead in supporting all those who might be a source of river water pollution.

We are also on track to reduce the impact of our own assets and processes, targeting a reduction of the impact by one-third by 2025.

## Delivering for shareholders

Return on Regulated Equity (RORE) performance underpins the Group's sustainable dividend policy.

In 2021/22, South West Water achieved c.80% of its ODIs across a broad range of stretching measures, maintaining its position from the prior year. Improvements in pollutions and leakage performance were the biggest contributing factor in moving from a net penalty of £10.4 million to a net reward of £0.6 million in the current year.

South West Water's efficient financing structure continues to deliver one of the lowest effective interest rates in the sector at 3.4% (from 2.5% in 2020/21), significantly lower than Ofwat's nominal cost of debt of 4.2%, and supported by South West Water's relatively low proportion of debt linked to inflation compared to the industry average.

Totex efficiencies continue to be delivered through innovation, efficient delivery and lower administration costs with c.£101 million recognised to date. Focusing on delivering efficiently enables us to keep bills as low as possible for customers into the future and provides headroom for investment, as demonstrated through South West Water's £45 million reinvestment to fund our WaterFit plans, aimed at protecting rivers and seas, together.

South West Water's RORE of c.8.2% on a cumulative basis represents a more than doubling of base returns, delivering value for shareholders and customers.

Bristol Water's cumulative RORE to 2021/22 stands at 6.3%, higher than the 4.5% assumed in the CMA redetermination. Bristol Water's operational performance in the year was significantly better than the prior year, resulting in net ODI reward of £0.4 million. However, as a result of penalties in the prior year, this is still impacting the cumulative RORE position. In 2021/22, all areas were outperforming.



# B2B retail services

Pennon Water Services (PWS) continued to deliver for its customers, supporting them with cost effective and efficient retail services whilst exceeding financial expectations.

## 2021/22 performance

Pennon Water Services delivered a strong set of financial results. Turnover increased by 20% from £163 million in 2020/21 to £195 million as a direct result of its strong customer growth, low customer attrition and higher customer consumption. Whilst still 6% below pre COVID-19 pandemic levels, overall water demand increased by 13% compared to the prior year.

Since the market opened in 2017, Pennon Water Services has lost only 11.7% of its deemed contract customer business accounts, reflective of its strong customer support and quality of service throughout and it maintained a stable market share of 6.14% serving over 160,000 business accounts.

Through its simple, transparent and competitive offering, Pennon Water Services continued to win new customer contracts across a diverse range of business sectors. This was achieved despite ongoing business uncertainty and focus from businesses on limiting exposure to energy contracts driven by the collapse of numerous energy suppliers. New customer contract examples include Essar Oil and Bourne Leisure. The combination of strong growth in new contracts and high retention delivered a net consumption gain of 35% across its customer base during the year.

The increased turnover supported a strong set of financials for the business which delivered EBITDA growth of 143% and a profit before tax of £1.0 million.

Revenue Growth<sup>1</sup>

**20%**

EBITDA Growth<sup>1</sup>

**143%**

PBT

**£1.0m**

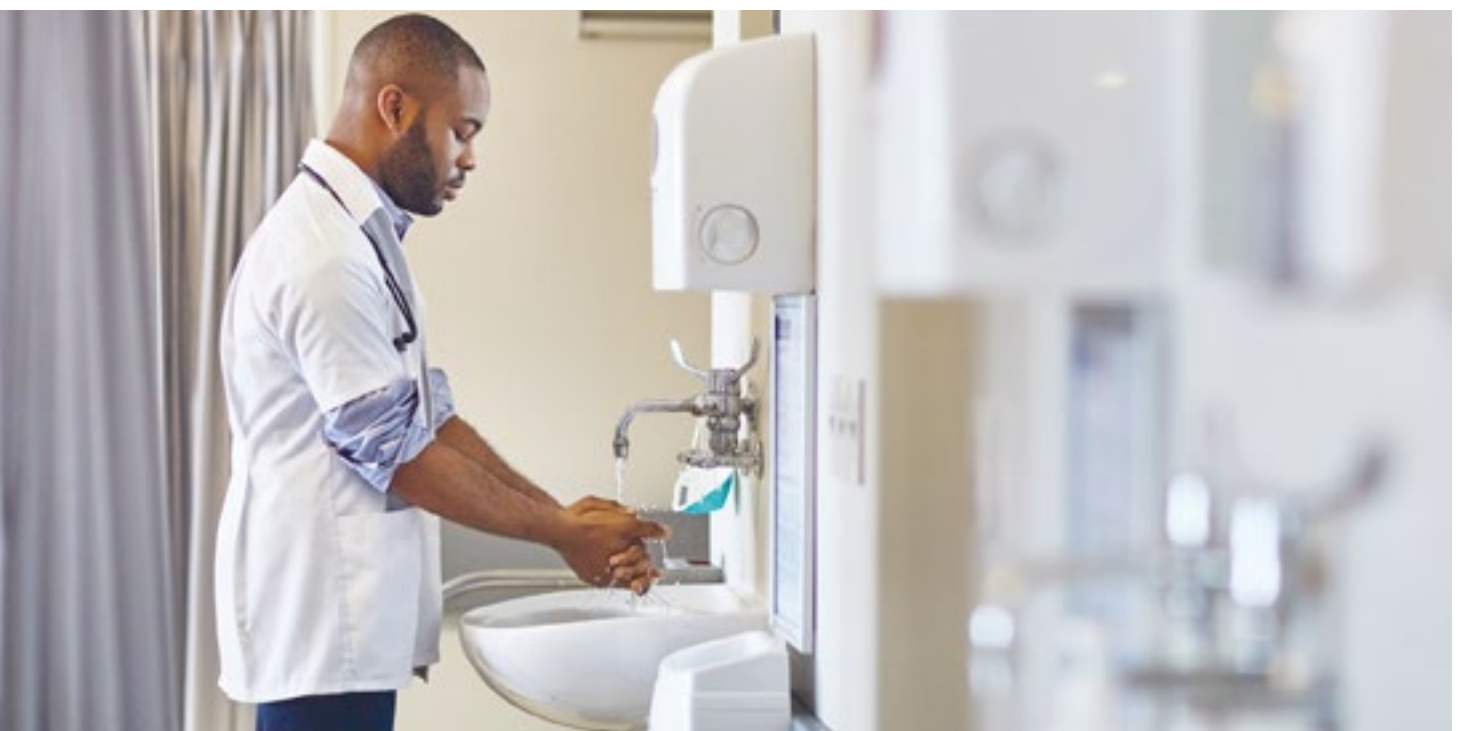
Demand up by

**13%<sup>2</sup>**

Trustpilot

**4.85/5**

1. Compared to financial year 2020/21.
2. Consumption from demand up 13%, down 6% on pre-covid year 2019/20.





## Supporting customers with water efficiency

Pennon Water Services helped the Department for Education to scope and complete a water efficiency pilot for schools with differing levels of average consumption per pupil.

The pilot involved Pennon Water Services water auditors and plumbers completing audits and remedial works to remedy identified inefficiencies. The comprehensive audits and works identified inefficiency through leakage and opportunities in pressure management and education which would help the schools to become more water efficient not only day to day but in the long-term.

On average, annual savings of more than £2,500 per school were identified and delivered. The findings from the pilot have been shared with the Department for Education to support a national strategy on water efficiency within schools.

### Putting business customers' and employees' safety at the heart

Throughout the year Pennon Water Services continued its focus on streamlining its systems and processes to accommodate growth and to ensure the operation remained efficient in its core activities and in those which added value to the business and its customers.

Customer and employee safety remained at the heart of its business focus with home and hybrid working policies allowing staff to direct their best efforts towards helping customers.

All customer contact channels operated as normal with a dedicated team dealing with phone, email and written contacts from customers to a high standard. To support their own working from home policies, customers were able to receive bills and correspondence electronically and could access account details and enter their own meter readings via a simple online portal.

Pennon Water Services customers awarded it 4.85 out of 5 in the independent Trustpilot score for the second year running, compared to scores of 4.55 and 4.35 in prior years, reflecting efforts to refine and improve its service to customers.

Pennon Water Services continued to take an active role in engaging constructively with MOSL, Ofwat and Defra, shaping an efficient water market for customers, retailers and wholesalers.

### Driving innovation

Pennon Water Services was awarded £150,000 funding through the first ever competitive round of MOSL's new innovation fund for projects designed to improve the operation of the water market for all. In partnership with SDS Limited, Pennon Water Services will run a pilot to deliver reductions in potable water use through the retrofitting of underground water attenuation tanks.



### water2business

As part of the acquisition of Bristol Water in June 2021, we obtained an interest in Water 2 Business Limited (W2B), a water retailer joint venture with Wessex Water. Pennon owns 30% of W2B's voting equity and 30% of its dividend equity. W2B has 163,438 supply points, making W2B the fifth largest water retailer by number of supply points with a 6.25% market share. W2B ended the water retailer industry reporting period as the first ranked retailer for Market Performance Standards, the fifth consecutive year in this position since deregulation in 2017. Over the year, W2B has had a 4% reduction in complaints, and a 45% reduction in escalated complaints, maintaining a 4.9 star Trustpilot score throughout the duration of 2021-22, the highest score of any water retailer.

# Robust performance in a challenging year



During this financial year, we have implemented our commitments to return value to our shareholders and stakeholders following the sale of Viridor, having paid a special dividend of c.£1.5 billion, commenced a share buy-back programme of up to c.£400 million, and making further contributions to our principal pension scheme.

**“Financial performance across the Group has been robust with a strong contribution from the newly acquired Bristol Water.”**

We have extended our investment in UK water with the acquisition of Bristol Water and have committed further investment to fund the water business in support of our Green Recovery initiative.

Bristol Water has contributed to the financial results since 3 June 2021, with financial performance ahead of management expectations. The Competition and Markets Authority (CMA) cleared the non-household aspect of the acquisition in November 2021, with full clearance for the merger of the wholesale water businesses granted on 7 March 2022.

## Robust financial performance

Financial performance across the Group has been robust with a strong contribution from the newly acquired Bristol Water.

The Group's revenue has increased from £624.1 million to £792.3 million, with the prior period including a £20.5 million WaterShare+ non-underlying reduction to revenue. The Group's underlying revenue<sup>^</sup> has increased from £644.6 million to £792.3 million, an increase of c.23%, with Bristol Water contributing £104.4 million of the increase in the year ended 31 March 2022.

Organically<sup>1</sup>, underlying revenues<sup>^</sup> have increased by 6.7%. The COVID-19 pandemic led to a substantial population increase in the South West with continued higher levels of household demand. Alongside this, as restrictions eased, businesses have increased activity, resulting in increased water usage both in and out of our region, as well as growth in developer services activities.

Cost pressures from the macro-economic environment, alongside the increased demand, which includes the impact of a sustained population increase in the region, have resulted in higher costs to serve.

In the Bristol Water region, demand levels have been relatively stable year-on-year with revenues benefitting from higher regulatory allowances in its business plan as determined by the CMA.

Pennon Water Services continues to deliver further revenue growth with contract wins contributing £17.5 million of additional revenue in 2021/22 compared to 2020/21.

Cash collections throughout the Group have remained robust during the financial year. Underlying credit loss charges for 2021/22 of £3.1 million for South West Water (0.5% of revenue) are in line with previous levels (2020/21 0.5%). Bristol Water recognised an expected credit loss charge of £1.9 million (1.8% of revenue) for the ten-month period since acquisition, in line with recent experience for the business. For Pennon Water Services, the expected credit loss charge of £0.5 million (0.3% of revenue) is lower than the previous year (2020/21 of 0.6% of revenue). This reflects the significant focus on cash collection and the quality of the customer base as revenues have recovered from the pandemic. Across all Group businesses, the potential impact of significant increases in the cost of living on affordability has been considered, noting the existing toolkit of measures we have in place to help customers most in need in difficult times.

<sup>^</sup> Measures with this symbol are defined in the alternative performance measures section of the annual report on pages 250 to 253.

1. References to organic movements throughout this commentary refer to the performance of the business excluding the contribution from Bristol Water from 3 June 2021.
2. Including revenue and RCV adjustments to reflect changes of totex allowances linked to changes in pay and wage indices (ASHE – average survey of hours and earnings), the true up for higher tax rates, changes in ibox indices trueing up the cost of new debt, true ups for changes in volume related to bioresources, developer activity, land sales and customer numbers.

Overall, underlying EBITDA<sup>^</sup> has increased by 14.7% from £334.7 million to £383.9 million including a contribution of £53.3 million from Bristol Water. Organically<sup>1</sup>, underlying EBITDA<sup>^</sup> has reduced marginally by 1.2% with cost pressures from macro-economic conditions and higher costs to serve offsetting higher revenues.

Group underlying profit before tax<sup>^</sup> decreased by 8.6% to £143.5 million compared with the prior year of £157.0 million. This outturn reflects the underlying EBITDA<sup>^</sup> growth, supported by the Bristol Water contribution, being more than offset by increased interest charges on index-linked debt driven by the continuing high inflationary environment.

The results for the Group are weighted towards the first half of the year with the significantly higher levels of inflation impacting finance costs on index-linked debt in the last six months. Whilst long-term protection from the increasing inflationary environment is provided through inflation linked revenues and RCV growth, along with regulatory true-ups<sup>2</sup>, we continue to expect financing costs to be impacted in the near term. Whilst the Group benefits from a lower proportion of index-linked debt compared to the water industry average, 29% of Pennon's regulated water businesses' gross debt of £2.8 billion is index linked, meaning a 1% increase in inflation results in an additional c.£8.0 million of financing costs.

## Financial highlights of the year

### Resilient financial performance

The performance of the business has been resilient through times of challenge in global supply chains, rising power prices and overall higher levels of inflation which are impacting all businesses.

[More information on pages 74 to 75](#)

### Efficient financing and hedging strategy

Managing impact of inflationary environment on borrowing costs

[More information on page 78](#)

### Realising value for shareholders and stakeholders

Special dividend of £1.5 billion, share buy-back programme and further contributions to principal pension scheme.

[More information on page 81](#)

### Investing for growth in UK water

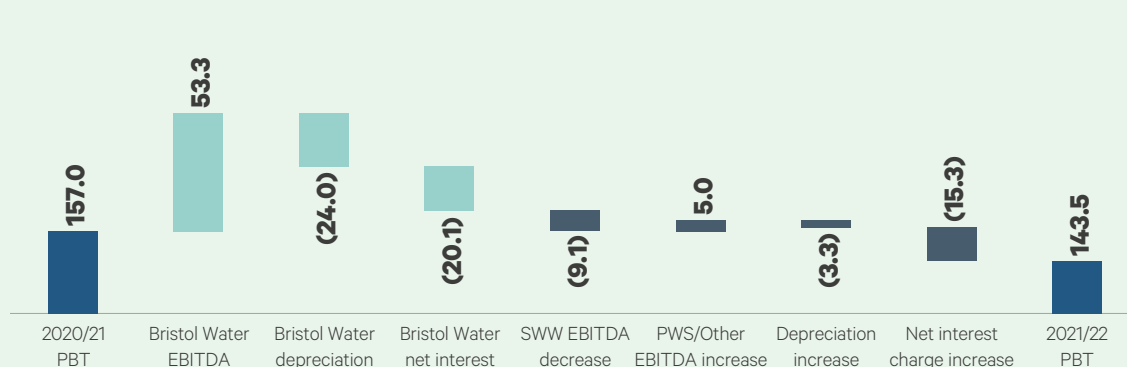
Bristol Water is expected to deliver long-term value through an increase in RCV earnings accretion and synergistic totex savings.

[More information on page 76](#)

#### Revenue underlying<sup>^</sup> (£m)



#### Profit before tax (PBT) underlying<sup>^</sup> (£m)





### South West Water

South West Water's underlying revenue for 2021/22 of £583.4 million has increased by 3.6% (£20.4 million) compared with the prior year (2020/21 £563.0 million). This increase reflects the continued recovery of the non-household market and developer services activity to near pre-COVID levels, in addition to maintained elevated demand by household customers.

Underlying operating costs of £251.9 million increased by £29.5 million (2020/21 £222.4 million) principally reflecting:

- Inflationary and other cost pressures on wholesale energy of c.£5.1 million, c.£2.0 million on wages, c.£0.8 million on chemicals (linked to energy markets), and £4.6 million on other cost lines including higher insurance costs
- Increased production volumes arising from the recovery of non-household demand driving increased power and chemical consumption of c.£4 million
- Additional operating costs of c.£5 million to enhance and accelerate our key areas of operational focus of pollutions and leakage and reflecting additional regulatory requirements such as 'farming rules for water'
- Higher developer activity such as government road schemes of c.£5 million associated with higher developer revenue
- Other operating costs of c.£5 million, partially offset by ongoing efficiency initiatives and property sales.

South West Water's underlying EBITDA<sup>^</sup> and underlying operating profit reduced by 2.7% and 3.5%, respectively, reflecting the higher revenue from higher overall demand more than offset by higher operating costs.

Net interest costs of £77.9 million are £20.2 million higher than the prior year (2020/21 £57.7 million) due to the impact of higher inflation on index-linked debt. The Group's efficient funding mix (which includes a relative low proportion of index-linked debt) and hedging strategy minimises these market effects with active management of our portfolio continuing to deliver a sector leading effective interest rate<sup>^</sup> of 3.4% (2020/21 2.5%). South West Water has c.£750 million of interest rate swaps in place to manage its fixed, floating and index-linked ratios.

South West Water's capital expenditure this financial year was £203.4 million (2020/21 £168.2 million), with the split between clean water investment and wastewater investment being largely balanced at £102.1 million and £101.3 million, respectively. This c.20% increase reflects the expected profile in the regulatory period with major capital schemes to

replace the first of two water treatment works in the Bournemouth region progressing well, in addition to advanced expenditure on bathing water schemes and other environmental projects.

### Bristol Water

Bristol Water has contributed to the Group's financial results since its acquisition on 3 June 2021. The business has contributed underlying revenue<sup>^</sup> of £104.4 million, underlying EBITDA<sup>^</sup> of £53.3 million and underlying profit before tax<sup>^</sup> of £9.2 million since that date, before any adjustments to depreciation and interest costs from the acquisition fair value exercise. In the period since acquisition, the business has performed ahead of acquisition expectations, with results having an weighting towards the first half of the year, primarily due to the inflationary impact on its index-linked debt. The impact of inflation in the second half of the year on Bristol Water's financing costs has been more marked with c.50% of Bristol Water's debt being index-linked.

Bristol Water has delivered increased revenues of c.4% in the financial year to 31 March 2022, compared to the same 12 month period last year. Overall demand in the Bristol region has remained relatively stable with reductions in household demand being offset by the recovery in the non-household market. Revenues have also benefitted from higher regulatory allowances in its business plan determined by the CMA.

Bristol Water's capital programme totalled £37.0 million for the ten month period since acquisition and includes resilience focused investment across the network and initiatives to further improve supply interruptions performance.

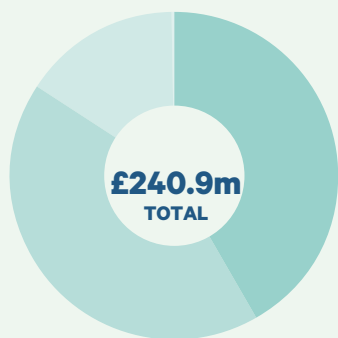
### Pennon Water Services

Pennon Water Services has performed strongly this financial year through its disciplined approach to winning new business and benefiting from business customers' COVID recovery throughout the year.

Non-household demand has returned to near pre-COVID levels, with the recovery predominantly in the hospitality, tourism and manufacturing sectors. Growth rates in the second half of the year have moderated from the growth rates seen in the first half of 2021/22.

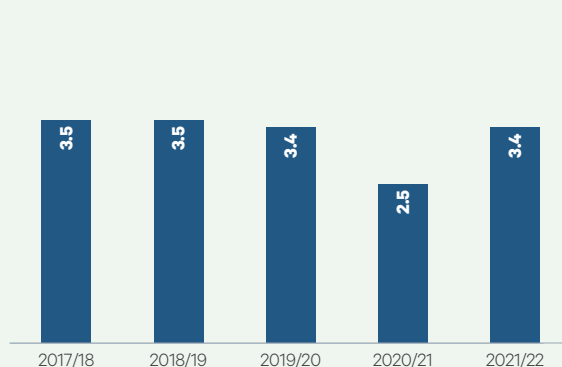
The overall impact on underlying revenues<sup>^</sup> for Pennon Water Services, including the impact of new contract wins is an increase of c.20% compared to the prior year. New business wins have contributed £17.5 million of additional revenue compared to last year. Underlying operating costs have grown in line with improving revenues and the

Major Categories of Capital Expenditure (£m)



- South West Water (Water): **£102.1m**
- South West Water (Wastewater): **£101.3m**
- Bristol Water (Water): **£37.0m**
- Other: **£0.5m**

SWW Effective Interest Rate<sup>^</sup> (%)



business has more than doubled its underlying EBITDA<sup>^</sup>. This strong performance has resulted in the business reporting a profit before tax of £1.0 million (2020/21 loss before tax £1.0 million).

The business continues to maintain its focus on targeting high quality, sustainable customers who will benefit from the value-added services that form part of Pennon Water Services' differentiated service proposition, with new annualised contract wins of c.£19 million secured during the year.

### Group net finance costs

Net finance costs for the Group of £93.7 million are £35.4 million higher than last year (2020/21 £58.3 million), driven by the current high levels of inflation. The Group has benefitted from the efficient financing that has been achieved through our diverse mix of fixed, floating and index-linked debt, including Pennon's relatively lower exposure to index-linked instruments in comparison to the water industry average.

The Group continues to secure funding for South West Water through its Sustainable Financing Framework and has efficiently secured funding, both fixed or hedged, to ensure c.60% of its interest rate risk is mitigated in line with the Group Treasury policy with a further c.27% index linked which remains below Ofwat's notional assumption of 33%.

Bristol Water has a mix of fixed, floating and index-linked debt, of which c.50% is index-linked. At 31 March 2022 Bristol Water's gross debt stood at £419 million excluding fair value adjustments arising on acquisition. We will seek to refinance Bristol Water's debt in line with the Group's efficient financing strategy over a longer time period as debt matures.

The diverse portfolio of debt in the water business remains in line with Ofwat's notional water company assumptions.

### Profit before tax

Group underlying profit before tax<sup>^</sup> is £143.5 million compared with the prior year of £157.0 million. This outturn reflects the underlying EBITDA<sup>^</sup> growth, supported by Bristol Water's ten month contribution, being more than offset by increased interest charges on index-linked debt.

### Non-underlying items and acquisition accounting

Non-underlying items for 2021/22 total a charge before tax of £15.8 million (2020/21 charge of £24.9 million). The Directors believe excluding non-underlying items provides a more useful comparison of business trends and performance.

The total non-underlying charge consists of expenses in connection with the acquisition of Bristol Water and the related merger review by the CMA, and integration costs.

The total non-underlying tax charge is £98.2 million (2020/21 £4.8 million credit), including a credit of £1.3 million in connection with the items noted above and a £99.5 million non-underlying deferred tax charge, recognised for the change in future tax rate which was substantively enacted during this financial year.

As part of the requirements of acquisition accounting, we have determined the fair values of the acquired balance sheet of Bristol Water. These provisional values were reported in the Group's half year results to 30 September 2021 with some changes being required to the acquired tax balances which have been reflected and disclosed in note 44 to the financial statements. The most material areas of adjustment relate to the fair value of acquired property, plant and equipment, including the network infrastructure, and the fair value of Bristol Water's debt portfolio.

Goodwill arising from the acquisition of £116.1 million has been recorded in the Group consolidated balance sheet and is attributed to the synergies expected to be derived from the combination and the value of the workforce which cannot be recognised as an intangible asset. The consequent adjustments to depreciation and interest costs arising from the fair value exercise are reflected within 'Other' in our segmental reporting.

### Responsible approach to tax

The overall tax charge for the Group is £112.1 million (2020/21 £24.8 million). On an underlying<sup>^</sup> basis, the net tax charge for 2021/22 for the Group of £13.8 million (2020/21 £29.6 million) consists of:

- Current tax charge of £5.0 million, reflecting an effective tax rate of 3.5% (2020/21 £23.0 million, 14.6%). This reduction is primarily as a result of the introduction of capital allowance super-deductions, of which c.20% of our capex qualifies, along with tax relief on pension payments made during the year and in recent years
- Deferred tax charge of £8.9 million (2020/21 £6.6 million) primarily reflects capital allowances across the Group in excess of depreciation charged together with relief on pension contributions. The increase mainly relates to super-deductions.

The UK tax rate increases to 25% from 1 April 2023, and as such most deferred tax items will crystallise at a higher rate. This change gives rise to a non-underlying deferred tax charge of £99.5 million.

The statutory net profit attributable to ordinary shareholders of £15.4 million has been transferred to reserve.

### Earnings per share

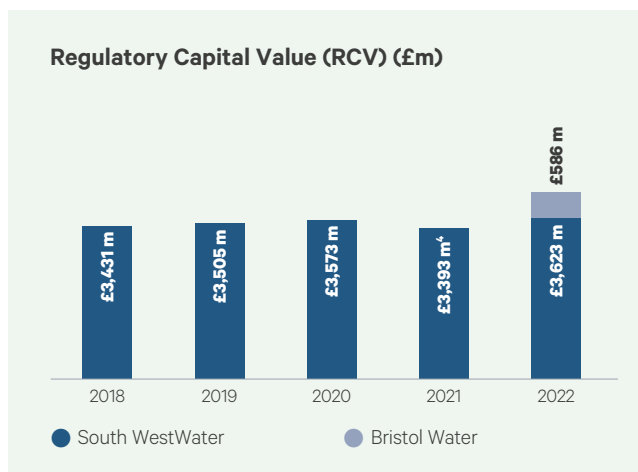
The Group has recorded statutory earnings per share of 4.9 pence for the year ended 31 March 2022. This includes non-underlying items before tax of £15.8 million and a net non-underlying tax charge of £98.2 million. Statutory earnings per share of 418.5 pence in 2020/21 included the significant profit on disposal of Viridor of c.£1.7 billion.

The comparability of the Group's earnings per share is distorted by the significant one-off transactions that have been identified as non-underlying and the profit on the sale of Viridor reported in the last financial year. Furthermore, the average number of shares used to derive the earnings per share reflects the share consolidation in July 2021, reducing the share count from 422.1 million to 281.4 million.

To facilitate comparison of performance, our adjusted earnings per share excludes the impact of deferred tax charges and non-underlying items. We have also adjusted the number of shares in issue to reflect the share consolidation as if it took place at the start of both this, and the last, financial year to aid comparability. For the Group, we have generated adjusted earnings per share<sup>^</sup> (adjusted for share consolidation)<sup>3</sup> for 2021/22 of 50.2 pence compared to 47.8 pence in 2020/21, on a comparable basis. This represents an increase of 5.0%, reflecting the contribution from Bristol Water and the lower current tax charge from super-deductions.

3. Adjusted earnings per share for 2021/22 and 2020/21 rebased to reflect impact of share consolidation. This calculation is outlined in the Alternative Performance Measures on pages 250 to 252.

### Sustainable net debt position



Cash generation has remained robust throughout 2021/22. We closely monitor cash collections throughout the year as the volatility in the wider economy and the potential impact of significant rises in the cost of living increases risk in this area. The Group's total operational cash inflows and other movements<sup>4</sup> for 2021/22 were £364.7 million (2020/21 £316.0 million) including a £47.1 million contribution from Bristol Water.

These cashflows adequately support our effective finance structures with net interest paid of £72.0 million (2020/21 £66.3 million) and capital payments of £227.6 million (2020/21 £157.6 million).

Net cash interest payments for the total Group have increased compared to the previous year. c.£36 million of the income statement finance costs relate to indexation, which is non-cash and accretes to the carrying value of the respective debt instruments. Bristol Water has contributed an additional cash interest cost of c.£12 million, which is partially offset by the reduced interest charges at a Pennon company level following the repayment of Viridor related debt during the previous financial year.

The acquisition of Bristol Water resulted in total cash outflows of £421.2 million<sup>5</sup> including transaction costs and stamp duty, net of £12.8 million cash acquired. The Group's net debt is further increased by £391.4 million book value of Bristol Water's net debt and subsequent fair value adjustments of £134.8 million at the point of acquisition.

Other significant movements in net debt in 2021/22 include the special dividend of £1,498.5 million, £27.9 million contributions to the Group's principal pension scheme and the four tranches of the share buy-back programme completed up to 31 March 2022, with the total cash outflow of £202 million. The restructuring of the Group's borrowings is now substantially complete, and the current levels of net debt represent a sustainable position for the Group.

Following the above, and the payment of our interim and final dividends for 2020/21, the Group's net debt at 31 March 2022 was £2,682.9 million (31 March 2021 net cash £64.3 million). This includes fair value adjustments on acquired debt of £168.6 million<sup>6</sup> resulting from the Bournemouth Water and Bristol Water acquisitions, which are released over the life of the related debt instruments. The Group's net debt position excluding these adjustments is £2,514.3 million.

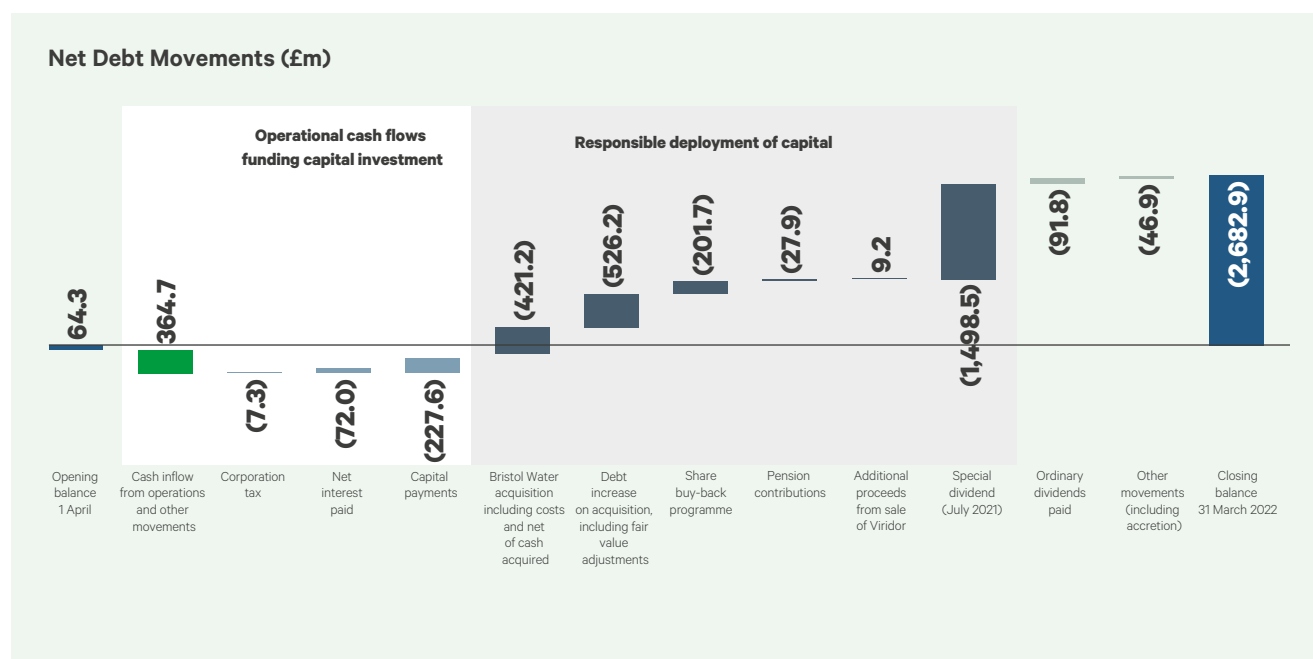
### Agile and efficient financing

The water business' cost of finance, with an effective rate<sup>6</sup> of 3.7% remains among the lowest in the industry, continuing to benefit from the use of finance leasing as the main source of funding in the portfolio which provides long maturities at fixed margins, secured at the inception of each lease.

The water business net debt is a mix of fixed/swapped (£1,401 million, 53%), floating (£426 million, 16%) and index-linked borrowings (£812 million, 31%). The debt has a maturity of up to 35 years with a weighted average maturity of c.15 years. New debt has been fixed to align to iBoxx indices in line with Ofwat's approach to allowed cost of debt. Where appropriate, derivatives are used to fix the rate on floating rate debt.

The gross debt position of the water business is a mix of fixed/swapped 53%, floating 18% and index-linked 29% as at 31 March 2022, which reflects our diverse debt portfolio and compares to an industry average<sup>7</sup> of fixed/ swapped 43%, floating 8% and index linked 49%.

South West Water's gross debt has reduced by £192 million to £2,429 million (2020/21 £2,621 million). This is mainly due to the repayment and restructuring of the lease portfolio to ensure its continued



efficient and effective management with a further c.£150 million planned to be repaid in September 2022. The lease portfolio will continue to deliver long term benefits as part of our diverse range of facilities as we look to further develop our exposure to other products going forward.

During the year, the Group completed the transition to SONIA as its risk-free rate following the cessation of LIBOR in December 2021, the Group has followed the protocols set out for the transition and amended the financial instruments to ensure the continued practice of hedge accounting for our facilities and associated derivatives.

The water business index-linked debt remains below the Ofwat's notional assumption of 33%. Given the current volatility within the market and the divergence in the wedge from the assumed position, the water business remains at a comparative advantage through the regulatory transition from RPI to CPIH and in light of the current market conditions.

As announced in June 2021, Pennon planned to deploy c.£100 million investment into the water business and, as at 31 March 2022 the first deployment of £45 million has been made into South West Water. Including this planned investment, at 31 March 2022, the water business debt to RCV<sup>8</sup> ratio stood at 61.4%<sup>9,10</sup> (31 March 2021 64.8%). At the same date and on the same basis, gearing at South West Water was 61.7%<sup>9</sup>, which is expected to fall during this regulatory period with a trajectory towards Ofwat's notional structure of 60% by 2025. Bristol Water gearing at 31 March 2022 was 59.8%<sup>10</sup>. The debt to RCV ratios at 31 March 2022 for the water business and Bristol Water stood at 62.7% and 69.2%, respectively, before the remaining investment being made.

### Responsible and sustainable balance sheet

The Group has a strong liquidity and funding position with £816 million of cash and committed facilities as at 31 March 2022. This consists of cash of £519 million (including £168 million of restricted funds representing deposits with lessors against lease obligations) and £297 million of undrawn facilities. £307 million of the cash holdings are held at the Pennon company level.

Following the continued success of our Sustainable Financing Framework, in September 2021 we issued our updated framework to incorporate the latest sustainable principles; in particular in respect of sustainability linked loans and bonds. The Group was the first UK corporate to issue sustainability linked loans in 2018 and the new principles have helped to develop this market further. Since March 2021, the Group has signed c.£300 million of new and renewed facilities across Pennon and South West Water.

The Group's measure of return on capital employed has been distorted at the year end 31 March 2021 and 31 March 2022 with the Group being in a net cash position at 31 March 2021, which distorts the average capital employed. South West Water's return on capital employed\* at 31 March 2022 of 8.6% has reduced marginally in comparison to the same period last year (2021: 9.1%) reflecting the planned increased levels of capital investment at this phase of our regulatory plan.

### Internal borrowing

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

Following its acquisition, Bristol Water continues to maintain its current Group structure, which will be reviewed as part of the integration process.

Pennon Water Services funding is predominantly provided by Pennon. Pennon will continue to use funds to support the Group's ongoing operations as appropriate.

### Taxation strategy

Transparency remains a critical component of our approach, recognising that openness and honesty with our customers is essential. Optimising our tax position benefits them, for example by keeping water bills down, but we do not enter into artificial tax arrangements, use tax havens or take an aggressive stance in the interpretation of tax legislation.

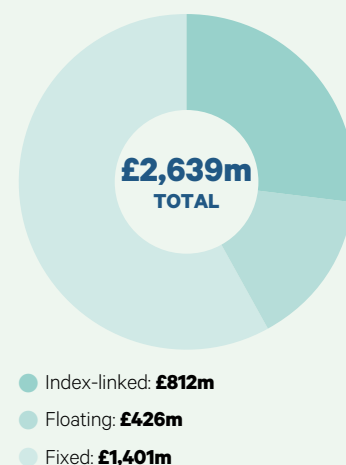
## “Following the continued success of our Sustainable Financing Framework, we have updated and reissued our framework to incorporate the latest sustainable principles, in particular the sustainability linked loan and bond principles.”

As we all know, the huge support the Government offered to people and UK businesses during the COVID-19 pandemic is unprecedented. We are pleased to say that, as a business, we did not need to use any of the COVID-19 support mechanisms offered by the Government and have continued to pay our taxes in full and on time throughout the pandemic.

We continue to hold the Fair Tax Mark. This is an independent UK accreditation scheme for businesses paying their fair share of corporation tax and reporting on their tax practices transparently. Achieving the Mark demonstrates that we are paying the right amount of corporation tax in the right place at the right time and apply the gold standard of transparency. Having taken the lead, we have also helped to inspire other water companies to apply for the accreditation, thereby improving the tax transparency of the sector in which we operate.

The Group's operations and subsidiaries are subject to tax in the UK. Each Group company operates in accordance with the detailed tax strategy which is published annually.

### Water business Net Debt Structure (£m)



- 31 March 2021 RCV reflects a reduction from prior year levels due to re-basing following midnight adjustments made at the end of the K7 regulatory period.
- Reflecting £425.1 million on acquisition, £8.9 million cash outflow for expenses in connection with the acquisition of Bristol Water, offset by £12.8 million cash acquired.
- Carrying value of fair value acquisition adjustments to net debt at 31 March 2022 - £39.9 million Bournemouth Water, £128.7 million Bristol Water.
- UK water position as at 31 March 2021.
- RCV as published in South West Water's Final Determination (2020-25), recognising the omission of data not included by Ofwat in relation to IFRS16: Leases.
- Based on RCV at 31 March 2022 and South West Water Group net debt. Regulatory South West Water Limited gearing is 63.6% at 31 March 2022 (67.0% at 31 March 2021).
- Post Pennon deployment of c.£55 million into the water business, notionally allocated to Bristol Water - deployment in progress.



**“The Group continues to deliver on its commitments to customers, shareholders and stakeholders as our investments drive tangible, positive and sustainable results.”**

Under our tax strategy we:

- At all times, consider the Group's corporate and social responsibilities in relation to its tax affairs
- Operate appropriate tax risk governance processes to ensure that the policies are applied throughout the Group
- Comply with our legal requirements, file all appropriate returns on time and make all tax payments by the due date
- Consider all taxes as part of ongoing decisions
- Do not enter into artificial tax arrangements nor take an aggressive stance in the interpretation of tax legislation
- Do not undertake transactions which are outside the Group's low-risk appetite for tax or not in line with the Group's Code of Conduct
- Engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real time, such interpretations following both the letter and spirit of the laws
- Do not have any connections with tax havens unless it is necessary for the purposes of trading within those jurisdictions
- As a long-term business with a long-term approach to financial management, there have been no changes to the tax strategy which is reviewed and reaffirmed on an annual basis.

Further details are given in the Group's tax strategy report available on the Pennon Group website [www.pennon-group.co.uk](http://www.pennon-group.co.uk)

**Tax contribution 2021/22 – borne/collected**

The Group's total tax contribution (TTC) for 2021/22 amounted to £9 million (2020/21 £36 million). TTC is a standardised measure of a group's total tax contribution, having been developed by PwC and the 100 Group (FTSE 100 Finance Directors). It is acknowledged as being a fair and comparable representation of total tax cost.

TTC looks at taxes borne, and taxes collected. Taxes borne includes all taxes which are a cost to the Group, such as landfill tax, business rates, corporation tax and employers' National Insurance contributions (NICs). Taxes collected and recovered highlights where the business is collecting tax on behalf of HMRC.

- Employment taxes totalled £37 million (2020/21 £32 million) including employees' Pay As You Earn (PAYE) and total NICs. The total amount of £37 million includes PAYE of £4 million (2020/21 £3 million) on pension payments made by the Group pension scheme. A net amount of £27 million (2020/21 £23 million) was collected on behalf of the authorities for employee payroll taxes.
- Business rates of £34 million (2020/21 £30 million) were paid to local authorities. This is a direct cost to the Group and reduces profit before tax.
- UK Corporation Tax payments to HMRC in the year were £7 million (2020/21 £3 million) in relation to 2021/22 instalment payments.
- VAT repayments of £88 million due (2020/21 £48 million has been received) to the Group from HMRC. VAT has no material impact on profit.
- Payments to the Environment Agency and other regulatory bodies total £17 million (2020/21 £16 million). This reduces profit before tax.
- Fuel excise duty of £1 million (2020/21 £1 million) related to transport costs. This reduces profit before tax.

**Pensions**

At 31 March 2021, the Group reported a surplus on retirement benefit obligations of £8.8 million relating to the Group's principal pension scheme, Pennon Group Pension Scheme (PGPS). At 31 March 2022, the surplus on retirement obligations of £66.3 million constitutes a surplus on PGPS of £59.5 million and a surplus of £6.8 million in respect of Bristol Water's defined benefit pension obligations.

The surplus on PGPS has increased by £50.7 million with the significant elements of the increase being:

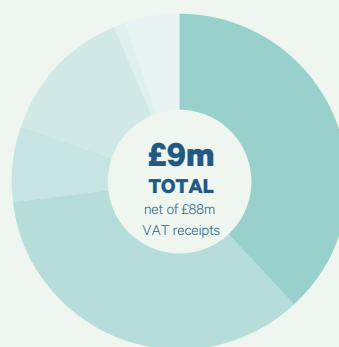
- £23.0 million of additional contributions to the scheme being part of our package of returning capital to our investors and stakeholders
- £24.9 million increase in surplus from favourable movements in financial and other actuarial assumptions.

11. Dividend policy of CPIH + 2%. The CPIH rate used is 6.2% as of 31 March 2022. Base 2020/21 uplift for share consolidation and return of capital (from 21.74 pence to 32.61 pence). 2021/22 full year dividend includes additional 3.0 pence increase to the dividend base as announced at the Full Year Results in June 2021.

12. Combined water business position.

13. Based on indicative pricing in late May 2022.

**Tax contribution 2021/22 – borne/collected (£m)**



- Employment taxes: **£37 million**
- Business rates: **£34 million**
- Corporation tax: **£7 million**
- Environmental payments: **£13 million**
- Fuel excise duty: **£1 million**
- Other: **£5 million**

In total, following the Viridor disposal, the Group has contributed £59.0 million over and above the agreed deficit recovery payments from the 2019 actuarial valuation. As at 31 March 2022, PGPS is approximately 105% funded against its technical provisions and no further deficit recovery contributions are outstanding from the 2019 actuarial valuation. The 2022 triennial valuation is underway.

Bristol Water's pension surplus relates to the Bristol Water Section of the Water Companies Pension Scheme (WCPS). The liabilities of the scheme are fully insured, securing the pension promises made to the benefit of members through a bulk annuity policy. Changes in actuarial assumptions have little impact on the surplus recognised as the change in liabilities is materially matched by the change in asset values through the bulk annuity policy. The surplus recognised on acquisition reflects the fair value of the surplus to Pennon and is restricted by a tax deduction of 35% under UK tax legislation.

### Recognising shareholder support

The Group continues to deliver on its commitments to customers, shareholders and stakeholders as our investments drive tangible, positive and sustainable results. Over half of Pennon's shareholders are UK pension funds, savings, charities and individuals with almost half of the Group's employees, now including Bristol Water, also being shareholders.

In July 2021, shareholders approved the payment of a £1.5 billion special dividend to shareholders as part of Pennon's recognition of shareholder support following the sale of Viridor in July 2020. The special dividend represented £3.55 per existing ordinary share and was paid in July 2021 from the retained earnings arising from the Viridor disposal.

To maintain comparability of the Company's share price before and after the special dividend, a share consolidation accompanied the special dividend. This consolidated the Ordinary share capital on the basis of two New Ordinary Shares for every three Existing Ordinary Shares. The effect of the share consolidation was that the existing shares were replaced by the new shares, reducing the number of shares in issue and reflecting the amount of cash to be returned to shareholders, thus being economically neutral.

In July 2021 the Group commenced a share buy-back programme of up to £400 million, with the first four tranches totalling c.£200 million being completed prior to 31 March 2022. Further phases are expected to commence imminently and over the period to 30 September 2022, subject to our continued review of further growth opportunities in UK water, in line with our established financial disciplines.

Following the share consolidation, share buy-back and acquisition of Bristol Water, the dividend per share was rebased, with the interim and final dividend for 2020/21 being rebased to 11.15 pence and 24.46 pence respectively, resulting in a total dividend for 2020/21 of 35.61 pence<sup>9</sup>.

The Board has recommended a final dividend of 26.83 pence per share for the year ended 31 March 2022. Together with the interim dividend of 11.70 pence per share paid on 5 April 2022 this gives a total dividend for the year of 38.53 pence. This represents an increase of 8.2% (CPIH + 2%) on the adjusted base for 2020/21. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

Pennon's sector-leading dividend policy of growth of CPIH +2% reflects the Board's confidence in the Group's sustainable growth strategy and is underpinned by continued RORE\* outperformance in South West Water.

Proposed dividends totalling £102.0 million are covered 1.4 times\* by net profit (before non-underlying items and deferred tax) (2020/21 1.9 times). Dividends are charged against retained earnings in the year in which they are paid.

### Macro-economic outlook

The global economy continues to be volatile reflecting the global geopolitical situation, including the ongoing war in Ukraine, compounding existing global economic difficulties regarding the recovery from the impacts of the COVID-19 pandemic. The impacts on the supply chain, rising power prices and overall higher levels of inflation are impacting all businesses. We are continuing to target totex efficiencies across the Group, having delivered c.£110 million<sup>12</sup> during K7 to date.

We recognise the pressure that inflationary pricing increases may pose to our customers, and customer bill affordability is a key consideration for us. Our broad range of affordability measures ensures we are able to support those in need of support, and we are pleased that for the coming year bills will continue to be lower than they were 10 years ago, driven by our continued focus on delivering improvements efficiently and effectively.

In the near-term we expect our earnings to be impacted by the higher inflationary environment, in particular from higher interest and power costs.

Looking at our cost base, power costs represent 20% of our underlying operating costs at c.£56 million of the regulated water business in 2021/22, of which c.£28 million relates to wholesale power prices. Over the past year energy prices have been volatile and have risen sharply. For 2022/23 we have de-risked around two thirds of our power needs. Given where power prices currently are, with day-ahead pricing of around £100 MW/h and the Winter season at £230 M/Wh we expect our power costs to rise between 50 and 75%. For 2023/24 and 2024/25 we have de-risked around 40% of our power needs locking in rates around 10% above the 2021/22 outturn.

Our energy risk policies involve constant monitoring of forward power prices and we will continue to manage our exposure to pricing volatility in this area. As part of our target to achieve net zero carbon emissions by 2030, we have identified renewable energy generation investment opportunities which will decrease our reliance on wholesale power markets. We are underway with installing our first phase of new solar PV which will help to more than double the Group's self-generation capacity to >10%.

Like all companies we are seeing supply chain inflation pressures in particular for chemicals, transport costs and construction materials such as steel and concrete. However, we are well placed as we start from an efficient cost base which has generated £110 million of totex efficiencies in K7 to date.

However, in the longer term the elevated inflationary environment provides the Group with additional growth in long-term sustainable value, with revenues and RCV linked to November and March outturn inflation, respectively. The elevated inflationary environment in this regulatory period is forecast to increase RCV by a further c.10% over K7, bringing total RCV growth in K7 to >40%, more than offsetting the near-term headwinds.



**Paul Boote**

Group Finance Director

30 May 2022

# Operating a responsible and sustainable approach to business

Our purpose - Bringing water to life – supporting the lives of people and the places they love for generations to come - shapes how we conduct our business in an open and transparent way through robust governance, creating value for our stakeholders today and reinvesting in a responsible and sustainable way to safeguard the future.

## Managing risks

The Pennon Board and the Group Executive are committed to the effective management of risks and opportunities to ensure the long-term success of the Group.

The Group operates mature and robust risk management and internal control frameworks aligned to strategic priorities.







## Addressing climate change

Our commitment to meeting the challenges arising as a result of climate change forms part of our principal risks. Our Task Force on Climate-related Disclosures (TCFD) sets out some of the key climate-related risks and opportunities being addressed by the Group.



# Responsible and sustainable business - 2021/22 performance

As a responsible business, our activities are underpinned by strong governance frameworks that uphold our core values within the organisation and throughout our supply chain. We are committed to providing open, honest and transparent reporting, and measure ourselves against both national and international benchmarks of responsible business practice.

Trust and transparency is one of our highest material issues, therefore we will continue regular dialogue with stakeholders, to build open and meaningful relationships. We have reinforced our supply chain resilience

by further developing our ESG target for supplier engagement for 2025. This further strengthens our commitment to the importance we place on those we work with sharing our core ESG values.

As a Group, we have demonstrated our sustainability commitments with short and long-term pathways to emissions reduction, to drive innovation and support our long-term strategy. You can read more information on the development of our Science Based Targets (SBT) and Net Zero plans, on page 39.

## Responsible and sustainable business

Measure	Type	2021/22 Actual	2021/22 Target	2025 Target	Annual Performance
<b>Trust &amp; transparency</b>					
ESG Rating (Sustainalytics)	ESG	78	>75	80	●
Investor engagement (% institutional investors met or offered to meet)*	ESG	-	-	75%	●
Fair Tax Mark	ESG	Maintain	Maintain	Maintain	●
<b>Sustainable finance</b>					
New funding raised through Sustainable Financing Framework (%)	ESG	100%	50%	>75%	●
<b>Supply chain resilience</b>					
Supplier payment days (average)	ESG	30 days	30 days (Group)	30 days (Group)	●
BRL		49 days	-	-	
PWS		20 days	30 days	-	●
Supplier engagement with our Sustainable Procurement Framework (%)	ESG	100%	100%	*	●

\* Target for ESG supplier engagement for 2025 measured through a new metric (Page: 88).

<b>Key</b> ● Area of focus ● Target met or exceeded ● Marginally below target	<b>Measure definition:</b> <b>ODI</b> Outcome Delivery Incentive <b>Ops</b> Operations Service Measure <b>ESG</b> ESG target
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ESG target definition and performance are available on our website at [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability)

[Read more on our responsible approach to business and performance on pages 85 to 125.](#)

# ESG performance progress in 2021/22











Our aim is simple - to protect and enhance the resources of our regions for generations to come. We take our responsibilities to ensure the social, economic and environmental wellbeing of the Great South West region with the utmost importance.

In 2021/22, we set 26 ESG targets, which included measures that were part of our existing operational targets and outcomes as well as new areas of focus such as water efficiency and waste.

Key successes include exceeding our catchment management and peatland restoration targets, reducing our water usage on sites alongside

a reduction in our greenhouse gas emissions. We achieved the majority of our Social targets achieving both gender and new REACH<sup>2</sup> targeted diversity while also ranking 10<sup>th</sup> in the new FTSE 250 Women Leaders listing. In addition to the launch of our brand new wellbeing programme, we also improved our lead health and safety measure (LTI).




Our Governance targets were all achieved and included exceeding our targeted score in our key Sustainability ESG Rating and delivering 100% of our new debt raised through our Sustainable Financing Framework.

Focus area	Target	Performance	
<b>Environment - Natural capital</b>			
 <b>Species</b>  <b>Atmosphere (local &amp; global)</b>  <b>Freshwater</b>  <b>Land (including soils)</b>  <b>Waste</b>  <b>Coasts</b>  <b>Ecological communities</b>	<ul style="list-style-type: none"> <li>• Deliver 10,000 hectares of land active management<sup>#</sup></li> <li>• Plant of 50,000 trees each year towards target of 250,000 by 2025<sup>#</sup></li> <li>• Restore 300 hectares of peatland across the South West<sup>#</sup></li> <li>• Reduce water use within our operations by six megalitres/day*</li> <li>• Reduce category 1-3 pollution incidents per 10,000km sewers<sup>1</sup></li> <li>• Reduce Scope 1 &amp; 2 (market based) emissions by 3% towards our Net Zero 2030 target*</li> <li>• Increase renewable energy generation sourced (MWh) by 4%*</li> <li>• Deliver projects to improve water quality at two designated bathing waters / beaches<sup>#</sup></li> <li>• Improve our operational waste recycling rate by 2%<sup>#</sup></li> </ul>	<ul style="list-style-type: none"> <li>●</li> <li>●</li> <li>●</li> <li>●</li> <li>🔽</li> <li>●</li> <li>🔽</li> <li>●</li> <li>●</li> </ul>	
	<b>Social - Social and human capital</b>		
	 <b>Community</b>  <b>Customers</b>  <b>Employees</b>	<ul style="list-style-type: none"> <li>• Maintain the Great Place to Work accreditation</li> <li>• Increase REACH<sup>2</sup> recruitment by 2%*</li> <li>• Increase the proportion of female employees in the Group to at least 30%*</li> <li>• Target top 25 ranking in Hampton Alexander Index</li> <li>• Targeted reduction in Lost Time Injury Frequency Rate (LTIFR) towards 1.1 (23 LTIs) with overall target of 0.5 LTIFR by end of 2024/25*</li> <li>• Target 2% year on year increase in SWW C-MeX performance<sup>#</sup></li> <li>• Target Trust Pilot score of 4.5 for Pennon Water Service customers</li> <li>• Increase number of community investment schemes we support by 20**</li> <li>• Increase number of visitors to our land by 2%<sup>#</sup></li> </ul>	<ul style="list-style-type: none"> <li>●</li> <li>●</li> <li>●</li> <li>●</li> <li>●</li> <li>🔽</li> <li>●</li> <li>●</li> <li>●</li> </ul>

1. The Group achieved our ESG target, reducing category 1-3 wastewater pollutions from 225 to 151. However, given the position of our pollutions performance in relation to our ODI and external views, we have noted this performance as 'not achieved' for 2021/22.

2. REACH, a new definition introduced to replace BAME, stands for Race, Ethnicity and Cultural Heritage.

**Key:** ● Achieved    🔽 Not Achieved

Focus area	Target	Performance
<b>Governance – Manufactured, intellectual and financial capital</b>		
 <b>Responsible business</b>  <b>Supply chain</b>  <b>Stakeholders &amp; partnerships</b>  <b>Finance</b>	<ul style="list-style-type: none"> <li>• Achieve Sustainalytics ESG Rating Score of 75 or above</li> </ul>	●
	<ul style="list-style-type: none"> <li>• Maintain asset health as measured by performance across basket of asset health metrics<sup>#</sup></li> </ul>	●
	<ul style="list-style-type: none"> <li>• Increase number of engagements with investors year on year</li> </ul>	●
	<ul style="list-style-type: none"> <li>• Target 50% of total finance raised within the Pennon Sustainable Financing Framework<sup>~</sup></li> </ul>	●
	<ul style="list-style-type: none"> <li>• Maintain Fair Tax Mark accreditation</li> </ul>	●
	<ul style="list-style-type: none"> <li>• Target 30,000 customers on one of our support tariffs<sup>#</sup></li> </ul>	●
	<ul style="list-style-type: none"> <li>• Target 100% compliance with the objectives within our Sustainable Procurement Policy</li> </ul>	●
	<ul style="list-style-type: none"> <li>• Pay all our suppliers within 30 days</li> </ul>	●

\* Target performance assured by DNV.  
 # Target performance assured by Jacobs.  
 ~ Target performance assured by EY.  
 \*\* Target performance assured by B4SI.

Target definitions along with further commentary on our 2021/22 ESG performance is available on our website [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability)

## External benchmarking

Our ESG strategy and capitals framework has driven positive change in the business as we continue to embed sustainability in everything we do.

During the year, we continued to show strong performance across external ESG ratings, demonstrating our commitment and management of risk across the ESG agenda.

### Latest external assessment scores



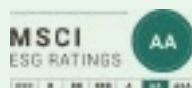
**16.5**  
 ESG Risk  
 (Previous rating: 16.8)

**78**  
 ESG Rating  
 (Previous rating: 75)



**B**  
 CDP Climate Change  
 (Previous rating: B)

**B**  
 CDP Water security  
 (Previous rating: B-)



**AA**  
 MSCI ESG Indexes  
 (Previous rating: AA)

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**3.5/5**  
 (Previous rating: 3.5/5)



**B**  
 ISS corporate rating  
 (Previous rating: Prime Status)

S&P Global Corporate Sustainability Assessment (CSA)

**59/100**  
 (Previous rating: 52/100)



**B**  
 GRESB Infrastructure Public Disclosure  
 (Previous rating: B)

# Our future ambitions – 2023 and beyond

## Our updated ESG metrics and targets

Our approach to ESG ensures everything we do supports our commitment to provide environmental stewardship and to support our customers and local communities. As a responsible employer, we remain focused on employee development alongside a robust health, safety and wellbeing programme. Our activities are underpinned by a strong governance framework that upholds our core values within the organisation and throughout our supply chain.




Our updated materiality assessment on page 30 highlighted the most important ESG issues for our stakeholders. Many of these issues are already being targeted within our existing strategy and business plans – through our Outcome Delivery Incentives (ODIs) or other operational service measures. To reflect our underlying focus on ESG, our future

updated ESG targets address those issues identified by stakeholders that are not currently captured in existing business plans or where we aim to target further ESG improvement.

As a result, our specific ESG targets to 2025 (with milestones each year) reflect additional measures over and above our existing commitments and KPIs. In addition, all new Group ESG targets incorporate our new Bristol Water business.







We will continue to review and where appropriate update our ESG targets in light of emerging issues and new commitments including our developing Science Based Targets.

We have also indicated which of the UN SDGs goals our targets most directly support. For further information on our work toward the SDGs please see our website [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability).

Material issue and associated target	2022/23 target	2025 target	SDG
<b>Environment – our Natural Capital</b>			
<b>Net Zero</b> % energy usage from renewable generation Reducing GHG emissions	<ul style="list-style-type: none"> <li>• 7%</li> <li>• 65%</li> </ul>	<ul style="list-style-type: none"> <li>• 13%</li> <li>• 70%</li> </ul>	
<b>Freshwater Stewardship</b> Reduce water use within our operational sites	<ul style="list-style-type: none"> <li>• 5MI</li> </ul>	<ul style="list-style-type: none"> <li>• 10MI</li> </ul>	
<b>Biodiversity</b> Trees planting (cumulative)	<ul style="list-style-type: none"> <li>• 180,000</li> </ul>	<ul style="list-style-type: none"> <li>• 250,000</li> </ul>	





Material issue and associated target	2022/23 target	2025 target	SDG
<b>Social – our Social and Human Capital</b>			
<b>Customer &amp; Community Engagement</b>			
Increase our community investment by 10% each year	• 10%	• 30%	
<b>Diversity &amp; Skills</b>			
% Female representation	• 31%	• 33%	
Increase REACH recruitment	• 5%	• 10%	
Achieve 5% club status	• Bronze accreditation	• Gold accreditation	
<b>Health, safety and wellbeing</b>			
Number of LTIs across the Group	• 22	• 11	
Great places to work accreditation	• Maintain	• Maintain	
<b>Governance – our Manufactured, Intellectual and Financial Capital</b>			
<b>Trust &amp; Transparency</b>			
ESG Rating (Sustainalytics)	• >75	• >80	
Fair Tax Mark accreditation	• Maintain	• Maintain	
% of active institutional investors met or offered to meet	• 68%	• 75%	
<b>Sustainable finance</b>			
% of new funding through the Sustainable Financing Framework	• 60%	• >75%	
<b>Supply chain</b>			
Supplier payment days (average)	• 40 days (Group)	• 30 days (Group)	
% of key and strategic suppliers that have established an ESG policy or equivalent	• 50%	• 100%	

Further detail on the scope and definitions of our future targets is available on our website [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability).

## Further reading

You can find more ESG-related information throughout the report:

### Environment

- Net Zero – page 39
- Climate resilience – page 37
- Task Force on Climate-related Financial Disclosures (TCFD) – page 106
- Streamlined Energy and Carbon Report (SECR) – page 89

### Social

- Our people strategy – page 51
- Stakeholder overview – page 26
- Customers and Communities – page 60

### Governance

- Risk management and principal Risks Report – page 96
- Stakeholder engagement – page 26
- Section 172(1) Statement – page 32
- Corporate governance report – page 133
- ESG Committee report – page 152

# Streamlined energy and carbon report (SECR)

## Greenhouse gas (GHG) emissions

### Methodology and approach

Our approach follows the UK Government's Environmental Reporting Guidelines, including streamlined energy and carbon reporting guidance (2019) and the Greenhouse Gas Protocol Corporate Standard including the Scope 3 Calculation Guidance (collectively referred to here as the reporting guidelines). In calculating our emissions, we have used the 2021 UK Government conversion factors for GHG reporting and considered the Department for Environment, Food & Rural Affairs' (Defra) 2009 GHG reporting guidance.

### Organisational boundary

The GHG emissions listed here cover the Group of companies, each of which uses the financial control approach, whereby the emissions are reported on the basis of the equity share held by the Pennon Group of companies in a company. This means that GHG emissions from joint venture operations can be accurately attributed to the company in proportion to the percentage of Pennon Group of companies' holding.

### Operational scopes

We report our Scope 1, 2 and 3 GHG emissions where relevant. Scope 1 and 2 data is presented with total Scope 3 data. A breakdown of Scope 3 GHG emissions categories is provided in our supplementary ESG databook online at [www.pennon-group.co.uk/reportsandpresentations](http://www.pennon-group.co.uk/reportsandpresentations)

### Market and location-based methodology

The reporting guidelines allow for the disclosure of both market-based and location-based Scope 2 GHG emissions from imported energy. For some of our supply, we purchased and retained Renewable Energy Guarantees of Origin (REGOs) allowing this to qualify as zero carbon market-based emissions.

For 2021/22 in accordance with the latest accounting guidance we have used our electricity suppliers' specific published Fuel Mix Disclosure emissions factors to report our Scope 2 market-based emissions. Where Fuel Mix Disclosure emissions factors are not available, we have used the residual grid mix emissions factor.

### Self-generated renewable energy export

In accordance with the reporting guidelines, we may report an emissions reduction in our reported net CO<sub>2</sub>e figure for any renewable electricity we have generated and exported to the national grid or a third party.

### Significant change in GHG emissions and energy use during reporting period

The acquisition of Bristol Water in June 2021 has had an impact on our reported values. We have included the Bristol Water Scope 1 and 2 GHG emissions and energy use for the whole reporting period. For clarity and comparison with previous and future reporting we specify whether Group GHG emissions/energy data for the Group includes or excludes Bristol Water data.

## Targets

The South West Water and Bristol Water Net Zero 2030 targets include Scope 1 and 2 (market-based) GHG emissions as well as certain Scope 3 GHG emissions where a core activity is outsourced. For further details on our Net Zero plans, see our Net Zero section on page 39.

## Base year

For GHG reporting, we compare the current financial year against the previous financial year performance. The Net Zero plan targets use a 2018/19 emissions baseline to align to the Water UK baseline.

## Intensity measurement

We report an intensity measure of Scope 1 and 2 gross GHG emissions in tCO<sub>2</sub>e per £100,000 revenue. In addition, we provide operational intensity measures for our water utility businesses in terms of tCO<sub>2</sub>e per megalitre supplied or treated. Pennon Group had no offshore GHG emissions or energy usage in the reporting period.

## External assurance statement

South West Water Scope 1 and 2 GHG emissions and energy use, together with selected Scope 3 GHG emissions, have been independently assured by DNV. The assumptions, methods and procedures that are followed in the development of the reported data have been tested and the data audited for accuracy and consistency. Bristol Water GHG emissions and energy data have been subject to an independent audit by consultants Turner & Townsend. Assurance statements can be found at [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability).

## Offshore Emissions

Pennon Group had no offshore GHG emissions or energy usage in the reporting period.



## Pennon Group plc GHG emissions

	2021/22						2020/21	
	Group (including Bristol Water)		South West Water		Group (excluding Bristol Water)		Group (excluding Bristol Water)	
	market based	location based	market based	location based	market based	location based	market based	location based
<b>Scope 1 GHG emissions by source (tCO<sub>2</sub>e)<sup>1</sup></b>								
Direct emissions from burning of fossil fuels	4,962	4,962	1,761	1,761	1,761	1,761		
Process and fugitive emissions	14,388	14,388	14,388	14,388	14,388	14,388	Breakdown not reported	
Transport: Company owned or leased vehicles	5,052	5,052	3,953	3,953	4,094	4,094		
Total Scope 1 GHG emissions (tCO <sub>2</sub> e)	24,403	24,402	20,102	20,102	20,243	20,243	21,080	21,080
Scope 2 GHG emissions (tCO <sub>2</sub> e)	80,279	80,847	59,061	66,590	59,061	66,590	65,685	72,436
<b>Total gross Scope 1 &amp; 2 GHG emissions (tCO<sub>2</sub>e)</b>	<b>104,682</b>	<b>105,249</b>	<b>79,163</b>	<b>86,692</b>	<b>79,304</b>	<b>86,833</b>	86,765	93,517
Scope 3 GHG emissions (estimated) <sup>2</sup>	292,698	292,698	284,147	284,147	284,147	284,147	147,392	147,392
<b>Total gross Scope 1, 2 &amp; 3 GHG emissions (tCO<sub>2</sub>e)</b>	<b>397,380</b>	<b>397,947</b>	<b>363,310</b>	<b>370,839</b>	<b>363,451</b>	<b>370,980</b>	234,157	240,909
GHG emissions removals through purchases of Renewable Energy Guarantees of Origin (tCO <sub>2</sub> e)	Included in Scope 2 above	(7,466)	Included in Scope 2 above	(7,466)	Included in Scope 2 above	(7,466)	Included in Scope 2 above	0
GHG emissions saved by exporting self-generated electricity (tCO <sub>2</sub> e)	(1,428)	(1,494)	(1,428)	(1,494)	(1,428)	(1,494)	(2,277)	(1,903)
<b>Total annual net GHG emissions (tCO<sub>2</sub>e)</b>	<b>395,952</b>	<b>388,988</b>	<b>361,882</b>	<b>361,879</b>	<b>362,022</b>	<b>362,020</b>	231,881	239,007
Energy consumption used to calculate Scope 1 and 2 GHG emissions (MWh) (see Energy usage section)	426,429	426,429	340,352	340,352	340,913	340,913	357,232	357,232
GHG emissions intensity measure: tCO <sub>2</sub> e (gross Scope 1+2/£100,000 revenue) <sup>3</sup>	13.2	13.3		n/a	11.5	12.6	13.5	14.5
Operational intensity measure (kgCO <sub>2</sub> e/MI <sup>4</sup> ) – Water	See South West Water		174.6	n/a	See South West Water		198.7	211.3
Operational intensity measure (kgCO <sub>2</sub> e/MI <sup>4</sup> ) – Wastewater	See South West Water		244.4	n/a	See South West Water		216.2	234.5
Biogenic GHG emissions outside of Scopes (tCO <sub>2</sub> e)	See South West Water		2,521	2,521	See South West Water		2,583	2,583

## Notes:

1. SWW total Scope 1 (20,102 tCO<sub>2</sub>e) and Scope 2 market-based (79,163 tCO<sub>2</sub>e) and Scope 2 location-based (86,692 tCO<sub>2</sub>e) GHG emissions. These figures have been independently assured by DNV.
2. GHG emission figures are expressed in tonnes of carbon dioxide equivalents (tCO<sub>2</sub>e) whereby emissions of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), the fluorinated gases (HFC, PFC, SF<sub>6</sub>) are shown in terms of the equivalent emissions from CO<sub>2</sub>. A breakdown of emissions by GHG is available in our ESG databook available on our website.
3. Based on relevant Group revenue for 2021/22.
4. For 'Water' measure MI = measured water into supply. For 'Wastewater' measure MI = full measured flow treatment. Figures have been recalculated for 2021/22 in line with South West Water Net Zero 2030 boundary.  
Scope 1 (direct GHG emissions): GHG emissions activities owned or controlled by our organisation that release emissions straight into the atmosphere. For Pennon, primary Scope 1 GHG emission sources during 2020/21 include GHG emissions from stationary plant, fugitive emissions from air conditioning plant and wastewater treatment and transport related GHG emissions from our own vehicles and fleet Scope 2 (indirect GHG emissions) GHG emissions released into the atmosphere associated with our consumption of imported electricity. Scope 3 (other GHG indirect emissions) GHG emissions that are a consequence of our actions, which occur at sources which we do not own or control. Estimated GHG emissions for relevant Scope 3 categories calculated in 2021/22 are provided in our ESG Databook available on our website [www.pennon-group.co.uk/reportandpresentations](http://www.pennon-group.co.uk/reportandpresentations). These include: Category 1 – Purchased goods and services; Category 2 – Capital Goods; Category 3 – Fuel-and energy-related (not Scope 1&2); Category 5 – Waste generated in operations; Category 6 – Business Travel; Category 7 – Employee Commuting; Category 9 – Downstream transportation and distribution.

## Operational Pennon Group plc GHG emissions by business

	South West Water	Bristol Water	Group total*
Scope 1 GHG emissions	20,102	4,106	24,403
Scope 2 GHG emissions (market based)	59,061	21,218	80,279
<b>Total gross Scope 1 &amp; Scope 2 GHG emissions (tCO<sub>2</sub>e)</b>	<b>79,163</b>	<b>25,378</b>	<b>104,682</b>

## Note:

The water business figure provided here includes the impact of emissions from our two hydroelectric power stations. This does not form part of our annual reporting to the water regulator Ofwat since these sites are outside of the Ofwat regulated contract.

\* Group total includes 140 tCO<sub>2</sub>e from Pennon Water Services and Group shared services.

## Change in GHG emissions

Operational Scope 1 and 2 market-based GHG emissions for the Group including our acquired water business increased by 21% from 2020/21 as a result of the Bristol Water acquisition. For the Group (excluding Bristol Water), Scope 1 and 2 (market-based) GHG emissions decreased by 9%, compared to 2020/21. This was due in part to a reduction Scope 1 emissions through reduced fossil fuel use in our generators. However the main reason for the reduction is due to the continued reduction in the GHG emissions associated with our contracted suppliers electricity supply.

Our Scope 2 (market-based) GHG emissions further reduced as a result of South West Water's purchase of REGO certificates. Our generation and export of renewable power resulted in further GHG emissions reductions.

The revenue-based intensity metric has reduced for the Group both with and without Bristol Water and now stands at 13.2 tCO<sub>2</sub>e/£100,000 turnover. This shows that emissions have decreased relative to the revenue earned. South West Water's operational focussed GHG intensity metric decreased for treated water but increased for wastewater.

## Scope 3 GHG emissions

Scope 3 categories were evaluated for relevant categories in line with the reporting guidance. The assessment, carried out by carbon consultants EcoAct on behalf of Pennon, is based on 2021/22 activity data for the Group excluding Bristol Water.

The estimated Scope 3 GHG emissions for 2021/22 for the Group (excluding Bristol Water) are 284,147 tCO<sub>2</sub>e compared to the equivalent figure in 2020/21 of 147,392. This increase is primarily due to increased expenditure during 2021/22 which increased estimated GHG emissions from Category 1 Purchased Goods and Services.

As part of our Net Zero plans, we are committed to better understanding our Scope 3 GHG emissions and investigating opportunities to reduce these emissions. This includes working with our suppliers to help them understand and manage their GHG emissions.

A breakdown of our estimated Scope 3 GHG emissions is provided in our separate ESG Databook, published on our website ([www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability)).

## Energy usage

Including self-supplied energy, the Group excluding Bristol Water used 362GWh of energy in 2021/22, while our acquired business used around 87GWh. A breakdown of Group energy usage and associated data assessment methodologies is shown below. In 2020/21, the Group used a total of 357GWh of energy; details of this and previous years' data are provided in our ESG Databook.

## Energy usage

	South West Water <sup>1</sup> (MWh)	Bristol Water (MWh)	Total Group <sup>3</sup> (MWh)	Methodology (South West Water)	Methodology (Bristol Water)
Imported grid electricity <sup>#</sup>	313,629	65,251	378,880	Metered data except some NHHM supply which is estimated by electricity supplier (see note <sup>2</sup> )	Verified Metered data
Imported private wire electricity (renewable)	4,874	0	4,874	Metered data	0
Self-supplied renewable electricity	10,727	1,132	11,859	Metered data	Verified Metered data
Self-supplied heat	5,780	0	5,780	Estimated that 60% of heat generated by sewage gas CHP is beneficially used, the rest (40%) is released to atmosphere	0
Natural gas <sup>#</sup>	2,285	15,502	17,787	Metered data – from billing (some element of estimates)	Verified Metered data, except March which has been estimated.
Liquid fuels (for stationary applications) <sup>#</sup>	6,334	464	6,798	Estimated based on fuel use/spend data	Bulk delivery invoice data
Energy used by fleet transport <sup>#</sup>	18,104	4,299	22,963	Estimated based on fuel use/spend and mileage data (see note <sup>4</sup> )	Fuel card data
<b>Total energy usage</b>	<b>361,733</b>	<b>86,648</b>	<b>448,941</b>		
Intensity measure: MWh/£100,000 revenue <sup>5</sup>	Group excluding Bristol Water	52.59			
	Total Group	56.66			

## Energy usage data notes:

- South West Water energy use (361,733 MWh) by has been independently assured by DNV.
- Estimated used for non-half hourly electricity supply (c.6% of total imported electricity) based on supplier renewal quotation estimate.
- Includes small amount and transport related energy use for Pennon Water Services/Group shared services totalling an estimated 0.6 GWh or around 0.1% of Group total.
- Hire car fuel usage and grey fleet (use of private vehicles on company business) are included in these SECR volumes – as per SECR guidance.
- Based on relevant Group revenue for 2021/22.

# Energy consumption used to calculate Scope 1 and 2 GHG emissions.



### Energy efficiency action taken

The principle 2021/22 energy efficiency actions undertaken by our two core operational businesses are presented below.

#### South West Water

South West Water retained its ISO 50001 energy management system accreditation.

A key pillar of our Net Zero plan is Sustainable Living, which targets carbon and energy reduction through changes to operational practices, fuel switching and increasing energy efficiency. Some of our planned energy efficiency projects during the early part of 2021/22 continued to be disrupted by COVID-19 lockdowns where attendance at operational sites was limited to essential visits only. Equally challenging was the impact and delay observed in the international supply chain including lack of raw materials, especially steel.

In spite of these headwinds, some major refurbishments were conducted during the year with notable energy efficacy projects completed in the year including major pump replacement projects at Pynes Water Treatment Works and Hayle Wastewater Treatment Works. Collectively these projects are estimated to have delivered energy savings of around 2,000 MWh.

We've continued our meter replacement programme which continues to help identify areas for further efficiency improvements. Permanent efficiency monitoring equipment was installed on 4 x 3.3 kVA High Voltage pumps at Gunnislake pumping station in support of supply into our Mayflower Water Treatment Works. This is an important step as Gunnislake now accounts for 2% of South West Water's overall energy consumption.

Across our offices, we've implemented a number of smaller energy efficiency projects including LED lighting at our Dowrgrann office. We'll be expanding our office energy efficiency projects over the coming year as part of our Net Zero plan. Finally, we've continued our energy efficiency training for our operational colleagues.

#### Bristol Water

We have continued to improve and extend the operation of our whole network automated pump scheduling system 'IPSOS', which looks to minimise energy consumption through optimising source selection and operating our assets at their best efficiency points. We have also continued our programme of pump refurbishments and replacements. The major project delivered during the year was Alderley High lift pump refurbishment, which has achieved an estimated annual savings of 135 MWh. We also incorporated Almondsbury pumping stations into IPSOS with an estimated annual saving of 112 MWh.

This financial year, we began operating gas powered generation, which has decreased our electricity import from the grid but increased our overall energy consumption as we are consuming the primary energy source – natural gas. However, comparing like for like, using the generated electricity, we have achieved one of our lowest ever annual energy consumptions.



# SASB Pennon 2021/22 Disclosure

For the first time, we have aligned our non-financial disclosures to the Sustainability Accounting Standards Board (SASB) reporting framework. SASB provides a set of industry specific standards (Water Utilities and Services industry), which each contain topics which are material to our investors. These topics contain a number of metrics we disclose against. SASB metrics for our newly acquired business, Bristol Water, are reported separately from Pennon Group SASB disclosures and will be integrated in our 2022/23 reporting. The data and information supporting the metrics is primarily operations related and is contained within our water utility businesses annual performance report (APR) as indicated. The latest APR's were published in July 2021.



Metric	Code	Pennon & Bristol Water Disclosure
<b>Energy Management</b>		
(1) Total energy consumed (2) percentage grid electricity (3) percentage renewable	IF-WU-130a.1	<p><b>Pennon</b> Pennon Annual Report, SECR, Energy Usage, page 91</p> <p><b>Bristol Water</b> Bristol Water Annual Report (AR), Sustainable Environmental Impact, Scope 1, 2 &amp; 3 carbon emissions Bristol Water Annual Performance Report (APR), Additional regulatory information – water network plus, energy consumption</p>
<b>Drinking Water Quality</b>		
Number of: (1) acute health-based (2) non-acute health-based (3) non-health-based drinking water violations	IF-WU-250a.1	<p><b>South West Water</b> Annual Performance Report (APR), Our Water, Taste, Smell and Colour Contacts APR, Our Wastewater, Odour Contacts from Wastewater treatment works APR, Our Water, Water quality compliance</p> <p><b>Bristol Water</b> APR, Safe and Reliable Supply of Water, Water quality compliance APR, Safe and Reliable Supply of Water, Customer contacts about water quality – taste and smell</p>
Discussion of strategies to manage drinking water contaminants of emerging concern	IF-WU-250a.2	<p><b>Pennon</b> For more information about our specific strategies such as the Upstream Thinking Project, please refer to: Upstream Thinking – available at <a href="https://www.southwestwater.co.uk/environment/working-in-the-environment/upstream-thinking/the-project/">https://www.southwestwater.co.uk/environment/working-in-the-environment/upstream-thinking/the-project/</a></p> <p><b>Bristol Water</b> For more information about Bristol Water's Catchment Sensitive Farming partnership to improve water quality and enhance habitats see: <a href="http://www.bristolwater.co.uk/about-us/catchment-management">www.bristolwater.co.uk/about-us/catchment-management</a></p>
<b>Distribution Network Efficiency</b>		
Water main replacement rate	IF-WU-140a.1	<p><b>South West Water</b> APR, Our Water, Number of mains repairs</p> <p><b>Bristol Water</b> APR, Additional regulatory information – water network plus, 6C Water network+ – Mains, communication pipes and other data for the 12 months ended 31 March 2021</p>
Volume of non-revenue real water losses	IF-WU-140a.2	<p><b>South West Water</b> APR, Our Water, Leakage</p> <p><b>Bristol Water</b> APR, Local Community and Environmental Resilience, Leakage</p>
<b>Effluent Quality Management</b>		
Number of incidents of non-compliance associated with water effluent quality permits, standards, and regulations	IF-WU-140a.2	<p><b>South West Water</b> South West Water EPA Data Report, Section 4. Discharge Permit Compliance metric – produced by the EA, available from gov.uk</p> <p><b>Bristol Water</b> APR, Local Community and Environmental Resilience, Waste disposal compliance</p>

Metric	Code	Pennon & Bristol Water Disclosure
<b>Effluent Quality Management continued</b>		
Discussion of strategies to manage effluents of emerging concern	IF-WU-140a.2	<p><b>Pennon</b></p> <p>To access data that South West Water contribute to the Chemical Investigation Programme (CIP), please refer to: <i>CIP data portal</i> – available at <a href="https://ukwir.org/sign-up-and-access-the-chemical-investigations-programme-data-access-portal">https://ukwir.org/sign-up-and-access-the-chemical-investigations-programme-data-access-portal</a></p> <p>To see the findings from the last CIP2 report, please refer to: CIP2 report – available at <a href="https://ukwir.org/the-chemicals-investigation-programme-phase-2,-2015-2020">https://ukwir.org/the-chemicals-investigation-programme-phase-2,-2015-2020</a></p> <p><b>Bristol Water</b></p> <p><a href="http://www.bristolwater.co.uk/about-us/catchment-management">www.bristolwater.co.uk/about-us/catchment-management</a></p>
<b>End-Use Efficiency</b>		
Percentage of water utility revenues from rate structures that are designed to promote conservation and revenue resilience	IF-WU-420a.1	<p><b>Pennon</b></p> <p>Omitted based on lack of applicability – Pennon do not offer different rate structures</p> <p><b>Bristol Water</b></p> <p>Omitted based on lack of applicability – Bristol Water do not offer different rate structures</p>
Customer water savings from efficiency measures	IF-WU-420.a	<p><b>South West Water</b></p> <p>APR, Our Resilience, Litres of Water Saved Through Free Water Products</p> <p><b>Bristol Water</b></p> <p>AR, Local Community and Environmental Resilience, Promoting Water Efficiency and Metering</p>
<b>Network Resiliency &amp; Impacts of Climate Change</b>		
Wastewater treatment capacity located in 100-year flood zones	IF-WU-450a.1	<p><b>South West Water</b></p> <p>This year we are publishing our first Drainage and Wastewater Management Plans (DWMP), in accordance with new government regulations. Within this plan we have outlined which of our assets are within flood zones 3 (FZ3). This plan will be accessible from July 2022, via the South West Water webpage, hosted on the 'Window to the Environment' page</p> <p><b>Bristol Water</b></p> <p>Omitted based on lack of applicability – Bristol Water do not deal with wastewater treatment</p>
1) Number and (2) volume of sanitary sewer overflows (SSO), (3) percentage of volume recovered	IF-WU-450a.2	<p><b>Pennon</b></p> <p>Please refer to: EDM Return – available at <a href="http://www.southwestwater.co.uk/search/?category=0&amp;searchTerm=EDM">www.southwestwater.co.uk/search/?category=0&amp;searchTerm=EDM</a></p> <p><b>Bristol Water</b></p> <p>Omitted based on lack of applicability – Bristol Water do not deal with wastewater treatment</p>
(1) Number of unplanned service disruptions, and (2) customers affected, each by duration category	IF-WU-450a.3	<p><b>South West Water</b></p> <p>APR, Our water, interruptions to supply</p> <p>APR, Our resilience, resilience in the round – water</p> <p><b>Bristol Water</b></p> <p>APR, Safe and Reliable Supply of Water, Water supply interruption</p>
Description of efforts to identify and manage risks and opportunities related to the impact of climate change on distribution and wastewater infrastructure	IF-WU-450a.4	<p><b>Pennon</b></p> <p>Water Resource Management Plan (WRMP), sections 2.3.5 Impacts of climate change on water supply, 3.4.5 The effect of climate change on household consumption, and 3.5.5 The effect of climate change on non-household demand – available at <a href="http://www.southwestwater.co.uk/siteassets/document-repository/environment/sww-bw-wrmp19---finalplan_aug2019.pdf">www.southwestwater.co.uk/siteassets/document-repository/environment/sww-bw-wrmp19---finalplan_aug2019.pdf</a></p> <p><b>Bristol Water</b></p> <p>Bristol Water's Water Resource Management Plan (WRMP), Section 10 – Climate Change</p>
<b>Water Affordability &amp; Access</b>		
Average retail water rate for: (1) residential (2) commercial (3) industrial customers	IF-WU-240a.1	<p><b>Pennon</b></p> <p>The average retail water rates for business customers is available at – <a href="https://www.source4b.co.uk/manage-your-account/publications-tariffs">https://www.source4b.co.uk/manage-your-account/publications-tariffs</a></p> <p>The average retail water rate for residential customers is available at – <a href="https://www.southwestwater.co.uk/bills/our-charges">https://www.southwestwater.co.uk/bills/our-charges</a></p> <p><b>Bristol Water</b></p> <p>Household charges, available – <a href="https://www.bristolwater.co.uk/our-blogs/charges-2021-22">https://www.bristolwater.co.uk/our-blogs/charges-2021-22</a></p>
Typical monthly water bill for residential customers to 10 Ccf (1,000 cubic feet) of water delivered per month	IF-WU-240a.2	<p><b>South West Water</b></p> <p>Our Charges document, available at – <a href="https://www.southwestwater.co.uk/bills/our-charges/">https://www.southwestwater.co.uk/bills/our-charges/</a></p> <p><b>Bristol Water</b></p> <p>Household charges available at – <a href="https://www.bristolwater.co.uk/our-blogs/charges-2021-22">https://www.bristolwater.co.uk/our-blogs/charges-2021-22</a></p>

Metric	Code	Pennon & Bristol Water Disclosure
<b>Water Affordability &amp; Access</b>		
Number of residential customer water disconnections for non-payment, percentage reconnected within 30 days	IF-WU-240a.3	<b>Pennon</b> Omitted based on lack of applicability – Pennon do not disconnect customers for non-payment <b>Bristol Water</b> Omitted based on lack of applicability – Bristol Water do not disconnect customers for non-payment
<b>Activity Metric</b>		
Discussion of impact of external factors on customer affordability of water, including the economic conditions of the service territory	IF-WU-240a.4	<b>South West Water</b> <a href="http://www.southwestwater.co.uk/siteassets/document-repository/business-plan-2020-2025/addressing-affordability-and-vulnerability.pdf">www.southwestwater.co.uk/siteassets/document-repository/business-plan-2020-2025/addressing-affordability-and-vulnerability.pdf</a> <b>Bristol Water</b> <a href="https://www.ofwat.gov.uk/wp-content/uploads/2019/07/PR19-Draft-Determinations-Bristol-Water-Addressing-affordability-and-vulnerability-actions-and-interventions.pdf">https://www.ofwat.gov.uk/wp-content/uploads/2019/07/PR19-Draft-Determinations-Bristol-Water-Addressing-affordability-and-vulnerability-actions-and-interventions.pdf</a>
<b>Water Supply Resilience</b>		
Total water sourced from regions with High or Extremely High Baseline Water Stress, percentage purchased from a third party	IF-WU-440a.1	<b>Pennon</b> WRMP, Summary of Final Water Resources Management Plan, Assurance For further information of classifications, please refer to: EA Water Stressed Areas Report – published by the EA, available at gov.uk <b>Bristol Water</b> Under the EA classification Bristol Water do not source water from regions with high or extremely high water stress
Volume of recycled water delivered to customers	IF-WU-440a.2	<b>Pennon</b> Omitted based on lack of applicability – Pennon do not deliver recycled water to customers <b>Bristol Water</b> Omitted based on lack of applicability – Bristol Water do not deliver recycled water to customers
Discussion of strategies to manage risks associated with the quality and availability of water resources	IF-WU-440a.3	<b>Pennon</b> WRMP, 2.5 Drinking Water Quality, and 8.4 Ensure Availability of Existing Sourced and their Resilience to Future Droughts <b>Bristol Water</b> Bristol Water's Water Resource Management Plan (WRMP), Section 6 Water Supply + Section 9 Sustainable Abstraction
Total water sourced, percentage by source type	IF-WU-000.B	<b>South West Water</b> APR, Additional regulatory information – Water resources for total water sourced, Water resources asset and volumes data <b>Bristol Water</b> APR, Additional regulatory information – Water resources, 5A Water resources asset and volumes data for the 12 months ended 31 March 2021
Total water delivered to: (1) residential (2) commercial (3) industrial (4) all other customers	IF-WU-000.C	<b>South West Water</b> APR, Additional regulatory information – Water network plus, Water network+ – Mains, communication pipes and other data <b>Bristol Water</b> APR Additional regulatory information – Water network plus, 6B Treated water distribution – assets and operations for the 12 months ended 31 March 2021
Average volume of wastewater treated per day, by: (1) sanitary sewer (2) stormwater (3) combined sewer	IF-WU-000.D	<b>South West Water</b> APR, Additional regulatory information – Wastewater network plus, Wastewater network+ – Sewer and volume data <b>Bristol Water</b> Omitted based on lack of applicability – Bristol Water do not deal with wastewater treatment
Length of: (1) water mains (2) sewer pipe	IF-WU-000.E	<b>South West Water</b> APR, Additional regulatory information – Water network plus, Water network+ – Mains, communication pipes and other data APR, Additional regulatory information – Wastewater network plus, Wastewater network+ – Large sewage treatment works <b>Bristol Water</b> APR, Additional regulatory information – Water network plus, 6C Water network+ – Mains, communication pipes and other data for the 12 months ended 31 March 2021

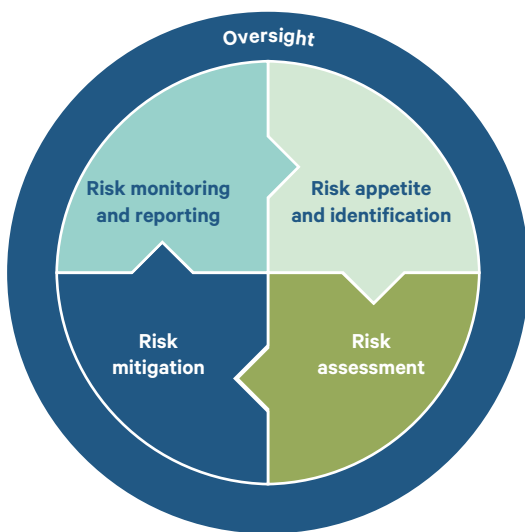


# Managing our risks

The Pennon Board and the Group Executive are committed to the effective management of risks and opportunities to ensure the long-term success of the Group.

Pennon operates mature and robust risk management and internal control frameworks which are aligned to the Group's strategic priorities and are embedded into our processes, culture and ways of working. These frameworks form a key part of our governance structure ensuring that there is robust review, challenge and assurance over the management of both our current and emerging risks and opportunities.

## Pennon risk management framework



## Governance of the risk management and internal control framework

The Group's risk management framework encompasses both a 'top down' and 'bottom up' approach. This;

- allows risks and opportunities to be cascaded and escalated effectively
- enables a common understanding of the risks and opportunities and their potential impact on the achievement of the Group's strategic priorities
- provides a multi-layered approach to the review and challenge of risk.

A consistent methodology is applied in the identification and assessment of the Group's risks, which considers both the likelihood of the risk occurring over a long-term period and the potential impact across a range of categories including financial, safety, environmental and customer service, aligned with our strategic priorities. Principal and business-level risks are subject to regular review and challenge by the individual subsidiaries and functions, the Risk Committee, Group Executive and the Pennon Board.

The Group mitigates its risk exposure in line with the desired risk appetite and tolerance levels, through the operation of a robust internal control and assurance framework which is aligned to the 'three lines' model. The Group Executive and the Pennon Board obtain assurance over the effectiveness of the internal control environment through a variety of internal and external assurance providers, including an independent Group Internal Audit function.

## Environmental, Social and Governance (ESG) risk management

The nature of the Group's operations means that environmental, social and governance (ESG) considerations are inherent in how the Group operates as a responsible business and are a key focus for the Group. The identification, assessment and management of ESG risks and opportunities, including the potential impact of climate change on our business, is integrated into the Group's overall risk management framework and methodology, with the outcomes reflected within the

## Key responsibilities and activities

The key responsibilities and activities which encompass the Group's risk management framework are:

### Oversight

#### Board

##### Key risk management responsibilities

- Sets the Group's strategic objectives
- Establishes the Group's risk appetite
- Determines the Group's principal risks
- Ensures an effective internal control framework

##### Key assurance activities

- Quarterly review of the Group's principal risks against the determined risk appetite
- Quarterly review of the Group's emerging risk log

#### Audit Committee

##### Key risk management responsibilities

- Reviews the effectiveness of the Group's risk management framework
- Reviews the adequacy of the internal control framework

##### Key assurance activities

- Performs quarterly deep dive reviews on principal risks
- Approves the Group Internal Audit Plan
- Receives reports on the outcomes of key assurance activities

### Third Line

#### Group Internal Audit

##### Key risk management responsibilities

- Provides independent, risk-based assurance on the effectiveness of the internal control framework
- Coordination of independent assurance activities

##### Key assurance activities

- Regular reporting to Audit Committee and Group Executive on the effectiveness of internal controls and the outcomes of key assurance activities

assessment of relevant principal and business level risks. This includes the potential impact of physical and transitional climate change risks on our assets and operations. Further detail on specific physical and transitional climate change related risks, as well as examples of how these are being mitigated, are detailed further within our TCFD report on page 106 to 122. The delivery of the Group's ESG actions and commitments is monitored through our ESG framework.

### Bristol Water Risk Management Framework

During 2021/22, Bristol Water has continued to operate their established and embedded business-wide risk management framework, which includes regular review of the Bristol Water principal risks and mitigation strategies by both the executive management team and its board of directors. In the coming year, Bristol Water will be fully integrated into the Group's risk management framework.

### South West Water and Bristol Water technical (non-financial) data

In addition to the risk management framework detailed above which applies across the Group, recognising the importance of the regulatory ODI framework, both South West Water and Bristol Water engage independent, third-party auditors to audit the accuracy of the technical (non-financial) data reported in the respective annual and annual performance reports, including its performance commitments and environmental data. Furthermore, DNV, the Group assurers, have also performed additional assurance work over the Group's sustainability measures.

### Management of South West Water and Bristol Water within the Group's risk management framework

Pennon manages its risks in such a way that both South West Water and Bristol Water, as regulated companies, are protected from risk elsewhere in the Group. The Group's principal risks and uncertainties include those Group-level risks which could materially impact on South West Water and Bristol Water.

Pennon's risk management and internal control frameworks ensure that it does not take any action that would cause South West Water or Bristol Water to breach their licence obligations. Additionally, the Group's governance and management structures mean that there is full understanding and consideration of South West Water and Bristol Water's duties and obligations under their respective licences, as well as an appropriate level of information sharing and disclosure to give South West Water and Bristol Water assurance that it is not exposed as a result of activities elsewhere within the Group.

## Continuous improvements to risk management and internal control

The Group is committed to continuously improving its ability to identify and respond to current and emerging risks. Examples of risk management improvements during the year include:

- A programme of legal compliance training was rolled out providing an update to all colleagues on key policies and procedures.
- The Group refreshed and relaunched its Information Security Awareness programme which is being delivered utilising a range of methods and tools.
- South West Water have been successfully accredited to the ISO55001 Asset Management standard.
- The health and safety 'site pride' awards were launched recognising areas of the Group that deliver outstanding health, safety and wellbeing standards.
- A comprehensive Group-wide Fraud Risk Assessment was completed with key outcomes reported to the Group Risk Committee.

## Second Line

### Group Executive

#### Key risk management responsibilities

- Day to day management of the Group's principal and operational risks
- Establishes the relevant Group-wide risk management processes and procedures
- Maintains the internal control framework

#### Key assurance activities

- Performs a thorough appraisal of the Group's principal and emerging risk profile quarterly
- Monitors the Group's performance against KPIs and financial performance
- Establishes and reviews policies, procedures and delegated authorities

### Risk Committee

#### Key risk management responsibilities

- Provides review and challenge over subsidiary/ functional principal risks and mitigation strategies
- Alignment of the top down and bottom-up risk management process
- Performs horizon scanning on emerging risks and opportunities

#### Key assurance activities

- Quarterly review of Group principal risks and key subsidiary/functional risks
- Undertakes deep dive reviews of specific risks

## First Line

### Individual subsidiaries / functions

#### Key risk management responsibilities

- Identifies and assesses subsidiary/ functional level risks
- Implements and executes appropriate risk mitigation strategies, aligned with the agreed risk appetite
- Monitors compliance with internal control framework
- Review of subsidiary/functional principal risks on a quarterly basis by senior leadership teams

#### Key assurance activities

- Functions provide assurance activities across key business processes including regulatory, legal, health and safety
- Self-certification of compliance with the internal control framework

In addition, the Group also received assurances from a variety of external assessments, including by our regulators, which complements and further enhances the Group's overall assurance framework.

### Horizon scanning

Emerging risks and opportunities are considered to be factors and events which could have a future impact on the achievement of the Group's strategic priorities but lack the required clarity or certainty in order to adequately assess their impact. Horizon scanning of emerging risks and opportunities is embedded within the risk and opportunity review process performed by individual subsidiaries and functions. Emerging risks are also reviewed by the Risk Committee, Group Executive and Pennon Board as part of their regular assessment of the Group's risk profile. Once there is sufficient clarity and certainty over an emerging risk, it is assessed applying the Group's methodology and appropriate mitigating actions are established. Notable emerging risks and opportunities are detailed within the table below:

Risk/Opportunity	Comment	Risk category impact	Time horizon
COVID-19 long-term economic implications	Continued uncertainty remains over the pace and scale of the long-term implications of COVID-19 on the global and UK economy, which could impact our business.	Legal, regulatory and finance	Medium-term
Micro-pollutants, plastics and micro-plastics	The continued focus on the impact of micro-pollutants and micro-plastics could present both risks and opportunities arising from changes to treatment processes.	Operating performance Business systems and capital investment	Medium-term
Biodiversity	Threats to the region's biodiversity, as a result of climate change, may require changes to how we interact with species and habitats in the areas that we operate in.	Operating performance	Long-term
Changes to the demographics within the South West	Increases in population migration to the South West due to the longer-term impact of COVID-19 and climate change could place further demand on our resources and assets.	Operating performance	Long-term

### Risk appetite

The UK Corporate Governance Code requires the Group to determine the risk appetite considered appropriate in achieving the Group's strategic priorities. Striking an appropriate balance between risk and reward is key to the success of the Group's strategy.

The Board has established its risk appetite for each risk category and also for each principal risk. This allows the business to pursue value-enhancing opportunities, while maintaining an overall level of risk exposure that the Board considers to be appropriate. The Board's evaluation of the comprehensiveness of the Group's internal controls in mitigating its principal risks to an acceptable level is considered with due consideration of the relevant risk appetite. The risk appetite for each risk category is detailed below:

Risk category	Risk appetite statement
Law, regulation and finance	<p>The Board is committed to fully complying with, and being seen to be complying with, all relevant laws, regulations and obligations and has no appetite for non-compliance in this area. This includes (but is not limited to) health and safety where the Board places the highest level of importance on the welfare of our employees, the public and those who work with or on behalf of Pennon. The Group also operates a prudent approach to our financing strategy to ensure our long-term financing commitments are met.</p> <p>The Board acknowledges, however, that the Group operates in a complex environment influenced by Government policy and regulatory reform. Consequently, there is acceptance of increased inherent risk in these areas and the Group seeks to mitigate any potential downside and leverage opportunities that may arise from Government policy and regulatory change.</p>
Market and economic conditions	The Board recognises that our activities are exposed to changes in macroeconomic and external market conditions. The Group seeks to take well-judged and informed decisions to mitigate these risks where possible but accepts that a level of residual risk may remain beyond the Board's control.
Operating performance	<p>The Board has a low appetite for significant operational failure of our water and wastewater assets and seeks to reduce both the likelihood and impact through long-term planning and careful management of our operational assets.</p> <p>There is greater appetite for well-informed risk taking to develop further markets, subject to this not detrimentally impacting on the level of service expected of our regulators, customers and wider stakeholders.</p>
Business systems and capital investment	<p>The Board has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan. Broader investment decisions are taken on an informed basis with risks weighted against the expected level of return on a case-by-case basis.</p> <p>The Group seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Group's operations.</p>

## Overview of Pennon's principal risk profiles



Category	Reference	Strategic Priorities	Risk description	Net risk
Law, Regulation and finance	A	① ②	Changes in Government policy	⬆️
	B	① ②	Regulatory Frameworks	⬆️
	C	① ②	Non-compliance with laws and regulations	⬆️
	D	② ③	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	⬆️
	E	① ② ③	Non-compliance or occurrence of an avoidable health and safety incident	⬆️
	F	②	Failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase	⬆️
Market and economic conditions	G	① ②	Non-recovery of customer debt	⬆️
	H	② ③	Macroeconomic risks impacting on near term inflation, interest rates and power prices	⬆️
Operating performance	I	① ③	The Group's operations and assets are impacted as a result of climate change and extreme weather events	⬆️
	J	① ③	Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water	⬆️
	K	① ③	Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions	⬆️
	L	①	Failure to maintain excellent service or effectively engage with our customers and wider stakeholders	⬆️
	M	① ② ③	Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities	⬆️
	N	① ② ③	Non-delivery of regulatory outcomes and performance commitments	⬆️
Business systems and capital investment	O	① ③	Inefficient or ineffective delivery of capital projects	⬆️
	P	①	Inadequate technological security results in a breach of the Group's assets, systems and data	⬆️
	Q	③	Failure to fully realise the strategic value arising from the acquisition of Bristol Water	⬆️







**Principal risks and uncertainties**

The Group’s business model exposes the business to a variety of external and internal risks which are influenced by the potential impact of macro political, economic and environmental factors. Specifically, the UK is currently experiencing a high inflationary environment as a result of a number of global factors.

While the ability of the Group to influence these macro level risks is limited, they continue to be regularly monitored and the potential implications are considered as part of the ongoing risk assessment process. The Group performs a range of scenario planning and analysis exercises to understand the risk exposure of one, or a number, of these events occurring.

The Directors confirm that during 2021/22, they have carried out a robust assessment of current and emerging risks facing the Group, including the consideration of risks associated with the activities of Bristol Water. The assessment of the Group’s principal risks has considered the impact on its business model, future performance, solvency and liquidity. These principal risks have been considered in preparing the Viability Statement on page 123.







Principal Risk	Strategic Impact	Mitigation	Net Risk	Appetite
<b>Law, Regulation and finance</b>				
<b>A: Changes in Government policy</b>				
Long-term priorities ① ② Changes in Government policy may fundamentally impact our ability to deliver the Group’s strategic priorities, impacting shareholder value.	The current UK Government remains supportive of the existing regulatory model. During the year the UK Government has published its Strategic Policy Statement (SPS) which sets the strategic priorities for Ofwat, enacted the Environment Act and has consulted on their Storm Overflows Discharge Reduction Plan.  South West Water and Bristol Water have actively engaged and provided responses during the consultation process.  The Group also regularly engages with MPs and other political stakeholders, both directly and via Water UK, demonstrating the value from our operational performance, continued investment in our network and wider societal contribution.  Horizon scanning of emerging changes in Government policy, including policies designed to mitigate the impact of climate change, is regularly undertaken to monitor and assess the potential direct or indirect impact on the Group.		We recognise that Government policy evolves. The Group seeks to minimise the potential risk and maximise opportunities through regular engagement and robust scenario planning.	
<b>B: Regulatory Frameworks</b>				
Long-term priorities ① ② Changes to regulatory frameworks may impact on the Group’s priorities, performance and the service we provide to our customers which can impact shareholder value.	Certainty over the 2020-25 regulatory framework has been provided through South West Water’s and Bristol Water’s Final Determination.  The Group’s Regulatory Affairs Steering Committee monitors changes in the regulatory environment.  There remains the potential that regulatory mechanisms within the next Price Review period do not provide sufficient funding to achieve the environmental ambitions set out by the Government within the Environment Bill.  Internal PR24 planning has commenced and both South West Water and Bristol Water have actively responded to positioning papers from Ofwat which will inform the PR24 price review methodology which will be published in July 2022.		We accept that regulatory reform occurs and seek to leverage opportunities where possible and minimise the potential risks by targeting changes which are NPV neutral over the longer-term to protect customer affordability and shareholder value.	
<b>C: Non-compliance with laws and regulations</b>				
Long-term priorities ① ② The Group is required to comply with a range of regulated and non-regulated laws and regulations across our businesses. Non-compliance with one or a number of these may result in financial penalties negative impact on our ability to operate effectively and reputational damage.	The Group operates within robust and mature frameworks ensuring compliance with permit and other requirements of Ofwat, the Environment Agency and other relevant regulators. These frameworks are subject to regular review and enhancement to ensure the Group remains compliant with the increasingly complex legal and regulatory landscape. There remains an increased appetite amongst regulators for pursuing enforcement action for perceived non-compliance with the Environment Agency and Ofwat both currently undertaking industry-wide investigations of wastewater treatment works permit compliance.  The Group also maintains a comprehensive internal framework to ensure compliance with corporate laws and regulations. This is reinforced through key policies which are endorsed by the Pennon Board and refreshed legal compliance training has been provided to staff during the year.  Confidential whistleblowing processes exist which allows concerns to be raised confidentially and appropriately investigated. Activity through the whistleblowing process is reported periodically to the Pennon Board.		The Group maintains the highest standards of compliance and has no appetite for legal or regulatory breaches.	

Principal Risk	Strategic Impact	Mitigation	Net Risk	Appetite
<b>D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments</b>				
Long-term priorities ② ③	Failure to maintain funding requirements could lead to additional financing costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.	<p>The Group has well established treasury, funding and cash flow arrangements in place, underpinned by a Treasury Management Policy endorsed by the Pennon Board.</p> <p>The impact of macro political, economic and regulatory risks on the Group's financing commitments and cash flow, funding and covenant compliance is regularly reviewed by the Group Executive and Pennon Board.</p> <p>The Group retains £827 million of cash and committed facilities as at 31 March 2022. South West Water and Bristol Water are well funded for the 2020-25 regulatory period.</p> <p>Since March 2021 the Group has signed £295 million of new and renewed facilities at both Pennon and South West Water levels.</p>		The Group operates a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.
<b>E: Non-compliance or occurrence of an avoidable health and safety incident<sup>1</sup></b>				
Long-term priorities ① ② ③	A significant health and safety event could result in financial penalties, significant legal costs and damage to the Group's reputation.	<p>The effective management of health and safety risks continues to be a key priority for the Group Executive and Pennon Board. The review of health and safety performance is monitored regularly through the dedicated Board and Executive Health and Safety Committees.</p> <p>The Group has continued to deliver and embed the HomeSafe strategy during the year. Additionally, improvement plans and initiatives are being consolidated within Bristol Water and a Bristol Water specific HomeSafe Plan will be developed during 2022/23.</p> <p>Investment has also been accelerated for safety specific asset improvements, focused on operational sites and activities.</p> <p>These measures have helped to contribute to the Group's lowest ever health and safety score of 22 Lost Time Injuries. The Group has also set out the roadmap to becoming leaders in health and safety in the water sector.</p>		The Group has no appetite for health and safety related incidents and maintains the highest standards of compliance for our staff, contractors and other third parties.
<b>F: Failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase</b>				
Long-term priorities ②	The Group could be called upon to increase funding to reduce the deficit, impacting our cost base.	<p>The Group has in-house pensions expertise supplemented by external specialists, including professional advisors who manage the scheme's investment strategy.</p> <p>Following consultation, the Pennon Defined Benefit scheme was closed to future accrual from 30 June 2021.</p> <p>Following the disposal of Viridor, the Group has contributed £59 million over and above the agreed deficit recovery payments from the 2019 actuarial valuation.</p> <p>As at 31 March 2022, there is a surplus of £66.3 million relating to the Group's retirement obligations and the Pennon Group Pension Scheme is approximately 105% funded against its technical provisions.</p> <p>The 2022 triennial valuation is underway.</p>		The Group will ensure that all obligations are met in full but seeks to manage this without unnecessary costs to the Group.
<b>Market and economic conditions</b>				
<b>G: Non-recovery of customer debt</b>				
Long-term priorities ① ②	Reduced customer debt collection would adversely impact on the Group's revenue.	<p>South West Water and Bristol Water have robust collection strategies which have continued to adapt in response to the impact of COVID-19 and the increasing inflationary environment on customers during the year. The effectiveness of the measures taken have resulted in collection rates and debt levels at levels broadly comparable with prior year. Continued support has also been provided to South West Water and Bristol Water customers most in need by proactively promoting affordability measures and tariffs.</p> <p>Similarly, Pennon Water Services' collection rates and debt levels have remained robust and there has been proactive engagement with customers most impacted by COVID-19 restrictions to provide tailored support, in line with market code requirements.</p> <p>Despite the effectiveness of mitigations in place, further increases in inflation and the cost of living may result in future affordability challenges for our customers.</p>		While seeking to minimise non-recoverable debt, we recognise customer affordability challenges and the inability to disconnect domestic customers results in a residual risk of uncollectable debt remaining.

1. 2021/22 performance and target excludes Bristol Water – Actual LTIs for Bristol was 10 giving a Pennon Group total of 32 for the year. Future targets to 2025 includes Bristol Water.

#### Key

##### Strategic Priorities

① Leadership in UK water		High		Increasing
② Efficient Operations		Medium		Stable
③ Sustainable growth		Low		Decreasing

Principal Risk	Strategic Impact	Mitigation	Net Risk	Appetite
<b>H: Macro-economic near term risks impacting on inflation, interest rates and power prices</b>				
<p>Long-term priorities</p> <p>② ③</p> <p>Lower inflation or deflation could adversely impact on the Group's revenue and significant changes in interest rates and power prices could increase the Group's cost base.</p>	<p>The volatility currently being experienced in the global economy is impacting on the Group's near term cost base through increased operational costs, power prices and financing costs.</p> <p>Action is taken to mitigating these near term impacts through utilising the Group's in-house procurement function to drive value through competitive tendering, regularly review of the Group's debt portfolio and level of index linked debt, monitoring of forward power prices to manage the exposure to price volatility and increasing the level of renewable energy.</p> <p>Despite these mitigations there remains a degree of exposure beyond the Group's control.</p> <p>Long-term protection from the increasing inflationary environment is provided through inflation linked revenues and RCV growth, along with regulatory true-ups.</p>	<p>▲</p>	<p>The Group seeks to take well-judged and informed decisions while ensuring plans are in place to mitigate the potential impact of macroeconomic risks.</p>	
<b>Operating Performance</b>				
<b>I: The Group's operations and assets are impacted as a result of climate change and extreme weather events</b>				
<p>Long-term priorities</p> <p>① ③</p> <p>Failure of our operations to cope with short-term extreme weather or long-term implications of climate change may result in an inability to meet customer needs, environmental impacts, increased costs and reputational damage.</p>	<p>A low appetite remains amongst regulators and stakeholders for reduced performance arising from extreme weather and climate change.</p> <p>The assessment of both transitional and physical climate change related risks on the Group's assets and operations has informed South West Water's Climate Change Adaptation Plan which was published in December 2021 and the Group's TCFD statement on pages 106 to 122.</p> <p>Additionally, extensive water resource scenario planning has been undertaken as part of the development of South West Water's updated 25 year Water Management Plan, which will be published later in the year, and drought plans are subject to regular review. Bristol Water's Water Resources Management Plan was last published in 2019 and Drought Plan was published in 2022.</p> <p>Proactive capital investment is undertaken on the Group's assets to ensure the continued resilience of both water and wastewater assets, particularly those located on or near flood plains or at risk of rising sea levels and coastal erosion. Additionally the CREWW venture with the University of Exeter was launched during the year which will consider the impact of climate change in delivering resilient water supplies.</p> <p>The Group is also minimizing its environmental and climate change impact through the delivery of its 2030 Net Zero and WaterFit plans.</p>	<p>↻</p>	<p>The Group seeks to mitigate the impact of climate change and extreme weather events through long-term planning, forecasting and investment.</p>	
<b>J: Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water</b>				
<p>Long-term priorities</p> <p>① ③</p> <p>An inability to produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Group's reputation.</p>	<p>Whilst the region continues to experience high levels of demand, water resources have remained resilient during the year and are in a robust position ahead of the summer period. The Group also seeks strategic value enhancing opportunities and has procured a site for the development of a new reservoir in the region.</p> <p>Asset health is managed through a well-established programme of planned and preventative maintenance works which has continued to assist in delivering further improvements within the Group's drinking water operations.</p> <p>In the event of a significant incident detailed contingency plans and incident management procedures are maintained which are regularly reviewed.</p>	<p>↻</p>	<p>The Group operates a low tolerance for significant operational failure of its water treatment assets and seeks to mitigate these risks where possible.</p>	

Principal Risk	Strategic Impact	Mitigation	Net Risk	Appetite
<b>K: Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions</b>				
<p>Long-term priorities</p> <p>① ③</p> <p>An inability to remove or treat wastewater could result in adverse environment impacts, financial penalties, regulatory enforcement and damage to the Group's reputation.</p>	<p>Minimising the impact of our activities on the environment is a strategic priority for the Pennon Board and Executive.</p> <p>The continued delivery of South West Water's Pollution Incident Reduction Plan has resulted in one-third less pollutions compared with the previous year. This has been achieved through continued asset investment and maintenance, enhancing our systems and processes, collaborating with others in the industry to share best practice, helping customers to understand how their behaviour impacts on the local environment and a focus on culture, training, and standards with our workforce.</p> <p>It is recognised, however, that there is more to do to deliver the desired step change in this area.</p> <p>The Group's WaterFit investment programme will deliver £330 million of investment focused on protecting and improving the quality of the region's rivers and seas. Further detail is provided on page 42.</p>	<p>⊘</p>	<p>The Group operates a low tolerance for significant failure of its wastewater processes and assets and maintains the highest level of environmental standards.</p>	
<b>L: Failure to maintain excellent service or effectively engage with our customers and wider stakeholders</b>				
<p>Long-term priorities</p> <p>①</p> <p>Failure to maintain an adequate level of service and engagement could lead to financial penalties for South West Water, the inability of Pennon Water Services to retain and grow market share and damage to the Group's reputation.</p>	<p>The Group continues to invest in its customer services teams and expand the channels by which it can interact with and support customers. Both South West Water and Bristol Water hold the Institute of Customer Service's ServiceMark accreditation. Additionally, South West Water is BSI18477 accredited, a dedicated standard for identifying and responding to customer vulnerability.</p> <p>While written complaints have decreased by 60% in South West Water, C-MeX performance is not where we would like it to be and action is underway to address this. Bristol Water's written complaints have halved during the year and were ranked sixth in the industry for C-MeX performance.</p> <p>Pennon Water Services continues to maintain high customer satisfaction scores, including a rating of 4.85 out of 5 on Trustpilot.</p> <p>The independent WaterShare+ advisory panel acts as a key mechanism for engaging and demonstrating to customers how South West Water is delivering on its business plan and Board pledges. During the year the first WaterShare+ AGM was held.</p> <p>The Group regularly engages with a wide variety of internal and external stakeholders including our people, customers, regulators, environmental stakeholders and our supply chain. During the year and extensive stakeholder engagement process was undertaken and the outcomes have been aligned with the Group's ESG Capitals framework. Further detail is on page 31.</p>	<p>⬆</p>	<p>The Group continually seeks to engage with and increase customer and wider stakeholder satisfaction levels.</p>	
<b>M: Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities</b>				
<p>Long-term priorities</p> <p>① ② ③</p> <p>Failure to have a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Group forward.</p>	<p>There remains high demand nationally for skills and experiences utilised across the Group. The acquisition of Bristol Water has further enhanced the skills and talent available across the Group. During the year senior leaders from across the Group have participated in a talent development programme and Bristol Water's future leaders programme.</p> <p>The Group's HR strategy enables the Group to attract, retain and develop our employees and a number of reward and recognition initiatives have been launched during the year reflecting the significant contribution that our people make.</p> <p>During the year the Group has recruited a further 28 graduates, 136 apprentices and offered 54 placements through the Kickstart programme and 13 placements through the Black Intern initiative.</p> <p>The employee engagement forum has been refreshed during the year and nine new employee networks have been launched.</p> <p>The continued impact of the Group's Employee Benefits and Reward Strategy, a focus on talent management and prioritisation of the Group's diversity and inclusion agenda has again resulted in Pennon being an accredited Great Place to Work for a second year running.</p>	<p>⊘</p>	<p>While a certain level of employee turnover is desirable, we ensure the appropriate skills and experience are in place with succession plans providing adequate resilience.</p>	

#### Key

#### Strategic Priorities

① Leadership in UK water

● High

⬆ Increasing

② Efficient Operations

● Medium

⊘ Stable




③ Sustainable growth

● Low

⬆ Decreasing



Risk management and principal risks (continued)

Principal Risk	Strategic Impact	Mitigation	Net Risk	Appetite
<b>N: Non-delivery of regulatory outcomes and performance commitments</b>				
<p>Long-term priorities</p> <p>① ② ③</p> <p>South West Water's regulatory outcomes and performance commitments cover key strategic focus areas.</p> <p>Non-delivery against these could result in financial penalties being applied as well as reputational damage to the Group.</p>	<p>The delivery of our regulatory outcomes and performance commitments is principally through our operational activities and initiatives.</p> <p>Performance against South West Water and Bristol Water's ODIs is subject to regular scrutiny and review by both the Executive and the Board. This is supplemented by a comprehensive programme of internal and external assurance over reported performance.</p> <p>Approximately 80% of South West Water's and 75% of Bristol Water's ODIs are on track or ahead of target.</p>	<p></p>	<p>The Group is committed to achieving all performance commitments over the length of each regulatory period. Where performance in an individual year falls below expectations, action plans and targeted intervention are implemented to ensure performance returns to committed levels.</p>	
<b>Business systems and capital investment</b>				
<b>O: Inefficient or ineffective delivery of capital projects</b>				
<p>Long-term priorities</p> <p>① ③</p> <p>Inability to successfully deliver on our capital programme may result in increased costs and delays, detrimentally impacting our ability to provide top class customer service and achieve our growth agenda.</p>	<p>Capital projects are subject to an established and robust business case process which includes challenge and modelling of key assumptions. Projects are delivered utilizing skilled project management resource with Executive level oversight.</p> <p>The delivery of projects during the currently regulatory period, including as part of South West Water's Green Recovery Initiative, are progressing.</p> <p>The current volatility in the global economy is placing additional challenges on the Group's supply chain through reducing availability of goods and materials, increased costs and skills shortages.</p> <p>The Group works closely and regularly engages with its supply chain as well as monitoring the financial health of key partners. Established plans and alternative arrangements provide mitigation and early intervention where necessary.</p>	<p></p>	<p>The Board has a low-risk appetite for risk associated with the delivery of capital investment within our regulated business plan.</p>	
<b>P: Inadequate technological security results in a breach of the Group's assets, systems and data</b>				
<p>Long-term priorities</p> <p>①</p> <p>Failure of our technology security, due to inadequate internal processes or external cyber threats, could result in the business being unable to operate effectively and the corruption or loss of data. This could have a detrimental impact on our customers and result in financial penalties and reputational damage to the Group.</p>	<p>External threats to the Group's assets and systems remain heightened, particularly due to the war in Ukraine. External threats, including additional risks resulting from the current conflict in Ukraine, are being regularly monitored by the Group's information security teams.</p> <p>The Group maintains a strong preventive and detective information security framework, aligned to guidance issued by the National Cyber Security Centre.</p> <p>A refreshed information security awareness programme has been launched during the year and South West Water continues to hold the ISO27001 accreditation.</p> <p>During the year both South West Water and Bristol Water have continued to implement improvements as part of the roadmap to meet the requirements of the Network and Information Systems Directive (NIS), with activities aligned to the priorities identified by the Drinking Water Inspectorate.</p> <p>Disaster recovery plans are in place for both corporate and operational technology and are regularly reviewed.</p>	<p></p>	<p>The Group seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Group's operations.</p>	

Principal Risk	Strategic Impact	Mitigation	Net Risk	Appetite
<b>Q: Failure to fully realise the strategic value arising from the acquisition of Bristol Water</b>				
<p>Long-term priorities</p> <p>③</p> <p>The inability to effectively integrate the acquired business could result in a failure to maximise the value of this transaction, impacting on shareholder return.</p>	<p>Following the clearance of the Bristol Water merger by the CMA, integration planning has commenced focused on highlighting and adopting best practices from across the enlarged Group.</p> <p>Synergies of c.£20 million per annum by 2024/25 have been identified through service improvements, supply chain efficiencies, creating common systems and processes and sharing of best practice.</p> <p>The delivery of the integration programme includes Executive involvement with oversight by the Pennon Board.</p>	<p>Following the clearance of the Bristol Water merger by the CMA, integration planning has commenced focused on highlighting and adopting best practices from across the enlarged Group.</p> <p>Synergies of c.£20 million per annum by 2024/25 have been identified through service improvements, supply chain efficiencies, creating common systems and processes and sharing of best practice.</p> <p>The delivery of the integration programme includes Executive involvement with oversight by the Pennon Board.</p>	<p>✓</p>	<p>Opportunities that support the Group's strategic priorities are assessed against an expected level of return adopting clearly defined factors and metrics.</p>

#### Key

##### Strategic Priorities

① Leadership in UK water

High

⬆️ Increasing

② Efficient Operations

Medium

↔️ Stable

③ Sustainable growth

Low

⬇️ Decreasing

# Task Force on Climate-related Financial Disclosures (TCFD)

We are driven by our strategic focus of leading in UK water infrastructure, delivering for the benefit of our customers, communities and the environment.

Our commitment to meeting the challenges arising as a result of climate change forms part of our principal risks. Our TCFD disclosure sets out some of the key climate-related risks and opportunities being addressed by the Group. Our regulated water businesses are the main focus of our TCFD disclosures with the majority of our assets, revenues, and expenditures related to this area.

## TCFD recommendations

Created by the Financial Stability Board (FSB), the TCFD published its recommendations in June 2017. This is our third year of reporting on TCFD and the below shows our progress and compliance to the recommendations.

Within our ESG strategy, we have set clear objectives to demonstrate leadership in minimising emissions that contribute to climate change and to develop climate change adaptation strategies. The Group has set some challenging targets towards a sustainable future including our commitments to achieve operational Net Zero Carbon by 2030 and eliminate water poverty by 2025.

The Group is focused on delivering for our stakeholders including our customers and shareholders. As a result, we are looking to embed key climate-related decision making within the business as well as manage the near term inflationary pressures including power prices. We will also manage change to our investments to explore new technology, materials and nature based solutions within the current global constraints on capacity and supply chains to deliver both affordability and fairness for our customers.

As a Group, we have reported our GHG emissions since 2013. Our GHG emissions performance is disclosed through our CDP Climate change assessment in which we received a B in 2021. You can read our GHG emissions performance on page 90.

## Governance

The organisation's governance around climate related risks and opportunities

### 2021/22 progress

- We have further developed our governance framework, embedding both a Net Zero Committee and Energy Committee into the governance structure.
- The publication of the South West Water Climate Adaptation report in December 2021 focuses on the impacts of physical climate risks to the company.

### 2023 and beyond

- Whilst climate change is already considered as part of the decision-making process across the business, we are looking to further embed the TCFD considerations into the governance and management of climate risks across the business in 2022/23.
- We will look to further embed the assessment and identification of climate-related risks within our investment appraisal processes.

## Strategy

The actual and potential impacts of climate related risks and opportunities on the organisation's business, strategy and financial planning

### 2021/22 progress

- Building on work to assess physical climate risks in 2021, we have expanded our assessment of the transitional climate risks during the year and developed a comprehensive risk and opportunities register of which the key findings are featured on page 108 to 118 of this report. We have established the materiality of key risks with stakeholders across the Group and considered the impacts under different climate transition scenarios.

### 2023 and beyond

- Looking ahead we will integrate our climate risks within our existing risk management systems and risk registers across the Group. We will allocate risk owners who will continue to drive and monitor action to manage risks and pursue opportunities.
- We intend to review our policies and strategic decision-making across the Group in order to enhance considerations of climate risks and opportunities.

## Risk Management

The processes used by the organisation to identify, assess, and manage climate-related risks and opportunities

### 2021/22 progress

- We have enhanced our capability in the assessments of climate-related opportunities by developing criteria to assess the materiality of opportunities, in line with our existing risk management procedures.

### 2023 and beyond

- We will be reviewing our decision-making frameworks and financial models to ensure climate related risks are clearly identified and assessed through the investment processes and operational decision-making.

## Metrics and Targets

The metrics and targets used to assess and manage the relevant climate-related risks and opportunities

### 2021/22 progress

- We have enhanced our climate-related metrics and targets with the establishment of new ESG targets, the continued development of our Net Zero commitments and renewable energy generation.

### 2023 and beyond

- We are continuing to explore options to develop quantitative metrics for our key climate risks and opportunities, and exploring our ability to report on our capital expenditure related to climate action.

## Climate-related Governance

**Disclose the organisation’s governance around climate-related risks and opportunities.**

**Recommended disclosures**

- a. **Describe the board’s oversight of climate-related risks and opportunities.**
- b. **Describe management’s role in assessing and managing climate-related risks and opportunities.**

The Group has a strong governance structure in place to oversee the effective operation of our business with overall ownership and responsibility for climate-related risks, opportunities, and mitigation actions held by the Pennon Group ESG Committee.

Climate change is a principal risk on the Group’s risk register. This means that it is reviewed as part of the wider audit governance processes. It is noted through the risk management process that climate change touches a number of the principle risks and these are included on the underlying risk registers for each. During the regulatory period, climate change planning is assessed to ensure the business remains resilient to changes to its capital programme. For more information see our Corporate Governance report pages 133 to 145.



The responsibility for ESG and climate-related risks and opportunities is then cascaded through the business in order to meet our targets and objectives.

The responsibility for ESG and climate-related risks are clearly owned, managed and assessed by a number the Group’s executive teams within the water businesses including water resources, wastewater, regulation, procurement and finance.

The Executive Directors’ remuneration policy is set to incentivise the achievement of key performance objectives. For 2021/22, the element previously based on personal objectives has changed and now relates to ESG objectives and performance including targets relating to our carbon reduction goals, the working environment for our employees and diversity.





Understanding our customers views is fundamental to managing their expectations and providing the regulator with more information on how we interact with our customers and what their views are on different scenarios and matters.

In 2021, South West Water carried out additional customer research. The overall feedback on priorities are consistent but customer focus on the environment and climate change is increasing. Specific feedback from customers has been:

- 9 in 10 customers consider climate change to be a significant environmental risk that needs action.
- Climate change and protecting the environment are viewed as requiring transformational change to make a step change.
- Customers support dealing with climate change by reducing carbon emissions and addressing the impacts of climate change. Steps to reduce energy use and carbon emissions are urgent and also supports value for money services.
- Customers think it is important to protect infrastructure from the impacts of climate change, to enable services to be maintained in the face of even more extreme weather.
- Customers think that investment in addressing the impacts of climate change and storm overflows are essential, but the investment needs to be paced to deal with the highest priorities first, or in the case of climate change as the needs arise.

### Physical Risks

Key physical climate risks	Key impacts identified on operations and customers <sup>1</sup>	Relevant time horizon	Examples of actions to mitigate risks & realise opportunities	Risk score in 2025 including current actions	Risk score in 2050 without further action	Primary impact to the business
Increasing frequency and intensity of droughts	<ul style="list-style-type: none"> <li>• Drought events lead to loss of supply and de-pressurisation of pipelines, greater incidence of pipe failure and contamination.</li> <li>• More extreme wetting and drying cycles cause soil movement, more pipe movement/subsidence and bursts.</li> <li>• Lower river flows as a result of drought events reduce yields.</li> <li>• Lower groundwater levels reduce borehole yields. Intake, borehole pump and reservoir draw-off levels do not match reduced levels.</li> <li>• Increased daily and peak demand for garden watering and crop irrigation during drought events.</li> </ul>	Short, medium & long term	<p><b>Current actions:</b> Demand management and water efficiency, including Per Capita Consumption (PCC) reductions. Leakage reduction strategy. Investigation of regional water transfers. Potential Abstraction Incentive Mechanism (AIM) schemes.</p> <p><b>Planned actions:</b> Water Resources Management Plan including demand management options i.e. increased metering, leakage reduction. Drought planning beyond five years including more extreme events. Stochastic and multi-year drought analysis to test how water supply systems perform in extreme long droughts. Collaborative water resource management planning – West Country Water Resources and Water Resources South East.</p>			<p>Reputation and cost (service disruptions will negatively impact reputation and reduce ODI rewards/increase ODI penalties.</p> <p>Additional costs for leakage reduction and demand management, likely recovered through regulatory system).</p>

1. Key impacts are taken as the top scoring risks from South West Water's Adaptation Report 2021 under the relevant climate driver, considering the 2025 and 2050 time horizons.

## Strategy

**Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.**

### Recommended disclosures

- Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.**
- Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning.**
- Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**




As part of our 2022 disclosure, we have developed our assessment of transition risks and opportunities. In 2021, we focused on the physical risks which would affect the business alongside South West Water's Climate Adaptation Report. Both South West Water and Bristol Water submitted their reports to Defra in 2021.

The most material physical and transitional climate-related risks and opportunities are presented on the following pages.




The risks have been assessed using the Pennon 4x4 assessment grid which puts the highest risks in the red category under the RAG review.

The Group has looked at the risks through the lens of the larger South West Water business but believe the water risks remain consistent throughout the water business.

**Key Risk**

 High  Medium  Low

**Opportunity**

 High  Medium  Low

Key physical climate risks	Key impacts identified on operations and customers <sup>1</sup>	Relevant time horizon	Examples of actions to mitigate risks & realise opportunities	Risk score in 2025 including current actions	Risk score in 2050 without further action	Primary impact to the business
Increasing average temperatures and heatwaves	<ul style="list-style-type: none"> <li>Algal blooms, triggered by catchment runoff, are exacerbated by higher temperatures.</li> <li>Decreased water quality (odour, discolouration, dissolved organics, Cryptosporidium) requiring additional resources and cost to remove pathogens from drinking water or ensure water quality meets regulatory standards at WTWs.</li> <li>Higher peak demand for water.</li> <li>Increased microbe propagation and survivability affecting treatment process</li> <li>Higher septicity levels in received wastewater</li> <li>Increased prevalence of invasive non-native species.</li> </ul>	Short, medium & long term	<p><b>Current actions:</b> Upstream Thinking catchment management. Granular activated carbon at certain Water Treatment Works (WTWs). Robust health and safety practices and management.</p> <p><b>Planned actions:</b> Upgrade to granular activated carbon treatment at further WTWs.</p>	●	●	<p>Reputation and cost (service disruptions will negatively impact reputation and reduce ODI rewards/increase ODI penalties.</p> <p>Increased costs for water treatment and upgrades to WTWs, potentially recovered through regulatory system).</p>
Increasing frequency of heavy rainfall and floods	<ul style="list-style-type: none"> <li>Increased river flows and risk of bank erosion exposing wastewater pipes increasing the risk of collapse.</li> <li>Increased volumes of storm water exceed pump capacity leading to service failures.</li> <li>Exceedance of storm tank design and asset flooding/ damage with interruption to service.</li> <li>Increased frequency of storm overflows.</li> <li>Dilution of, and rapid variations in influent flows – longer retention of water in storm tanks leads to increased septicity and operational problems.</li> <li>Catchment erosion in moorland or peatland areas, with nutrients leaching that increase algal growth in waterbodies and reservoirs.</li> <li>Increased flood incidence impacts water quality for some boreholes, may result in temporary inaccessibility or contamination.</li> <li>Increased runoff/overland flow and greater sediment levels in raw water; loss of access to assets and asset flooding.</li> </ul>	Short, medium & long term	<p><b>Current actions:</b> Catchment management through Upstream and Downstream Thinking. Asset flood risk assessments undertaken every five years. Contingency planning in flood risk hotspots e.g. River Otter (SWW). New Mayflower WTW in Plymouth increases local flood resilience. Partnership flood schemes e.g. Countess Wear Waste Water Treatment Works (WWTW) (Exeter). Drainage &amp; Wastewater Management Plan (DWMP). Management of Combined sewerage overflows (CSO) spill risks/bathing water compliance. £2.57 million in PR19 to improve flood defences at four WTWs up to 1 in 1,000 year events. Sites have temporary deployable flood protection.</p> <p><b>Planned actions:</b> Further sewer separation schemes in areas at risk. Surface water drainage plans and investment in key areas. Upstream Thinking expansion. Real-time monitoring and control (e.g. at all CSOs). Continue to improve incident management.</p>	●	●	<p>Reputation and cost (service disruptions will negatively impact reputation and reduce ODI rewards/increase ODI penalties.</p> <p>Additional costs for improving operational resilience, Upstream and Downstream Thinking, potentially recovered through regulatory system).</p>

1. Key impacts are taken as the top scoring risks from South West Water's Adaptation Report 2021 under the relevant climate driver, considering the 2025 and 2050 time horizons.

Task Force on Climate-related Financial Disclosures (continued)

Key physical climate risks	Key impacts identified on operations and customers <sup>1</sup>	Relevant time horizon	Examples of actions to mitigate risks & realise opportunities	Risk score in 2025 including current actions	Risk score in 2050 without further action	Primary impact to the business
Rising sea levels	<ul style="list-style-type: none"> <li>Rising sea levels increase the extent of the saline intrusion zone. Saltwater intrusion of groundwater sources causing source to become unusable. Tidal limits move upstream, causing increased salinity at river intakes.</li> <li>Rising sea levels increase the extent of the saline intrusion zone causing accelerated asset deterioration and process performance efficacy.</li> <li>Coastal estuarine storm overflow discharges become tide-locked hindering free discharge</li> <li>Direct asset flooding/ storm damage/coastal erosion.</li> </ul>	Short, medium & long term	<p><b>Current actions:</b> Improved flood resilience of all assets in the coastal floodplain. Protection of sites from saline intrusion/incursion (Otter Basin). Partnership flood schemes e.g. Countess Wear WWTW (Exeter). Asset flood risk assessments undertaken every five years.</p> <p><b>Planned actions:</b> Protection of further sites from saline intrusion/incursion.</p>	●	●	Reputation and cost (costs for protecting sites and for using alternative water supply if sites become unusable. Potential for costs to be recovered through regulatory system).
Increasing frequency of extreme weather events and storms	<ul style="list-style-type: none"> <li>Power supply failure due to high winds, heavy rainfall/flooding, lightning at key network and treatment sites.</li> <li>Cold snaps and freeze-thaw events leading to pipe bursts.</li> </ul>	Short, medium & long term	<p><b>Current actions:</b> Cold weather plan. Investment in centralised control room and alternative water supply teams. Duplication of strategic water mains network. Backup power at plants to manage risks of energy supply interruption. Recovery plans for 100 WWTWs.</p> <p><b>Planned actions:</b> Real-time monitoring and control. Extend recovery plans at more WWTWs.</p>	●	●	<p>Reputation and cost (service disruptions will negatively impact reputation and reduce ODI rewards/increase ODI penalties.</p> <p>Additional costs to restore services, some of which may be recovered through regulatory system).</p>

**Key Risk**

● High ● Medium ● Low

**Opportunity**

● High ● Medium ● Low

## Transition Risks

Type as defined by TCFD	Potential risks and opportunities – further details	Relevant time horizon of risk	Examples of actions to mitigate risks & realise opportunities	Risk rating after controls	Primary impact
Policy, Regulation & Legal Risks	<p><b>Uncertainty in climate-related regulation in the Water sector, posing the risk of increasing costs and carbon:</b> Uncertainty about climate-related policies and regulations in the Water sector, including potential misalignment in actions to improve environmental outcomes at the same time as reducing carbon.</p> <p>In some cases new/enhanced policies and regulations pose a risk due to increasing costs to Pennon or increasing Pennon's carbon footprint, in other cases the lack of policies and regulation pose a risk due to potential that costs incurred by Pennon may not be recovered through the regulatory system.</p> <p>Some examples include:</p> <ul style="list-style-type: none"> <li>• more stringent environmental regulation being imposed in response to the climate adaptation and resilience agenda</li> <li>• reduced abstraction allowances being imposed</li> <li>• changes to carbon accounting methodologies and scope boundaries</li> <li>• absence of carbon reduction target from water sector regulators</li> <li>• enhanced requirements which increase Pennon's energy and carbon footprint e.g. Phosphorus removal, and UV disinfection.</li> </ul>	Short & medium term	<p><b>Managing uncertainty in climate policy and regulation:</b></p> <p><b>Current Actions:</b> Horizon scanning to identify emerging regulation, stakeholder engagement/public relations management, Net Zero programme, engaging with regulators to explain the climate change impacts of new regulation, working with others in the sector to clarify carbon accounting approaches.</p> <p><b>Future Actions:</b> Pursuing opportunities for low-regret solutions and nature based solutions, investment in innovation/research and development, and climate action investment in enhancements to resilience to key risks, considering applying an internal carbon value to consider full costs and benefits of decisions, public value assessments in decision-making.</p>	●	Cost (potential costs incurred due to changes to regulation, may be potential to recover some cost through regulatory system over time. Potential increase in carbon footprint due to increased treatment requirements).
Policy, Regulation & Legal Risks	<p><b>Regulatory funding risk for achieving Net Zero by 2030 and adapting to climate change:</b> Risk that the investment required to transition to and adapt to climate change in the time period targeted by Pennon, is not allowed in the regulatory funding risk.</p>	Short & medium term	<p><b>Managing regulatory funding risk:</b></p> <p><b>Current Actions:</b> Business Planning/making case for investment, engagement with regulators and customers and stakeholders, public campaigns/awareness of investment need for climate action including TCFD programme, exploring options to ensure a return on investment for some climate-related actions, demonstrating/communicating Net Zero 2030 in water sector is a useful and helpful milestone on the way to government's goal for Net Zero 2050.</p> <p><b>Future Actions:</b> Explore options for third-party funding or partnerships for climate action.</p>	●	Cost (potential to recover some cost through regulatory system over time).





Type as defined by TCFD	Potential risks and opportunities – further details	Relevant time horizon of risk	Examples of actions to mitigate risks & realise opportunities	Risk rating after controls	Primary impact
Technology Risks	<p><b>Capacity and readiness of technology and resources to achieve Net Zero before other sectors and the wider UK:</b> Risks that skills, technology, resources, and infrastructure are not ready and available to enable Pennon's transition to Net Zero operational carbon by 2030, resulting in delays and in some cases resulting in Pennon paying high costs to access resources.</p> <p>Some examples include:</p> <ul style="list-style-type: none"> <li>• availability and capacity of Pennon's workforce and supply chain to procure and design low carbon solutions</li> <li>• availability and capacity of technology and infrastructure, particularly in the South West of England, to enable development of Pennon's renewable energy projects and other Net Zero programme activities</li> <li>• high demand for resources and technologies from others causing delays and increasing costs for Pennon (e.g. demand for expertise, batteries, electric vehicles)</li> <li>• unsuccessful investment in new technologies, or technology which is then superseded.</li> </ul>	Short & medium term	<p><b>Managing capacity constraints in Pennon:</b></p> <p><b>Current Actions:</b> Continual enhancement of capacity within Pennon (e.g. training, recruiting key skills), collaboration with supply chain partners (e.g. consultants, technology providers, contractors), collaboration with stakeholders (e.g. academia, environmental groups in South West), collaboration with other water companies and across the sector to develop standard approaches and enhance capacity.</p> <p><b>Future Actions:</b> Prioritising actions/solutions which are low-regret/ flexible e.g. nature-based solutions, piloting options/technology before scaling.</p> <p><b>Managing supply chain and infrastructure limitations:</b></p> <p><b>Current Actions:</b> Horizon scanning to identify emerging limitations and risks, engagement with key suppliers and partners, enhancing capacity within Pennon to reduce reliance on suppliers, enhancing collaboration with partners and stakeholders. Engaging with infrastructure providers, regulators and government to encourage investment to enable network capacity.</p> <p><b>Future Actions:</b> Procurement strategies for key technologies/expertise, enhancing supply chain resilience (e.g. diversification of suppliers), exploring options which are less reliant on network capacity (e.g. onsite battery storage), purchasing renewable electricity.</p> <p><b>Managing costs to transition:</b></p> <p><b>Current Actions:</b> Seek to fund investment through the regulatory process (business planning and price reviews). Investment in innovation to reduce costs of low carbon technology.</p> <p><b>Future Actions:</b> increasing efficiency to reduce costs, recovering some costs from retired assets (e.g. selling used equipment), explore partnership opportunities (e.g. PPAs).</p> <p><b>Avoiding unsuccessful investment:</b></p> <p><b>Current Action:</b> R&amp;D programme with gated investment (e.g. piloting before scaling up), horizon scanning to identify emerging technology and risks, procurement strategies to reduce costs (e.g. competitive tendering, joint ventures etc.), learning from others in the water sector in UK and international.</p> <p><b>Future Action:</b> Prioritising solutions that are low-regret, particularly nature-based solutions through piloting technology before scaling.</p>	●	Cost (costs incurred due to delays and due to high demand for resources. Potential to recover some cost through regulatory system over time).

**Key**

**Risk** ● High ● Medium ● Low

**Opportunity** ● High ● Medium ● Low

Type as defined by TCFD	Potential risks and opportunities – further details	Relevant time horizon of risk	Examples of actions to mitigate risks & realise opportunities	Risk rating after controls	Primary impact
Market Risks	<p><b>Increased costs of energy and materials due to climate impacts and the transition to Net Zero:</b> Increases in costs of energy sources and input materials due to the Net Zero transition and/or impacts of climate change. Some examples include:</p> <ul style="list-style-type: none"> <li>• Price of electricity increasing due to transition to Net Zero, particularly 100% renewable electricity which may be in high demand/ limited supply</li> <li>• Price of fuels and gas increasing due to transition to Net Zero</li> <li>• Price of chemicals and construction materials (e.g. cement, steel) increasing.</li> </ul>	Short & medium term	<p><b>Managing cost of energy:</b></p> <p><b>Current Actions:</b> Generation of renewable energy, increasing efficiency to reduce energy demand (e.g. enhance energy efficiency, reduce leakage), electricity price hedging.</p> <p><b>Future Actions:</b> Fuel switching, changing operational practices to reduce energy use/ energy cost (e.g. taking advantage of off-peak electricity pricing), exploring options which require less energy (e.g. nature-based solutions).</p> <p><b>Managing cost of input materials:</b></p> <p><b>Current Actions:</b> procurement strategies to reduce cost (e.g. competitive pricing).</p> <p><b>Future Actions:</b> Increasing efficiency to reduce material use, light-weighting/reducing material consumption, enhancing supply chain resilience (e.g. diversifying suppliers to reduce cost), investing in innovation to use different chemicals and materials.</p>		Cost (potential to recover some cost through regulatory system over time).
Reputational Risks	<p><b>Negative public and stakeholder relations due to Pennon failing to be seen as a leader on climate action and environmental sustainability:</b> Negative perception from the public/stakeholders/regulators, possibly linked to a major climate-related incident/event/failure. Some examples include:</p> <ul style="list-style-type: none"> <li>• Public concern about climate-induced pollution events and sewer overflows (e.g. after storms linked to climate change)</li> <li>• Customers and stakeholders concerned about the environmental impact of abstraction and wastewater discharge in response to the climate adaptation agenda</li> <li>• Shifts in stakeholder/customer expectations related to carbon and climate which are difficult for Water companies to manage</li> <li>• Stakeholder and customer dissatisfaction if Pennon fails to meet Net Zero commitments.</li> </ul>	Short & medium term	<p><b>Managing public and stakeholder relations:</b></p> <p><b>Current Actions:</b> Risk management practices, investment to reduce key risks, Net Zero programme, environmental programmes (e.g. Water Industry National Environment Programme – WINEP), customer and stakeholder engagement/public relations, ESG and sustainability initiatives, community outreach and educational programmes.</p> <p><b>Future Actions:</b> considering applying an internal carbon value to consider full costs and benefits of decisions, consider new ways to enhance engagement with customers and communities.</p>		Reputation and Cost (negative reputational impacts, and potential costs incurred to manage stakeholder relations).

Type as defined by TCFD	Potential risks and opportunities – further details	Relevant time horizon of risk	Examples of actions to mitigate risks & realise opportunities	Risk rating after controls	Primary impact
Reputational Risks	<p><b>Customer affordability and fairness concerns for achieving Net Zero and adapting to climate change:</b> Affordability for customers and questions around fairness become very challenging (even with government contribution) due to investment needs related to climate, which could result in dissatisfaction from customers and stakeholders.</p>	Short & medium term	<p><b>Managing customer affordability:</b></p> <p><b>Current Actions:</b> Secured government contribution to customers bills, customer and stakeholder engagement/public relations (including engaging with regulators and government about sharing costs etc.), community outreach and educational programmes to help explain need for investment in climate action, seeking return of investment for actions taken to manage climate, arrangements with/requirements on suppliers to cover some costs (e.g. building leases), procurement strategies to reduce costs (e.g. competitive tendering, joint ventures etc.), support programmes for customers struggling to pay bills, phased investment in climate adaptation over time to reduce pressures on bills.</p> <p><b>Future Actions:</b> exploring actions to reduce costs across the business, becoming more efficient to reduce costs to reduce impacts on customer bills, innovation programme seeking to reduce costs, recovering some costs from retired assets (e.g. selling off), seeking third-party sources for investment (e.g. climate action grants/funds).</p>	●	Reputation & Cost (negative reputational impacts, and potential costs incurred to manage stakeholder relations).

**Transition opportunities**

Resource Efficiency	<p><b>Saving water, energy, materials, and carbon by enhancing efficiency, using low-carbon and nature based solutions, and reducing emissions across Pennon’s supply chain:</b> Opportunities to invest in enhancing efficiency and reduce wastage of water, energy, and materials, opportunities to use low-carbon construction, approaches, and nature-based solutions, and opportunity to work with suppliers to reduce their carbon footprints and enhance their sustainability. Some examples include:</p> <ul style="list-style-type: none"> <li>• Pennon’s leakage reduction programme, water efficiency programme, smart metering, rainwater harvesting, grey water, incentivising customers to use less hot and cold water</li> <li>• Enhancing efficiency of process equipment (reducing energy use and chemical use), energy saving measures for buildings and transport</li> <li>• Substituting construction materials for low carbon alternatives, local sourcing of materials, enhancing efficiency of material use in construction.</li> </ul>	Short & medium term	<p><b>Enhancing water efficiency:</b></p> <p><b>Current Action:</b> Leakage reduction programme, water efficiency programme (within Pennon’s own operations and across customer networks), smart metering, customer education/outreach, communications around carbon etc.</p> <p><b>Future Actions:</b> Rainwater harvesting, incentivising customers to use less water, considering applying an internal carbon value to consider full costs and benefits of decisions.</p> <p><b>Enhancing process, building, and transport efficiency:</b></p> <p><b>Current Actions:</b> Actions to enhance process efficiency, energy efficiency programme for Pennon’s buildings, requirements in leases for efficient buildings, changes to operational practices to reduce need for travel (e.g. remote monitoring and control), procurement/leasing of efficient vehicles.</p> <p><b>Future Actions:</b> Investments in innovation to enhance efficiency, changes to operational practices to enhance efficiency (e.g. real time monitoring and control), partnerships with suppliers/ outsourcing specific operations, option to relocate to efficient buildings, employee carpooling, lightweighting vehicles, considering applying an internal carbon value to consider full costs and benefits of decisions.</p>	●	Carbon (potential to reduce carbon footprint, however requires significant investment. Some costs may be recoverable through regulatory system over time).
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**Key**

**Risk** ● High ● Medium ● Low

**Opportunity** ● High ● Medium ● Low

## Climate-related opportunities

Type as defined by TCFD	Potential risks and opportunities – further details	Relevant time horizon of risk	Examples of actions to mitigate risks & realise opportunities	Risk rating after controls	Primary impact
Resource Efficiency (continued)	<ul style="list-style-type: none"> <li>Using technology to avoid high-carbon interventions, such as using Real Time Control in sewers to increase operational capacity instead of constructing bigger sewers.</li> <li>Constructing wetlands for wastewater treatment and sustainable drainage systems (SuDS) to reduce capital and operational carbon.</li> <li>Removing carbon from the atmosphere through investing in marine carbon opportunities, restoring peatlands, tree planting, and soil and grassland activities</li> <li>Working with suppliers to reduce their carbon footprints and enhance their sustainability, and opportunity to access new suppliers with high ESG credentials.</li> </ul>		<p><b>Using low-carbon solutions:</b></p> <p><b>Current Actions:</b> Implementing capital carbon accounting.</p> <p><b>Future Actions:</b> Net Zero programme (embodied carbon initiatives), engagement with supply chain, procurement strategies (e.g. requirements on suppliers), innovation programme (e.g. exploring alternative materials and approaches), collaborations with supply chain (e.g. optioneering to reduce embodied carbon), learning from other companies in UK and international, considering applying an internal carbon value to consider full costs and benefits of decisions.</p> <p><b>Using nature-based solutions:</b></p> <p><b>Current Actions:</b> Embedding natural capital into decision making, investing in innovation and piloting.</p> <p><b>Future Actions:</b> Establishing partnerships with stakeholders (e.g. landowners), collaborations with supply chain (e.g. optioneering considering nature-based solutions), learning from other companies in UK and international, considering applying an internal carbon value to consider full costs and benefits of decisions.</p> <p><b>Reducing supply chain carbon:</b></p> <p><b>Current Actions:</b> Engaging with suppliers.</p> <p><b>Future Actions:</b> Procurement strategies (e.g. requirements on suppliers to meet ESG criteria/ low climate risks, reduce emissions), learning from other companies in UK and international, diversifying supply chain to lower emissions/risks, sourcing locally where possible, life cycle assessment requirements for suppliers.</p>	●	



Type as defined by TCFD	Potential risks and opportunities – further details	Relevant time horizon of risk	Examples of actions to mitigate risks & realise opportunities	Risk rating after controls	Primary impact
Energy Source	<p><b>Reducing carbon and enhancing energy resilience by using and generating renewable energy:</b> Opportunities to lower carbon by using renewable energy and opportunities to invest in renewable energy generation which can lower carbon and enhance energy resilience (e.g. less reliance on energy suppliers).</p> <p>Some examples include:</p> <ul style="list-style-type: none"> <li>• South West Water’s commitment to purchase 100% renewable electricity from 2022 onwards</li> <li>• Switching fuels to lower-carbon sources, such as switching diesel to renewable electricity and HVO as a transition fuel</li> <li>• Generating renewable energy on Pennon’s sites and through partnerships (e.g. PPAs) such as through generating energy from wastewater and sludge, and generating electricity through solar and wind.</li> </ul>	Short & medium term	<p><b>Using renewable energy:</b></p> <p><b>Current Actions:</b> Procurement strategy for renewable energy, supply contract for 100% renewable energy by 2023, Net Zero programme, prioritising investment to deliver highest carbon reduction, seeking return on investment (ROI) where possible, investment in generating renewable energy.</p> <p><b>Future Actions:</b> trialling low-carbon fuels, innovation programme (e.g. exploring options to generate and recover energy from sewers), engagement with potential partners for PPAs, establishing the commercial and legal arrangements to co-fund investments/buy renewable energy directly from suppliers, considering applying an internal carbon value to consider full costs and benefits of decisions.</p>	●	Carbon (potential to reduce carbon footprint, however requires significant investment. Some costs may be recoverable through regulatory system over time).
Products and Services	<p><b>Enhancing revenue through delivering water resources schemes for other water companies:</b> Opportunities to invest in water resources schemes linked to climate change, enhancing revenue for Pennon.</p> <p>Some examples include:</p> <ul style="list-style-type: none"> <li>• Water transfers from Pennon to other water companies</li> <li>• Delivering strategic resource options (SROs) through Direct Procurement for Customers (DPC) in areas outside of South West England</li> <li>• Opportunities to sell expertise and technologies for water efficiency and leakage reduction.</li> </ul>	Short, medium & long term	<p><b>Delivering water resources schemes:</b></p> <p><b>Current Actions:</b> Strategic planning (e.g. Water resource management programme), engagement with other water companies, engagement with regulators and stakeholders, establishing commercial and legal arrangements for water transfers/SROs.</p> <p><b>Future Actions:</b> investments in infrastructure to enable transfers SRO schemes (e.g. investing in water efficiency and leakage reduction in the South West region, investing in infrastructure outside of the South West region), engagement with customers to build support (e.g. social license).</p> <p><b>Selling expertise and technology:</b></p> <p><b>Current Actions:</b> investment in innovation and piloting new technology and approaches.</p> <p><b>Future Actions:</b> Market research to identify appetite for services (e.g. grey water harvesting, leakage detection, desalination), establishing commercial and legal arrangements for selling expertise, engagement with stakeholders and regulators and potential customers/partners.</p>	●	Revenue (potential to increase revenue through supplying additional water, however requires significant investment. Potential for costs to be recoverable through regulatory system over time).
Markets	<p><b>Generating value and reducing cost of capital through sustainable financing:</b> Opportunity to reduce the cost of finance (and avoid cost increases) through access to sustainable financing and generation of green financial assets. Our Sustainable Finance Framework is part of our strategy for taking action on climate change, and our approach is evolving as policy and markets change and information becomes available. We are exploring the implications for our business, including regulatory developments such as the EU Taxonomy/UK Green Taxonomy.</p>	Short & medium term	<p><b>Sustainable finance:</b></p> <p><b>Current Actions:</b> Sustainable financing framework, TCFD programme, investigating requirements to access sustainable finance markets, procurement &amp; finance strategies, ESG initiatives.</p> <p><b>Future Actions:</b> establishing commercial and legal arrangements for buying and selling green financial assets/credits, future disclosure/ESG initiatives(e.g. EU Taxonomy, Taskforce on Nature-related Financial Disclosures), exploring opportunities to attract third-party funding.</p>	●	Cost & Reputation (potential to reduce costs or avoid cost increases for capital, and potential to enhance reputation)

**Key Risk**

● High   ● Medium   ● Low







**Opportunity**

● High   ● Medium   ● Low

Type as defined by TCFD	Potential risks and opportunities – further details	Relevant time horizon of risk	Examples of actions to mitigate risks & realise opportunities	Risk rating after controls	Primary impact
Resilience	<p><b>Enhancing resilience across Pennon's operations, asset base, and supply chain to avoid costs and enhance value:</b> Opportunity to invest in enhancing resilience across Pennon's business and supply chain, in some cases saving cost (e.g. avoided damage/losses, avoided penalties on ODI's and GSS) and enhancing company reputation and value. Some examples include:</p> <ul style="list-style-type: none"> <li>Enhancing Pennon's resilience by investing in climate change adaptation e.g. investing in drought and flood prevention measures to avoid customer disruption/ penalties/ compensation payments and avoid asset damage.</li> <li>Enhancing supply chain resilience by investing in buffers/storage for critical resources, diversifying suppliers, replacing suppliers who have high climate risks, thereby reducing potential risks and costs associated with supply chain disruption and delays.</li> </ul>	Short, medium, and long term	<p><b>Enhancing Pennon's resilience:</b></p> <p><b>Current Actions:</b> company resilience planning, climate risk assessments and climate adaptation planning, engaging stakeholders and regulators and customers, investments in response and recovery to operational disruption.</p> <p><b>Future Actions:</b> Actions to adapt to climate change (e.g. enhancing drought resilience) and to mitigate climate risks.</p> <p><b>Enhancing supply chain resilience:</b></p> <p><b>Current Actions:</b> existing storage and buffers for resources (e.g. chemical storage, parts storage), existing diversity in suppliers.</p> <p><b>Future Actions:</b> Actions to enhance supply chain resilience (e.g. diversifying suppliers/ location of suppliers), procurement strategies (e.g. requirements on suppliers to meet ESG criteria/ low climate risks), investments in response and recovery to supply chain disruption.</p>		Cost & Reputation (potential to reduce and avoid costs, however requires significant investment. Potential to enhance reputation. Potential for costs to be recoverable through regulatory system over time).

## Climate Scenario Analysis

In alignment with the TCFD recommendations, we have assessed the risks and opportunities associated with climate change and the transition to a Net Zero climate resilient economy over short, medium and long term horizons using the following scenarios.

Physical risk scenarios	
<p><b>RCP2.6<sup>1</sup>: Lower Physical Impacts</b></p> <p>An approximate '2°C' warming scenario by the year 2100 – corresponding to a low emissions 'optimistic' scenario.</p>	<p><b>RCP8.5<sup>1</sup>: High Physical Impacts</b></p> <p>An approximate '4°C' warming scenario by the year 2100 – corresponding to a high emissions 'business-as-usual' scenario, which is appropriate to use when considering high risks.</p>
Transition risk scenarios	
<p><b>'1.5 degree' scenario: Fast Transition</b></p> <p>A scenario which sees the UK as a global leader with strong policies and actions to mitigate climate, aligned with the Paris Agreement.</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Policy ambition</p> <p><b>1.5°C</b></p> </div> <div style="text-align: center;">  <p>Government policy</p> <p><b>Immediate and smooth</b></p> </div> <div style="text-align: center;">  <p>Technology change</p> <p><b>Fast change</b></p> </div> </div>	<p><b>'Current policies' scenario: Slow Transition</b></p> <p>A scenario which sees the UK make incremental progress to mitigate climate change, but assumes no major policy changes and results in missing the aims of the Paris Agreement.</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Policy ambition</p> <p><b>3°C+</b></p> </div> <div style="text-align: center;">  <p>Government policy</p> <p><b>None – current policies</b></p> </div> <div style="text-align: center;">  <p>Technology change</p> <p><b>Slow change</b></p> </div> </div>

1. The IPCC's Representative concentration pathways from the IPCC's 5<sup>th</sup> assessment (2014)

**Physical Risks**

**Approach taken**

The Group undertook qualitative scenario analysis in early 2021 considering the financial implications of the physical climate risks for South West Water under two climate scenarios based on the IPCC’s Representative Concentration Pathway (RCP) scenarios. Potential material financial impacts were considered over the 10 year horizon to 2030, aligning with the Group’s regulatory financial viability testing. Material impacts on the business and strategy were considered over the time horizon to 2050 – aligning with a medium term view of climate change impacts before uncertainty increases beyond 2050. We plan to extend our analysis to cover Bristol Water (acquired June 2021) in the coming year.

The previous risk assessments and long-term plans have incorporated climate change based on the UK Climate Projections 2009 (UKCP09), as the planning pre-dated the release of UKCP18 in 2018 and onwards. This includes the translation of UKCP09 scenarios into national guidelines for water resources management and flood and coastal erosion risk management. In broad terms, our WRMP19 considers warming of around 3°C by the end of the century, because it was based on the UKCP09 Medium Emissions scenario, plus some additional allowances for climate change uncertainty. In addition, in all of the plans South West Water adopt an adaptive approach, including sensitivity analysis of more extreme scenarios, so that South West Water are ready to adjust the plans to incorporate the latest scientific evidence and take necessary action. SWW are currently updating the WRMP to produce WRMP24, undertaking regional planning, and developing the Drainage and Wastewater Management Plan. All of these updated and new plans will use UKCP18 data and inform the South West Water next business plan. The Group has looked at the risks through the lens of the larger South West Water business but believe the water risks remain consistent throughout the water business.

**Impacts**

- The most significant financial impacts for the Group are on the input costs and operating costs, capital costs, and Outcome delivery Incentive (ODIs) penalties and rewards (due to potential failure to achieve performance commitments as part of the regulatory framework).
- The risk assessment clearly shows long term significant risks if the impacts of climate change are not mitigated. South West Water operates over £6 billion of water assets and over £7 billion wastewater assets all of which will be affected by climate change in some way.

- The high risks around climate change noted in previous reporting remain key concerns, however risks related to all physical risks are increasing. In a worst-case scenario potentially up to an additional ten sewage works, and 150 sewage pumping stations could be at risk of sea level inundation. This alone could be in well excess of £200 million of new investment every five years for the next 20 years. This assumes no further protection against flooding is invested in and although some of this will be at the company’s expense wider flood protection will be required to protect wide ranging coastal assets.
- The risks to Pennon’s infrastructure are affected by risks to the natural environment, and therefore South West Water continues to invest heavily 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.

**Strategic response**

Our strategy for managing physical climate risks and financial impacts can be summarised as: adapt to climate change, enhance resilience, innovate, become more efficient, and balance investment, in order to maintain and improve the Company’s performance to the year 2050. This will require significant action and investment by the Company, as well as action by supply chain partners and wider actors.

Longer term investment, as outlined in the strategic plans, will be needed to manage future risks to acceptable/tolerable levels. The long-term risk is significant and will require additional investment to mitigate their effect. To achieve this regulatory and government support within their policy frameworks will be needed.

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. The extensive programme of environmental improvement has resulted in some of the finest bathing waters in Europe to meet these challenges and the expectations of our customers having seen record visitors following the COVID-19 pandemic it is expected further investment will be required to maintain the progress made by Pennon Group to protect the environment and our bathing waters.

Compared to today, overall our revenue is unlikely to be impacted significantly as we operate in a regulated environment funded through Price Reviews. 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, and additional capital investment will be required. The value of our assets and our cost of capital would remain relatively unchanged compared to today.

**Key assumptions**

Scenarios focus on the UK policy and regulatory context and are semi-independent of global action, and temperature pathways It is assumed that the current high energy prices remain high throughout the decade.

Environmental ambition is not strongly coupled to the pace of transition.

No significant change to Pennon Group’s business activities.

Population in our region increases by 0.4 million, 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).

## Impacts

### UK Slow Transition Scenario

This scenario provides a challenging context for meeting our 2030 operational Net Zero target. In this scenario we have identified the following main impacts for the business:

- **The cost to the business of achieving the 2030 target rises, and there is less ability to recover costs through the regulatory pricing system.** This is compounded by higher costs for access to low carbon technologies and related skills (due to the UK's underinvestment in this scenario), and increased costs related to both our own renewable energy generation, and the purchasing of green electricity from external suppliers (where demand is likely to outstrip supply).
- **Meeting our 2030 target requires greater use of carbon offsets.** The enabling environment for decarbonisation is weaker and costs are higher, which leads to slower progress in emissions reductions across our business. As a result the residual emissions that need to be offset rise, which adds to the cost.
- **Environmental targets require additional energy use.** New guidance on targets for both nutrients and stormwater overflow will require a significant increase in energy use and associated capital and operational carbon. While nature-based solutions will form part of the solution, 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 1 and 2 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 the 2030 target, for example regarding the increased use of carbon offsets. Some may be highly sensitive to affordability, and increasingly scrutinise our investments choices.
- **Opportunities are lower than the Fast Transition scenario.** Opportunities for our business remain, however, they are in general more limited, and with lower return than in the fast transition scenario. Increasing energy and resource use efficiency, and pursuing low carbon energy alternatives, is the primary opportunity and can help to offset some of the additional energy and carbon costs. There is also an opportunity to clearly identify and communicate the synergies between environmental objectives and the transition to a Net Zero business in order to increase support from customers, stakeholders, and regulators.

Compared to today, overall our revenue is unlikely to be impacted significantly in this scenario, but also our non-water revenue is less able to grow. Our costs to achieve operational Net Zero may increase relative to our current plans, however, early investment in decarbonising the business to meet the 2030 target remains more cost-effective in the long-term (post 2030), and reduces the risk to the company and our customers from measures such as carbon pricing, as well safeguarding our reputation on environment and climate change. The value of our assets and our cost of capital would remain relatively unchanged compared to today.

### UK Fast Transition Scenario

This scenario is more favourable to our business and to the UK's Net Zero goals, as it creates a more supportive enabling environment to achieve our 2030 operational Net Zero target. In this scenario we have identified the following main impacts for our business:

- **Cost to the business is lower than the Slow Transition scenario.** There is much greater regulatory support in order to support the step-change in investment required, with an increase in costs which can be recovered through customers' bills. The maturity of technology and associated business models progresses rapidly, and helps to drive down cost across many areas, including in renewables, resource efficiency, and demand-side measures.
- **Access to the skills and resources needed is costly.** There is very high demand for low carbon technologies, skills, and expertise across the economy in this scenario, which significantly outpaces supply (partly due to the UK's past underinvestment and the time required to develop supply chains). This adds to our costs associated with decarbonisation, and risks delaying key projects.
- **Environmental targets require additional energy use.** This impact is the same as the Slow Transition scenario, however the regulatory environment may be more favourable for nature-based solutions which can also sequester carbon.
- **Enhanced support to low income customers maybe needed.** Fairness in the distribution of the costs of the UK's transition to Net Zero is a key concern among stakeholders. Increased support to 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.
- **Opportunities are higher than the Slow Transition scenario.** The more favourable enabling environment means that our opportunities are enhanced in this scenario and they are easier to realise. There are particular opportunities to further invest and innovate on energy and resource efficiency, and to attract further investment through sustainable finance opportunities.

Compared to today, overall our revenue is unlikely to be impacted significantly in this scenario, but our non-water revenue has greater potential to grow. Our costs to achieve Net Zero may remain largely unchanged compared to today. The value of our assets may increase as we decarbonise and enhance natural capital, and our cost of capital may decrease compared to today.

## Our Strategic Response

Although there are important differences in the impacts between the different scenarios, 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 two 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.** Under both scenarios there are major carbon savings that can be achieved by increasing efficiency, both in energy use (for example more efficient pumping), reducing water losses, and through the use of smart technology to enable more efficient water supply and transmission systems. Some of these opportunities will also reduce costs. We will invest in programmes to further reduce energy use and carbon across our operations. This will allow us to more rapidly progress to operational Net Zero, and reduce the cost of the transition.
- **Enhancing our energy resilience.** We will continue to invest in generating our own renewable energy to reduce our exposure to energy prices and to enhance our options for energy supply, which is favourable under both scenarios.
- **Enhancing our access to Green Economy resources.** Across both scenarios there will be a shortage of skills and resources across key areas of the Green Economy that we will need to support our transition. To manage this 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 and influence environmental targets and trade-offs.** New ambitious targets on nutrients and stormwater 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 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 both 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 focussing 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 emissions across our supply chain. We will also continue to explore opportunities to enhance our revenue through water resource options, and markets for bioresources and natural capital.

## Statement of resilience

There are clear impacts on the business under different transition scenarios, and in particular higher costs for the business in the short-term to meet our operational Net Zero target by 2030 under the slow transition scenario. Several of the strategic responses outlined above are already included in our Net Zero Plan, and we have confidence that the company has a range of strategic options to manage the impacts, take advantage of opportunities, and remain resilient under the different transition scenarios considered.

Following on from our analysis in 2021 of the physical risks, there will be the requirement to invest more to improve our resilience to climate change, assets are likely to require additional protection and planning for new assets will require a greater level of embedded climate related resilience. This will require significant action and investment by the Company, as well as action by supply chain partners and wider actors.

## Risk Management

**Disclose how the organisation identifies, assesses, and manages climate-related risks.**

### Recommended disclosures

- **Describe the organisation's processes for identifying and assessing climate-related risks.**
- **Describe the organisation's processes for managing climate-related risks.**
- **Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.**

The risk management of climate related risks follows the same considerations as all our principal risks, the identification, assessment and management of ESG risks and opportunities, including the potential impact of climate change on our business, is integrated into the Group's overall risk management framework and methodology, with the outcomes reflected within the assessment of relevant principal and business level risks. This includes the potential impact of physical and transitional climate change risks on our assets and operations. Further information can be found in our risk report on pages 96 to 105

### Short, medium and long-term horizons

In determining our strategy, we have processes in place for identifying, assessing and responding to climate-related risks and opportunities. In shaping the strategy, we consider short, medium and long-term horizons.

<b>Short-term – 1 to 10 years</b>	These are designed for annual sustainability targets, budgeting and financial control. The five-year short-term horizon aligns to the water business regulated business plan period. Operational risks will be planned and budgeted for over this time frame though planning begins during this period for the next regulatory period. The operational Net zero commitment to 2030 is also included in this time horizon with work already underway for PR24.
<b>Medium term – 10 to 30 years</b>	Water and wastewater treatment assets have a typical life of up to 30 years and will therefore be reviewed during this period. Major projects and operational plans will be renewed and managed over this time frame to ensure projects meet the correct regulatory period plans.



**Long-term – 30 to 100 years**

Typically for longer-term strategic direction, risk and resilience planning, asset planning and capital investments requirements. These are considered over the long-term horizon for assets such as pipework and reservoirs which will be aligned to longer-term climate impact projections.

**Impact and likelihood**

A consistent methodology is applied in the assessment of the Group's risks (including climate change related risks), which considers both the likelihood of the risk occurring and the potential impact. Risks are assessed on both a 'gross' (without the consideration of existing control measures) and 'net' (with consideration of existing control measures) basis.

The impact and likelihood is then multiplied and plotted on a 4x4 matrix to determine the overall Red, Amber, Green (RAG) risk rating. Where the net risk is considered to be Red then it is considered to have a substantive financial or strategic impact on the Group.

The RAG rating of the net risk is then used to drive the prioritisation of action.

The risk matrix below illustrates the combinations of likelihood versus impact that generate an overall risk score. Impact is assessed across a range of categories including financial, safety, environmental and customer impact. Likelihood is defined as likelihood over the next 5 years under four categories (probable, possible, unlikely or rare) with defined probability thresholds. Scores range from 1 through to 16. The colour coding applied to the matrix denotes the categories of risk, from low (green), medium (amber) through to high (red).

Likelihood	Risk Rating	Opportunity rating
Probable: more than 70% likelihood of the risk occurring	<b>Minor:</b> Impact is assessed across a range of categories including financial, safety, environmental, customer and reputational impact. E.g possible intermittent impact on service to customers or damage to assets requiring some repair or maintenance. Flat revenue growth or <1% of PBT.	<b>Minor:</b> No material change to key areas such as Environment, Safety, Quality or Customers and Stakeholders.
Possible: 30-70% likelihood of the risk occurring	<b>Moderate:</b> Impact is assessed across a range of categories including financial, safety, environmental, customer and reputational impact. E.g hosepipe ban or flooding of assets. Reduction of revenue up to 1% or 1-3% of PBT.	<b>Moderate:</b> Moderate opportunities to enhance the Environment and Quality, improve safety and build confidence from Customers and stakeholders. Improve company reputation through support from local and regional media outlets.
Unlikely: 10-30% likelihood of the risk occurring .	<b>Major:</b> Impact is assessed across a range of categories including financial, safety, environmental, customer and reputational impact. E.g prolonged impact on service to customers in a small region. Reduction of revenue up to 3% or 3-5% of PBT.	<b>Significant:</b> Significant opportunities to enhance the Environment and Quality, improve safety and increase confidence from Customers and stakeholders. Notable improvement in the company's reputation through support from regional and national media outlets. Increasing trust in Group's strategy from stakeholders.
Rare: Less than 10% likelihood of the risk occurring	<b>Severe:</b> Impact is assessed across a range of categories including financial, safety, environmental, customer and reputational impact. E.g prolonged impact on service to customers in a large region. Reduction of revenue up to 3% or more than 5% of PBT.	<b>Major:</b> Major opportunities to enhance the Environment and Quality, improve safety. Company seen as industry leaders by stakeholders. Improve company reputation through sustained positive support through media.

**Pennon Group 4x4 Matrix**

			Risks Matrix				Opportunity Matrix			
Likelihood	Probable (>70%)	4								
	Possible (30-70%)	3								
	Unlikely (10-30%)	2								
	Rare (<10%)	1								
			1	2	3	4	1	2	3	4
			Minor	Moderate	Major	Severe	Minor	Moderate	Significant	Major
			Impact				Impact			

## Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

### Recommended disclosures

- Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
- Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
- Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The Group's key metrics and targets are still being developed to provide a comprehensive data set going forward. This year has seen the Group publish a databook in conjunction with the annual report and the annual report includes SASB reporting on pages 93 to 95. The Group is committed to improving its sustainability and climate change related disclosures and will continue to enhance this over the next year.

	Description of the Metric	Trend	Related Targets
<b>GHG Emissions</b>	Scope 1, 2, and 3 GHG emissions (in TCO <sub>2</sub> e)	✓	Operational Net Zero by 2030, Total Net Zero by 2045.
	Carbon intensity of our water services (in tonnes of CO <sub>2</sub> e per megalitre of water supplied to customers)	✓	
<b>Transition Risks</b> (Selected metric for a material risk)	Risk of increased energy costs: annual average price of electricity (£/kWh)	⬆️	<ul style="list-style-type: none"> <li>• Purchase 100% renewable electricity by 2022 (SWW)</li> <li>• Up to 50% self-generated renewable energy by 2030.</li> </ul>
<b>Physical Risks</b> (Selected metrics for some material risks)	Proportion (%) of customers at risk of sewer flooding in 2050 in a 1-in-50 year storm	✓	Our 2050 year target will be to achieve 0% of customers at risk of severe restrictions in a 1-in-500 year drought. This is to meet latest Government planning guidance.
	Proportion (%) of customers currently at risk of severe restrictions in a 1-in-200 year drought	⬆️	
<b>Climate-Related Opportunities</b> (Selected metric for a material opportunity)	Amount of renewable energy we've generated (kWh)	⬆️	Up to 50% self-generated renewable energy by 2030.
<b>Capital Deployment</b> (Selected metric for a material capital investment)	Value (£) of our renewable energy generation capital plans to 2030	⬆️	
<b>Remuneration</b>	Portion of Executive remuneration linked to ESG outcomes, including climate change	⬆️	For the FY 2021/22, the majority of Group annual incentive schemes for employees and leadership were amended, reflecting best practice, to incorporate ESG measures. ESG targets will account for 20% of the weighting.
<b>Internal carbon price</b>	The Group is currently exploring the approach and implications of using internal carbon pricing.		

In the adaptation report provided to Defra it shows intolerable levels of risk if left unmitigated. In addition, at least 17 of the top 20 physical climate risks (>60 risks identified) would exceed this threshold by 2080 **without further adaptation**. This signals the need for further investment in climate resilience in future planning rounds.

Our Net zero carbon commitments will provide a step change to how we run our business and look to manage the risks of climate change, an update on our progress during the last year is found in page 39. The metrics and targets associated with this help to show the investment in the area and the planned future investment to meet this goal.

All projects being put forward to the planning committee have a focus on both their carbon impacts and the ESG impacts which will be used to manage the decision making process.

[Read more:](#)

[Mitigating the impact of climate change – page 37](#)

[Net Zero – page 39](#)

[Streamlined Energy and Carbon Report \(SECR\) – page 89](#)

### Key Achievements and Targets

Continued investment in natural capital schemes	Comprehensive Biodiversity Strategy and Environment Plan 2050	Net Zero by 2030 with our Net Zero Strategy	South West Water commitment to 100% renewable energy from 2022
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# Viability statement

The Directors of Pennon Group plc are responsible for ensuring the long-term viability of the Group. The Directors need to ensure the resilience of the Company by identifying, managing, avoiding or mitigating risks which may impact viability.

The Board's consideration of longer-term viability of the Group is an extension of the Group's strategic business planning which is managed through regular long-term modelling and monitoring of key measures including gearing, debt covenant headroom and level of liquidity. The resilience of the business and these key viability measures are appropriately assessed by a number of mechanisms including a robust risk management assessment, sensitivity analysis and stress tests of financial performance.

The overall market context is a cornerstone of the viability assessment. Following the acquisition of Bristol Water plc in June 2021, the Group's operating subsidiaries of South West Water and Bristol Water, which account for the vast majority of the Group's earnings, are long-term businesses characterised by multi-year investment programmes, with associated revenue streams with high levels of future visibility.

The viability assessment has been made with reference to the Group's current position and prospects, including consideration of the ongoing impacts of the COVID-19 pandemic, climate change, the latest assessment of the impacts of the Ukraine crisis, its longer-term strategy, the Board's risk appetite and the Group's principal risks and how these are managed, as detailed on pages 96 to 105 of the risk report.

## Period of assessment

The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Group's viability remains unchanged at five years, which recognises both the longer-term visibility in the regulatory environment of the South West Water and Bristol Water businesses and the corporate activity, including acquisitions, undertaken by Pennon.

## Risks

The Board considers the preventative and risk management actions in place and the potential impact of the principal risks (as detailed on pages 96 to 105) against our ability to deliver the business plan. This assessment has considered the potential impact of these and other risks arising on the business model, future performance, solvency and liquidity over the period in question. The Group has a strong liquidity and funding position with £816 million of cash and committed facilities as at 31 March 2022 and net assets of £1,275 million. The Group has a mixture of fixed, floating and index-linked debt financing with a weighted average maturity of 14 years. In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Group's viability. Over the course of the year the Audit Committee has considered a deep-dive review of the following principal risks to enable a thorough assessment of the impact of these risks on ongoing viability.

- Health and safety
- Leakage
- Supply chain resilience
- Customer services performance
- Impact assessment of macroeconomic demand pressures
- Inefficient or ineffective delivery of capital projects.

## Stress testing

The Group's business plan has been stress-tested. Whilst the Group's risk management processes seek to mitigate the impact of principal risks as set out on pages 96 to 105, individual sensitivities (shown in the table below) 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 FY2022/23 and longer-term strategic business plan through to March 2027.

The impact of climate risks have been assessed in detail as set out in the Task Force on Climate-related Financial Disclosures (TCFD) section on pages 106 to 122. The Group's strategic business plan includes the expected investment identified at this stage to meet climate change adaptation. The stress testing scenarios applied during the viability assessment period do not include specific reference to climate change related risks alone as the sensitivities are not considered material during the period of assessment. Beyond the period of assessment additional impacts from climate change are considered in more detail within the TCFD section along with mitigating actions.

Principal risk	Viability sensitivities tested
A: Changes in government policy	Changes in Government policy affecting the water industry, such as additional environmental legislation may impact operational performance or investment requirements. The estimated average adverse impact on the Group's cash flows from a range of potential policy changes has been applied as a sensitivity.
B: Regulatory reform	Potential changes in PR24 price review may impact allowed regulatory returns in South West Water and Bristol Water. The estimated average adverse impact on the Group's cash flows from a range of potential policy changes has been applied as a sensitivity.
C: Non-compliance with laws and regulations	The estimated impact of financial penalties and reputational damage from failure to comply with laws and regulations has been modelled as a sensitivity.
D: Inability to secure sufficient finance and funding to meet ongoing commitments	The impact of reduced availability of financing resulting in increased margins on new debt raised. A sensitivity of increased banking margins of 2% has been applied.
E: Non-compliance or occurrence of an avoidable health and safety event	The financial impact and cash outflows related to a major health and safety event has been applied as a sensitivity.
F: Failure to pay all pension obligations as they fall due and increased costs for the Group should the defined benefit pension scheme deficit increase	The financial impact on the Group's gearing from additional funding being required to support the Group's defined benefit pension schemes has been applied as an adverse scenario.
G: Non-recovery of customer debt	An application of reduced cash inflows from increased customer bad debt levels has been modelled. This includes an assessment of the residual impacts from COVID-19 and the affordability challenges arising from high inflation and rising power prices.

## Viability statement (continued)

Principal risk	Viability sensitivities tested
H: Macroeconomic risks impacting on inflation, interest rates and power prices	The adverse impact of higher operating and finance costs from increasing power prices and general inflation increases over and above increases assumed in base financial plans, including the impact on totex underperformance on regulatory returns and impact on debt financing costs.
J: Failure of operational water treatment assets and processes resulting in an inability to produce and supply clean drinking water	
K: Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential adverse environmental impacts, including pollutions	
L: Failure to maintain excellent customer service or effectively engage with our customers and wider stakeholders	The adverse impact from non-delivery of regulatory performance targets which result in ODI penalties, other financial penalties and required additional investment reducing Group revenues and cash inflows have been applied as a sensitivity to the base plan.
M: Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities	
N: Non-delivery of Regulatory Outcomes and performance commitments	
O: Inefficient or ineffective delivery of capital projects	
P: Inadequate technological security results in a breach of the Group's assets, systems and data	The adverse financial impacts of a cyber attack resulting in operational disruption, potential loss of data, potential detrimental impacts on customers with potential for financial penalties have been included in the sensitivity analysis.
Q: Failure to fully realise the strategic value arising from the acquisition of Bristol Water	A reduction in financial returns arising from inability to realise synergistic benefits expected from a combination of best practices between South West Water and Bristol Water. Adverse cash flows from failing to meet the synergy benefits have been modelled.
A combined stress testing scenario has also been performed to assess the overall impact of these scenarios impacting the Group collectively.	

### Stress testing evaluation and mitigations

Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the Group's viability over the five-year period. The financial impacts of the risks were probability weighted to obtain a value that was used in the stress testing. While mitigations were not required in any of the above individual or combined scenarios to ensure that the Group was viable, additional mitigations could be deployed to reduce gearing and increase covenant headroom, including reductions in operational and capital expenditure and dividends.

In addition, a reverse engineered scenario that could possibly compromise the Group's viability over the five-year assessment period has been modelled. This scenario builds on the factors above and additionally assumes all the Group's principal risks each year with no probability weightings attached. The Board considered the likelihood of this scenario on the Group's viability over the five-year viability period, concluding the Group could remain viable. Mitigations, as noted above, would also be deployed over the period if deemed necessary.

In making its assessment of the Group's viability, the Directors have taken account of the Group's robust capital solvency position, the Group's latest assessments of the consequential impacts of the COVID-19 pandemic as economic activity starts to return to pre-pandemic levels, the latest estimated impact of the Ukraine crisis on power and other commodity prices, latest inflation forecasts, its ability to raise new finance and a key potential mitigating action of restricting any non-contractual payments. In assessing the prospects of the Group, the Directors note that, as the Group operates in a regulated industry which potentially can be subject to non-market influences, such assessment is subject to uncertainty, the level of which depends on the proximity of the time horizon. Accordingly, the future outcomes cannot be guaranteed or predicted with certainty. As set out in the Audit Committee's report on pages 146 to 151, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of the stress testing performed.

### Viability assessment conclusion

The Board has assessed the Group's financial viability and confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a five-year period, the period considered to be appropriate by the Board in connection with the UK Corporate Governance Code.

# Non-financial information statement

The following table summarises the information required by section 414CB Companies Act 2006, and/or indicates where this information can be found within the annual report. Due diligence is carried out on all of our suppliers, and all are required to adhere to our Code of Conduct for supply chain partners. As such, equivalent standards are expected from our suppliers as we expect from our employees in respect of each of the areas set out below.

	Description of policies	Policy outcomes	Principal risks and risk management	KPIs
<b>Environmental matters</b>	Our social and environmental policy ensures that we pursue activities that conserve, protect and enhance the natural environment. Environmental compliance is monitored as part of the regulatory framework within which the whole business operates.	The policy underpins the environmental improvement programmes set out on pages 36 to 47.	Environmental non-compliance may lead to non-delivery of regulatory outcomes and performance commitments – see page 102.	More information pages 14 to 15.
<b>Employees</b>	Our range of employment policies that are designed to protect and support our workforce. The key features of these policies are disclosed on page 180 and as follows: Health, safety and wellbeing (pages 55 to 57) Diversity, equity and inclusion (pages 57 to 59) Our Code of Conduct (page 144).	Under these policies, we seek to achieve the highest workplace standards and an engaged workforce, as reported on page 54.	Health and safety risks and their mitigations are set out on pages 101.	More information pages 14-15.
<b>Social matters</b>	Our social and environmental policy requires us to undertake our activities in a way that minimises potential adverse effects on society and has a positive impact on the local economy. Our community relations and investment policy enables strong and clear governance, making positive community investments which create value, and benefits both the community and the business.	The policies support the social capital improvement programmes set out on pages 51 to 63.	A number of our principal risks would impact our communities and customers if they occurred, for example: business interruption, poor operating performance and cyber risks. See pages 96 to 105 for further information.	More information pages 14-15.
<b>Respect for human rights</b>	Pennon's Code of Conduct (described on page 144) sets out our respect for human rights throughout our operations and our anti-slavery and human trafficking policy requires the implementation and enforcement of systems and controls to ensure modern slavery is not taking place anywhere within our own business or in our supply chain.	We do not tolerate human rights abuses within the Group or modern slavery in any form and have developed processes and procedures to manage the risk of potential non-compliance (see page 180).	We explain the risks relating to non-compliance with laws and regulations and their mitigations on pages 100.	We have a zero tolerance approach across the Group and within our supply chains.
<b>Anti-corruption and anti-bribery</b>	A description of our policy on anti-bribery and anti-corruption (including due diligence and enforcement procedures) is provided on page 144).	The policy's outcomes are explained on page 144.	We explain the risks relating to non-compliance with laws and regulations and their mitigations on pages 100.	We have a zero-tolerance approach to bribery and corruption.

## Forward-looking statements

The Strategic Report, consisting of page 1 to 125, contains forward-looking statements regarding:

- the financial position
- results of operations
- cash flows
- dividends
- financing plans
- business strategies
- operating efficiencies
- capital and other expenditures
- competitive positions
- growth opportunities
- plans and objectives of management
- and other matters.

These forward-looking statements including, without limitation, those relating to the future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income in relation to Pennon Group and its subsidiaries, wherever they occur in this Strategic Report, are necessarily based on assumptions reflecting the views of Pennon Group and its subsidiary companies, as appropriate.

They involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Such forward-looking statements should, therefore, be considered in the light of all relevant factors, including those set out in this section on principal risks and uncertainties.

## Approval of the Strategic Report

Our Strategic Report on pages 1 to 125 has been reviewed and approved by the Board.

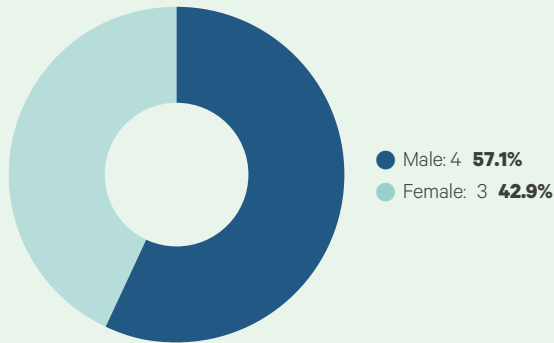


**Simon Pugsley**  
Group General Counsel and Company Secretary  
30 May 2022

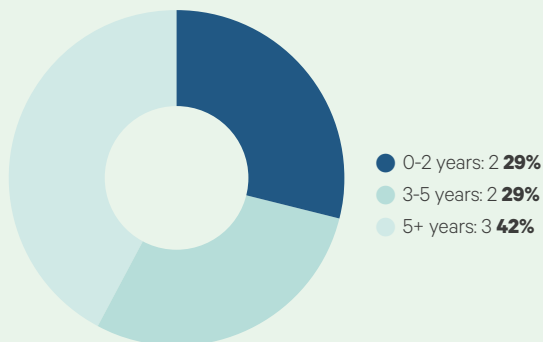


# Governance at a glance

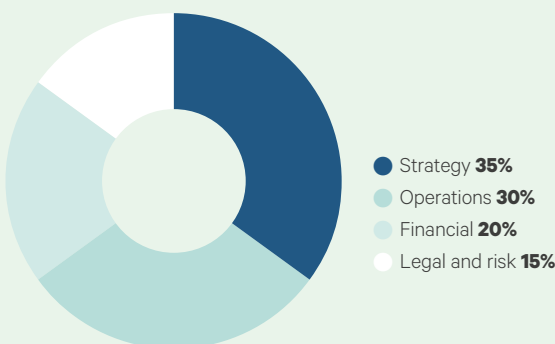
## Board gender diversity



## Board tenure



## How the Board spent its time



## Board ethnic diversity

**14%**

one Director from a minority ethnic background

We continue to operate to the highest standards of corporate governance, with our Board composition ahead of the ethnic diversity targets suggested by the Parker Review, continuing to be both inclusive and diverse.

The Board also continues to adjust its focus on key areas for the business, including strategy, operations, financial and legal/risk, to deliver for its stakeholders.

Our ESG targets, incorporating our commitment to Net Zero by 2030, are already well ahead of many in the FTSE 250, whilst our refreshed H&S Committee and HomeSafe initiative, also sees us well placed to deliver on our ambitious targets in this area. These areas are reported on in more detail on pages 56 to 57 of the Strategic Report.

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## Board meetings and attendance

The Directors and their attendance at the six scheduled meetings of the Board during the financial year are shown below:

Position	Member	Appointment date	Attendance
Chair	Gill Rider <sup>1</sup>	September 2012	●●●●●●
Non-Executive Directors	Neil Cooper	September 2014	●●●●●●
	Iain Evans	September 2018	●●●●●●
	Claire Ighodaro	September 2019	●●●●●●
	Jon Butterworth <sup>2</sup>	July 2020	●●●●●●
Executive Directors	Susan Davy <sup>3</sup>	February 2015	●●●●●●
	Paul Boote <sup>2</sup>	July 2020	●●●●●●

1. Appointed as Chair with effect from 31 July 2020.
2. Appointed to the Board on 8 July 2020.
3. Appointed as CEO with effect from 31 July 2020.

## Board skills matrix

Board members	Susan Davy	Paul Boote	Gill Rider	Neil Cooper	Iain Evans	Claire Ighodaro	Jon Butterworth
Independence			●	●	●	●	●
<b>Skill areas</b>							
Water sector	●	●	●	●	●	●	●
Regulation	●	●	●	●	●	●	●
Finance and Accounting	●	●		●	●	●	
Strategy	●	●	●	●	●	●	●
Transformation	●	●	●	●	●	●	●
Health, safety and wellbeing	●				●		●
ESG including climate change	●				●		●
Data, technology and digital	●					●	●
Governance	●	●	●	●	●	●	●
Remuneration			●			●	
People	●	●	●			●	●

# Providing strong and effective Governance



**“We have the talent, expertise and governance framework in place to help us deliver on what will be another busy year for the Group.”**

## Dear Shareholder

I am pleased to introduce the corporate governance report for 2022, on behalf of the Board. This report provides detail around our governance practices and processes, our application of the principles of best practice corporate governance, our key focus areas and achievements for 2021/22 and how the Board continues to support the strategy and growth of the Group.

I'd firstly like to thank the Board and the c.3,000 colleagues that make up the Group, whose hard work and dedication allow us to continue to support our customers and communities, deliver on our strategy and continue to drive environmental change.

In a year where we were all still very much impacted by the COVID-19 pandemic, the Board has continued to convene and maintain a regular dialogue to discuss key areas of focus and maintain strong governance. Strong governance remains central to the successful management of the Group and provides the framework for effective delivery of our strategy, fulfilment of our purpose, the creation of value for all our stakeholders and the ongoing development of our sustainable business. We continue to operate to the highest standards of corporate governance, with our Board composition ahead of the diversity targets suggested by the Parker Review and the FTSE Women Leaders Review, whilst our ESG targets, incorporating our commitment to Net Zero by 2030, are already well ahead of many in the FTSE 250. Our refreshed H&S Committee and HomeSafe programme also see us well placed to deliver on our ambitious targets in this area.

The table on pages 137 and 138 will help you to navigate our reporting and evaluate our performance against the Principles of the UK Corporate Governance Code 2018 and, as is explained below, processes and procedures are in place to safeguard the independence of decision-making by the South West Water and Bristol Water Boards.

## Role of the Board and its effectiveness

It is my view that the Board continues to be highly effective with a good understanding of the Group's opportunities as well as the threats facing the business. This view is supported by the results of this year's Board and Committee performance evaluations, which are reported on pages 156 and 157, as well as the considered approach taken by the Board in optimising use of the proceeds from the Viridor sale, including the acquisition of Bristol Water and the special dividend, the share consolidation and the share buy-back for shareholders. We keep under constant review the threats to the future success of the business. Other risks identified and reviewed are contained in our risk report on pages 96 to 105.

## Board independence – Pennon, South West Water and Bristol Water

In accordance with Ofwat's principles on board leadership, transparency and governance, the Group maintains separate and independent boards for Pennon and South West Water and for Bristol Water plc following its acquisition by Pennon on 3 June 2021. Following the receipt of merger clearance on 7 March 2022, we restructured the board of Bristol Water plc to align with the structure of the Pennon and South West Water boards, with two Bristol Water executive directors continuing to serve on the Bristol Water plc board. Bristol Water also will be providing its own annual report and accounts and Annual Performance Report, where further information can be found.

Our system of governance remains appropriate and effective, whilst continuing to support the delivery of our strategy.

Our Board and Committee framework also allows us to remain efficient in our decision-making process. The South West Water and (following merger clearance) Bristol Water plc boards now share a Chair and the four Independent Non-Executive Directors with Pennon, convene on the same day as each Pennon Board meeting and consider all key issues separately. This arrangement allows full operational oversight and governance by the boards over water interests in the Group, whilst the Pennon Board continues to focus on strategic forward-looking matters for the Group as a whole.

### Promoting diversity

I strongly believe that a diverse Board and a diverse workforce brings significant value to the growth and success of an organisation. As an organisation with a female Chair and CEO, we continue to ensure our Group is inclusive and diverse. I am pleased to see we continue to be ahead of the targets for women on Boards (now set out in the FTSE Women Leaders Review) and that we have met the target of at least one Director from a minority ethnic background (as set out in the Parker Review).

The Board supports the recent changes to the Listing Rules and the Disclosure Guidance and Transparency Rules in relation to Board and senior executive diversity, and will report under the new requirements in next year's Annual Report. Our commitment to diversity is also echoed across the business with a drive and commitment to recruit talent from all backgrounds and with the support of a strong and diverse leadership team.

### Stakeholder engagement

Engaging with all of our stakeholders has never been more vital, particularly with the national and global issues we are facing. As a sector, we face much scrutiny around our environmental impacts, and it is

important that we listen to and respond to our stakeholders' views. We ensure that all decisions and the impacts on our stakeholders are carefully considered. Our stakeholder engagement programme ensures that there continues to be an opportunity to provide feedback to the Board.

We continue to foster an open and transparent feedback culture within the business, with colleagues having the opportunity to share feedback in a number of ways with the Executive team and Board, including Big Chat, the Great Place to Work survey and our new Employee Forum RISE.

You can read more on how we are engaging with our stakeholders in our Section 172(1) statement on pages 32.

### Looking ahead

As part of our focus for 2022/23, we will continue to embed Bristol Water into the Group, focus on delivering on our environmental commitments, and ensuring we are well placed for PR24. As we look to our governance arrangements, we will strengthen our Board with the recruitment of two additional NEDs, part of our ongoing and orderly succession planning. There is much to do, and we have the talent and governance in place to achieve our ambitions.



**Gill Rider**

Chair

30 May 2022

## Compliance with the UK Corporate Governance Code 2018 and other requirements

Details of how we have applied the principles that form the UK Corporate Governance Code 2018 (the UK Code) are provided throughout this annual report, and the table on pages 137 to 138 provides some useful signposting. The Board confirms that the Company has complied throughout the year under review (and up to the date of this report) with all the relevant provisions of the UK Code. Information on the tenure of the Chair of the Board and our succession planning is on page 143.

The UK Code is published on the Financial Reporting Council (FRC) website. The introduction to this corporate governance report and the following sections have been made in accordance with the UK Code, Financial Conduct Authority (FCA) Listing Rule 9.8.6 and FCA Disclosure and Transparency Rules 7.1 and 7.2 and cover the work of our Board and its Committees, our internal control systems and procedures including risk management, our statements relating to share capital and control, our confirmation of the Company as a going concern and our Directors' responsibility statements. Finally, in accordance with reporting requirements, on page 151 the Board is able to confirm to shareholders that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary to assess the Company's position, performance, business model and strategy.

# An effective Board



## 1 GILL RIDER

### Chair

CB, PhD, CCIPD

ESG HS N R

### Appointed

Gill was appointed to the Board on 1 September 2012 and became Chair on 31 July 2020.

### Skills and experience

- Gill has a wealth of experience in leadership and governance across a broad range of sectors including professional services, education, not for profit and government.
- Gill was the senior independent director of Charles Taylor plc until its sale in January 2020.
- Formerly, Gill was Head of the Civil Service Capability Group in the Cabinet Office, reporting to the Cabinet Secretary and prior to that held a number of senior positions with Accenture LLP culminating in the post of Chief Leadership Officer for the global firm. She was previously President of the Chartered Institute of Personnel and Development and Chair of the Council of the University of Southampton.

### Other appointments

Gill is currently a non-executive director of Intertek Group plc where she is also Chair of their Remuneration Committee. In addition to her PLC roles, Gill is also the President of the Marine Biological Association.

## 2 SUSAN DAVY

### Group Chief Executive

BSc Hons, ACA

ESG HS

### Appointed

Susan was appointed Group Chief Executive on 31 July 2020. She was appointed to the Board in February 2015 as Chief Finance Officer, having joined the Group as Finance Director of South West Water in 2007.

### Skills and experience

- Susan's knowledge of the industry, coupled with her financial and regulatory expertise, has underpinned the development of Pennon's strategy. Susan has led Pennon's strategic review which has included the value-creating acquisitions of Bournemouth Water, Bristol Water, and the Viridor disposal. In her 25+ years' experience in the utility sector, Susan has also held a number of other senior roles in the water sector, including at Yorkshire Water.
- Under her guidance South West Water has become the only water company to have achieved fast-track status for two consecutive business plans – the first in 2014, the second in 2019.
- Susan is highly respected in the City and has been instrumental in building Pennon's reputation.

### Other appointments

Susan is a non-executive director and Audit Chair of Restore Plc, a member of the CBI President's Committee, and deputy Chair of the CBI South West, having served as its Chair from 2018-2021. She holds a place on the board of Water UK, is a member of the Energy & Utilities Skills Partnership Council and was previously a member of the A4S (Accounting for Sustainability) CFO leadership network.

### Key:

<b>A</b> Audit Committee	<b>N</b> Nomination Committee
<b>ESG</b> ESG Committee	<b>R</b> Remuneration Committee
<b>HS</b> Health and Safety Committee	<b>■</b> Chair of Committee



**3 PAUL BOOTE****Group Finance Director**

BSc, FCA

**Appointed**

Paul was appointed to the Board on 8 July 2020, having joined Pennon on 1 January 2010.

**Skills and experience**

- Paul is a chartered accountant with over 20 years' experience, having also held senior finance roles at companies operating in the sport, construction and environmental infrastructure industries.
- He has held a number of senior roles at Pennon, most recently as Pennon's Director of Treasury, Tax and Group Finance. During this time, he was responsible for the continuing development of Pennon's sector-leading sustainable debt portfolio, ensuring the Group maintains a responsible approach to tax, as well as leading on financial reporting matters.
- Paul has been instrumental in the successful implementation of the Group's strategic review.
- He holds a number of directorships with Group subsidiary companies and is a key member of the executive Finance Committee which he chairs.
- Paul's knowledge of the Group and relationships with key external stakeholders, coupled with his corporate finance and financial reporting experience, provides continuity to the Board as the Group evolves through this strategic review period.

**Other appointments**

None.

**4 NEIL COOPER****Senior Independent Director (Non-Executive)**

BSc Hons, FCMA

**Appointed**

Neil was appointed to the Board on 1 September 2014 and became Senior Independent Director on 31 July 2020.

**Skills and experience**

- Neil brings to the Board extensive experience in a wide variety of corporate and financial matters.
- Previously, he was group finance director of Barratt Developments plc and before that, group finance director of William Hill plc and Bovis Homes plc. Neil also held senior finance positions at Whitbread plc, worked for PricewaterhouseCoopers as a management consultant and held a number of roles with Reckitt & Colman plc.
- As chair of the Audit Committee, Neil has been influential in directing Pennon's approach on a number of significant matters including internal control, governance and financial reporting.

**Other appointments**

He is currently the Chief Financial Officer of Currencies Direct, a foreign exchange broker and international payment provider.

**5 IAIN EVANS****Independent Director (Non-Executive)**

CBE, BSc Hons, FCA, MBA

**Appointed**

Iain was appointed to the Board on 1 September 2018.

**Skills and experience**

- Iain has 40 years of extensive global experience in advising companies and governments on issues of complex corporate strategy.
- In 1983, he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms with a global footprint active in a wide range of industries.
- Iain was appointed as a non-executive director of Welsh Water plc in 1989 and served on the board for nearly ten years, including five years as chair.
- As chair of the ESG Committee, Iain is leading the development of a sustainability programme that underpins the delivery of Pennon's strategy.

**Other appointments**

Iain is a non-executive director of Bologna Topco Limited and HSM Advisory Limited and continues to act as an independent corporate strategy consultant.

**6 CLAIRE IGHODARO CBE****Independent Director (Non-Executive)**

CBE, BSc Hons, FCMA, DUniv (Hon)

**Appointed**

Claire was appointed to the Board on 1 September 2019.

**Skills and experience**

- Claire has held a number of senior roles and directorships with UK and international organisations and has extensive board experience, serving on audit, remuneration and governance committees.
- She is a past president of CIMA (the Chartered Institute of Management Accountants) and was the first woman to lead this organisation.
- Claire spent most of her executive career with BT plc. She has also held non-executive directorships across a diverse portfolio including Governance Committee Chair of Bank of America's Merrill Lynch International, Audit Committee Chair of Lloyd's of London, Flood Re, The Open University and various UK public bodies including UK Trade & Investment and the British Council.
- As chair of the Remuneration Committee, Claire continues to guide Pennon's approach to executive remuneration, ensuring that it is aligned with and supports the Group's strategy.

**Other appointments**

Claire is non-executive Chair of the Board and the Governance Committee for Axa XL – UK entities and Non-executive Chair of the Audit Board of KPMG LLP.

Upon our acquisition of Bristol Water Holdings UK Limited and its subsidiaries, including Bristol Water plc, on 3 June 2021, Paul Boote, Iain Evans and Neil Cooper were appointed as directors of Bristol Water plc and the other companies in the Bristol Water Group. Pursuant to the Initial Enforcement Order (IEO) issued on 15 June 2021 by the Competition and Markets Authority (CMA) as part of the merger review process, they were prohibited from fully participating as directors of the Bristol Water Group companies until the IEO was lifted after merger clearance. Following the CMA's acceptance of Pennon's undertakings in lieu and grant of merger clearance on 7 March 2022, Susan Davy was appointed as a director of Bristol Water plc on 9 March 2022 and the other Bristol Water Group companies on 4 April 2022, and Gill Rider, Claire Ighodaro and Jon Butterworth were appointed Directors of Bristol Water plc on 2 April 2022.

**7 JON BUTTERWORTH**

**Independent Director (Non-Executive)**

MBE, MSc, Flod



**Appointed**

Jon was appointed to the Board on 8 July 2020.

**Skills and experience**

- Jon is the Chief Executive Officer of the UK Gas Business for National Grid Plc and a member of the National Grid Executive Committee.
- Jon has a distinguished track record and an immense depth of experience and knowledge within the utility sector, having begun his career over 44 years ago as an apprentice in British Gas.
- He has been the Managing Director of Northwest Gas, Global Environment and Sustainability Manager of Transco, National Operations Director of National Grid, Group Safety, Resilience and Environmental Director of National Grid Plc and formerly CEO of National Grid Ventures, building (£3bn) of growth in renewables across the USA and Europe.
- Jon's Utility background makes him keenly aware of the importance of maintaining a balance between performance and safety, and he constructively challenges the Board and management to constantly raise the bar in this area.

**Other appointments**

Jon is a Fellow of the Institute of Directors and is a Director of National Grid Gas, National Grid Metering Limited, E.Tapp & Co Limited, Shopfittings Manchester Limited and TMA Property Limited. He is also an Ex-Chair of the CORGI Board, an Ex-Ambassador of the HM Young Offenders Programme and a trustee of the National Gas Museum Trust.

**EXECUTIVE MANAGEMENT TEAM**



**SUSAN DAVY**

**Group Chief Executive**

See biography on page 130



**PAUL BOOTE**

**Group Finance Director**

BSc, FCA

See biography on page 131



**ADELE BARKER**

**Group Chief People Officer**

BA hons, PCEC

Adele joined the Group in 2017 and was appointed Group Chief People Officer on 31 July 2020. Adele supports the Remuneration, Nomination, and Health & Safety Committees.



**SIMON PUGSLEY**

**Group General Counsel and Company Secretary**

L1b (Hons), Solicitor

Simon joined the Group in 1998 and was appointed as Group General Counsel and Company Secretary on 1 February 2019, having occupied the role on an interim basis since November 2018.

**Key:**

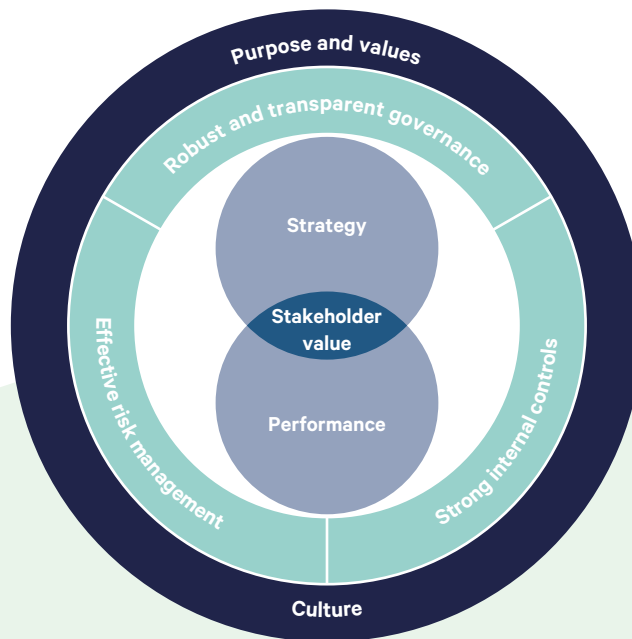
Audit Committee	Nomination Committee
ESG Committee	Remuneration Committee
Health and Safety Committee	Chair of Committee

# Effective governance providing trust and transparency

## Board leadership and company purpose

### Our Governance framework

The Board is responsible for the overall leadership and oversight of the Group. Our approach to governance is an integral part of our culture, guiding how we do business, make decisions, measure long term impacts and create value for our stakeholders. The Board's responsibilities include setting the Group's values, policies and standards, approving Pennon's strategy and objectives, and overseeing the Group's operations and performance. The Board makes decisions in relation to the Group's business in accordance with its schedule of matters reserved.



### Stakeholder value

We deliver long-term sustainable value for our stakeholders by providing high-quality environmental infrastructure and customer services.

### Strategy

Our strategy is to lead in the UK's water and wastewater sectors, invest for sustainable growth and drive value through efficiency.

### Performance

Our financial and operational performance is driven by our strategic sustainability objectives.

### Robust and transparent governance

We are committed to operating to the highest standards of corporate governance.

### Effective risk management

We have a mature integrated risk management framework which is embedded into existing governance structures and ways of working.

### Strong internal controls

We keep the effectiveness of our internal control environment under regular review and seek continually to improve our approach.

### Purpose and values

Our purpose – bringing water to life, supporting people and the places they love for generations to come – and upholding its supporting values by operating in a trusted, collaborative, responsible and progressive way will help drive our strategic priorities over the long term.

### Culture

We are developing a culture that can be lived throughout the Group with integrity and transparency, ensuring Pennon is trusted and valued by all its stakeholders.

## Board leadership and governance structure



### Board meetings and attendance

Members of the Pennon and the Group subsidiary executives and members of the subsidiary executive teams meet in advance of each Board meeting to ensure clear ownership and management of business operations prior to the formal Board and Committee meetings in March, May, September and November.

In addition to the six scheduled Board meetings, a strategy day is held each September, and extra ad hoc Board meetings are arranged as required.

In 2021/22, a number of unscheduled Board meetings were held to review and discuss the strategic review process, including the Bristol Water acquisition, the special dividend and share consolidation, as well as material from the Company’s advisers.

As the acquisition of Bristol Water was subject to review by the Competition and Markets Authority (CMA), Pennon was required to operate Bristol Water on a standalone basis due to the Initial Enforcement Order (IEO) issued by the CMA on 15 June 2021. Therefore, although some directors of the Pennon Board were appointed to the Bristol Water plc board and to the boards of the other Bristol Water companies, those directors were not able to actively participate in the operation of Bristol Water or to attend Bristol Water board meetings except where approval was granted by the CMA. Following receipt of merger clearance from the CMA on 7 March 2022, the IEO was lifted and the Pennon directors were thereafter able to attend Bristol Water board meetings. Whilst the IEO was in place, the Board relied on Bristol Water’s continuing governance processes, which are detailed in the Bristol Water plc annual report and accounts.

### Operation of the Board

The Board operates by receiving written reports circulated in advance of the meetings by the Executive Directors and the Group General Counsel and Company Secretary on matters within their respective business areas. The Board also receives presentations on key areas of the business and undertakes site visits to meet employees and gain a better understanding of the operation of business initiatives. In the light of the continuing COVID-19 restrictions in place for much of the year, one physical full Board site visit took place. Further details of the Board site visit are provided on page 136.

Under the guidance of the Chair, all matters placed before the Board are discussed openly. Presentations and advice are received frequently from senior executives within the Group and from external advisers to facilitate the decision-making of the Board. In 2021/22, the Board has considered a wide range of matters in order to meet its obligations. More detail on the key activities of the Board can be found on page 136. Due to COVID-19 restrictions, Board and Committee meetings were held both physically and online, as required, throughout the year, allowing the Group’s usual high standards of governance to be maintained.

## Board Committees' roles and terms of reference

In accordance with Group policies, a range of key matters are delegated to the Board's Committees as set out on pages 146 to 161 of this governance report.

The terms of reference of each of the Board's Committees are set out on the Company's website <http://www.pennon-group.co.uk/about-us/board-committees> and are also available from the Group Company Secretary upon request. The terms of reference, as well as the Board's schedule of matters reserved, were reviewed and updated during the year to ensure that they remain appropriate and relevant.

## Committee Roles

Committee	Roles
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• Ensure the quality and integrity of the Group's financial reporting, which requires assessing the application of accounting policies given underlying standards, probing and testing accounting judgements made in preparing financial reporting and evaluating whether the presentation of the Group's activities is fair, balanced and understandable.</li> <li>• Review and challenge the ongoing effectiveness of the internal control environment.</li> <li>• Evaluate the scope and adequacy of risk management processes across the Group. This encompasses monitoring the Group's risk appetite as well as acting as a forum for carrying out more detailed reviews of higher risk areas of the operation.</li> <li>• These responsibilities are discharged throughout the year in accordance with a schedule of business reflecting the annual reporting cycle of the Group, which is designed to allow sufficient time for their consideration while also permitting time to be spent on related key accounting matters.</li> <li>• The scheduling of activities has also allowed for ad-hoc work on events as they have arisen. Monitoring and reviewing the effectiveness of the external auditor and the internal audit function is an equally important ongoing element of the Committee's assurance activities.</li> </ul>
<b>ESG Committee</b>	<ul style="list-style-type: none"> <li>• Ensure robust scrutiny of key aspects of environmental, social and governance (ESG) performance and to oversee Pennon's performance against its ESG strategy and strategic sustainability objectives.</li> <li>• Review and approve appropriate strategies, policies, management processes, initiatives, disclosures, targets and performance of the Group in the areas of environment and compliance, responsible and ethical business practice, supply chain, customer service and engagement, community benefit, and the role and value of the Group in society.</li> <li>• Ensure a transparent approach to conducting business in a responsible manner, within a business focused on delivering robust financial performance and sustainable value for shareholders and stakeholders.</li> </ul>
<b>Nomination Committee</b>	<ul style="list-style-type: none"> <li>• Regular review of the structure, size and composition (including the skills, knowledge, independence, diversity and experience) required of the Board, compared to its current position.</li> <li>• Make recommendations with regard to any changes, whilst also giving full consideration to succession planning for the Board and Senior Management.</li> <li>• Oversee the development of a diverse pipeline for succession, taking into account the challenges and opportunities facing the Company, as well as the skills and expertise needed in the future.</li> </ul>
<b>H&amp;S Committee</b>	<ul style="list-style-type: none"> <li>• Provide a 'review and challenge' function to support the Board and the Executive on all matters connected to health and safety including the deployment of the health and safety strategy, resilience and process safety.</li> <li>• Review the extent and effectiveness of the Group's reporting of health and safety performance, as well as comparisons to external benchmarks.</li> </ul>
<b>Remuneration Committee</b>	<ul style="list-style-type: none"> <li>• Ensure remuneration is aligned with the Group's strategy and reflects the values of the Group.</li> <li>• Set and, in every third year, review the remuneration policy to ensure it remains appropriate, considering shareholders' views and best practice.</li> <li>• Advise the Board on the framework of executive remuneration for the Group.</li> <li>• Setting the remuneration for the Chair, the Executive Directors and senior executives of the Group and reviewing the remuneration arrangements of the wider workforce.</li> <li>• Approve the design and determine targets for any performance-related pay schemes.</li> <li>• Determine the appropriate outturn of any incentive arrangements and apply discretion as required.</li> </ul>

## Monitoring the Group's purpose and culture

The Board receives presentations from the Group Chief People Officer on key matters of importance, including the results of the annual Great Place To Work survey, with appropriate feedback from engagement with Unions, as well as site visits, along with the creation of appropriate focus groups. All of these mechanisms enable the Board to access and monitor the alignment of purpose and culture.
































### Board site visit and strategy day

The Board visited Crantock and Newquay in Cornwall, as part of their strategy day in September 2021. The purpose was to see one of the areas where significant investment is planned to improve the existing sewage treatment capability in the area. Topics discussed at the strategy session included testing of the Group’s strategic objectives, understanding and refining opportunities, key priorities and themes to take forward and our relationship with key stakeholders. The Board hopes, following the relaxation of COVID-19 restrictions, to carry out more in-person visits in the 2022/23 financial year.

### Activity for the year

The key activities that were carried out by the Board during the year, together with an indication of the stakeholders affected and whose interests the Board considered in its discussions and decision-making are set out below.

Area	Activity	Outcome	Stakeholders affected
<b>Strategic</b>			
Bristol Water acquisition	Review versus strategic plan to refocus the Group on water and deliver shareholder returns.	Delivery against objectives to acquire earning-enhancing targets, return of capital where appropriate and enhancement of customer experience/ ownership.	    
<b>Financial</b>			
Special dividend Share consolidation Share buy-back programme	Review versus strategic plan to deliver shareholder returns.	Delivery against objectives to return capital where appropriate.	  
<b>Performance</b>			
ODI improvements	Meeting regulatory requirements, ongoing regulatory/ innovation initiatives, monitoring via H&S reports and adapting plans where needed.	Successful regulatory outcomes, safe customer and employee experience, enhancing day to day operations.	   
<b>Environmental</b>			
Net Zero Strategy Pollution Incident Reduction Plan Green Recovery investment programme	Implementation and monitoring of each of the plans and adapting each where needed. Alignment of plans with our strategic priorities.	Delivery to achieve ever more stringent targets as well as greater public/ regulatory scrutiny.	     
<b>Social</b>			
Supporting customers on low income	Monitoring of customer service levels and plans to deliver improved diversity mix and adapting where needed.	Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny.	  
<b>Risk</b>			
Mitigation of key risks	Ongoing focus on key risks, with deep dives at Audit Committee meetings.	Continued alignment of plans to ensure appropriate risk mitigation.	   
<b>Governance, Legal and Regulatory</b>			
Compliance, governance and legal regulation	Regular updates on Corporate Governance and key legal developments during the year.	Continued alignment of plans to ensure appropriate compliance/best practice governance.	   



### Acquisition of Bristol Water, special dividend, share consolidation and share buy-back

Following the sale of Viridor in July 2020, one of the key activities of 2021/22 was to focus on executing the next phase of the strategic review – the acquisition of Bristol Water, the special dividend, the share consolidation and the share buy-back programme. Particular consideration was given to the question of how best to use the proceeds to maximise shareholder value.

The Disclosure Committee maintained constant oversight of the process, given the potential for inside information developing, and to ensure compliance with the Company’s disclosure obligations.

## Compliance with the UK Code

We continue to apply and comply with the 2018 UK Corporate Governance Code (the UK Code) in all business activity. We believe that strong corporate governance is fundamental to our business, and assures our stakeholders that we act with their interests in mind and to ensure long-term sustainable value that benefits all.

2018 UK Code principle	Section	Page
<b>1. Board Leadership and Company Purpose</b>		
A A successful company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Board of Directors	130
	Chair's introduction to governance	128
	Role of the Board	128
	Business model	20
	Stakeholder overview	26
B The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All Directors must act with integrity, lead by example and promote the desired culture.	Section 172(1) statement	32
	Our material issues	30
	Our purpose and values	2
C The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	Strategy overview	19
	Risk Management report	96
D In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.		
E The Board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.		
<b>2. Division of responsibilities</b>		
F The Chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	Board and Committee structure	134
	Board independence	128
	Directors' roles and responsibilities	141
	Committee reports	146
	Code of conduct and policies	144
G The Board should include an appropriate combination of executive and Non-Executive (and, in particular, Independent Non-Executive) Directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.		
H Non-Executive Directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.		
I The Board, supported by the Company Secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.		
<b>3. Composition, Succession and Evaluation</b>		
J Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	Nomination Committee report	155
	Board effectiveness evaluation	156
	Board of Directors	130
K The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.		
L Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.		

2018 UK Code principle	Section	Page
<b>4. Audit, Risk and Internal Controls</b>		
M The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	Audit Committee Report	146
N The Board should present a fair, balanced and understandable assessment of the company's position and prospects.	Risk management and principal risks report Directors' report – other statutory disclosures	96
O The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.		180
<b>5. Remuneration</b>		
P Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to Company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	Directors' Remuneration Report	162
Q A formal and transparent procedure for developing policy on executive remuneration and determining Director and senior management remuneration should be established. No Director should be involved in deciding their own remuneration outcome.		
R Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.		

## Stakeholder engagement

The Board understands the part the Group can play in creating a more sustainable UK. We are committed to carrying out our business in a responsible way and remain focused on improving the provision of all our services for the benefit of all of our stakeholders.

Our Section 172(1) statement describes in more detail how the Board regards the interests of all our stakeholders when carrying out its duties. The statement, which can be found on pages 32 to 33, should be read alongside the descriptions on pages 26 to 29 and 136 to understand how stakeholder interests were taken into consideration by the Board in decision-making during the year.

For engagement with the workforce, the Board has decided not to adopt any of the three specific employee engagement methods referred to in the UK Code at this time. Instead, our chosen approach is to engage and consult with employees regularly through the employee engagement forum recently replaced with our new people panel, RISE, as well as the Big Chat, hosted by the Executive team. These forums provide employees with important up to date information about key events and give them an opportunity to hear from the Directors, provide feedback and ask questions. The Board believes Pennon's chosen approach is effective for communicating with and gathering feedback from employees from across the business so that the interests of employees can be considered by the Board in its discussions and decision-making. Further information on employee engagement can be found on page 54.

We also actively engage with all our stakeholders, including our customers, our communities, our people, our suppliers and our investors. We are acutely aware that many of our stakeholders are struggling with the challenges posed by an uncertain future. We are committed to maintaining appropriate and regular dialogue to ensure that our strategy and our performance objectives reflect our stakeholders' expectations and needs. Our continuous engagement allows stakeholders to provide feedback on the matters they consider to be important and raise any issues which they would like to be addressed.

## Shareholder and investor engagement

Our shareholders are one of our key stakeholder groups and we continued to manage a comprehensive engagement programme with them throughout the year despite the difficulties posed by COVID-19.

During 2021/22, members of the Executive met with 64%<sup>1</sup> of our institutional investors and we attended 13 roadshows, events and conferences in the UK, USA and mainland Europe. We also held 122 meetings and calls with both current and prospective investors. Due to COVID-19 restrictions, most of these meetings were held virtually. We were delighted to be able to host an investor visit to our Mayflower Water Treatment Works in Plymouth, as part of the Capital Markets Day in September 2021.

Pennon maintains a stable shareholder register with over half of investors based in the UK. The majority of Pennon's issued share capital is held by institutions, with the remainder largely held by private client investment managers.

Our Group Finance Director continues to regularly report to the Board on major shareholders' views about the Group. The Company's corporate brokers present frequently to the Board on equity market developments and shareholder perceptions. This helps to ensure that the Board is fully briefed on the views and aspirations of shareholders.

The Directors have always enjoyed attending and meeting our shareholders at the Annual General Meeting (AGM). Last year, in view of the ongoing COVID-19 pandemic, we strongly encouraged shareholders to participate remotely in the AGM. We look forward to engaging with shareholders again at our 2022 AGM. Information on the arrangements we have made will be set out in the Notice of AGM.

1. % of active institutional investors.



## WaterShare+ quarterly meetings and Annual General Meeting (AGM)

The WaterShare+ scheme was developed to build a closer relationship with South West Water's customers by offering them the opportunity to become shareholders in their water company, giving them both a voice and a financial stake in our business.

As part of our innovative and pioneering WaterShare+ scheme, and in an industry first, our first Customer AGM took place in November 2021. Attended by customers, our independent WaterShare+ Advisory Panel and our executive team, the meeting was well received and provided a strong platform for our customers to have direct, real and honest engagement.

The independent WaterShare+ Advisory Panel was able to discuss how they champion customer interests and needs by providing an independent view on the delivery of the company's business plan.

Our first Customer AGM was a real milestone in our determination to build a deeper relationship with our customers. Through our quarterly public meetings, held in addition to the Customer AGM, we will continue to focus on doing the right things, in the right way and giving our customers a stake and say in what we do, and how we do it.

Shareholder and Investor engagement calendar

June 2021

- Announcement of Full Year Results 2020/21 including the acquisition of Bristol Water and return of capital to shareholders
- London & Europe Roadshow
- Credit Suisse Global Energy Conference
- RBC Utilities & Infrastructure Conference
- North America Roadshow
- Edinburgh Roadshow
- General Meeting to approve special dividend and associated share consolidation

July 2021

- Annual General Meeting

September 2021

- Citi – UK Utilities & Infrastructure conference
- Capital Markets Day
- Trading Statement

November 2021

- Announcement of Half Year Results 2021/22
- WaterShare+ AGM

December 2021

- London & Europe Roadshow
- PCIM roadshow – London & Edinburgh
- North America roadshow
- Shareholder engagement on Executive Remuneration

April 2022

- Trading Statement
- Spotlight presentation on Bristol Water

Innovation focused Capital Markets Day at Mayflower Water Treatment Works, Plymouth

In September 2021, we held our innovation focused Capital Markets Day at our Mayflower Water Treatment Works in Plymouth. Investors were given the opportunity to see our operations in depth and understand more about the ceramic membrane technology being used at Mayflower, the first of its kind in the UK, as well hearing more about our future plans.



**Pennon AGM**

We know the AGM provides an important forum for shareholders to engage with the Board and raise questions, and we are keen to ensure that such shareholder engagement is maintained. Information on the arrangements we have made for our 2022 AGM will be set out in the Notice of AGM. The voting results of each AGM are fully disclosed to the London Stock Exchange, and we were pleased to note that at the 2021 AGM every resolution was passed with at least 93.50% votes in favour.



## Division of responsibilities

There is a clear separation of responsibilities between the Chair and the Chief Executive Officer, divided between managing the Board and the business, while maintaining a close working relationship.

All the Directors are equally accountable for the proper stewardship of the Group's affairs and also have specific roles, which include those set out below:

Directors' roles and responsibilities	
<b>Chair</b> <b>Gill Rider</b>	<ul style="list-style-type: none"> <li>• Leading the Board and setting its agenda</li> <li>• Promoting the highest standards of integrity and probity and ensuring good and effective governance</li> <li>• Managing Board composition, performance and succession planning</li> <li>• Providing advice, support and guidance to the Chief Executive Officer</li> <li>• Representing the Group and being available to shareholders</li> <li>• Discussing separately with the Non-Executive Directors performance and strategic issues.</li> </ul>
<b>Group Chief Executive Officer</b> <b>Susan Davy</b>	<ul style="list-style-type: none"> <li>• Managing the Group and providing executive leadership</li> <li>• Developing and proposing Group strategy</li> <li>• Leading the operation of the Group in accordance with the Board decisions</li> <li>• Coordinating with the Chair on important and strategic Group issues and providing input to the Board's agenda</li> <li>• Contributing to succession planning and implementing the organisational structure</li> <li>• Leading the Pennon strategic review</li> <li>• Leading on acquisitions, disposals, business development and exploiting Group synergies</li> <li>• Managing shareholder relations.</li> </ul>
<b>Group Finance Director</b> <b>Paul Boote</b>	<ul style="list-style-type: none"> <li>• Supporting the Group Chief Executive in providing executive leadership and developing Group strategy</li> <li>• Reporting to the Board on performance and developments across the business</li> <li>• Implementing decisions of the Board</li> <li>• Supporting the Group Chief Executive with the Pennon strategic review, leading on the proposed use of proceeds from the sale of Viridor</li> <li>• Managing specific business responsibilities</li> <li>• Managing investor relations including financing and treasury activities.</li> </ul>
<b>Senior Independent Director</b> <b>Neil Cooper</b>	<ul style="list-style-type: none"> <li>• Assisting the Chair with shareholder communications and being an additional point of contact for shareholders</li> <li>• Acting as a sounding board for the Chair</li> <li>• Being available to other Non-Executive Directors if they have concerns that are not satisfactorily resolved by the Chair</li> <li>• Ensuring an annual performance evaluation of the Chair, with the support of the other Non-Executive Directors.</li> </ul>
<b>Non-Executive Directors</b> <b>Claire Ighodaro</b> <b>Iain Evans</b> <b>Jon Butterworth</b>	<ul style="list-style-type: none"> <li>• Critically reviewing the strategies proposed for the Group</li> <li>• Critically examining the operational and financial performance of the Group</li> <li>• Evaluating proposals from management and constructively challenging its recommendations</li> <li>• Contributing to corporate accountability through being active members of the Committees of the Board.</li> </ul>
<b>Supported by the Group Company Secretary</b> <b>Simon Pugsley</b>	<ul style="list-style-type: none"> <li>• As Group General Counsel, with remit covering compliance, statutory duties and governance, providing strategic legal and commercial advice to the Group and the Board in its deliberations. As Group Company Secretary, attending and supporting all Board and associated Committee meetings of both Pennon Group plc, South West Water Limited and Bristol Water plc.</li> </ul>

### Executive management

The role of the Executive is to define and drive the business priorities that will achieve delivery of the Group's strategy. It is responsible for ensuring, to the extent of the authority delegated by the Board, the proper and prudent management of Group resources to create and maximise shareholder value while protecting the interests of the wider stakeholder group. Chaired by the Chief Executive Officer, the Executive meets

regularly to receive reports from the management committees and to review and refine recommendations to be presented to the Board. In addition to the Chief Executive Officer and Group Finance Director, the Pennon Executive also includes the Group General Counsel and Company Secretary and the Group Chief People Officer.

## Managing the Group and its subsidiaries

The South West Water board, and the Bristol Water plc board following the acquisition in June 2021, operate as separate independent boards in accordance with Ofwat's principles on board leadership, transparency and governance. All but one of the South West Water board members and two of the Bristol Water plc board members serve on the Pennon Board. The refocus of the Group on UK water means the interests of the non-regulated and regulated businesses are more closely aligned and provide for more effective leadership and governance. Because the three boards are run concurrently, the Directors are well-positioned to assess matters holistically and provide continuity to the Group as it moves to a water-only enterprise. Despite this concurrency, the Group's rigorous conflicts of interest process safeguards the South West Water and the Bristol Water plc boards' ability to set and have accountability for all aspects of the regulated business' strategy thereby ensuring and strengthening South West Water's and Bristol Water plc's regulatory ringfence.

While certain matters may be delegated to the Board Committees and to the Executive Directors, as appropriate, the matters reserved for the Board include:

- All acquisitions and disposals
- Major items of capital expenditure
- Authority levels for other expenditure
- Pennon's dividend policy
- Risk management process and monitoring of risks
- Approval of the strategic plan and annual operating budgets
- Group policies, procedures and delegations
- Appointments to the Board and its Committees.

The Board also endorses certain decisions taken by the South West Water and Bristol Water plc boards, including major capital projects and investments, long-term objectives and commercial strategy, the five-year regulatory plans, annual budgets, and certain decisions relating to financing. This approach remains compatible with Ofwat's principles on board leadership, transparency and governance because such decisions are ultimately reviewed and approved by the South West Water and Bristol Water plc boards. Approval of South West Water's and Bristol Water plc's dividend policy and the declaration of dividends to be paid by South West Water or Bristol Water plc to Pennon also remain reserved for the South West Water and Bristol Water plc boards, respectively.

## Dealing with Directors' conflicts of interest

In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. The Board considers this has operated effectively during the year.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company.

A register of Directors' conflicts is maintained and reviewed at each Board meeting. Authorised conflicts disclosed on the register currently involve cross-directorships with Pennon Water Services Limited and the trustee board of the Group's defined benefit scheme. Other potential conflicts of interest that were examined during the year included:

- The appointment of Claire Ighodaro to her role at KPMG
- Neil Cooper's disclosure of his interest in a holiday home potentially impacted by a South West Water commercial agreement.

## Related parties

The processes outlined above in relation to conflicts of interest, together with the commissioning of frequent share register analysis, enable the Board to monitor the Group's related parties so that any related party transactions may be quickly identified and compliance with the Listing Rules ensured.

## Composition, succession and evaluation

### Board support and training

Directors have access to the advice and services of the Company Secretary, and the Board has an established procedure whereby Directors, may seek independent professional advice at the Company's expense in order to fulfil their duties. The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors, the Board and the Committees.

Newly appointed Directors receive a formal, tailored induction, which includes but is not limited to:

- An explanation of the Group structure, plus regulatory and legal issues
- The Group governance framework and policies
- The Group's approach to risk management and its principal risks (financial and non-financial, including environmental, social and governance (ESG) risks)
- Duties and obligations (including protocols around conflicts of interest and dealing in shares)
- The current activities of the Board and its Committees
- Newly appointed Directors are also invited to visit different operating facilities across the Group and to meet with employees in order to better understand key processes and systems.

The training needs of Directors are reviewed as part of the Board's performance evaluation process each year. Training may include attendance at external courses organised by professional advisers and also internal presentations from senior management.

During the year, updates were provided to the Board and Committees via the Group General Counsel and Company Secretary and/or the Company's external advisors. These included updates on mandatory reporting and recent legal or governance changes, including shareholder guidelines.

### Pennon Board composition, independence and experience

The Board comprises the Chair, four Non-Executive Directors and two Executive Directors. At year end, female representation on the Board was at 42.9%, exceeding the Board's target of 40% and the level referred to in the FTSE Women Leaders Review and the recently published changes to the Listing Rules.

All of the Non-Executive Directors are considered by the Board to be independent. Given the longer service of Gill Rider and Neil Cooper, a particularly rigorous review was undertaken in respect of their respective re-elections, with shareholders also previously consulted on Gill's re-election. The Board remains satisfied that, based on their participation at meetings and their contribution outside of the boardroom, both Gill Rider and Neil Cooper continue to demonstrate independence of character and judgment in the performance of their role. An explanation regarding the Board's recommendation that Gill Rider remain in office notwithstanding her long service to the Board, and our succession plans for her role is on page 143.

All Directors are subject to re-election each year. All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 130 to 132 demonstrate collectively a broad range of business, financial and other relevant experience.

Neil Cooper is Chair of the Audit Committee and in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1, has recent and relevant financial experience and competence in accounting and auditing (as set out in his biography on page 131). The Board is satisfied that the Audit Committee as a whole has competence relevant to the sector in which the Group operates.

## Board effectiveness review

The 2021/22 Board and Committee evaluation was conducted internally, via an online questionnaire created by the Group General Counsel and Company Secretary in consultation with the Chair in February 2022.

This year, more focus was placed on treating the evaluation as a strategic health check and forward-looking review, while also including questions that enabled the Board to reflect on its performance in accordance with the UK Code requirement. Therefore, of equal focus was the following:

- The processes required to enable the business to meet its new challenges
- How the Board can best respond to and lead the strategic direction of the Group
- The maturity of, and appropriate flex within our current governance
- Board composition, numbers, and attributes required for new appointments
- The ways in which the Board can equip itself to respond to challenges and lead in the context of increased complexity, uncertainty, opportunity and risk in the UK water business environment
- How we can better achieve and explain current and long-term corporate performance, and
- How can we operate more effectively and strategically.

The last external Board effectiveness evaluation took place in 2020 and was carried out by Condign Limited. Plans will be put in place for an external effectiveness evaluation in 2023 in accordance with the UK Corporate Governance Code's recommendation to undertake an external evaluation at least every three years.

## Summary of evaluation

A summary of the Board and Committee evaluation results is included within the Nomination Committee report on pages 156 to 157.

## Succession planning

### Neil Cooper

Neil Cooper has served seven years following the Board agreeing that his term be extended to nine years last year. The Board recommends Neil's re-election at the 2022 AGM ahead of his stepping down in September 2023. Information on our succession planning for the Audit Committee Chair role is in the Nomination Committee Report on page 155.

### Gill Rider

Gill was first appointed to Pennon's Board on 1 September 2012 and was appointed Chair in July 2020. In 2021, as her tenure as a Non-Executive Director of Pennon approached nine years, the Senior Independent Director led an independent review in relation to the extension of Gill's term as Chair. Following a thorough review and after consulting with shareholders, the Board was satisfied that an extension of no more than three years from July 2021 was appropriate, given the continuation of the strategic business review, the period of adjustment needed following the sale of Viridor and the re-positioning of the Group as a major operator in the UK water sector. The Board believes that continuity of leadership and strategic direction at this time continue to be especially important to the successful conclusion of these processes.

The Board is also keen to ensure that the work being undertaken to embed Group governance and control structures following the repositioning of the Group to focus on the UK water sector and the acquisition of Bristol Water continues to be carried out under Gill's stewardship, noting her close involvement in the strategic review process.

In addition, the Board considers that the extension of Gill's term as Chair both facilitates effective succession planning and the development and continuation of a diverse Board. For these reasons, and mindful of the recommendations of the UK Code, the Board believes it to be in the best interests of the Company and its shareholders, for Gill to remain as Chair, and recommends her re-election at the 2022 AGM.

Further information on succession is provided in the Nomination Committee Report on page 156.

## External appointments

### Susan Davy

Susan Davy continued as a Non-Executive Director of Restore plc throughout 2021/22. The Board is of the opinion that the experience gained from external appointments provides additional and different business experience and a fresh insight into the role of an Executive Director.

### Chair and Non-Executive Directors

Information on the other business commitments of the Chair and Pennon's Non-Executive Directors is on pages 130 to 132.

## Audit, risk and internal control

### Risk management and the Group's system of internal control

The Board is responsible for maintaining the Group's system of internal control to safeguard shareholders' investments and the Group's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the year and up to the date of the approval of this Annual Report and Accounts and is regularly reviewed by the Board.

The Group's system of internal control is consistent with the Financial Reporting Council's (FRC) 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (FRC Internal Control Guidance).

The Board confirms it applies procedures in accordance with the UK Code and the FRC Internal Control Guidance, which bring together elements of best practice for risk management and internal control by companies. The Group's internal audit function undertakes specific risk assessments to identify vulnerable risk areas in the Group. The Board's risk framework described on page 96 of the strategic report provides for the identification of key risks, including ESG risks, in relation to the achievement of the business objectives of the Group, monitoring of such risks and ongoing and annual evaluation of the overall process. ESG risks identified and assessed by the Board cover areas such as health and safety, climate change and tax compliance. Details of the key risks affecting the Group are set out in the strategic report on pages 99 to 105.

Key performance indicators are in place to enable the Board to measure the Company's ESG performance on pages 36, 50 and 84 and a number of these are linked to remuneration incentives on page 170.

As part of the review evaluating the system of risk management and internal control under the Group risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Group procedures.

The Group's processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout the Group and that the Group is in a position to react appropriately to new risks as they arise.

### Code of Conduct and policies

The Group's Code of Conduct was reviewed and refreshed in March 2021. The Code of Conduct and related policies set out Pennon's commitment to promoting and maintaining the highest ethical standards. Areas covered in the Code of Conduct and related policies include our impact on the environment and our communities, our workplace and our business conduct.

The Code of Conduct sets out the values and principles by which we operate and provides a framework for ethical business practices. It is further supported by a number of policies that guide our workforce and suppliers, so that we can identify and deal with suspected wrongdoing, fraud or malpractice, maintain the highest standards of compliance, and apply consistently high standards of ethics. We aim to maintain a culture that fosters the reporting of any concerns, and trust and confidence that we will act upon them.

### Anti-bribery and anti-corruption

The Group's policy on anti-bribery and anti-corruption strictly prohibits employees from offering or accepting bribes, facilitation payments and kickbacks. The policy requires proper due diligence checks of third-party suppliers and contractors doing business with the Group, including a corruption risk assessment to examine the nature of the proposed work or transaction. The policy provides a framework that requires everyone who works with or for the Group to act honestly and with integrity at all times. The policy has been rolled out comprehensively into all parts of the Group, with online training arranged by the legal compliance team. The Group ensures compliance with the policy in line with our risk-based approach by conducting planned and ad hoc checks, providing both general and specific training, and carrying out detailed investigations into allegations of potential wrongdoing (whistleblows) received from employees, customers and suppliers.

In order to mitigate risk, targeted authorisation and oversight processes are applied to the areas that have been identified as being more vulnerable and additional training is provided.

The legal compliance team likewise actively assesses high risk areas based on information gained through their close working relationship with the Group internal audit function. Assessments are undertaken using a number of entry points, including using the output of reviews with the executive teams, during and following face-to-face training, and analysing whistleblowing reports. Any foreign trading operations, procurement activities, business development and back-office functions continue to be specifically reviewed for compliance with anti-bribery and anti-corruption requirements. Comprehensive operating procedures are in place to address risks in those areas, with regular reviews taking place to ensure the assessment of risk remains up to date.

The anti-corruption and anti-bribery policy also sets out the employment consequences for its breach and potential legal sanctions under bribery laws. Any breaches or failure to adhere to the Group's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Company. All employees are required to read, understand and comply with the policy and report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Group's confidential whistleblowing service Speak Up. There were no confirmed cases of bribery, corruption, fraud or business ethics violations during the year.

Allegations of bribery or corruption are reported to the Audit Committee together with investigation outcomes and details of any action taken, which are disclosed to our external auditors.

#### Training and communications

Our comprehensive programme of training and internal communications continues with targeted messaging and interactive training sessions. This programme addresses the business's key compliance risk areas and has been designed to increase resilience, heighten awareness and promote a culture of doing the right thing.

#### Whistleblowing policy – Speak Up

The Speak Up service encourages employees to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how any such concerns should be raised and ensures that employees are able to do so without fear of reprisal. The Group's whistleblowing policy specifically covers and encourages reporting of:

- Bribery or corruption
- Stealing or fraud
- Corrupt or dishonest activity
- Anything else contrary to the law.

The Speak Up service comprises telephone and web-based reporting channels operated for Pennon by independent provider Navex Global.

Following receipt of a report, the allegation will be assessed and an investigation started promptly. The investigation process is overseen by the Head of Legal Compliance and will be undertaken fairly, impartially and thoroughly by appropriately trained investigators with strict confidentiality being maintained at all stages of the investigation. After each investigation, a confidential review is undertaken by the Head of Legal Compliance to identify any lessons learnt, or organisational improvements or training requirements. Any lessons other improvements identified are acted upon whilst at all times ensuring the paramount requirement of operating a whistleblowing process that protects the identity of individuals and the independence and integrity of the process. Our whistleblowing process is designed to support our staff, reflect shared responsibility, promote a positive culture, provide unique insights and is central to our system of checks and balances.

## Legal Compliance policies (and our Code of Conduct)

The Group has policies in place covering the acceptance of gifts and hospitality, anti-facilitation of tax evasion and conflicts of interest, which require our people to disclose any situation which may conflict with their responsibilities as Pennon employees.

Our Code of Conduct and other key compliance policies can be found in the Governance and Remuneration section of our Group website at <https://www.pennon-group.co.uk/about-us/governance-and-remuneration> under Internal Control.





# Ensuring sound financial management and robust controls to support our strategy



**Neil Cooper**  
Audit Committee Chair

## Audit Committee Composition and Meetings

Position	Director	Date of appointment to Audit Committee	Attendance
Committee Chair	Neil Cooper	September 2014	●●●●● 5/5
Committee	Iain Evans	September 2018	●●●●● 5/5
	Claire Ighodaro	September 2019	●●●●● 5/5
	Jon Butterworth	July 2020	●●●●● 5/5

### Dear Shareholder

I am pleased to present the Audit Committee’s report for the year ended 31 March 2022. The purpose of the report is to provide an insight into the work carried out by the Committee, and in doing so, outline our areas of focus. I hope you find this report a helpful explanation of our work during the year.

As in previous years, the Committee continue to be focused on three key areas:

- Firstly, ensuring the quality and integrity of the Group’s financial reporting; this is done through the assessment of the application of accounting policies given underlying standards, challenging management and intellectually testing the use of accounting judgements made in preparing financial reporting and the assessment of the reporting of the Group in terms of whether its presentation is fair, balanced and understandable
- Secondly, we seek to review and challenge the ongoing effectiveness of the internal control environment
- And finally, challenging ourselves as to the scope and adequacy of risk management processes across the Group. In doing this, we monitor the expression of the Group’s risk appetite and undertake ‘deep dive’ reviews of higher risk areas.

These responsibilities are discharged throughout the year in accordance with a schedule of business reflecting the annual external reporting cycle of the Group, allowing for appropriate consideration at the right point. This scheduling also allows for consideration on an ad-hoc basis of events as they have arisen.

Monitoring and reviewing the effectiveness of the external auditor and the internal audit function is an equally important ongoing element of the Committee’s assurance activities.

In regards to risk, the process starts with the group’s executive risk committee formulating their risk appetite as well as their ongoing monitoring of key risks and their mitigation. The Committee considers this formally, as well as honing in on key risk areas.

During the year, these key risk deep dives covered a wide range of topics including the risks to the delivery of capital projects, customer service performance and how that relates to our regulatory targets, supplier resilience, health and safety, water leakage and the risks to the Group from UK macroeconomic demand fluctuation. More detail on our risk management processes, principal risks and their associated mitigations can be found on pages 96 to 105.

As well as this focus on our risk processes, we formally review the output of the Group’s financial resilience and health assessments; for a 12-month period through our assessment of the Group’s going concern status and over a period of five years to assess the Group’s continuing viability. Whilst the worst of the COVID-19 pandemic now fortunately appears behind us in the UK, the viability assessment has considered a range of financial projections arising from the current challenging and complex external environment with most recent developments in relation to economic growth, inflation and the indirect impact of the Ukraine crisis. These are modelled through internal scenarios around the deployment of Group cash reserves and which now incorporate the acquisition of Bristol Water. While the Group maintains a five-year viability assessment period, being appropriate for an acquisitive group, South West Water and

Bristol Water have continued to use a longer assessment period to 2030, since they have a greater visibility of future cash flows, being regulated businesses. Our viability statement is reported on page 123.

As part of the half-year and year-end reporting review process, we carefully consider the key financial reporting judgements of management as set out on page 207. Significant matters considered by the Committee both during the year and in relation to the year-end financial statements are laid out in this report.

The acquisition of Bristol Water was subject to review by the CMA. During the immediate period from acquisition on 3 June 2021 until the CMA clearance (following its acceptance of Pennon's undertaking) on 7 March 2022, the Bristol Water business was operated independently of the rest of the Group. Bristol Water's continuing governance processes were therefore relied on by the Pennon Group's audit committee in fulfilling its overall Group responsibilities.

Looking ahead to 2022/23, we expect the global economy to be volatile reflecting the geopolitical situation in Ukraine with macroeconomic developments compounded by the recovery from the impacts of the COVID-19 pandemic. The Committee remains alert and continues to monitor developments and adapt its approach where necessary, to best support the Group's stakeholders and strategy.

#### Priorities as committee chair

As Audit Committee Chair, I work with my colleagues to ensure the Committee supports the Board in fulfilling its key responsibilities: the monitoring of the quality and integrity of Group financial reporting, the adequacy of its risk management processes and its internal controls processes.

The year has been a successful one for the Group in terms of pursuing our strategy to focus on UK water, whilst also delivering shareholder value. Key events during the year include the acquisition of Bristol Water and our special dividend and share consolidation activity, with business carried on against the backdrop of the pandemic, and accelerating macroeconomic volatility, particularly in regards to energy prices and inflation.

Key considerations for the Committee can be summarised as follows:

#### COVID-19 pandemic and the macroeconomic outlook

Throughout the year, the Committee continued to closely monitor the impact of COVID-19 on our financial control environment and on the Group's financial results.

The impacts on the supply chain of the recovery from the pandemic in large parts of the world, allied to continuing lockdowns in China are testing longstanding global logistics structures. Rising power prices and overall higher levels of inflation are becoming a feature, allied to global geopolitical volatility, and this requires careful monitoring.

#### Bristol Water acquisition and special dividend, share consolidation and share buy-back programme

A priority for the Committee arose from the consequences of the Group's strategy to optimise usage of the proceeds from the Viridor disposal. Following the announcements as part of the full year financial results last year to acquire Bristol Water and return capital to shareholders through the payment of a special dividend, along with an associated share consolidation, and to commence a share buy-back programme, the following matters have been considered by the Committee:

- Considering appropriate post balance sheet event disclosure in the annual report and accounts for the year ended 31 March 2021
- Considering and reviewing the purchase price allocation accounting and disclosure for the acquisition of Bristol Water plc in the half year and full year financial results for the year ended 31 March 2022
- Considering and approving the alignment of accounting policies of Bristol Water with Pennon Group plc
- Reviewing and assessing the impact of the Bristol Water acquisition on the Group's principal risks
- Considering and approving any changes to the Group's internal control processes, including the effectiveness of the internal control environment, and monitoring the external audit process in connection with the Bristol Water acquisition
- Considering and reviewing the accounting and disclosure of the special dividend, share consolidation and share buy-back.



**Neil Cooper**  
Audit Committee Chair

30 May 2022

### Audit Committee composition

All members of the Committee served throughout the year.

Other regular attendees of Committee meetings during the year included: the Chair, Chief Executive Officer; Group Finance Director; Group General Counsel and Company Secretary; South West Water Finance Director; Director of Risk and Assurance; Group Financial Controller and the external auditor.

In accordance with the UK Code, the Board is satisfied that Neil Cooper, Iain Evans and Claire Ighodaro have recent and relevant financial experience and also, in accordance with FCA Rule 7.1.1R of the FCA's Disclosure Guidance and Transparency Rules, have competence in accounting or auditing. Details of each Director's significant current and prior appointments are set out on pages 130 to 132.

All of the Committee members are also members on the Remuneration Committee, which enables them to provide input to both Committees on any Group performance matters and on the management of any risk factors relevant to remuneration.

### Significant matters considered by the Committee

A calendar of business sets in place a framework for ensuring that the Committee manages its affairs efficiently and effectively throughout the year and is able to concentrate on the key matters that affect the Group.

The most significant matters that the Committee considered and made decisions on during the year and, where appropriate, since the year end, are set out below and overleaf.

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<b>Financial reporting</b>	<ul style="list-style-type: none"><li>• Monitored the integrity of the Group's financial statements and the half-year and full-year results announcements relating to its financial performance; this included reviewing and discussing significant financial reporting judgements contained in the statements, as outlined later in this report</li><li>• Reviewed the internal assessment of going concern and longer-term viability on behalf of the Board</li><li>• After a detailed review in accordance with its established process, advised the Board that the presentation of the Annual Report and Accounts is fair, balanced and understandable in accordance with reporting requirements, including the consideration of climate risk in preparation of the financial statements, and recommended it gave approval for publication</li><li>• Reviewed internal control processes, systems and levels of compliance</li><li>• Reviewed internal audit reports on core systems and processes across the Group.</li></ul>
<b>External auditor</b>	<ul style="list-style-type: none"><li>• Considered the auditor's report on its audit of the annual results focusing on key findings</li><li>• Assessed external auditor effectiveness in respect of the previous year's external audit process</li><li>• Recommended to the Board the reappointment of the external auditor for approval at the Annual General Meeting with the Committee being authorised to agree the external auditor's remuneration</li><li>• Considered and approved the audit plan and audit fee proposal for the external auditor</li><li>• Considered the auditor's report on control themes and observations for the year, which did not identify any significant deficiencies</li><li>• Considered the timeframe for the Group's re-tender for its statutory auditor.</li></ul>
<b>Risk management</b>	<ul style="list-style-type: none"><li>• Reviewed the Group's risk management framework and compliance with that framework during the year and after the year end up until the publication of the Company's annual report</li><li>• Reviewed the assessment of the risks by the Executive Directors and considered Group risk appetite, and risk profile of the Group</li><li>• Reviewed the Group risk register and considered appropriate areas of focus and prioritisation for the internal audit work programme for the financial year</li><li>• Assessed information security across the Group in mitigating key IT risks, including specific consideration of the potential risk of cyber security breaches or related items that may have any material impact to the financial statements.</li><li>• Considered the annual report on whistleblowing as part of the risk management review</li><li>• Carried out deep dives at Committee meetings on principal risk areas.</li></ul>
<b>Governance</b>	<ul style="list-style-type: none"><li>• Considered and approved Group accounting policies and judgements used in the preparation of the financial statements, including any required alignments of Bristol Water's accounting policies</li><li>• Reviewed and considered internal financial policies</li><li>• Confirmed compliance with the UK Code</li><li>• Held regular meetings with the external auditor and the Group director of Risk and Assurance without members of management being present.</li></ul>

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Regarding monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2022 are set out in the following table, together with details of how each matter was addressed by the Committee. At the Committee's meetings throughout the year, the Committee and the external auditor have discussed the significant matters arising in respect of financial reporting during the year, together with the areas of particular audit focus, as reported on in the independent auditor's report on pages 183 to 189. In addition to the significant matters set out in the table below, the Committee considered presentational disclosure matters including the use of non-underlying performance metrics and ensuring a fair presentation of statutory and non-statutory performance and financial measures.

During the year, the Committee's areas of focus included:

Area of focus	How the matter was addressed by the Committee
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Given the nature of the Group's revenue, the key areas of income statement judgement for South West Water, Bristol Water and Pennon Water Services continue to be in respect of revenue recognition relating to income from water services. Whilst the Committee relied on South West Water's, Bristol Water's and Pennon Water Services' processes for assessment of water into supply, it scrutinised their track record of accuracy by comparing actual outturns with accruals at previous year ends to form a judgement about the quality of decision making. The Committee also closely considered the work in respect of these areas at year end by the external auditor as well as reviewing disclosures around revenue recognition accounting policies.</li> </ul>
<b>Bad and doubtful debts</b>	<ul style="list-style-type: none"> <li>Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly across the Group against historical standards and compared to the track records of other companies in the relevant sectors. The Committee was particularly mindful of the ongoing impacts of affordability on the assessment of expected credit losses in determining the bad debt provision, noting the significant increases in inflation arising from macro economic developments. At the year end, the external auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for expected credit losses was reasonable.</li> </ul>
<b>Going concern basis for the preparation of the financial statements and viability statement</b>	<ul style="list-style-type: none"> <li>A report from the Group Finance Director on the financial performance of the Group, including forward-looking estimates of covenant compliance and funding levels under different scenarios including inflation scenarios, is provided to the Board on a periodic basis. Rolling five-year strategy projections and the resultant headroom relative to borrowings are also regularly reviewed by the Board, including the application of scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Group Finance Director prepares for consideration by the Committee a report focusing on the Group's liquidity over the 12-month period from the date of signing of either the annual report or half-year results. The Committee also reviewed a report from the Group Finance Director on the Group's financial viability over an appropriate period, in connection with the UK Corporate Governance Code's requirement for a viability statement to be given by the Board. The Board considers the appropriate period to assess the Group's viability remains unchanged at five years which recognises both the longer-term visibility in the regulatory environment of the South West Water and Bristol Water businesses and the corporate activity, including acquisitions, such as Bristol Water, undertaken by Pennon.</li> <li>Similarly, this report also considered the viability of the Group considering the potential manifestation of other adverse events modelled from the Group's principal risks and resultant sensitivity scenarios. In performing their own viability assessment, South West Water and Bristol Water use a longer assessment period to 2030, noting a greater visibility of future cash flows, being regulated water businesses. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Group to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on page 123.</li> </ul>
<b>Accounting for the acquisition of Bristol Water, special dividend and share consolidation</b>	<ul style="list-style-type: none"> <li>On 3 June 2021, the Group acquired 100% of the issued share capital and voting rights of Bristol Water Holdings UK Limited, the holding company of Bristol Water Group, which comprises Bristol Water plc, a regulated water only company and a 30% share in Water 2 Business Limited, a joint venture with Wessex Water. The acquisition has been accounted for using the acquisition method.</li> <li>The Committee reviewed reports from the Group Finance Director in support of the identified net assets and their fair values of the acquired business, noting that external advisors had been engaged to support the calculation of the fair values of material items including tangible fixed assets, borrowings and retirement benefit obligations. The report also fully considered the alignment of accounting policies of the acquired businesses with those of the Pennon Group.</li> <li>Alongside the detailed analysis included in the report of the Group Finance Director, the Committee considered the external auditor's report on the work it had performed, which enabled the Committee to conclude that management's assessment of the fair values of the acquired net assets was appropriate and that the necessary disclosure had been provided in the annual report and accounts.</li> </ul>

### Effectiveness of the external audit process

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to monitor carefully the effectiveness of our external auditor as well as their independence, while recognising there is a need to use our external auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The current external auditor, Ernst & Young LLP (EY), was appointed following a comprehensive audit tender process and approval by shareholders at the Company's 2014 AGM. Its reappointment was approved at the 2021 Annual General Meeting. Christabel Cowling is the audit partner and has held the role since 2019.

The external auditor produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditor in delivering the timely audit of the Group's annual report and financial statements and which was shared with, and discussed by, the Committee in advance.

The effectiveness review of the external auditor is considered as part of the Committee's annual performance evaluation, which also examines the relationship and communications between the Committee and the external auditor. Further details of the Committee evaluation are provided on pages 156 to 157. No issues were raised during that review. The Committee concluded that the auditor was effective during the year and that the relationship and communications were open and constructive.

The Committee considered it was appropriate that the external auditor be reappointed and has made this recommendation to the Board. The Committee chair has also met privately with the external auditor to discuss key matters.

### Auditor independence

The Committee carefully reviews on an ongoing basis the relationship with the external auditor to ensure that the auditor's independence and objectivity are fully safeguarded.

The external auditor reported on its independence during the year and again since the year end, confirming to the Committee that, based on its assessment, it was independent of the Group.

### Provision of non-audit services

The Committee maintains to have a robust policy for the engagement of the external auditor's firm for non-audit work. The Committee receives a regular report covering the auditor's fees including details of non-audit fees incurred.

Recurrent fees typically relate to agreed procedures regarding annual regulatory reporting obligations to Ofwat; work which is most efficiently and effectively performed by the statutory auditor. The policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee Chair to approve all non-audit work performed by the statutory auditor. The policy uses the average of the last three years' audit fees disclosed in the accounts and certain non-audit fees for services that are required to be performed by the auditors are excluded from the assessment. The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditor's firm to carry out such work, and only grants approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be safeguarded. If another accounting firm could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the external auditor.

The level of non-audit fees payable to the external auditor for the past year is 11% of the three-year average audit fee, which is within the Group's 70% non-audit fee limit.

The Group Finance Director regularly reports to the Committee on the extent of services provided to the Company by the external auditor and the level of fees paid. The fees paid to the external auditor's firm for non-audit services and for audit services are set out in note 7 to the financial statements on pages 211 to 212.

### Internal audit

The internal audit activities of the Group are a key part of its internal control and risk management framework. At Group level there is a long-standing and effective centralised internal audit service, which supports the Committee in delivering its responsibilities.

Following the establishment in 2019 of a new directorate of Risk and Assurance encompassing Group risk reporting and internal audit, the Group's internal audit function has continued to operate effectively. The current Group internal audit plan was approved in March 2021, following a thorough review to ensure it provided adequate coverage over the Group's key risks for the year ahead and was sufficiently flexible to respond to emerging risks. In developing the plan, account is taken of the principal risks, the activities to be undertaken by the external auditor, and the Group's annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Group. Looking ahead, the intention of the Committee is to establish formal internal audit plans covering each 6 month period, given the volatility of the operating environment.



The Director of Risk and Assurance reported regularly through the year to the Committee on the outcomes and findings of internal audit activity. There were regular discussions, correspondence and private meetings between the Director of Risk and Assurance and the Committee Chair.

During the year, following a competitive tender process, the Committee approved the appointment of BDO to perform an external independent assessment of the internal audit function's effectiveness, the last one having been undertaken in 2016. This concluded that the function is fit for purpose and is operating efficiently and effectively, in line with good practice and conforms to IIA (Chartered Institute of Internal Auditors) standards. Where opportunities for continued improvement have been identified, these have been adopted and the success of which will be monitored by the Committee as part of its annual assessment of the effectiveness of the internal audit function. The next cyclical external review of the internal audit function will be undertaken within the next five years, as required by IIA standards.

### **Fair, balanced and understandable assessment**

To enable the Committee to advise the Board in making its statement that it considered that the Company's Annual Report and Accounts is fair, balanced and understandable (FBU) on page 148, the Committee applied a detailed FBU review framework that takes account of the Group's well-documented verification process undertaken in conjunction with the preparation of the Annual Report and Accounts. This was in addition to the formal process carried out by the external auditor to enable the preparation of the independent auditor's report, which is set out on pages 183 to 189.

In preparing and finalising this Annual Report and Accounts, the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the Pennon Executive. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

### **Statement of compliance with CMA order**

The Company is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Following the most recent rotation of the senior statutory auditor in 2019, the Committee considers a full tender for the Group's external audit services, subject to its annual reviews, likely no later than the year ending March 2024, before the next rotation would become due.

This allows for any potential new audit firm to take up the role no later than for the year ending March 2025. The Committee believes this approach is in the best interest of shareholders, as over this period the Group will benefit from an efficient and effective audit, while receiving continued challenge from a senior statutory auditor.

### **Looking forward**

During the forthcoming year, the Committee will remain focused on the key areas of responsibility delegated to it by the Board, ensuring that standards of good governance are maintained and that appropriate assurance is obtained across all areas of the business, with a particular focus on the Group's principal risks, control environment and approach to financial reporting, noting the volatility in the global economy, and taking into account developments in reporting responsibilities including those recommended by the TCFD, the consideration of climate risk in preparation of the financial statements and potential changes in the governance environment.

# Ensuring responsible business practice



**Iain Evans**  
Chair of the ESG Committee

## Environmental, Social and Governance Committee Composition and Meetings

Position	Director	Date of appointment to ESG Committee	Attendance
<b>Committee Chair</b>	Iain Evans	September 2018	●●●● 4/4
<b>Committee</b>	Gill Rider	September 2012	●●●● 4/4
	Susan Davy	March 2018	●●●● 4/4
	Claire Ighodaro	September 2019	●●●● 4/4
	Jon Butterworth	July 2020	●●●● 4/4
	Neil Cooper	July 2020	●●●● 4/4
	Paul Boote	July 2020	●●●● 4/4

**“Sustainability is at the heart of our business and is part of everything that we do.”**

### Dear Shareholder

I am pleased to report on the Environmental, Social and Governance (ESG) Committee’s activities and achievements during 2021/22. There have been no changes to the Committee this year. I continue to be supported by an experienced Committee who focus on governing our ESG activity and disclosure and ensure we continue to be a responsible business, creating a positive long-term impact on the environment and all of our stakeholders and I’d like to thank them for their work and input this year.

Sustainability is at the heart of our business and is part of everything that we do. During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference.

To deliver on our strategy, we have undergone an extensive materiality assessment in partnership with our stakeholders to identify their most important ESG matters. The results have informed our updated ESG targets framework and support us in aligning our approach and priorities for PR24. You can read more on the outcomes of the materiality assessment on pages 30.

Over the past year, work to deliver our ESG Capitals programme has continued at pace as we develop ways of measuring our contribution and impact across the ESG agenda.

From a governance perspective, we welcomed the enhanced ESG disclosure for this year’s reporting cycle and we have developed our very first SASB (Sustainability Accounting Standards Board) disclosure as well as our very first ESG databook. We have also made significant progress with the TCFD (Task Force on Climate-Related Financial Disclosures) recommendations after producing our first TCFD disclosures voluntarily in 2020/21.

As the global climate agenda increases, South West Water published both their Net Zero plan – Our Promise to the Planet, and a new Climate Change Adaptation plan.

Finally, we welcomed Bristol Water into the Group in 2021/22 and work is already underway to integrate its activities into the Group ESG strategy.

This annual report provides an integrated assessment to show how a responsible approach to sustainability helps us to balance the immediate and longer-term needs of society with the delivery of sustained commercial success.

**Iain Evans**  
ESG Committee Chair

30 May 2022

### Committee agenda for 2021/22

During the year, the Committee reviewed its remit and responsibilities, to ensure they remain appropriate.

### ESG performance

The ESG Committee continues to assess performance against a range of challenging targets for the Group, set as part of the business planning process.

In addition, the South West Water ESG committee provides assessment and oversight of South West Water's performance against sustainability targets that are core to the successful delivery of its five year business plan. This is consistent with Ofwat's requirement for independent governance of the regulated business.

As at 31 March 2022, Pennon achieved or is on track for 23 of the 26 targets. We continue to target significant improvements in these areas. You can read more about our targets on page 87.

### Materiality Assessment

During the year, we undertook an extensive materiality assessment in partnership with our stakeholders to identify their most important ESG matters. This involved interviewing a range of external stakeholders to get their views on what matters most as well as undertaking a desktop review, peer comparisons, activity mapping and horizon scanning in addition to one-to-ones with some of our internal teams. You can read more about the outcomes of our materiality assessment on page 30.

### Capitals programme

The focus of our Capitals programme this year has been to continue developing appropriate performance measures, benchmarking our approach, and identifying tools and methodologies to help us value these metrics. These Capitals measures will form part of our investment decision-making framework to ensure the total value and positive impact of our investments is captured. Our first Capitals Net Impact report will be published in Autumn 2022.

## Key activities and achievements during the year

- Successfully achieved majority of 2021/22 ESG targets
- Delivery of ESG Capitals plan as we look towards our first Capitals report to be published in Autumn 2022.
- Completion of updated materiality assessment reflecting our new water focused Group to inform our future ESG targets
- Continued delivery of TCFD recommendations including detailed appraisal of transition risks and opportunities and scenario analysis
- Enhanced ESG reporting including our first disclosures aligned to the Sustainability Accounting Standards Board (SASB) reporting framework and new ESG DataBook
- Integration of Bristol Water ESG activity into Group ESG reporting
- Improvements across external ESG ratings including our Sustainalytics ESG rating
- Implementation of new community impact tool (B4SI) across our key community programmes and activities
- Approval of updated Sustainable Financing Framework and Impact Report.

### Enhanced reporting and assurance

With a growing focus on ESG reporting, we are increasing our 2022 reporting suite and providing enhanced disclosure through our first SASB disclosure which can be found on pages 93 to 95 and ESG databook which is available to view at [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability).

Pennon's ESG reporting is integrated throughout the strategic report and specifically in the following sections:

Section	Page
Chair's letter	8
Chief Executive Officer's review	10
Business model	20
Strategy overview	19
Key performance indicators	14
Environment performance 2021/22	36
Social performance 2021/22	50
Governance performance 2021/22	84
Stakeholder overview	26
Our People strategy	51
Our Operations	66

Other related reporting including our Gender Pay Gap report, Climate Change Adaptation Report and Net Zero plan can be found on our website [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability).

Pennon's ESG performance and reporting has been assured by DNV, an independent management consultancy specialising in technical assurance in the utility sector. DNV's method of assurance includes testing the assumptions, definitions, methods and procedures that are followed in the development of data and the auditing thereof to ensure accuracy and consistency. The assurance statement can be found on our website [www.pennon-group.co.uk/sustainability](http://www.pennon-group.co.uk/sustainability).

Certain disclosures within this annual report that relate to the sustainability performance of South West Water and Bournemouth Water have been subject to an independent audit of regulatory data conducted by Jacobs. DNV has reviewed the consolidation of these into total Pennon data where stated, but not their preparation.

Jacobs are engaged by South West Water to independently audit South West Water's technical (non-financial) data published in its Annual Performance Report (APR). This includes all South West Water regulatory targets, including the suite of environmental performance indicators. Jacobs provide a report on this audit within South West Water's Annual Performance Report. Similarly, Turner & Townsend conduct an independent audit of Bristol Water's technical (non-financial) data also published in its Annual Performance Report.

### Benchmarking

It's important to us to ensure we are regularly benchmarked against the expected industry standards. This ensures we are continuing to provide up to date disclosure for our stakeholders. Certain leading indices assess companies on their disclosures relating to stringent environmental, social and governance criteria, and their position to capitalise on the benefits of responsible business practice. Pennon is a constituent within the FTSE4Good Index, Sustainalytics, CDP Climate Change, S&P Global CSA and a number of other leading external ESG assessments. FTSE4Good and similar leading indices are designed to facilitate investment in companies that meet globally recognised corporate responsibility standards.

### Focus areas for 2022/23

- Develop and publish first Capitals net impact report in Autumn 2022
- Validation of Group Science Based Targets (SBTs)
- Further integration of ESG across entire Group
- Expansion of community impact evaluation and reporting
- Preparatory work on upcoming ESG reporting including TNFD (Taskforce on Nature-related Financial Disclosures) and SDR (Sustainability Disclosure Requirements).

# Promoting diversity and ensuring ongoing leadership effectiveness and stewardship



**Gill Rider**  
Chair of the Nomination Committee

## Nomination Committee Composition and Meetings

Position	Director	Date of appointment to Nomination Committee	Attendance
Committee Chair	Gill Rider	September 2012	●●●● 4/4
Committee members	Neil Cooper	September 2014	●●●● 4/4
	Iain Evans	September 2018	●●●● 4/4
	Jon Butterworth	July 2020	●●●● 4/4
	Claire Ighodaro	July 2020	●●●● 4/4

### Dear Shareholder

I am pleased to present the Nomination Committee’s report for the year ending 31 March 2022.

This year, the Committee has focused on reviewing the effectiveness, size and composition of the Board to meet future requirements, in line with the strategy and in advance of the Audit Chair’s end of tenure planned for 2023. Additionally, the Committee has considered the ongoing development and succession planning of the wider executive team, including Bristol Water. Finally the Committee has taken an active interest in championing diversity, whether gender, ethnicity, or social mobility.

The Nomination Committee met four times during the year to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the Nomination Committee meetings, although other regular invitees to Committee meetings during the year included the Group Chief Executive Officer, the Group Chief People Officer and the General Counsel and Company Secretary. Committee members are also excluded from participating when their own positions are under discussion.

Further information on the Board leadership biographies, can be found on pages 130 to 132

### Board diversity

At Pennon we believe that a diverse and inclusive culture is a strategic imperative, treating it in the same way as we do each strategic priority - setting the tone from the top, holding leaders accountable and delivering against a clear action plan.

We know that balanced teams are better at solving complex problems, delivering innovative solutions, spotting new opportunities as well as being a powerful driver of resilience.

As at the 31 March 2022, the Board’s gender diversity stood at 43% with Pennon Executive gender diversity at 50% and for senior management (excl Bristol) at 44%. This focus on diversity positioned us 10<sup>th</sup> in the most recent FTSE Women Leaders report (FTSE 250) and 1<sup>st</sup> in the Utility Category.

Pennon remains one of very few FTSE businesses in the UK to have both a female Chief Executive Officer and Chair. Given this, we have continued our membership of the 30% Club, and I am an ambassador of 25 x 25, the initiative to increase the number of women CEOs in UK business.

As advocates of Sir John Parker’s review for ethnic board diversity, meeting the target ahead of the required date, we were also early signatories of the Change the Race Ratio and we have published diversity targets in line with this. We will be publishing our ethnicity pay gap during 2022. The Group’s wider workforce diversity is currently 248%, in part, reflective of the customers we serve across the Greater South West and the water industry.



### Board diversity policy

The Board requires the Committee to review and monitor compliance with the Board's diversity policy and report on the targets, achievement against those targets and overall compliance in the annual report each year.

The Board's diversity policy confirms that the Board is committed to:

- The search for Board candidates being conducted, and appointments made, on merit, against objective criteria whilst promoting the widest forms of diversity, including gender, social and ethnicity. In this context, the Board will endeavour to achieve and maintain:
  - A minimum of 40% female representation on the Board
  - A minimum of 40% female representation on the Group's senior management team
  - At least one member of diverse ethnicity on the Board
- Satisfying itself that plans are in place for orderly succession of appointments to the Board and senior leadership.
- Maintain an appropriate balance of skills and experience within the Group and on the Board.

### Talent management and succession planning

In 2020/21, a comprehensive leadership review was undertaken in conjunction with Heidrick & Struggles and extended this year to include the wider leadership population, including Bristol Water, to provide an independent and consistent Group wide view of the skills mix, capability and potential of the Group. This will be used to help inform development plans, aid succession planning and support the evolution of the Group's operating model as it integrates Bristol Water and executes strategy.

The Committee, supported by the Group Chief People Officer, also regularly reviews both the executive and non-executive leadership as part of its standing agenda. External horizon scanning has also become a more frequent activity, to ensure that the Board remains flexible to respond to any changing priorities.

### Board effectiveness review

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

The last external evaluation took place in 2020, in accordance with the UK Corporate Governance Code recommendation for an evaluation at least every three years. This year's evaluation was conducted internally, via an online questionnaire created by the Group General Counsel and Company Secretary in consultation with the Chair and respective Committee Chairs, in February 2022.

This year, there was greater focus on treating the evaluation as a strategic health check and forward-looking review, whilst also including questions that enabled the Board to reflect on its performance in accordance with the UK Code requirement. However, specific focus was also on the following:

- The processes that enable the business to meet its new challenges
- How the Board can best respond to and lead the strategic direction of the Group
- The maturity of, and appropriate flex within, our current governance
- Board composition, numbers, and attributes required for new appointments
- The ways in which the Board can equip itself to respond to and lead in the context of increased complexity, uncertainty, opportunity and risk in the UK water business environment
- How we can better achieve and explain current and long-term corporate performance
- How we can operate more effectively and strategically.

The questionnaire also ensured due regard to the ongoing effectiveness of the Board during the year in setting the Group's strategy, promoting Pennon's culture and values, ensuring that the Group's obligations to its shareholders and other stakeholders were understood and met, overseeing the use of the Group's resources, managing the risks inherent in the strategy, plans and the operating environment, and ensuring that the Pennon Executive had managed all the activities of the Company well.

The outcome of the review concluded that the Board, its Committees and individual Directors continued to demonstrate a high degree of effectiveness and collaboration, and that the Board had a good understanding of opportunities for growth and risks facing the business, with the following positives, negatives and/or actions suggested:

### Summary of evaluation

	Area of assessment	Commentary/feedback	Actions
<b>Pennon Board</b>	<b>Board operation</b>	<ul style="list-style-type: none"> <li>• The Board works well, with open collaboration, with potential for further Non-Executive Director support.</li> </ul>	<ul style="list-style-type: none"> <li>• Assess the need for further Non-Executive Director and progress accordingly.</li> </ul>
	<b>Board leadership</b>	<ul style="list-style-type: none"> <li>• The Board provides entrepreneurial leadership.</li> <li>• There are constructive relationships between executive / senior management and Non-Executive Directors.</li> <li>• The Board takes the lead in driving a strong health and safety culture throughout the Group.</li> <li>• The Board is strong, diverse, supportive, well-structured and appropriately positioned.</li> <li>• On H&amp;S matters, it was commented that, whilst the Board drives this, H&amp;S performance can always be improved.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to focus on driving improved Health &amp; Safety performance.</li> </ul>
	<b>Board oversight</b>	<ul style="list-style-type: none"> <li>• Good oversight of the Group's business.</li> <li>• Develop and maintain increased visibility around pollutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to ensure appropriate processes for monitoring, reporting and addressing pollution incidents.</li> </ul>
	<b>Group strategy and Governance</b>	<ul style="list-style-type: none"> <li>• The Board continues to provide helpful support to management.</li> <li>• The Board offers good strategic direction and governance.</li> </ul>	<ul style="list-style-type: none"> <li>• Key themes are developing strategic lines of communication to drive climate delivery and growth.</li> </ul>

	Area of assessment	Commentary/feedback	Actions
<b>Audit Committee</b>	<b>Committee operation and effectiveness</b>	<ul style="list-style-type: none"> <li>The Audit Committee provides useful support to the Board and management.</li> <li>The Committee operates good governance, is up to date with changing legislation and has a strong relationship with financial management.</li> <li>Overall, it was felt that the Audit Committee functions well, with multiple members with deep finance experience.</li> </ul>	<ul style="list-style-type: none"> <li>Continue with existing processes.</li> </ul>
<b>ESG Committee</b>	<b>Committee operation and effectiveness</b>	<ul style="list-style-type: none"> <li>Relationships and communication between the ESG Committee and key executives are open and constructive.</li> <li>The Committee makes effective use of KPIs and benchmarking to understand ESG performance, with external sustainability performance reported on regularly.</li> <li>Overall the Committee provides good direction in an ever-evolving area and has developed well over the last 18 months.</li> <li>Environmental issues particularly around CSOs have emerged more prominently this year.</li> <li>The Committee and the Board have work to do, to deal with the pollutions and CSO challenges, with the right executive support.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure sufficient flexibility to further improve net zero activities and outcomes.</li> <li>Continue the vital focus on environmental issues and CSOs.</li> <li>Continue to review and assess processes in this area.</li> </ul>
<b>Remuneration Committee</b>	<b>Committee operation and effectiveness</b>	<ul style="list-style-type: none"> <li>The Remuneration Committee has performed well, with well-honed processes.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to evolve the framework as required and build on existing processes.</li> </ul>
<b>Nomination Committee</b>	<b>Committee operation and effectiveness</b>	<ul style="list-style-type: none"> <li>The Nomination Committee has performed well and needs to continue its track of Board succession planning and Executive succession activities.</li> </ul>	<ul style="list-style-type: none"> <li>Continue with existing processes, focused on succession.</li> </ul>
<b>H&amp;S Committee</b>	<b>Committee operation and effectiveness</b>	<ul style="list-style-type: none"> <li>The H&amp;S Committee provides effective support to both the Board and management.</li> <li>The Committee is now well established and focused on supporting the Board's aspirations with recent reports on investigations felt excellent.</li> </ul>	<ul style="list-style-type: none"> <li>A developing Committee that should continue its deep dives into H&amp;S performance and incidents.</li> </ul>

A key area for focus in 2022/23 will be recruiting up to 2 new Non-Executive Directors as part of ongoing Board succession and effectiveness. To support this activity, Russell Reynolds Associates have been appointed following a robust selection process and to ensure that an extensive and robust search can be made for suitable candidates.



**Gill Rider**  
Chair

30 May 2022

## Matters considered by the Committee during the year

- Overseeing the effectiveness of the Board's internal succession plan, ensuring that the board has the appropriate mix of skills, experience and diversity
- Reviewing terms of reference for the Committee to ensure they continue to be appropriate
- Overseeing the annual review of Board Effectiveness and Board composition
- The annual review and approval of the Group policy on Diversity, Respect and Inclusion and the Group's progress on diversity in line with the Parker review, including the outcome of the FTSE Leaders Survey and the Group's position on Gender Pay
- Ongoing review, development and evolution of the Executive Leadership team, including succession planning and the integration of Bristol Water
- Overseeing the appointment process of an external search consultancy, to assist in future non-executive appointments.

# Driving a robust health and safety culture



**Jon Butterworth**  
H&S Committee Chair

## Health & Safety Committee Composition and Meetings

Position	Director	Date of appointment to Health & Safety Committee	Attendance
<b>Committee Chair</b>	Jon Butterworth	November 2020	●●● 3/3
<b>Committee members</b>	Gill Rider	November 2020	●●● 3/3
	Susan Davy	November 2020	●●● 3/3
	Claire Ighodaro	November 2020	●●● 3/3
	Iain Evans	November 2020	●●● 3/3
	Neil Cooper	November 2020	●●● 3/3
	Paul Boote	November 2020	●●● 3/3

### Dear Shareholder

I am pleased to provide an update on the Health & Safety (H&S) Committee’s activities during the year.

I believe the key to ensuring we keep employees safe and well in the workplace, is through empowering everyone to take responsibility for the health, safety and wellbeing of each other and for themselves. Simply put, it’s about culture, leadership and accountability.

Establishing a separate Board Committee focused purely on Health and Safety was an important step forward in Pennon’s journey as part of our HomeSafe strategy and to support the Group’s vision to ensure that everyone goes home safe every day. We aim to be a leader of Health and Safety by 2025 in our sector, and leadership from the top is critical. The Board has dedicated time to discuss and review performance, offer support, encourage learning and meet leaders and employees from across the business.

Reviewing the Group’s health and safety performance, effectiveness of health and safety policies and procedures, including the continued roll-out of the HomeSafe strategy, has been core, with significant improvements already noted.

Importantly, the Committee reviews deep dives of High Potential Incidents with a particular focus on lessons learned, getting to the root cause, encouraging a learning mindset. We also reviewed external benchmarking of our performance against water peers, the results from our Engagement survey and employees’ perception of Health and Safety as well as share good practice.

### H&S Committee composition

All Board members are attendees and served throughout the year, with support from the Group Chief People Officer and Pennon’s H&S Director.

### Reporting

In addition to the regular board report by the Group Chief Executive Officer, detailed performance is reviewed six monthly, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health and working environment. The corresponding improvements in outcome metrics has been noted, with the Lost Time Injury Frequency Rate (LTIFR) reducing consistently across the period, with a 24% reduction in the year.

The HomeSafe strategy has been reviewed for the next three years, to support significant year on year reductions required in injury rates. The committee will continue to review and challenge plans and performance to support our HomeSafe ambitions, with a detailed roadmap to 2025 built on six key pillars.

**Jon Butterworth**  
H&S Committee Chair

30 May 2022

## HomeSafe strategy

The Group's flagship health and safety programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities and impacts. HomeSafe is built on the six strategic pillars; Managing Risk, Sharing & Learning, Working Together, Protecting Health, Enabling Leaders and Being Resilient.

[Read more on page 56](#)



## Matters considered by the Committee during the year

During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Six monthly comprehensive reviews of the Group's Health & Safety performance
- A review of the next phase of the HomeSafe strategy through to 2025
- A deep dive into the wellbeing strategy with a focus on mental health
- A review and challenge of potential near-miss events to ensure lessons are learnt
- Visiting operational sites to engage with front line staff and the wider Health and Safety teams

# Ensuring executive reward supports resilient performance, sustainable growth and the step change needed in environmental outcomes for the benefit for all



**Claire Ighodaro**  
Remuneration Committee Chair

## Remuneration Committee Composition and Meetings

Position	Director	Date of appointment to Remuneration Committee	Attendance
Committee Chair	Claire Ighodaro	July 2020	●●●● 4/4
Committee	Gill Rider	September 2012	●●●● 4/4
	Neil Cooper	September 2014	●●●● 4/4
	Iain Evans	September 2018	●●●● 4/4
	Jon Butterworth	July 2020	●●●● 4/4

**“A number of significant milestones were realised as we repositioned Pennon to focus on driving sustainable growth in the UK water sector.”**

## Dear Shareholder

I am pleased to present the Directors’ remuneration report for the year ending 31 March 2022.

During the year, a number of significant milestones were realised as we repositioned Pennon to focus on driving sustainable growth in the UK Water sector with the acquisition of Bristol Water, reducing debt levels, and recognised ongoing shareholder loyalty with a special dividend in July 2021, returning £1.5 billion to shareholders. For the year ending 31 March 2022, the Board is recommending a final dividend of 26.83p per share, making the total dividend for the year 38.53p. Pennon’s sector leading dividend policy of growth of CPIH+2% reflects the Board’s confidence in the Group’s sustainable growth strategy, underpinned by continued RORE out-performance in South West Water, and EBITDA contribution from Bristol Water and Pennon Water Services.

Delivering on our largest environmental investment in fifteen years, as well as achieving 100% coastal bathing water quality for the first time, we acknowledge there is more to do to protect our environment, and our rivers and coastal waters. Our pollutions reduction plan has achieved our best performance for ten years, reducing pollutions by one third. However it’s not yet where we need to be and there is more to do. And in line with our planned trajectory to achieve EPA 4 star status by 2024 we recognise there is much to continue to focus on. We have therefore reflected this in the annual bonus revised outturns, applying downward discretion.

In a year when rising living costs are front of mind, South West Water announced average bill reductions for 2022, lower now than ten years ago, as well as unlocking almost £22 million of affordability support across the Group, and expanding the number of customers on social tariffs.

We are reporting robust and resilient performance, thanks to the hard work and commitment of our teams. Both South West Water and Bristol Water are on track or ahead of ODI delivery.

A key focus for the Group has been to continue to support colleagues during the pandemic, including a commitment to provide full pay during periods of illness or self-isolation. In addition, following a comprehensive review of our wellbeing strategy, a rounded package of measures, designed to support both the physical and mental wellbeing of our colleagues was introduced.

The continued implementation of our reward strategy means that group employees now have greater flexibility in the benefits that matter to them most, with a more dynamic and flexible approach to pension arrangements and the ability to buy and sell holiday. During the year, we held a number of employee reward focus groups as part of engaging colleagues to help inform our 2021/22 pay award decisions, and more can be read on pages 165 to 168. Importantly, to recognise and reward colleagues for their ongoing support and dedication to our customers, the 2021 employee bonus in South West Water was significantly enhanced. In addition, Pennon became a Living Wage Foundation accredited employer.

We continue to promote the benefits of employee share ownership with over 52% of our colleagues participating in HMRC approved schemes. We were pleased to invite colleagues from Bristol Water to join the 2021 Share Save plan, post-acquisition and were delighted with the take up of 54% of eligible employees choosing to participate. We were pleased that Bristol Water employees became eligible to participate in our Share Incentive Plan in early 2022.



### Performance metrics for incentives

As noted in last year's report, the timetable for target setting was adapted in response to the timing of the Bristol Water acquisition and the subsequent CMA referral. In November 2021, the Committee, having consulted with shareholders, updated the arrangements for the 2021/22 LTIP, to better reflect the strategic focus of the Group. Modest changes were made to the financial measures shifting from RoCE to RORE and the introduction of a basket of customer experience metrics. The RORE targets were set taking into account the parameters set by Ofwat for the 2020 to 2025 review cycle. Inclusion of customer experience measures aligns with the expectations and demands of Ofwat and trends in the water sector. The aspirational objectives target a market-leading position. Investor feedback to the changes was generally positive.

The performance measures were reviewed and simplified. Operational objectives, including pollutions, bathing water quality and EPA performance were upweighted to 30% and personal objectives were removed and replaced with a scorecard of ESG goals weighted to 20%. The financial measures were weighted to 50%.

### Incentive outcomes

In line with normal practice, the Committee reviewed annual bonus outcomes from various perspectives, including the impact of macroeconomics on final results. It was noted that the original profit target set for the year incorporated a number of budget assumptions, including inflation expectations for the coming year. The exceptional movement in RPI seen during the latter half of the year materially differed from the original budget assumptions, impacting the target range for the profit element of the bonus. Normalising for this assumption would have resulted in an outcome of c.80% of maximum for the profit element of the bonus. Notwithstanding the robust financial results for the year and the strong returns delivered for shareholders, the Committee opted against making any adjustment to the original targets. Therefore, no payment was made under the profit element of the annual bonus.

Robust performance was delivered across a range of operational, customer and ESG elements of the bonus scorecard. Despite delivering on our largest environmental investment in fifteen years, as well as achieving 100% coastal bathing water quality for the first time, we acknowledge there is more to do to protect our environment and our rivers and coastal waters. Given it will take time to achieve 4 star EPA score, with a planned trajectory to 2024, we have reflected on this. Although the EPA score was already reflected in the formulaic scorecard, management agreed with the Committee to exercise downward discretion to reduce the formulaic result by a further 10% of the overall bonus outcome.

The net impact of the above decisions was that the bonus outcome for the year was 31% of maximum. Although the business has outperformed in a number of regards, arguably warranting a higher bonus outcome for the year, the Committee concluded that it was appropriate to cap outcomes at this level.

Share awards granted under the long-term incentive plan (LTIP) in 2019 will be eligible for vesting in 2022. This award was made prior to the sale of Viridor for £3.7 billion in net cash proceeds in 2020 and adjusted to reflect the changing Group structure. This award was based on EPS growth (40%), dividend growth and cover (40%) and RoCE (20%), as well as an 'underpin' evaluation, including consideration of safety, ESG factors and financial performance.

Awards are expected to vest at 88.2% of maximum as shown on page 166. This level of vesting is reflective of performance over the three year performance period and part of the highest growth rate over the past ten years. The Committee is satisfied that the outcomes are fully warranted. Vested shares for Executive Directors will remain subject to an additional two-year holding period during which malus and clawback provisions apply.

### Policy review

No major changes in approach are proposed for the coming year and the policy continues to operate as intended. Our current remuneration policy was approved at the 2020 AGM, receiving support of 91.5%. During the course of 2022/23 a key focus will be reviewing the policy, to ensure it continues to align with the Group strategy, takes account of best practice, and consulting with shareholders ahead of seeking approval at the 2023 AGM. Further detail on pay arrangements is provided in the main body of the remuneration report. I hope that our shareholders continue to support our approach.



**Claire Ighodaro CBE**  
Remuneration Committee Chair

30 May 2022

## The Committee's focus for 2022/23

- Consider the remuneration and terms of engagement of the executive directors, senior executives and Chair of the Group and the remuneration of the wider workforce.
- Determine targets that remain stretching, relevant to the Group's strategy and values and reflect best practice and wider stakeholders' views.
- Undertake the review of the remuneration policy, taking into consideration the Group's strategic goals, shareholders' views, regulatory commitments and evolving best practice, ahead of the 2023 AGM.

# Remuneration at a glance

## Our strategy – leading the way in UK water

- Purpose-led business – pioneering a new relationship with customers and protecting the environment
- Driving performance through innovation – agile and efficient
- Investing for sustainable growth – for the benefit of all – twin track strategy; organic, acquisitive
- Creating long-term sustainable value

## Remuneration aligned to delivery for our customers

**Significant portion of executive remuneration is linked to performance:**

- ✓ Incentive linked to underlying performance
- ✓ Performance pay – appropriately aligned with customer interests with bonus and LTIs having a substantial link to stretching performance delivery for customers
- ✓ Focus on customer and operational metrics assessed by Ofwat, our customers, communities and wider stakeholders
- ✓ Incentives designed to motivate delivery of sustainable performance
- ✓ Safeguard mechanisms in place to ensure outcomes reflect underlying performance.

## Link between KPIs and remuneration

### Group KPIs

Long-term	Annual bonus	LTIP
Dividend per share		✓
Return on Regulated Equity (RORE)		✓

Annual	Annual bonus	LTIP
Profit before tax (PBT)	✓	
ODI Performance	✓	

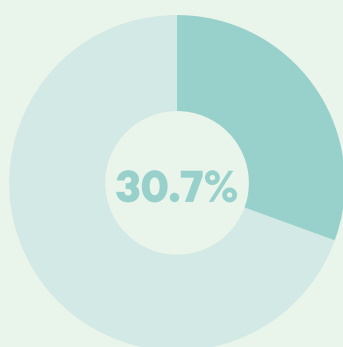
Sustainable business	Annual bonus	LTIP
Customer satisfaction with overall service	✓	✓
ESG	✓	

## 2021/22 – Performance highlights and outcomes

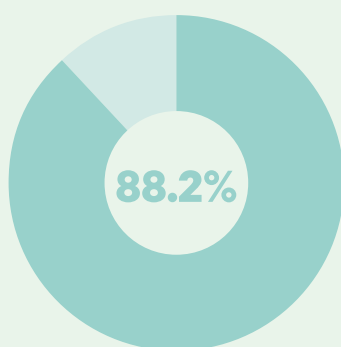
### Group performance and strategic highlights

- Returning approximately £1.5 billion of net proceeds to shareholders through special dividend
- Completion of Bristol Water acquisition for £425 million.
- Return on Regulated Equity of 8.2%
- Underlying PBT of £143.5 million
- EBITDA growth of 14.7%

2021/22 bonus – 30.7% of maximum<sup>1</sup>



2019 LTIP – 88.2% of maximum vesting



## 2021/22 Single figure outcome £000

### Susan Davy

Chief Executive Officer

Fixed – 559	Variable – 1,044	Total – 1,603
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### Paul Boote

Group Finance Director

Fixed – 347	Variable – 286	Total – 633
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1. Final outturn after applicant of discretion.

## Annual report on remuneration

### Summary of Directors' remuneration policy and implementation in 2022/23

The current Directors' remuneration policy was approved by shareholders at the Company's AGM held on 22 July 2020. The full policy is displayed in its entirety on the Company's website at [www.pennon-group.co.uk/about-us/governance-and-remuneration](http://www.pennon-group.co.uk/about-us/governance-and-remuneration) and is available upon request from the Group Company Secretary. When developing the Remuneration Policy, the Remuneration Committee were mindful of the requirements of the UK Corporate Governance Code and the principles of clarity, simplicity, risk, proportionality, predictability and alignment to culture. Further details of how these factors were considered are set out on page 109 of the 2020/21 Annual Report and Accounts. A summary of the policy is set out below alongside detail on how we intend to implement the policy in 2022/23.

Element	Operation	Implementation in 2022/23		
<b>Base salary</b>				
Set at a competitive level to attract and retain high calibre people to meet the Company's strategic objectives in an increasingly complex business environment.	Salaries are generally reviewed annually, and any changes are normally effective from 1 April each year. In normal circumstances, salary increases will not be materially different to general employee pay increases.	Salaries were set on appointment in 2020 and have been unchanged since then. An increase of 3% has been awarded for the Executive Directors from 1 April 2022. The Group Chief Executive respectfully declined the award and her salary remains unchanged.		
		<table border="0"> <tr> <td>Group Chief Executive Officer</td> <td style="text-align: right;">£475,000</td> </tr> <tr> <td>Group Finance Director</td> <td style="text-align: right;">£309,000</td> </tr> </table>	Group Chief Executive Officer	£475,000
Group Chief Executive Officer	£475,000			
Group Finance Director	£309,000			
		The increases above are below the rates agreed for the wider workforce. The 2022 pay settlement for wider employees is 5%. Bristol colleagues will receive a 4.6% increase plus a 2% uplift in employers contribution to pension.		
<b>Benefits</b>				
Benefits provided are consistent with the market and level of seniority to aid retention of key skills to assist in meeting strategic objectives.	Benefits currently include the provision of a Company vehicle, fuel, health insurance, income protection and life assurance. Other benefits may be provided if the Committee considers it appropriate.	Benefits remain unchanged for 2022.		
<b>Pension-related benefits</b>				
Provides funding for retirement and aids retention of key skills to assist in meeting the Company's strategic objectives.	The maximum annual pension contribution or cash allowance is in line with the contribution available to the wider population.	The Chief Executive Officer and Group Finance Director receive benefits of 10% of salary, which is aligned with the maximum rate available to the wider workforce.		
<b>Annual bonus</b>				
Incentivises the achievement of key performance objectives aligned to the strategy of the Company.	The maximum bonus potential is 125% of salary. A portion of any bonus is deferred into shares in the Company which are normally released after three years. Normally 50% is deferred. Malus and clawback provisions apply.	Maximum opportunity of 125% of salary for both Executive Directors. Deferral of 50% of any bonus into shares for three years. For 2022/23, the bonus will remain structurally unchanged, based on a combination of measures: financial metrics (50% weighting), customer and operational metrics (30% weighting) and ESG metrics (20% weighting). Consistent with prior years, a portion of the bonus will be linked to measurable goals that are key to meeting the needs of our customers, employees, our regulator and wider stakeholders. The detail of bonus targets are closely aligned to the strategy and macro-economics and are therefore considered to be commercially sensitive. However, we intend to provide further disclosure of targets, on a retrospective basis, in next year's remuneration report.		

Element	Operation	Implementation in 2022/23										
<b>Long-term incentive plan (LTIP)</b>												
Provides alignment to the achievement of the Company's strategic objectives and the delivery of sustainable long-term value to shareholders.	The maximum annual award is 150% of base salary. Annual grant of conditional shares (or equivalent). Share awards vest subject to the achievement of specific performance conditions measured over a performance period of no less than three years. In addition, a two-year holding period will apply in respect of any shares which vest at the end of the three-year performance period. An 'underpin' applies which allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying operational and economic performance of the Company. Malus and clawback provisions apply.	Maximum award of 150% of salary for both Executive Directors. The performance targets for 2022 LTIP grants will remain unchanged from the prior year. The targets are as follows:										
		<table border="1"> <thead> <tr> <th>Performance measure</th> <th>Threshold (25% of element)</th> <th>Max (100% of element)</th> </tr> </thead> <tbody> <tr> <td>Return on Regulated Equity (one-third)</td> <td>6%</td> <td>8%</td> </tr> <tr> <td>Sustainable Dividends (one-third)</td> <td>2.6x</td> <td>3.6x</td> </tr> <tr> <td>Basket of Customer measures (one-third)</td> <td colspan="2">Basket of Customer Measures, which includes C-MeX, R-MeX, D-MeX and our Trustpilot Score<sup>1</sup></td> </tr> </tbody> </table>	Performance measure	Threshold (25% of element)	Max (100% of element)	Return on Regulated Equity (one-third)	6%	8%	Sustainable Dividends (one-third)	2.6x	3.6x	Basket of Customer measures (one-third)
Performance measure	Threshold (25% of element)	Max (100% of element)										
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Sustainable Dividends (one-third)	2.6x	3.6x										
Basket of Customer measures (one-third)	Basket of Customer Measures, which includes C-MeX, R-MeX, D-MeX and our Trustpilot Score <sup>1</sup>											
		1. The basket of customer measures reflect our focus on UK Water and our service to our customers. The basket is weighted towards C-Mex (60% of element), with the remaining measures equally weighted. For the relative measures, threshold vesting requires improvement on current ranking, upper-quartile ranking results in 85% vesting and full vesting requiring 1 <sup>st</sup> rank. The vesting range for the Trustpilot score is 4.5 to 5.0.										

**Discretion**

In line with the 2018 Corporate Governance Code, the Remuneration Committee has ensured that they will maintain the ability to override the formulaic outcomes for future awards under the annual bonus and LTIP where the outcomes are not considered by the Committee to be appropriate (e.g. unreflective of underlying performance).

The Committee will disclose the use of any such discretion.

**Shareholding requirements**

Create alignment between executives and shareholders and promote long-term stewardship.	During the course of their tenure, Executive Directors are expected to build up a shareholding equivalent to 200% of salary. Departing Executive Directors will normally be expected to hold 200% of salary (or actual relevant holding, if lower) on departure, with the guideline reducing to 100% of salary after 12 months. This guideline applies to all share awards vesting after the adoption of this remuneration policy after the 2020 AGM.
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**All-employee share plans**

Align the interests of all employees with Company share performance.	Executive Directors may participate in HMRC approved all-employee plans on the same basis as employees. The maximum is as prescribed under the relevant HMRC legislation governing the plans.
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Element	Operation	Implementation in 2022/23																
<b>Non-Executive Director fee policy</b>																		
Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Group's strategy.	Non-Executive Directors normally receive a basic fee and an additional fee for any specific Board responsibility such as chair of a Committee or occupying the role of Senior Independent Director. Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company (including any tax due on the expenses). The Chair's benefits include the provision of a driver and vehicle, when appropriate for the efficient carrying out of her duties.	The fee policy was last updated during 2020. For 2022/23, the fees will be increased by 3% which is below the rate for employees. Further detail is set out below: <table border="1"> <tbody> <tr> <td>Chair fee</td> <td>£231,750</td> </tr> <tr> <td>Basic Non-Executive Director fee</td> <td>£62,365</td> </tr> <tr> <td colspan="2"><b>Additional fees</b></td> </tr> <tr> <td>Senior Independent Director</td> <td>£10,300</td> </tr> <tr> <td>Chair of Audit Committee</td> <td>£15,450</td> </tr> <tr> <td>Chair of Remuneration Committee</td> <td>£13,400</td> </tr> <tr> <td>Chair of ESG Committee</td> <td>£13,400</td> </tr> <tr> <td>Chair of Health and Safety Committee</td> <td>£5,150</td> </tr> </tbody> </table>	Chair fee	£231,750	Basic Non-Executive Director fee	£62,365	<b>Additional fees</b>		Senior Independent Director	£10,300	Chair of Audit Committee	£15,450	Chair of Remuneration Committee	£13,400	Chair of ESG Committee	£13,400	Chair of Health and Safety Committee	£5,150
Chair fee	£231,750																	
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<b>Additional fees</b>																		
Senior Independent Director	£10,300																	
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Chair of Remuneration Committee	£13,400																	
Chair of ESG Committee	£13,400																	
Chair of Health and Safety Committee	£5,150																	

### Remuneration approach for wider employees

Consistent with best practice, the Remuneration Committee spends considerable time on matters relating to remuneration arrangements in the wider organisation. Details of remuneration for the wider employee base provide important context when making decisions regarding remuneration for the Executive Directors as well as ensuring that consistent approaches are being adopted across the organisation. To provide greater transparency of remuneration for colleagues across the Group we have provided expanded disclosure. The Remuneration Committee is kept informed of wider workforce remuneration through the Pennon pay dashboard which is reviewed twice a year. Each edition provides details of changes made to the wider workforce remuneration and the ongoing Reward strategy implementation.

Our well-established People Strategy across the Group is centred around talented people doing great things for customers and each other and creating the best place to work. Responsible and trusted businesses today have a duty to make a positive societal contribution – robust reporting enables us to have full transparency on the progress we are making in building diversity, inclusion and engagement at all levels.

### Our Reward Strategy

During 2020 a specific Reward Strategy was created for the Group to complement the People Strategy. The Reward Strategy has three aims:

- To deliver a broad reward package to engage and motivate employees to want to perform at their best
- To ensure that reward decisions support business delivery and promote long-term wealth creation, in line with our People Strategy and values
- To communicate to stakeholders our approach to rewarding and recognising employees and their contribution.

A critical part of the Reward Strategy is in maintaining and understanding employees' views of reward, the benefits most valued and what aspects could be improved. Listening sessions and focus groups were held during this year. This has been a focus for 2021 to test the ongoing validity of the strategy and to help inform the annual pay review process. As a result of the feedback received during those sessions, the Company reviewed the original pay proposal for 2021, which included enhancement to the annual bonus opportunity. The outcome of the focus groups led to a greater emphasis on basic pay progression and an increase to the annual bonus scheme opportunity to 4% for customer facing employees. These mirror the management and executive bonus structures of financial, customer operations and service and ESG targets.

The Reward Strategy framework is centred around four key pillars which build into a Total Reward proposition, ensuring a mix for employees at every stage of their career life-cycle.

The Strategy was reviewed and endorsed by the Pennon People Committee and Remuneration Committee and the success of the strategy measured through the engagement survey and colleagues' feedback. This is regularly reviewed and shared with the Remuneration Committee.



**Further key developments in our remuneration proposition for colleagues**

- In 2021, we announced our Living Wage Foundation (LWF) Accreditation. Since then, a review of the basic pay for our frontline customer services teams has been undertaken and we have set the hourly rate for these vital roles, to a minimum level c. 6% higher than the LWF rate. This recognises the essential and valuable work undertaken by these teams in supporting customers.
- On 5 July 2021, shareholders voted in favour of a return of capital through a special dividend. With over 52% of colleagues participating in in-flight share ownership schemes, and a large number of employee shareholders, we recognised the importance of communicating with employees, ensuring they understood the rationale of this transaction, and providing the opportunity to discuss what this would mean for their own share position and the impact on company schemes. In addition to providing a full suite of communication materials, drop in sessions chaired by the Group Finance Director were run over three weeks. C. 300 employees attended and also made full use of the 1:1 support and FAQs and materials available to them.
- In December 2021, we made a first stage bonus payment to all South West Water colleagues as part of the introduction of the new colleague bonus launched in 2021. This has seen the bonus opportunity below leadership, move from a small, fixed amount to a percentage of salary at levels which are well placed for the local labour market uplifting the bonus opportunity by up to 8 times the previous opportunity, depending on salary.
- The reward hub, our online communication platform for reward, now hosts individual Total Reward Statements providing employees with full details of their remuneration components and the choices available to them, from any mobile device. With the enhanced flexibility of remuneration arrangements, this allows colleagues to view and plan at home as well as work, at a time and in a way that suits them best.

## Reward framework

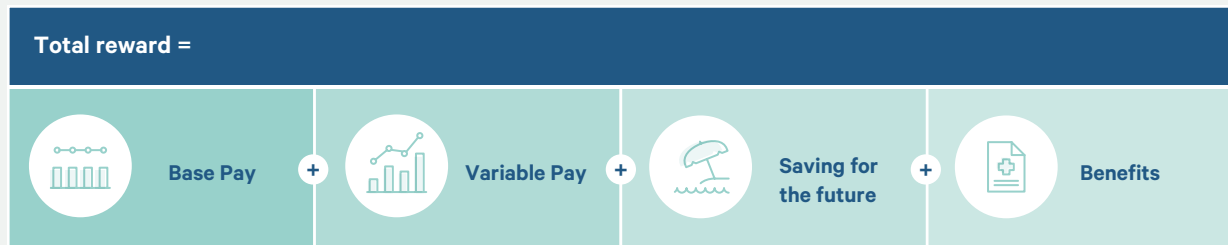
Our Reward framework supports our people strategy:

► **Talented people doing great things**

For our customers and each other







► **Rewarded by our framework**



► **Underpinned by the Pennon values**



► **Supported by: Strategy & Governance, Job Evaluation & Benchmarking, Systems & Data**

Pillar	Highlights
<b>Base pay</b> 	<p>The Group's overarching principles for basic pay are as follows:</p> <ul style="list-style-type: none"> <li>• Be competitive to support attraction and retention</li> <li>• Be fair, meeting all legislative requirements</li> <li>• Reflect the market and region in which the role operates</li> <li>• Be reviewed annually – we engage with employee forums and trades unions as appropriate.</li> </ul> <p>Employee feedback on the 2021 pay increase was sought during the pay discussions through a series of focus groups, alongside the traditional negotiations with the trades unions. The feedback was influential in setting reward priorities for the year as well as an increased pay settlement for 2021. The pay settlement for 2022 is 5% for employees and 3% for Executive Directors. Bristol colleagues will receive 4.6% with a 2% uplift in employers contribution to pension. The Group Chief Executive Officer declined her award. During the first quarter of 2022, we have implemented changes in our base pay for many of our lower paid roles, lifting the minimum hourly rate further above the Living Wage Foundation rate by c. 6%. This supports our reward strategy and our focus on building the reward for our wider workforce, particularly those who operate in essential customer facing roles.</p>
<b>Variable pay</b> 	<p>The Group operates a number of variable pay schemes and all employees and temporary workers are eligible to participate. Throughout the main bonus schemes, there is strong correlation in the targets, to align the whole organisation on customer, quality, service and ESG goals.</p> <p>All employees across the Pennon Group are entitled to participate in annual bonus arrangements. The maximum bonus levels are based on seniority and level of responsibility. At leadership level a portion of the bonus is deferred into shares for 3 years. Long-term incentive share awards are available to senior executives and Executive Directors, consistent with market practice. In July 2021, we applied positive discretion to the annual bonus for front line and operational support staff, paying at an enhanced level in recognition of the dedication colleagues have shown in supporting our essential services during the pandemic. From 2021, colleagues below senior management in South West Water and Pennon Water Services have had their bonus opportunity increased, bringing greater alignment across the Group and the opportunity to receive a greater share of company success.</p>
<b>Saving for the future</b> 	<p>Membership of the Group pension scheme remains strong with a 94% participation rate in our Defined Contribution (DC) scheme. Within the DC scheme the majority of participants access the full 10% employer contribution available to colleagues.</p> <p>As part of our Saving for the future, all employees are able to participate in our HM Revenue and Customs approved ShareSave and Share Incentive Plan, with a strong emphasis on employee buy-in and ownership. In 2021 we were able to extend our ShareSave scheme to Bristol Water, which had a successful launch with 54% of our new colleagues choosing to participate. In 2022 we were able to invite Bristol colleagues to join the Share Incentive Plan, giving access to all of our share based schemes across the entire Group. During 2022 we will be considering opportunities to build on employee ownership, which is popular with colleagues and has a participation rate over 52%. Not only do our share schemes provide a mechanism for sharing in the long term success of the Group, but they mean that colleagues and customers have a say and stake in the business. We will continue to offer the maximum permitted discount in our option price for the 2022 scheme.</p>
<b>Benefits</b> 	<p>The fourth pillar of our strategy covers the benefits available to colleagues. During 2021, the Group implemented a number of additional benefits to support employees' physical and mental well-being in line with our reward strategy and in response to the challenging environment that the pandemic has brought. Further changes continue as part of our aspirations to become the Best Place to Work:</p> <ul style="list-style-type: none"> <li>• We have launched an online health programme providing self-assessment and guidance for a healthy life plan.</li> <li>• Total Reward Statements are now available through our Reward Hub platform.</li> <li>• We have implemented our buy and sell holiday scheme in 2022, giving employees the opportunity to either have more holiday to suit their lifestyles or have more of their reward in cash to use for other benefits as they prefer.</li> <li>• Building on our well-being offering has been a particular focus for 2021. There are now nine well-being support groups running across the business. We are positively supporting colleagues in attending online Time to Talk sessions with well-being experts and providing leadership with the skills to support their teams has been a core message in our monthly leadership calls.</li> </ul>
<b>Pennon pay dashboard</b>	<ul style="list-style-type: none"> <li>• We maintain a pay dashboard to help support the Committee in reviewing workforce remuneration and related policies and this continually evolves to provide greater insight.</li> <li>• The dashboard provided an overview of pay arrangements across the business and provides key statistics on pay in different areas of the business and progress on our Reward Strategy implementation. For 2022 we will be developing our ethnicity pay details.</li> <li>• The dashboard covers information on workforce demographics, employee engagement, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas of the business.</li> <li>• The Committee intends to keep the content of the dashboard under review to ensure that it continues to provide suitable information for the Committee.</li> </ul>

In accordance with the 2018 UK Corporate Governance Code, the Committee also reviews the level of information provided on pay matters in the wider organisation. The Remuneration Committee is provided with an overview through the Pennon Pay Dashboard.

### Gender pay gap

The aggregated gender pay gap for the Group in 2021 stood at 9.2% for 2021. There has been strong improvement in our diversity and progression for female colleagues, although the changing Group structure has led to a small increase in the mean gender pay gap. For Pennon Group Plc, the Company, the gap has improved significantly standing at 6.7%, representing a closure in the gap of 14.8%. For South West Water and South West Water Customer Services, the results have remained steady at 6.7% and 2.9% respectively. During 2021, we recognised colleagues loyalty and dedication to customers with an additional discretionary bonus. This was not subjected to pro-rating for part-time employees and has contributed to a negative mean bonus pay gap of -43.1%. The median bonus gap, which compares the male and female employee at the 50% percentile of each gender group, was 0%. The gender pay gap calculations for 2022 will include our Bristol colleagues. The Group continues to develop greater gender alignment in middle manager and senior positions and is seeing strong progress in this area. Pennon is an active supporter of the Women in Water initiative.

During the year we have been recognised for our progression in gender equality by external bodies. In early 2022, Pennon was recognised in the FTSE Women Leaders report (previously the Hampton Alexander survey). Pennon was placed 1<sup>st</sup> in the Utilities sector, placed 10<sup>th</sup> overall in the FTSE 250 group compared with 23<sup>rd</sup> in 2021, and positioned 16<sup>th</sup> as a Best Workplace for women. Our performance in the Bloomberg Gender Equality Index also showed improvement. The index measures gender equality across five key areas. The report showed the Group had built on its performance in 2021 with an overall score of 64.87% up from 59.9% in 2021. Within the European Women in Boards survey, our ranking within the UK improved to 41<sup>st</sup> up from 44<sup>th</sup> in 2021.

### Colleague Engagement

Across Pennon we endorse the principle of strengthening opportunities for employees to engage in two-way dialogue at all levels. We have launched our new people panel RISE, replacing the South West Water Employee Engagement Forum, so that it encompasses representation from all parts of the Group. During 2022 this will extend to Bristol colleagues. We are very excited that the new panel will build on the solid foundations to extend open, two-way communication between senior managers of the Group and our people. Colleagues have been invited to RISE to the challenge as one of 50 representatives. This group will be a key source of dialogue and employee views for shaping future reward developments.



The Big Chat continues to be a cornerstone of employee dialogue. We continued to receive positive feedback from employees who welcome the opportunity to hear from the Directors and ask them questions on key business matters. Within Bristol Water, regular Town Hall meetings have been a valuable route to keeping colleagues informed through the acquisition. Through the Big Chat, colleagues are kept apprised of important information on remuneration topics, such as the annual pay award, bonus announcements and benefit launches. This is supported by a weekly newsletter to all employees.

We have been keen to ensure we are able to measure the progress we make and were pleased that we again achieved a strong participation rate of 85% in our annual engagement survey and have officially maintained our accreditation with a Great Place to Work Index© score at 65%. Our survey ran until 29<sup>th</sup> April 2022, and so our action planning and feedback sessions will run until early summer. Colleagues in Bristol were invited to participate in the Great Place to Work survey and achieved a participation rate of 76% and an index score of 61%. The statement 'This is a Great Place to Work' scored 66%. The 2022 survey provides a baseline for Bristol as they join the Group aspirations for being the Best Place to Work across the Greater South West. We welcome all employee feedback that has been provided through these routes and employees' openness and willingness to share their views. More can be read in our People section on pages 51 to 59.

### Looking ahead

We will be awarding our highest ever employee pay award of 5% in 2022, as we support employees during the current financial challenges of high inflation and additional National Insurance contributions. Bristol Water awarded a 4.6% increase with an additional 2% increase in employers pension contributions, following consultation and feedback sessions with colleagues. For 2022/23 we will continue to review and refine our approach to reward, continuing our development of the roll out of Total Reward Statements in the summer and enhancing our recognition platform and launch of the employee discount portal. We will be working to ensure our core proposition for our family friendly policies remain relevant and the on-boarding of Bristol colleagues to our Group approach to reward.

**Single total figure of remuneration table (audited information)**

	Susan Davy (£000)		Paul Boote (£000)	
	2021/22	2020/21 <sup>1</sup>	2021/22	2020/21 <sup>1</sup>
Base salary	475	456	300	219
Benefits <sup>2</sup> (including ShareSave)	29	29	17	12
Pension-related benefits <sup>3</sup>	55	80	30	25
Total fixed pay	559	565	347	256
Annual bonus (cash and deferred shares)	182	437	115	208
Long-term incentive plan <sup>4,5,6</sup>	862	928	171	245
Total variable pay	1,044	1,365	286	453
<b>Total remuneration</b>	<b>1,603</b>	<b>1,930</b>	<b>633</b>	<b>709</b>

- Susan Davy was appointed as Chief Executive Officer as of 31 July 2020. She had previously been the Chief Financial Officer. Paul Boote was appointed to the Board as Group Finance Director as of 8 July 2020.
- Benefits comprise a car allowance, fuel allowance, medical insurance and income protection.
- See page 172 for further information on pensions.
- For 2021/22, the 2019 LTIP has been valued based on the average share price during the three-month period to 31 March 2022 of 1063.96 pence and a vesting outcome of 88.2%, as referred to on page 166, together with an estimate of the accrued dividends payable on the vesting shares. Of the vested amount, 29.25% relates to share price appreciation over the performance period.
- For 2020/21, the 2018 LTIP value reflects the share price at the date of vesting of 1176.98 pence and a vesting outcome of 89.9%. The value includes accrued dividends over the vesting period. The Committee did not exercise any discretion in relation to share price changes. Both LTIP awards are subject to a two-year holding period.
- The awards granted to Paul Boote relates to his previous role, prior to his appointment to the Board but is included in the table above for transparency.

**Notes to the single figure table****Fixed pay**

The Executive Directors have not accepted any pay increases since their appointment in 2020. The Remuneration Committee awarded an increase of 3% for 2022/23, noting the market positioning against FTSE peers, the evolving size of the Group's operations with the acquisition of Bristol Water and their continued performance in role. This increase is below the level awarded to the wider workforce of 5%.

After careful consideration, the Group Chief Executive Officer respectfully declined her award, consistent with the approach she has taken since appointment to the role in 2020, mindful of demonstrating appropriate constraint in executive pay and alignment with the wider workforce.

Retirement benefits for both Executive Directors was set at 10% of salary on appointment to their new role. This is aligned to the rate of the wider workforce. Further detail on pension arrangements is set out on page 172.

**Annual bonus outturn for 2021/22**

For 2021/22, both Executive Directors participated in the annual bonus plan which was based on a combination of financial, operational and environmental, social and governance (ESG) objectives.

In line with normal practice, the Committee reviewed annual bonus outcomes from various perspectives, including the impact of unbudgeted items on final results. It was noted that the original profit targets set for the year incorporated various budget assumptions including inflation expectations for the coming year. The exceptional movement in RPI seen during the latter half of the year materially differed from the original budget assumptions, impacting the target range for the profit element of the bonus. Normalising for this assumption would have resulted in an above target outcome for the profit element of the bonus. Notwithstanding the robust financial results for the year and the strong returns delivered for shareholders, the Committee opted against making any adjustments to the original targets. Therefore no payment was made under the profit element of the annual bonus. The formulaic outturn led to an outcome of 34.14%. In line with our planned trajectory to achieve EPA 4 star status by 2024 we recognise there is much to continue to focus on. We have therefore reflected this in the annual bonus revised outturns, applying downward discretion. This was set at 10% of the formulaic outturn, leading to a final outturn of 30.7%. In line with the Committee's policy, 50% of any bonus is payable in shares, the release of which is deferred for a three-year restricted period. The performance targets set and performance achieved have been set out below.

**Group financial measures – 50% weighting**

Measure	Threshold (£m)	Target (£m)	Maximum (£m)	Actual outturn (£m)	Bonus outturn (% of max)
Underlying PBT (50% weighting) <sup>1</sup>	152.7	155.8	163.6	143.5	0%

1. As noted above, if the outcome was adjusted for budgetary inflation assumptions an above target outcome would have been achieved for this element. However the Committee elected to leave the outcome unadjusted for bonus purposes.

**Customer and operational measures – 30% weighting**

Measures	Target	Actual outturn	Target achieved	Bonus outturn (% of max)
<b>Service and Customer metrics</b>				
Bathing water quality improvements	2 Cumulative	8 Cumulative	Yes	55%
Wastewater pollution incidents, per 10,000km sewer	23.74	86.58	No	
Internal Sewer Flooding, per 10,000 connections	1.63	0.76	Yes	
Sewer Collapses per 1000km	16.27	6.72	Yes	
Leakage (3yr rolling average) SWW	116.7 MI per day	116.7 MI per day	Yes	
Leakage (3 yr rolling average) BRL	36.0 MI per day	36 MI per day	Yes	
Environment Agency EPA <sup>1</sup>	3 star	1/2 star	No	
CRI Water Quality Score SWW <sup>1</sup>	2	3.86	No	
CRI Water Quality Score BRL <sup>1</sup>	2	4.19	No	
Interruptions to supply per property SWW	6 mins 08 seconds	6 mins 47 seconds	No	
Interruptions to supply per property BRL	6 mins 08 seconds	2 mins 31 seconds	Yes	

Measures	Target	Actual outturn	Target achieved	Bonus outturn (% of max)
<b>ESG Measures – 20% Weighting</b>				
Reduce greenhouse gas emissions (GHG) towards our net zero 2030 target	3% reduction from baseline	4%	Yes	88.89%
Increase renewable generation	10%	8%	No	
Reduce onsite water usage	6 MI/d	6 MI/d	Yes	
Great Place to Work accreditation	Maintain	Maintained	Yes	
Reduce Lost time injuries	23 LTIs (18% reduction)	22 (24% reduction)	Yes	
FTSE Women Leaders Review position (Hampton Alexander)	23 <sup>rd</sup>	10 <sup>th</sup>	Yes	
Achieve a Sustainalytics ESG	75	78	Yes	
New debt through Sustainable Financing Framework	50%	100%	Yes	
Fair Tax Accreditation	Maintain	Maintained	Yes	

1. Awaiting regulator confirmation in July 2022.



## Summary of bonus outcome

When reviewing performance in the year, the Committee noted the robust performance of the Group and the merger clearance of Bristol Water. There have been strong improvements in our pollutions record and the achievement of 100% coastal bathing water quality, in a year which continued to be challenged by the pandemic.

Notwithstanding these achievements, in light of the ambitious nature of the Group's operational objectives, the Committee proposed a reduction to the overall payout of 10% supported by the Group Chief Executive Officer.

## Bonus Outturn

	Weighting	Outcome
Group financial measures	50%	0%
Customer and operational measures	30%	16%
Environmental, Social and Governance (ESG) measures	20%	18%
<b>Sub-total</b>	<b>100%</b>	<b>34%</b>
<b>Outturn after exercise of discretion</b>	<b>100%</b>	<b>30.7%</b>

Malus and clawback provisions apply in relation to the bonus awards in respect of the year.

## Long-term incentive outturn for 2021/22

The awards in the single figure table relate to the LTIP awards granted on 4 July 2019, which are due to vest on 3 July 2022. These share awards were subject to performance targets relating to Earnings per Share (EPS), a sustainable dividend measure and Return on Capital Employed (RoCE).

In 2020, the Group completed the sale of Viridor for £3.7 billion in net cash proceeds. The 2019 LTIP was granted prior to the sale of Viridor and therefore the targets for this award reflected the structure of the Group prior to the disposal.

Given the materiality of this transaction, the Remuneration Committee was required to review the basis for assessing performance for in-flight LTIP awards. The objective was to ensure that the assessment of the performance was fair, reasonable and maintained the stretch of the original objectives that were set.

Consistent with the approach disclosed in last year's Remuneration Report in respect of the 2018 LTIP, the Remuneration Committee concluded that the assessment would need to be varied to reflect the structure of the Group before and after the transaction. Although the final vesting would still be based on performance over the full three-year performance period, performance during 2019/20 would be based on performance of the previous Group structure (including Viridor) and the balance of the performance period would be assessed based on the continuing Group structure.

Following a detailed review, the Remuneration Committee concluded that the sustainable dividends and RoCE targets could be largely maintained, with consistent targets applied across the full performance period. For the EPS measure, the original targets set were based on the previous Group structure and therefore factored in the differing earning profiles of the regulated water business and Viridor. Therefore when assessing the period following the disposal of Viridor, the EPS targets were adjusted to reflect the earnings profile of the regulated water business only. The adjusted EPS targets for this period are intended to reflect the implied contribution of the water business in the original targets. To simplify communication of the targets, the EPS growth targets were re-articulated as absolute EPS values, however the underlying targets and implied performance remained unchanged.

While adjustments of this nature are naturally complex, the Remuneration Committee is satisfied that the approach adopted is consistent with the nature of the targets that were initially set and original objectives when the award was granted.

## Directors' remuneration report (continued)

Measures		Threshold (25% of maximum vests) <sup>2</sup>	Maximum (100% of maximum vests)	Achievement <sup>3</sup>	Vesting outcome (% of max)
EPS (40% of award)	Combined Group (Period to FY20)	57.2p	61.6p	61.7p	100%
	Continuing Group (FY21)	45.3p	47.0p	50.2p	
Sustainable dividend measure (dividend growth and dividend cover) (40% of award)	Combined Group (Period to FY20)			3.2x	87.5%
	Continuing Group (FY21)	2.6x	3.6x	3.8x	
RoCE (average) <sup>1</sup> (20% of award)	Combined Group (Period to FY20)	8%	10%	9.5%	65.9%
	Continuing Group (FY21)			8.8%	
<b>Total</b>					<b>88.2%</b>

1. Average of opening and closing capital employed.
2. For below threshold performance for any of the performance conditions, 0% vests in respect of that performance condition.
3. Straight-line vesting between points.

Vesting of the award is subject to an 'underpin' relating to overall Group performance including environmental, social and governance factors and safety performance, as well as financial performance. The Committee has determined, to the date of this report, that this underpin has been satisfied.

Over the last three financial years, the Group has delivered a strong set of financial results. The operational success of Viridor culminated in its sale for net proceeds of £3.7 billion in 2020, allowing our shareholders to realise significant value. Taking into account the significant capital investment in the Group's operations and the value returned to shareholders via both regular and special dividends and the acquisition of Bristol Water the Remuneration Committee is satisfied that the vesting outcomes fairly reflect underlying performance over the last three years.

The awards are subject to a two-year holding period during which clawback may be applied if the Committee considers it appropriate in certain circumstances. The holding period is due to end on 3 July 2024.

### Retirement benefits and entitlements (audited information)

Details of the Directors' pension entitlements and pension-related benefits during the year are as follows. Effective from 1 August 2021, the maximum pension contribution made by the Company is 10% of salary.

	Value of defined benefit pension <sup>1</sup> (£000)	Company contributions to defined contribution arrangements <sup>3</sup> (£000)	Cash allowances in lieu of pension (£000)	Total value for the year (£000)	Age and date of retirement (for pension purposes)	Accrued pension at 31 March 2022 <sup>2</sup> (£000)
Susan Davy	12	3	40	55	65 (17 May 2034)	30
Paul Boote	–	–	30	30	65 (29 June 2043)	–

1. The value of the defined benefit pension accrued over the period comprises the total pension input amount (which has been calculated in line with regulatory requirements) less the pension contributions paid by the Director.
2. Accrued pension is based on service to the year end and final pensionable salary at that date.
3. Value of total Defined Contribution scheme contributions since 1 April 2021.

**Susan Davy** received an overall pension benefit from the Company equivalent to 10% of her salary for the period 1 April 2021 to 31 March 2022. For 2021/22 this comprised an employer's contribution of £11,737 and a cash sum of £40,353. She is a member of Pennon Group's defined contribution pension arrangements and is entitled to access the retirement fund in the Master Trust from age 55. Accrual in the defined benefit scheme ceased from 1 July 2021.

The employer's contribution to the pension for Susan Davy is deducted from the overall pension allowance.

**Paul Boote** received a pension contribution of 10% of his salary. This is paid as a cash allowance of £30,000. He makes personal contributions to the Group's Defined Contribution pension scheme and is entitled to access the retirement fund in the Master Trust from age 55.

Pensions in payment under the Defined Benefit scheme, are guaranteed to increase at a rate of 5% p.a. or RPI if lower for service accrued in the period up to 30 June 2014 and at a rate of 2.5% p.a. or CPI if lower for service accrued in the period after this date. If a Director dies within five years of retiring, a lump sum equal to the balance of five years' pension payments is paid plus a spouse's pension of one half of the member's pension. Pensions may also be payable to dependants and children.

No additional benefits will become receivable by a Director in the event that the Director retires early.

## Non-Executive Directors' remuneration

### Single figure of remuneration (audited)

	2021/22			2020/21		
	Fees (£000)	Taxable benefits (£000)	Total fees (£000)	Fees (£000)	Taxable benefits (£000)	Total fees (£000)
Gill Rider	225	0	225	176	0	176
Neil Cooper	86	0	86	80	0	80
Iain Evans	74	0	74	73	0	73
Claire Ighodaro	74	0	74	68	0	68
Jon Butterworth	66	0	66	49	0	49

### Non-Executive Directors' fees and benefits

The fee for the Chair, Gill Rider was increased by 3% from 1 April 2022. No increases were accepted by any member of the Board in 2021. When appropriate for the efficient carrying out of her duties, Gill is provided with a driver and vehicle. She is entitled to expenses on the same basis as for other Non-Executive Directors.

Fees for Non-Executive Directors were increased by 3% from 1 April 2022. The fee structure is set out in full on page 165.

### Directors' service contracts and letters of appointment

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown below.

Executive Directors	Date of service contract	Notice period
Susan Davy	1 August 2020	12 months
Paul Boote	1 August 2020	12 months

A previous service contract dated 1 February 2015 was held by Susan Davy in respect of her appointment as Chief Financial Officer.

Non-Executive Directors	Date of initial letter of appointment	Expiry date of appointment
Gill Rider	22 June 2012	31 August 2024 <sup>1</sup>
Neil Cooper	17 July 2014	31 August 2023
Iain Evans	16 June 2018	31 August 2024
Claire Ighodaro	1 September 2019	31 August 2022
Jon Butterworth	1 August 2020	31 July 2023

1. Gill Rider was appointed as Chair of the Board as of 31 July 2020 and as such is providing ongoing strategic support and continuity of the Board for up to three years.

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side.

The policy is for Non-Executive Directors' letters of appointment to contain a three-month notice period from either side. All Non-Executive Directors are subject to annual re-election and letters of appointment are for an initial three-year term.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

### Outside appointments

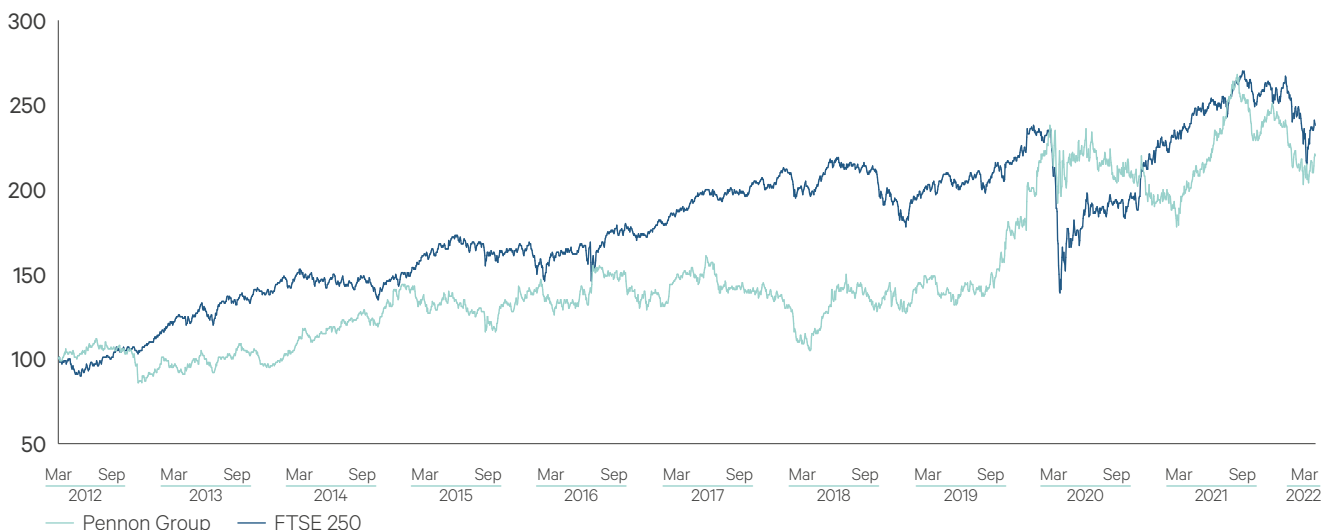
Executive Directors may accept one board appointment in another company. Board approval must be sought before accepting an appointment. Fees may be retained by the Director. Susan Davy remained a non-executive director of Restore plc throughout 2021/22. No other outside company appointments are held by the Executive Directors other than with industry bodies or governmental or quasi-governmental agencies.

## Additional contextual information

### Historical TSR

The graph below shows the value, over the 10-year period ended on 31 March 2022, of £100 invested in Pennon Group on 1 April 2012 compared with the value of £100 invested in the FTSE 250 Index. The FTSE 250 Index is a broad equity market index of which the Company was a constituent until the end of the period.

### Total shareholder return – Since April 2012



### Historical Chief Executive Officer remuneration

As the Company did not have a Chief Executive Officer until 1 January 2016, the table below provides historical single figure information in the form of the average remuneration of the Executive Directors for years up to and including 2014/15. Their remuneration was considered to be the most appropriate to use as they were the most senior executives in the Company.

From 2015/16 onwards the Chief Executive Officer's remuneration for the year is shown.

	2012/13	2013/14	2014/15	2015/16 <sup>1</sup>	2016/17	2017/18	2018/19	2019/20	2020/21 <sup>2</sup>	2020/21 <sup>2</sup>	2021/22
	Average Executive Director	Average Executive Director	Average Executive Director	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Susan Davy	Susan Davy
Single figure of remuneration (£000)	894	962	762	1,119	1,318	1,153	1,351	2,135	1,337	1,930	1,603
Annual bonus payout (% of maximum)	47.00	67.56	68.20	83.98	84.05	87.00	91.00	78.0	79.2	78.1	30.7
LTIP vesting (% of maximum)	50.00	30.20	0.00	37.90	20.40	0.00	32.00	86.6	89.9	89.9	88.2

1. Group Chief Executive Officer for the year, including remuneration received between 1 April 2015 and 31 December 2015 when in position as Chief Executive of South West Water.
2. Chris Loughlin stepped down as Chief Executive Officer on 31 July 2020 and was succeeded by Susan Davy. Consistent with the single figure, the figures for Susan Davy relate to the whole of 2020/21, including the portion of the year when she was Chief Financial Officer. The LTIP award for Chris Loughlin was pro-rated to reflect service within the performance period.

### Percentage change in Directors' remuneration

#### Comparison of Directors' remuneration to employee remuneration

The table below shows the annual percentage change for 2020/21 and 2021/22 in base salary, benefits and annual bonus of all Directors, including both Executive Directors and Non-Executive Directors, and all employees.

During 2020/21 c.30% of the Group corporate functions were transferred with the sale of Viridor. This resulted in a headcount reduction and corresponding reduction in annual pay spend and bonus expenditure. The figures for 2020/21 still held a portion of the remuneration costs and so 2021/22 shows a further reduction. The bonus costs for 2020/21 included the COVID-19 bonus paid to all employees.

As Pennon Group plc has a relatively small number of employees, we have also shown below the percentage change against our UK employees. For comparison purposes, this is considered to be a more relative peer group than the Pennon Group plc entity.

	Percentage change in salary/fees 2020/21	Percentage change in benefits 2020/21	Percentage change in annual bonus 2020/21	Percentage change in salary/fees 2021/22	Percentage change in benefits 2021/22	Percentage change in annual bonus 2021/22
<b>Executive Directors</b>						
Susan Davy <sup>1</sup>	10.7%	0%	34.8%	4.2%	-23.0%	-58.4%
Paul Boote <sup>2</sup>	-	-	-	36.9%	27.0%	-44.7%
Chris Loughlin <sup>7</sup>	-66.4%	-7.6%	-65.7%	-	-	-
<b>Non-Executive Directors</b>						
Gill Rider <sup>3</sup>	126%	-	-	27.8%	-	-
Neil Cooper <sup>4</sup>	16%	-	-	7.5%	-	-
Iain Evans	4%	-	-	1.4%	-	-
Claire Ighodaro <sup>5</sup>	97%	-	-	8.8%	-	-
Jon Butterworth <sup>6</sup>	-	-	-	34.7%	-	-
Sir John Parker <sup>8</sup>	-66%	100%	-	-	-	-
<b>All employees</b>						
Pennon Group plc	-11.8%	3.08%	-10.7%	2.8%	-27.8%	-10.9%
UK employees	1.22%	5.7%	-17.8%	2.0%	-19.5%	-14.3%

- The remuneration for Susan Davy for 2021/22 is for the full year as Chief Executive Officer, having been appointed to the role on 31 July 2020. The year on year change in salary and benefits for 2021/22 reflects the pro-rated remuneration for Susan's current and previous role as Chief Finance Officer for the Group in 2020/21.
- The remuneration for Paul Boote for 2021/22 is for the full year as Group Finance Director, having been appointed to the Board as Group Finance Director 31 July 2020. The year on year change in salary and benefits for 2021/22 reflects the pro-rated remuneration for Paul's current and previous role in 2020/21.
- The fee for Gill Rider for 2021/22 is for the full year as Chair having been appointed on 31 July 2020. The year on year change reflects that the remuneration in 2020/21 was pro-rated for Gill's current role as Chair and previous service as a Non-Executive Director and Chair of the Remuneration Committee.
- The fee for Neil Cooper for 2021/22 is for the full year as Senior Independent Director, having been appointed 31 July 2020. The year on year change reflects that the remuneration in 2020/21 was pro-rated for Neil's current role as Senior Independent Director and previous service, prior to his appointment as Senior Independent Director.
- The fee for Claire Ighodaro for 2021/22 is for the full year as Chair to the Remuneration Committee, having been appointed 31 July 2020. The year on year change reflects that the remuneration in for 2020/21 was pro-rated for Claire's role and previous service before her appointment as a Committee Chair.
- The fee for John Butterworth for 2021/22 is for the full year on the Pennon Board, having been appointed on 8 July 2020. The year on year change in remuneration reflects the pro-rated remuneration for 2020/21.
- Chris Loughlin stepped down from the Board as Chief Executive Officer on 31 July 2020.
- Sir John Parker stepped down from the Board as Chair on 31 July 2020.

### Relative importance of spend on pay

	2021/22 (£ million)	2020/21 (£ million)	Percentage change
Overall expenditure on pay <sup>1,2</sup>	90.4	75	20.5%
Distributions to ordinary shareholders <sup>3</sup>	91.8	184.3	-50.2%
Purchase of property, plant and equipment (cash flow)	240.1	157.6	52.3%

- Excludes non-underlying items.
- Relates to continuing Group including Bristol Water
- 2021/22 distribution to ordinary shareholders excludes £1498.5m special dividend in connection with use of Viridor proceeds.

The above table illustrates the relative importance of spend on pay compared with distributions to equity holders. The purchase of property, plant and equipment (cash flow) has also been included as this was the most significant outgoing for the Company in the past financial year. Where relevant the numbers have been provided for the continuing Group to enable year on year comparability.

### Chief Executive Officer pay ratio

Our CEO pay ratio stands at 42:1 for the median employee. This is considerably lower than the ratio in 2021, which reflected the combined remuneration (pro-rated) of the current and previous CEO. The 2021/22 annual bonus outturn was also lower at 31% compared to 78.1% in 2020/21. The composition and demographics of the business have changed during 2021/22 with the inclusion of Bristol Water. We have invested heavily in the remuneration of our lowest paid roles which will impact pay arrangements in future years.

Year	Method	25 <sup>th</sup> percentile (P25) pay ratio	Median (P50) pay ratio	75 <sup>th</sup> percentile (P75) pay ratio
<b>2021/22</b>	<b>A</b>	<b>62:1</b>	<b>42:1</b>	<b>36:1</b>
2020/21	A	95:1	69:1	55:1
2019/20	A	87:1	68:1	50:1



## Directors' remuneration report (continued)

Option A has been used for the calculations as per the disclosure regulations. The employees at the lower quartile, median and upper quartile (P25, P50 and P75 respectively) have been determined based on a calculation of total remuneration for the financial year 1 April 2021 to 31 March 2022.

- Base salary for part-time employees and new joiners within the applicable period has been converted to full-time equivalents for the purpose of the calculations.
- Estimated values for employee P11D data have been used to establish the ordering of employees, given the timing of publication. This will be validated and amended in due course to account for any variances.

The validated P11D data for 2020/21 did not lead to any change in the published ratios for P25, P50 or P75.

For 2021/22 the total remuneration for the employees identified at P25, P50 and P75 is £26,080, £38,207 and £44,566 respectively. The base salary of 2021/22 for the employees identified at P25, P50 and P75 is £26,000, £29,356 and £28,564 respectively. The two employees at P50 and P75 have a high component of variable pay (shift premium, call-out and overtime).

The CEO ratio for 2021/22 is lower than previous years, partially due to the lower salary and pension benefit received by Susan Davy, compared to her predecessor. The total single figure used in the ratio in 2020/21 was a combined total single figure pro-rated to reflect the change in CEO mid-year.

The CEO pay ratio calculated on the same compensation elements as the wider workforce (i.e. excluding LTIP) would be:

P25	<b>28:1</b>
P50	<b>19:1</b>
P75	<b>17:1</b>

As the Committee spends a considerable amount of time on matters relating to remuneration arrangements for the wider workforce, we are comfortable that the median pay ratio is consistent with our wider policies on pay, reward and progression and reward for the Group as a whole.

### Share awards and shareholding disclosures (audited information)

#### Share awards granted during 2021/22

The table below sets out details of share awards made in the year to Executive Directors.

Executive Director	Type of interest	Basis of award	Face value £000	Percentage vesting at threshold performance	Performance/restricted period end date
Susan Davy	LTIP	150% of salary	713	25% of maximum	30 June 2024
Paul Boote			450		
Susan Davy	Deferred bonus	50% of bonus awarded	219	n/a	29 June 2024
Paul Boote			120		

LTIP awards were calculated using the share price of £11.408 being the average closing price over the five dealing days preceding the date of grant, which was 1 July 2021. LTIP awards are also subject to an additional two-year holding period. Deferred bonus awards were calculated using the average share price at which shares were purchased on the market on 28 June 2021 in order to satisfy the award, which was £11.5045.

As disclosed in last year's report, the target setting process for the 2021 LTIP awards was delayed in light of the strategic review. The targets were finalised following shareholder engagement during 2021. The targets for the 2021 LTIP awards are consistent with those set for the 2022 LTIP awards (see page 164)

#### Directors' shareholding and interest in shares

The Remuneration Committee believes that the interests of Executive Directors and senior management should be closely aligned with the interests of shareholders.

To support this the Committee operates shareholding guidelines of 200% of salary for both the Chief Executive Officer and Group Finance Director. In line with best practice guidelines, deferred bonuses and LTIP awards subject to a holding period only may count towards the guidelines on a net of tax basis. Shareholding requirements are noted on page 164.

The beneficial interests of the Executive Directors in the ordinary shares (61.05 pence each) of the Company as at 31 March 2022 and 31 March 2021 together with their shareholding guideline obligation and interest are shown in the table below. Following shareholder approval at a General Meeting on 5 July 2021, the Company's share capital was consolidated into shares of 61.05 pence each, on a 3:2 basis, so direct holdings were reduced by a third compared with the position prior to this date:

	Share interests (including connected parties) at 31 March 2022	Share interests (including connected parties) at			Deferred bonus shares <sup>1</sup>	SAYE	Performance shares (subject to performance conditions)	Shareholding guideline	Shareholding guideline met?
		31 March 2021	Vested LTIP awards in holding period <sup>1</sup>						
Susan Davy	<b>77,486</b>	86,206	152,920	38,967	2,047	208,330	200%	Yes	
Paul Boote <sup>2</sup>	<b>13,571</b>	9,113	36,797	16,350	2,047	97,689	200%	No	

1. These shares awards are not subject to further performance criteria and may therefore count towards the guideline on a net-of-tax basis.

2. Paul Boote was appointed on 8 July 2020. It is therefore expected that his shareholding will be built up over the course of his tenure.

Since 31 March 2022, 55 and 33 additional ordinary shares in the Company have been acquired by Susan Davy and Paul Boote respectively as a result of their direct participation in the Company's Share Incentive Plan and reinvestment of dividends under that Plan via the Dividend Reinvestment Plan (DRIP). There have been no other changes in the beneficial or non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2022 and 1 June 2022.

### Non-Executive Directors' shareholding

The beneficial interests of the Non-Executive Directors, including the beneficial interests of their spouses, civil partners, children and stepchildren, in the ordinary shares of the Company are shown in the table below. Following shareholder approval at a General Meeting on 5 July 2021, the Company's share capital was consolidated into shares of 61.05 pence each on a 3:2 basis, so direct holdings were reduced by one-third compared with the position prior to this date:

Director	Shares held at 31 March 2022	Shares held at 31 March 2021
Gill Rider	2,407	3,612
Neil Cooper	-	-
Iain Evans	-	-
Claire Ighodaro	-	-
Jon Butterworth	-	-

There have been no changes in the beneficial interests or the non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2022 and 1 June 2022.

There is no formal shareholding guideline for the Non-Executive Directors; however, they are encouraged to purchase shares in the Company.

### Shareholder dilution

The Company can satisfy awards under its share plans with new issue shares or shares issued from treasury up to a maximum of 10% of its issued share capital in a rolling 10-year period to employees under its share plans. Within this 10% limit the Company can only issue (as newly issued shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans. The percentage of shares awarded within these guidelines and the headroom remaining available as at 1 June 2022 is as set out below:

	Awarded	Headroom	Total
Discretionary schemes	1.6%	3.4%	5%
All schemes	4.8%	5.2%	10%

### Details of share awards

#### Long-term incentive plan

In addition to the above beneficial interests, the following Directors have or had a contingent interest in the number of ordinary shares (of nominal value of 61.05 pence each) of the Company shown below, representing the maximum number of shares to which they would become entitled under the plan should the relevant criteria be met in full. In 2021 ordinary shares were consolidated at a ratio of 3:2 following the payment of a special dividend to shareholders. For simplicity, outstanding LTIP awards did not accrue an entitlement to the special dividend and were therefore unaffected by the consolidation.

Director and date of award	Vested awards held at 1 April 2021 <sup>1,3</sup>	Conditional awards held at 1 April 2021	Conditional awards made in year	Market price upon award year	Vesting in year <sup>2</sup>	Value of shares upon vesting (before tax) 2021 <sup>3</sup>	Vested awards held at 31 March 2022 <sup>3</sup>	Vested awards released in year <sup>5</sup>	Conditional awards held at 31 March 2022	Date of end qualifying conditions to be fulfilled	Expected date of release
<b>Susan Davy</b>											
10/07/16	15,557	-	-	920.00p	-	115	-	17,258	-	30/06/19	30/06/21
25/08/17	74,045	-	-	802.70p	-	747	74,045	-	-	24/08/20	24/08/22
02/07/18	-	76,653	-	790.12p	78,875	928	78,875	-	-	01/07/21	01/07/23
04/07/19	-	82,062	-	752.72p	-	-	-	-	82,062	03/07/22	03/07/24
03/08/20	-	63,812	-	1071.90p	-	-	-	-	63,812	02/08/23	02/08/25
01/07/21	-	-	62,456	1140.80p	-	-	-	-	62,456	30/06/24	30/06/26
<b>Paul Boote<sup>4</sup></b>											
01/07/16	3,589	-	-	920.00p	-	27	-	3,981	-	30/06/19	30/06/21
25/08/17	15,961	-	-	802.70p	-	161	15,961	-	-	24/08/20	24/08/22
02/07/18	-	20,250	-	790.12p	20,836	245	20,836	-	-	01/07/21	01/07/23
04/07/19	-	16,261	-	752.72p	-	-	-	-	16,261	03/07/22	03/07/24
03/08/20	-	41,982	-	1071.90p	-	-	-	-	41,982	02/08/23	02/08/25
01/07/21	-	-	39,446	1140.80p	-	-	-	-	39,446	30/06/24	30/06/26

- 32% of the award shares granted on 1 July 2016 vested on 1 July 2019 at a market price of £7.412 per share, 86.86% of the award shares granted on 25 August 2017 vested on 25 August 2020 at a market price of £10.085 per share.
- 89.9% of the awards shares granted on 2 July 2018 vested on 1 July at a market price of £11.7698 per share. In respect of (i) and (ii) above, the total number of shares that vested included additional shares equivalent in value to such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on the vested shares during the three-year performance period. The balance of the award lapsed.
- Vested award; no longer subject to performance conditions.
- Paul Boote's LTIP awards include those he received in his previous position as Director of Treasury, Tax and Group Finance, in which he will retain an interest following his appointment to the Board as Group Finance Director on 8 July 2020.
- Awards released in year at a market price of £13.04 per share, inclusive of additional shares equivalent in value to such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on the vested shares during the two-year holding period.

**Share awards and shareholding disclosures (audited information)****Details of share awards continued****(b) Annual incentive bonus plan – deferred bonus shares (long-term incentive element)**

The following Directors had or have a contingent interest in the number of ordinary shares of the Company shown below, representing the total number of shares to which they have or would become entitled under the deferred bonus element of the Annual Incentive Bonus Plan (the bonus plan) at the end of the relevant restricted period:

Director and date of award	Restricted awards held at 1 April 2021	Restricted awards made in year	Market price of each share upon award in year	Restricted awards post-share consolidation (restated) <sup>3</sup>	Released in year <sup>1</sup>	Value of shares upon release (before tax) £000	Restricted awards held at 31 March 2022	Date of end of restricted period
<b>Susan Davy</b>								
25/07/18	22,746	–	761.36p	15,163	15,163	194	–	24/07/21
24/07/19	24,449	–	755.5386p	16,299	–	–	16,299	23/07/22
14/07/20	15,011	–	1079.47p	10,007	–	–	10,007	13/07/23
30/06/21	–	18,993	1150.45p	12,661	–	–	12,661	29/06/24
<b>Paul Boote<sup>2</sup></b>								
25/07/18	7,228	–	761.36p	4,818	4,818	62	–	24/07/21
24/07/19	9,033	–	755.5386p	6,021	–	–	6,021	23/07/22
14/07/20	5,026	–	1079.47p	3,350	–	–	3,350	13/07/23
30/06/21	–	10,469	1150.45p	6,979	–	–	6,979	29/06/24

1. These shares were released on 6 August 2021 at 1278.0 pence per share.

2. Paul Boote's deferred bonus share awards include those he received in his previous position as Director of Treasury, Tax and Group Finance, in which he will retain an interest following his appointment as Group Finance Director on 8 July 2020.

3. All shares held under the AIBP were adjusted on 5 July 2021 to reflect the share consolidation activity at a ratio of 3:2 into shares of 61.05 pence each. A special dividend of £3.55 per share was paid on 16 July 21 as follows: Susan Davy £288,256; Paul Boote £112,733.

4. During the year the Directors received dividends on the above shares in accordance with the conditions of the bonus plan as follows: Susan Davy £16,369; Paul Boote £6,196.

**(c) ShareSave Scheme**

Details of options to subscribe for ordinary shares (61.05 pence each) of the Company under the all-employee ShareSave Scheme were:

**Market value**

Date of award	Options held at 1 April 2021	Granted in year	Exercised in year	Exercise price per share	Market price of each share on exercising	Market value of each share at 31 March 2022	Options held at 31 March 2022	Exercise period/ maturity date
<b>Susan Davy</b>								
03/07/18	2,834	–	2,834	635.00p	1133.00p	–	–	
06/07/21	–	2,047	–	879.00p	–	1075.0p	2,047	01/09/24–28/02/25
<b>Paul Boote</b>								
03/07/18	2,834	–	2,834	635.00p	1133.00p	–	–	
06/07/21	–	2,047	–	879.00p	–	1075.0p	2,047	01/09/24–28/02/25

**The Remuneration Committee and its advisers**

Claire Ighodaro, Gill Rider, Neil Cooper, Iain Evans and Jon Butterworth were members of the Remuneration Committee throughout the year. During the year the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from Adele Barker (Group Chief People Officer) and from Deloitte LLP.

During 2018/19, Deloitte LLP was reappointed directly by the Committee with a refreshed advisory team, following a comprehensive re-tendering process. Deloitte LLP's fees in respect of advice which materially assisted the Committee during 2021/22 were £78,750 (arrived at from an hourly rate basis of charging). During the year, Deloitte LLP also provided tax services to the Group. Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte LLP has been objective and independent.

### Statement of voting at general meeting

The table below sets out the voting by the Company's shareholders on the resolutions to approve the Directors' remuneration report at the 2021 AGM and the remuneration policy at the 2020 AGM, including votes for, against and withheld.

<b>Annual report on remuneration (2021 AGM)</b>	
For % (including votes at the Chair's discretion)	95.05
Against %	4.95
Withheld number	709,846
<b>Remuneration policy (2020 AGM)</b>	
For % (including votes at the Chair's discretion)	91.50
Against %	8.50
Withheld number	407,344

A vote withheld is not counted in the calculation of the proportion of votes for and against a resolution.

### Directors' remuneration report compliance

This Directors' remuneration report has been prepared in accordance with the provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It also complies with the requirements of the Financial Conduct Authority's Listing Rules and the Disclosure and Transparency Rules. The UK Corporate Governance Code also sets out principles of good governance relating to directors' remuneration, and this report describes how these principles are applied in practice. The Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions. The above regulations also require the external auditor to report to shareholders on the audited information within the annual report on remuneration which is part of the Directors' remuneration report. The external auditor is obliged to state whether, in its opinion, the relevant sections have been prepared in accordance with the Companies Act 2006. The external auditor's opinion is set out on page 183 and the audited sections of the annual report on remuneration are identified in this report.

On behalf of the Board



**Claire Ighodaro CBE**

Chair of Remuneration Committee

30 May 2022

# Directors' report – other statutory disclosures

## Introduction

This Directors' report is prepared in accordance with the provisions of the Companies Act 2006 and regulations made thereunder. It comprises pages 128 to 161 and 180 to 182 as well as the following matters which the Board considers are of strategic importance and, as permitted by legislation, has chosen to include in the strategic report rather than the Directors' report:

- Particulars of important events affecting the Company and/or its subsidiaries which have occurred since the year end (pages 8 and 9 of the strategic report)
- Likely future developments of the Company (pages 12 and 13 of the strategic report)
- Risk management systems (pages 96 to 99 of the strategic report)
- Certain employee and employee engagement matters (pages 51 to 59 of the strategic report and pages 128 to 129 of the governance statement), as well as the disclosures below
- Business relationships/engagement with suppliers, customers and others (pages 20 to 21, 48 to 50 and 60 to 63 of the strategic report and pages 128 to 129 of the governance statement)
- Greenhouse gas emissions, energy consumption and energy efficiency action (pages 89 to 92).

In addition, there are a number of disclosures which are included in the Directors' report by reference, including:

- Financial risk management (note 3 of the notes to the financial statements)
- Financial instruments (pages 74 to 81 of the strategic report and notes 2 (n) and 18 of the notes to the financial statements).

This Directors' report (including pages 126 to 182, which form part of this report) fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules.

## Cautionary statement

This Annual Report has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

## Board of Directors

The Directors in office as at the date of this report are named on pages 130 to 132 and there were no other persons in office during the year.

## Final dividend

The Directors recommend a final dividend of 26.83 pence per ordinary share to be paid on 5 September 2022 to shareholders on the register on 22 July 2022, making a total dividend for the year of 38.53 pence per share (excluding the special dividend announced on 3 June 2021, and paid on 16 July 2021). The aggregate cost of the final dividend will be £102.0million, resulting in a transfer from reserves of £86.4million. The strategic report on pages 2 to 125 analyses the Group's financial results in more detail and sets out other financial information.

## Directors' insurance and indemnities

The Company has maintained Directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers throughout the year. The Company has entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope that comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

## Employment policies and employee involvement

The Group has a culture of continuous improvement through investment in people at all levels within the Group. The Group is committed to pursuing equality and diversity in all its employment activities including recruitment, training, career development and promotion and ensuring there is no bias or discrimination in the treatment of people. In particular, applications for employment are welcomed from persons with disabilities, and special arrangements and adjustments as necessary are made to ensure that applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible the opportunity is taken to retrain people who become disabled during their employment in order to maintain their employment within the Group.

The Group has policies in place covering health and safety, equal opportunities, diversity and inclusion, ethics and employee relations. Further detail of the contents of the diversity and inclusion policy are set out in the report of the Nomination Committee on page 156. Also, information regarding the employee diversity is provided on pages 57 to 59.

Pennon respects the right to freedom of association and employees are consulted regularly about changes which may affect them either through their trade union appointed representatives or consultation groups or by means of their elected representatives at the Employee Engagement Forum. These forums, together with regular meetings with particular groups of employees, are used to ensure that employees are kept up to date with the business performance of their employer and the financial and economic factors affecting the performance of the Group. The Group also cascades information to all employees to provide them with important and up-to-date information about key events and to obtain feedback from them on a monthly basis. Further details of employee engagement and employment matters relating to the Group are set out on pages 51 to 59 of the Strategic Report.

The Group encourages share ownership among its employees by operating an HMRC approved Sharesave Scheme and Share Incentive Plan.

Following shareholder approval at the 2014 AGM, this scheme and plan were amended to provide for the increased savings limits approved by the Government. At 31 March 2022, approximately 54% (2021: 53%) of the Group's employees were participating in these plans.

## Modern Slavery Act

Our people are fundamental to our business, and we remain committed and passionate about supporting our staff, customers and communities to thrive in creating an environment where everyone can feel safe and supported. We have a clear zero-tolerance approach to modern slavery and are committed to playing our part in helping eradicate it by having systems and processes to monitor, assess and reduce the risk of forced labour and human trafficking.

Our focus this year has been on improving our risk assessment and the widening of our engagement. We have continued to engage and raise awareness, through internal training, and by continuing as a member of Slave Free Alliance. We are part of a utilities sector working group which shares best practice across our industry. We will continue to work hard to



tackle this issue collaboratively with our partners, employees, suppliers and peers, to evolve our approach to ensure it remains effective. Our latest Modern Slavery Statement can be found here: [www.pennon-group.co.uk/sites/default/files/attachments/pdf/pennon-modern-slavery-statement-2021-16-09-21-v1.pdf](http://www.pennon-group.co.uk/sites/default/files/attachments/pdf/pennon-modern-slavery-statement-2021-16-09-21-v1.pdf)

### Greenhouse gas emissions

Details of our GHG emissions can be found in the Strategic Report on pages 89 to 91.

### Energy usage

Details of our Energy usage can be found in the Strategic Report on pages 91 to 92.

### Research and development

Research and development within the Group involving water and wastewater treatment processes amounted to £0.2 million during the year (2020/21: £0.1 million).

### Overseas branches

The Company has no overseas branches.

### Pennon Group donations

During the year, the Group provided a total of £91,000 in charitable donations (2020/21: £50,000).

No political donations were made or political expenditure incurred and no contributions were made to a non-UK political party (2020/21: nil).

### Purchase of own ordinary shares

At the AGM held in July 2021 (2021 AGM), shareholders granted authority for the Company to purchase up to 42,183,689 of its own ordinary shares (which represented approximately 14.99% of the Company's ordinary shares of 61.05p nominal value (excluding treasury shares) in issue at the time of the 2021 AGM (the 2021 Share Buy-back Authority)). This followed Pennon's announcement, on 3 June 2021 of a special dividend of c.£1.5 billion, and also a share buy-back programme of up to £0.4 billion (the Share Buy-back Programme), to start after payment of the special dividend and expected to conclude before 30 September 2022. The Board considers the Share Buy-back programme (in addition to the special dividend which was paid on 16 July 2021) continues to be an appropriate means of returning capital to shareholders following the sale of Viridor, whilst providing Pennon with ongoing financial flexibility. In the event that compelling growth opportunities arise in the UK water sector, the Board may decide to halt any further phases in the share buy-back programme and use the remaining proceeds from the sale of Viridor to pursue those opportunities in order to drive further shareholder value. The 2021 Share buy-back Authority was used during the year under review to buy back 17,146,744 shares with a nominal value of 61.05p at an average price of 1,164 pence per share, and for total consideration of £199.6 million. This represents approximately 6.47% of the called up share capital of the Company as at 31 March 2022. In the period from 1 April 2022 until 30 May 2022, no further ordinary shares of 61.05 pence each in Pennon were repurchased using the 2021 Share Buy-back Authority. All shares purchased under the Share Buy-back Programme have been cancelled. Further information on the Share Buy-back Programme is on page 181. Information on transactions in own shares is also publicly available via the regulatory information service and on Pennon's website at [www.pennon-group.co.uk/ms-announcements](http://www.pennon-group.co.uk/ms-announcements). The 2021 Share buy-back authority will expire at the 2022 AGM, when shareholders will be asked to renew the Company's authority to purchase its own shares up to a limit of 10% of the Company's issued ordinary shares (calculated as at the latest practicable date prior to the Notice of the 2022 AGM), in line with institutional shareholder guidelines. No shares were made subject to a lien or charge during the year under review and up to the date of approval of this Annual Report and Accounts. As at 1 April 2022, 5,628 shares were held in treasury, representing 0.002% of the issued share capital. No treasury shares were re-issued during the year.

### Disclosures required by publicly traded companies

The following disclosures are made pursuant to Part 6 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and Rule 7.2.6.R of the UK Listing Authority's Disclosure Guidance and Transparency Rules (DTR).

#### As at 31 March 2022:

- a. Details of the Company's issued share capital, which consists of ordinary shares of nominal value 61.05 pence each, are set out in note 33 to the financial statements on page 236. All of the Company's issued ordinary shares are fully paid up, rank equally in all respects and are listed on the Official List and traded on the London Stock Exchange. The rights and obligations attaching to the Company's shares, in addition to those conferred on their holders by law, are set out in the Company's Articles, copies of which can be obtained from Companies House in the UK or by writing to the Group Company Secretary at the Company's registered office;
- b. There are no restrictions on the transfer of issued ordinary shares of the Company or on the exercise of voting rights attached to them, except where the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006 or where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers. There are no persons with special rights regarding control of the Company. No shares issued under the employee share schemes have rights with regard to control of the Company that are not exercisable directly by the employees;
- c. Details of significant direct or indirect holdings of securities of the Company are set out in the shareholder analysis on page 256. The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities or on voting rights;
- d. The Company's rules about the appointment and replacement of Directors are contained in the Articles and accord with usual English company law provisions. The powers of Directors are determined by UK legislation and the Articles in force from time to time. Changes to the Articles must be approved by the Company's shareholders by passing a special resolution;
- e. The Directors also intend to renew the power to make purchases of the Company's own shares in issue as set out above up to an aggregate nominal value of:
  - i. £53,895,670 (such amount to be reduced by any shares allotted or rights granted under (ii) below in excess of £53,895,670); and
  - ii. £107,791,340 by way of a rights issue (such amount to be reduced by any shares allotted or rights granted from (i) above), similar to that approved by shareholders at the 2021 AGM. In addition, shareholders approved at the 2021 AGM, resolutions giving the Directors a limited authority to allot shares for cash other than pro rata to existing shareholders. These resolutions remain valid until the conclusion of this year's AGM. Similar resolutions will be proposed at the 2022 AGM. The Directors have no present intention to issue ordinary shares other than pursuant to the Company's employee share schemes.
  - iii. The Directors were also given the authority by shareholders at the 2019 AGM, to allot a single non-cumulative redeemable preference share of one penny nominal value (the WaterShare+ Share), the rights and restrictions in relation to which are set out in Article 5A of the Company's Articles of Association. The share was allotted on 20 October 2020;

- f. There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as bank loan agreements, Eurobond documentation, hybrid capital securities documentation, private placement debt and employees' share plans;

This may result in certain funding agreements being altered or repaid early. The impact of employees' share plans is not considered significant; and

- g. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

There is no information to be disclosed under Listing Rule (LR) 9.8.4R. The Company has no long-term incentive arrangements in place under LR 9.4.2R where the only participant is a Director and the arrangement is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the individual.

### Going concern

At 31 March 2022, the Group has access to undrawn committed funds and cash and cash deposits totaling £816 million (£648 million after restricted cash). Having considered the Group's strong funding position and prudent financial projections, which take into account a range of possible impacts as described in this report, the Directors have a reasonable expectation that the Group has adequate resource to continue in operational existence for the period which covers the period from approval of the 2022 financial statements through to 30 June 2023 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.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and parent company financial statements in accordance with UK adopted international accounting standards (IFRSs) in conformity with the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for the year.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Estimates and Errors and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Group's financial position and financial performance;
- in respect of the Group financial statements, state whether UK adopted international accounting standards in conformity with the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether UK adopted international accounting standards in conformity with the Companies Act 2006 have been followed; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and/or Group will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company; and enable them to ensure that the Company and Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with the law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Each of the Directors, whose names and functions are listed on pages 130 and 132, confirms that, to the best of his or her knowledge:

- The consolidated financial statements, prepared in accordance with UK adopted international accounting standards in conformity with the Companies Act 2006 give a true and fair view of the assets, liabilities, financial position and profit of the parent company and undertakings included in the consolidation taken as a whole.
- The Annual Report, including the Strategic Report (pages 1 to 125), includes a fair review of the development and performance of the business during the year and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.
- They consider that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

### Statement as to disclosure of information to the auditor

- i. So far as each of the Directors in office at the date of the signing of the report is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- ii. Each of the Directors has taken all the steps each Director ought to have taken individually as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' report consisting of pages 180 to 182 was approved by the Board on 30 May 2022.

By order of the Board



**Simon A F Pugsley**

Group General Counsel and Company Secretary

30 May 2022

# Independent Auditor's Report to the members of Pennon Group plc

## Opinion

In our opinion:

- Pennon Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Pennon Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2022 which comprise:

Group	Parent company
Group balance sheet as at 31 March 2022	Balance sheet as at 31 March 2022
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Cash flow statement for the year then ended
Group statement of changes in equity for the year then ended	Related notes 1 to 45 to the financial statements including a summary of significant accounting policies
Group cash flow statement for the year then ended	
Related notes 1 to 45 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We have obtained management's going concern assessment, including the cash forecast, liquidity requirements and forecast covenant calculations for the going concern period which covers the period from approval of the 2022 financial statements through to 30 June 2023, and have tested this for arithmetical accuracy. Management has modelled a downside scenario in their cash forecasts and covenant calculations in order to incorporate unexpected changes to the forecasted liquidity of the group. The going concern assessment is inclusive of the acquisition of Bristol Water Holdings UK Limited during the year.
- We have reviewed the forecasts used for the going concern assessment period for reasonableness and, where applicable, corroborated the data with audit information from other areas. We have evaluated the appropriateness of the key assumptions in management's forecasts including revenue growth, by comparing these to year-to-date performance and through consideration of historical forecasting accuracy.
- The largest component of the group's operations relates to the regulated water business, undertaken by South West Water Limited, which has an agreed business plan with Ofwat for the five-year price period to 31 March 2025, setting out the basis of allowed tariff changes. Similarly, Bristol Water plc as a regulated water business acquired during the year has agreed pricing determinations with Ofwat. We have compared the key assumptions in the group's regulated water business forecasts to the business plans and pricing determinations agreed with Ofwat, for consistency.
- We have evaluated management's stress test modelling including management's downside scenario and specific risk register scenarios, to understand the impact on the group's liquidity and covenant ratios. We assessed the reasonableness of management's stress test scenarios by performing our own sensitivity analysis for severe but plausible scenarios.
- We have compared facilities assumed in the forecasts to supporting loan documentation.
- We have compared the risks identified and modelled in the cash flow forecasts of management's downside scenario to the group risk register and evaluated the quantification by management. We have considered whether there are other alternative risks that should be taken into consideration based on our knowledge of the business.
- We performed testing to consider the likelihood of a scenario causing a liquidity issue or breach of covenants.
- We have reviewed the group's going concern disclosures included in the annual report in order to assess whether the disclosures were appropriate and in conformity with the reporting standard.

We observed at the 31 March 2022, the group had access to undrawn committed facilities of £297.0 million and cash and short-term and other deposits totalling £519.0 million (£351.2 million excluding restricted funds). The group generated positive cash flows from operating activities of £252.3 million and used the proceeds from the sale of Viridor to acquire Bristol Water for £421.2 million (including acquisition costs, net of cash acquired) and return proceeds to shareholders via dividends of £1,590.3 million and repurchase of own shares and associated fees of £201.7 million.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or

collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period to 30 June 2023 from when the financial statements are authorised for issue.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

**Overview of our audit approach**

<b>Audit scope</b>	<ul style="list-style-type: none"> <li>We performed an audit of the complete financial information of four components. The components where we performed full audit procedures accounted for 100% of profit before taxation and non-underlying items, 100% of revenue and 95% of total assets.</li> </ul>
<b>Key audit matters</b>	<ul style="list-style-type: none"> <li>Revenue recognition across the group's operations in relation to accrued income relating to measured supplies</li> <li>Valuation of the expected credit loss provision for customer balances across the group</li> <li>Accounting for the acquisition of Bristol Water</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>Overall group materiality of £7.2 million which represents 5% of the group's profit before taxation and non-underlying items.</li> </ul>

**An overview of the scope of the parent company and group audits**

**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the five reporting components of the group, we selected four components covering entities Pennon Group plc, South West Water Limited, Pennon Water Services Limited and Bristol Water Holdings UK Limited, which represent the principal business units within the group.

We performed an audit of the complete financial information of all four components ("full scope components") which were selected based on their size or risk characteristics.

The reporting full scope components where we performed audit procedures accounted for 100% (2021: 100%) of the group's profit before taxation and non-underlying items, 100% (2021: 100%) of the group's revenue and 95% (2021: 95%) of the group's total assets.

The remaining component accounts for not more than 1% of the group's profit before taxation and non-underlying items. For this component, we performed other procedures, including analytical review procedures,

testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the group financial statements.

**Changes from the prior year**

In the prior year, following the completion of the sale of the Viridor division in July 2020, we performed audit procedures on the profit from discontinued operations. There were no such items included in the results for the current year.

Additionally, following the acquisition of Bristol Water in June 2021, we included the Bristol Water component as a full scope component based on its size and risk characteristics.

**Involvement with component teams**

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors, including non-EY firms, operating under our instruction. The audit teams for Pennon Group plc and South West Water are led by the Senior Statutory Auditor. A separate EY team audits the full scope component, Pennon Water Services, with a non-EY firm auditing the full scope component, Bristol Water. Where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group as a whole.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. We maintained continuous and open dialogue with all component audit teams in addition to holding formal meetings to ensure that we were fully aware of their progress and results of their procedures. The Senior Statutory Auditor discussed the planned audit approach with the component teams and any issues arising from their work, attended meetings with management and reviewed key audit working papers on risk areas. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

**Climate change**

There has been increasing interest from stakeholders as to how climate change will impact the group. The group has determined that the most significant future impacts from climate change on its operations will be from physical and transitional climate-related risks. These are explained on pages 106 to 122 in the required Task Force for Climate related Financial Disclosures and on pages 96 to 105 in the principal risks and uncertainties, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in the basis of preparation note to the financial statements, governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

As part of our audit, we made enquiries of management to understand the extent of climate change risks to the group, including reviewing management's climate change risk assessment, which was prepared with support from external consultants. Our audit effort in considering climate change was focused on ensuring that the effects of material climate risks disclosed on pages 106 to 122 have been appropriately reflected in asset values and associated disclosures where values are determined through

modelling future cash flows, as explained in the basis of preparation note. Our procedures did not identify any material impact on our key audit matters for the year ended 31 March 2022. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

The group has stated its commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2030. Governmental and societal responses to climate change risks are still developing, and, as a result, the group is currently unable to fully determine the future economic impact on their business model, operational plans and customers to achieve this. Therefore, as set out above, the potential impacts are not fully incorporated in these financial statements.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Revenue recognition across the group's operations in relation to accrued income relating to measured supplies (2022: £120.8 million, 2021: £104.0 million)</b>  Refer to the Audit Committee Report (page 146); Accounting policies (page 196); and Note 5 of the Consolidated Financial Statements (page 208)</p> <p>The group's revenue streams relate to the provision of water and sewerage services by South West Water, Pennon Water Services and Bristol Water.</p> <p>ISAs (UK &amp; Ireland) presume there is a risk of fraud relating to revenue recognition. For the group, given the targets associated with financial performance and potential pressures to meet market expectations, there is an incentive to overstate revenue.</p> <p>This risk over revenue recognition specifically arises in the following areas of estimation, where there is an opportunity to overstate revenue:</p> <p>Income from measured water services requires an estimation of the amount of unbilled charges at the period end. This is calculated using a combination of system generated information, based on previous customer volume usage, together with management adjustments for a number of different factors not included in the system-generated accrual, such as seasonality and operational data trends.</p> <p>In 2020/21, the assessment of consumption was impacted by the COVID-19 pandemic, which resulted in an increase in household consumption (both as a result of lockdown and then increased visitors over the summer months as more holidays were taken in the UK than overseas) and a decrease in the non-household consumption. These patterns of consumption continued to impact 2021/22 due to the reduced level of overseas holidays and the increased visitors to the South West, together with continued high levels of home working.</p> <p>The accrued income balance at 31 March 2022 is £81.3m million (2021: £77.6 million) for South West Water, £23.2 million (2021: £26.4 million) for Pennon Water Services and £16.3 million for Bristol Water.</p> <p>The risk has remained consistent in the current year and now includes an assessment for the acquisition of Bristol Water.</p>	<p>Procedures to respond to this risk were performed by the component teams.</p> <p>We obtained an understanding of the process for the supply of measured services, meter reading and related billing in order to assess the completeness of adjustments to reflect the accrual or deferral of revenue at the year end;</p> <p>We tested key controls linked to system generated information and around the estimation process for measured revenue;</p> <p>We obtained internal and external data on factors that influence demand from customers, weather patterns and leaks in infrastructure networks and formed an expectation of the impact of these matters on revenue to compare to assumptions used in management's estimate;</p> <p>Given the changes in customer consumption patterns (increase in household consumption and decreased in non-household consumption) arising since the onset of the COVID-19 pandemic, we used evidence from actual meter readings throughout the prior and current year to compare to the assumptions used to estimate revenue recognised for metered customers without a recent meter reading;</p> <p>We obtained a system report of invoices raised post year end based on actual meter readings taken since the year end. We selected a sample of items from the report to compare to supporting evidence. We compared this report to the year end assumptions used to accrue income for these customer accounts, to assess the reliability of the assumptions used to determine accrued income;</p> <p>We performed analytical procedures by comparing revenue balances for the year against expectations and obtained support for significant variances; and</p> <p>In performing our journal testing, we paid increased attention to entries impacting revenue, focusing on non-system postings and those raised in the last two weeks of the year.</p>	<p>We concluded that the estimation process undertaken by management to calculate the measured income accrual reflected latest operational factors in the key assumptions and that the income accrual was appropriately determined.</p>



Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Valuation of the expected credit loss provision for customer balances across the group (2022: £100.4 million, 2021: £102.3 million)</b>  <i>Refer to the Audit Committee Report (page 146); Accounting policies (page 196); and Note 22 of the Consolidated Financial Statements (page 223)</i></p> <p>The expected credit loss provision is calculated using a combination of system generated information on historic debt recovery rates and management’s judgement of the future likely recovery rates.</p> <p>There is a risk that the assumptions, used by management in calculating the expected credit loss provision, may not be appropriate and the valuation of the provision against customer balances may be misstated.</p> <p>Management’s key assumptions include:</p> <ul style="list-style-type: none"> <li>• that the historic level of collections is indicative of the ability to collect at the same levels in the future; and</li> <li>• that the risk of non-recovery from customers varies, depending on factors such as whether the household customer no longer occupies a property in the area, has previously paid/not paid, is/is not on a payment plan etc., and for non-household customers depends on the general economic performance of the business sector they operate within.</li> </ul> <p>The South West Water credit loss provision is £84.6 million (2021: £88.3 million), the Pennon Water Services credit loss provision is £13.9 million (2021: £14.0 million) and the Bristol Water credit loss provision is £1.9 million.</p> <p>The risk has remained consistent in the current year and now includes an assessment for the acquisition of Bristol Water.</p>	<p>Procedures to respond to this risk were performed by the component teams.</p> <p>We performed a walkthrough of the process for calculating the expected credit loss provision and assessed the design effectiveness of the key controls;</p> <p>We tested the operating effectiveness of key controls over the billing systems and tested the integrity of data and the reports utilised to generate the ageing and categorisation of debt within each component’s billing systems;</p> <p>We tested latest information on collection rates and evaluated how this data was used in the preparation of the expected credit loss provision;</p> <p>We utilised collection trends to determine our own range of the likely ultimate collection of debts existing at the balance sheet date, including performing several scenario analyses and compared these to the provision recorded by management, including assessing assumptions for evidence of management bias;</p> <p>We assessed the assumptions used by management in determining the amounts provided against the different categories and age of debt, by comparing these assumptions to historic collection rates and by considering the impact of changes in the methods adopted operationally by management to collect debt, and in the external environment;</p> <p>We considered whether the historic collection performance evidenced the behaviour patterns assumed by management depending on categorisation of household customer and business sector for non-household customers;</p> <p>For debt relating to household customers, we utilised collection information over previous periods, with sensitivities to consider the impact of a deterioration which might arise from a downturn in the economy, to determine an acceptable range of the likely ultimate collection of debts existing at the balance sheet date and compared this to the provision recorded by management;</p> <p>For debt relating to non-household customers, we tested management’s segmentation by business sector and the risk factors considered for each sector, regarding non-recovery of debt. We compared this analysis with information on actual collections, by sector, in the current year and since the balance sheet date;</p> <p>We tested the appropriateness of journal entries and adjustments impacting the expected credit loss provision, particularly those raised close to the balance sheet date.</p>	<p>We concluded that the expected credit loss provision of £100.4 million is within an acceptable range and appropriately reflects the recent history of collection of outstanding debts and considerations of the impact on future collections from the macro-economic environment.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Accounting for the acquisition of Bristol Water (2022: £425.1 million)</b></p> <p>Refer to the Audit Committee Report (page 146); Accounting policies (page 196); and Note 44 of the Consolidated Financial Statements (page 247)</p> <p>On 2 June 2021, the group acquired 100% of the issued share capital of Bristol Water Holdings UK Limited, including its subsidiaries ("Bristol Water"), for total consideration of £425.1 million. The transaction was accounted for as a business combination.</p> <p>Accounting for the acquisition of Bristol Water involves management's estimation in determining the fair value of the assets and liabilities acquired.</p> <p>There is a risk that the assumptions used by management in calculating the fair value of assets and liabilities acquired may not be appropriate and the valuation may be misstated.</p> <p>Management's key assumptions include:</p> <ul style="list-style-type: none"> <li>• The replacement cost, useful economic life and economic obsolescence of capital equipment assets.</li> <li>• Market rents, capitalisation rates and house and land values, including indexation rates for real estate assets.</li> <li>• Discount rates used for the valuation of long-term borrowings.</li> </ul> <p>These key assumptions are inherently uncertain and could be affected by future economic and market conditions.</p> <p>The risk is new in the current year due to the acquisition of Bristol Water.</p>	<p>Procedures to respond to this risk were performed by the primary team.</p> <p>We evaluated the group's use of the valuation methodology and tested the key assumptions used in the valuation, including the completeness and accuracy of the underlying data;</p> <p>We involved our valuation specialists as part of our team to assist in our evaluation of the valuation methodology, key assumptions and to calculate an independent estimate of an acceptable range;</p> <p>We compared the key assumptions that form the basis of the valuations to, for example, current industry, market and economic trends and to the assumptions used to value similar assets in other acquisitions;</p> <p>We read the closing documents and executed sale and purchase agreement to confirm details of the consideration payable and evidence of authorisation and approval of the completed acquisition.</p> <p>With assistance from our valuation specialist, we read the asset identification and purchase price allocation reports prepared by management's specialist to identify any evidence of contra indicators or other separately identifiable assets and liabilities acquired.</p> <p>We tested the clerical accuracy of the calculation performed by management in determining the fair value of the assets and liabilities acquired.</p> <p>We compared the opening balance sheet asset and liability amounts to reconciliations performed at the acquisition date.</p> <p>We evaluated the disclosures provided in note 44 to the Consolidated financial statements.</p>	<p>We concluded that the fair value of the assets and liabilities recognised in relation to the acquisition of Bristol Water are calculated using an appropriate valuation methodology and are within an acceptable range.</p>

In the prior year, our auditor's report included a key audit matter in relation to the profit from discontinued operations from the disposal of the Viridor business. As the disposal was completed in 2021, the profit from discontinued operations is shown in the comparative period only and not recognised in the consolidated income statement for the current year. Therefore, the profit from discontinued operations is no longer considered a key audit matter.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

#### Materiality

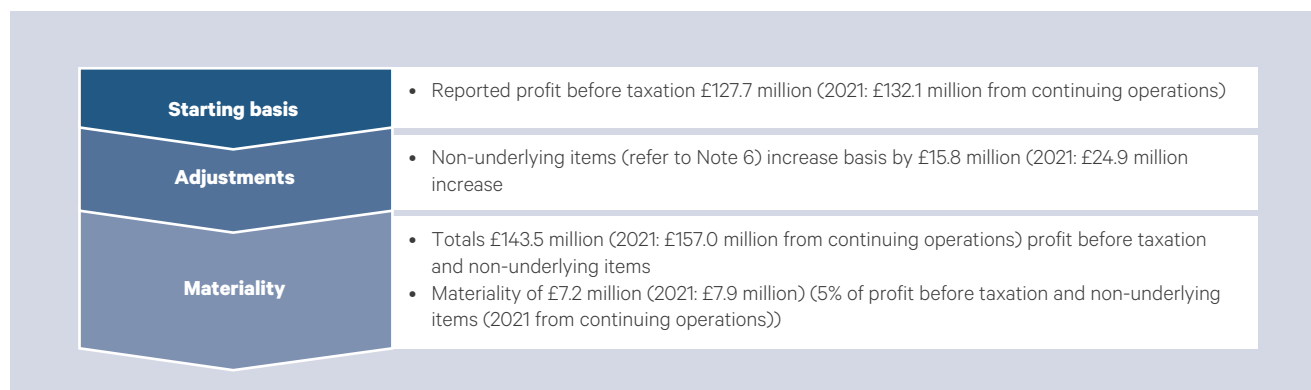
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic

decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £7.2 million (2021: £7.9 million), which is 5% (2021: 5%) of the group's profit before taxation and non-underlying items. We believe that profit before taxation and non-underlying items provides us with an appropriate measure of the underlying performance of the group, as this excludes one-off, non-recurring items that are not indicative of the underlying performance of the group and is a measure of focus for users of the financial statements.

We determined materiality for the parent company to be £12.4 million (2021: £29.6 million), which is 1% (2021: 1%) of equity.

During the course of our audit, we reassessed materiality which was calculated initially to be £7.8 million and concluded that our revised materiality based on the actual results for the year of £7.2 million was



appropriate. The reassessment of materiality did not result in a change to the scope of our audit.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £5.4 million (2021: £5.9 million). We have set performance materiality at this percentage based on our assessment of the group's internal control environment and the extent and nature of audit findings identified in the prior period. This basis is consistent with the prior year.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.1 million to £5.1 million (2021: £2.8 million to £5.2 million).

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.4 million (2021: £0.4 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the annual report set out on pages 1 to 182 and 250 to 258, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 182;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 123;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 182;
- Directors' statement on fair, balanced and understandable set out on page 182;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 96;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 96; and;
- The section describing the work of the audit committee set out on page 146.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 182, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are:
  - Companies Act 2006
  - Financial Reporting Council (FRC) and the UK Corporate Governance Code
  - Tax legislation (governed by HM Revenue & Customs)
  - Health and Safety legislation
  - Environment Agency environmental permits
  - Ofwat regulations
  - UK listing rules
- We understood how Pennon Group plc is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the group's legal counsel, regulatory team and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the above committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management, including the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and Audit Committee Chairman. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement. Further discussion of our approach to address the identified risks of management override are set out in the key audit matters section of our report.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.
- We communicated regularly with the component teams and attended key meetings with the component teams, management and legal counsel in order to identify and communicate any instances of non-compliance with laws and regulations.
- The group operates in the water sector which is highly regulated. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of an expert where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Other matters we are required to address

- Following the recommendation from the audit committee, we were appointed by the company on 31 March 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods.
 

The period of total uninterrupted engagement including previous renewals and reappointments is 8 years, covering the years ending 31 March 2015 to 31 March 2022.
- The audit opinion is consistent with the additional report to the audit committee.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Christabel Cowling (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Leeds

30 May 2022

# Consolidated income statement

For the year ended 31 March 2022

	Notes	Before non-underlying items 2022 £m	Non-underlying items (note 6) 2022 £m	Total 2022 £m	Before non-underlying items 2021 £m	Non-underlying items (note 6) 2021 £m	Total 2021 £m
<b>Revenue</b>	5	<b>792.3</b>	<b>–</b>	<b>792.3</b>	644.6	(20.5)	624.1
Operating costs	7						
Employment costs		<b>(90.4)</b>	<b>(1.7)</b>	<b>(92.1)</b>	(75.0)	(4.4)	(79.4)
Raw materials and consumables used		<b>(22.9)</b>	<b>–</b>	<b>(22.9)</b>	(18.1)	–	(18.1)
Other operating expenses		<b>(295.1)</b>	<b>(14.1)</b>	<b>(309.2)</b>	(216.8)	–	(216.8)
<b>Earnings before interest, tax, depreciation and amortisation</b>	5	<b>383.9</b>	<b>(15.8)</b>	<b>368.1</b>	334.7	(24.9)	309.8
Depreciation and amortisation	7	<b>(146.7)</b>	<b>–</b>	<b>(146.7)</b>	(119.4)	–	(119.4)
<b>Operating profit</b>	5	<b>237.2</b>	<b>(15.8)</b>	<b>221.4</b>	215.3	(24.9)	190.4
Finance income	8	<b>2.6</b>	<b>–</b>	<b>2.6</b>	4.2	–	4.2
Finance costs	8	<b>(96.3)</b>	<b>–</b>	<b>(96.3)</b>	(62.5)	–	(62.5)
<b>Net finance costs</b>	8	<b>(93.7)</b>	<b>–</b>	<b>(93.7)</b>	(58.3)	–	(58.3)
<b>Profit before tax</b>	5	<b>143.5</b>	<b>(15.8)</b>	<b>127.7</b>	157.0	(24.9)	132.1
Taxation charge	9	<b>(13.9)</b>	<b>(98.2)</b>	<b>(112.1)</b>	(29.6)	4.8	(24.8)
<b>Profit from continuing operations</b>		<b>129.6</b>	<b>(114.0)</b>	<b>15.6</b>	127.4	(20.1)	107.3
Profit from discontinued operations	45	<b>–</b>	<b>–</b>	<b>–</b>	35.5	1,619.2	1,654.7
<b>Profit for the year</b>		<b>129.6</b>	<b>(114.0)</b>	<b>15.6</b>	162.9	1,599.1	1,762.0
Attributable to:							
Ordinary shareholders of the parent				<b>15.4</b>			1,762.2
Non-controlling interests				<b>0.2</b>			(0.2)
<b>Earnings per ordinary share</b> (pence per share)	11						
<b>From continuing operations</b>							
• Basic				<b>4.9</b>			25.5
• Diluted				<b>4.9</b>			25.4
<b>From continuing and discontinued operations</b>							
• Basic				<b>4.9</b>			418.5
• Diluted				<b>4.9</b>			416.9

The notes on pages 196 to 249 form part of these financial statements.



# Consolidated statement of comprehensive income

For the year ended 31 March 2022

	Notes	Before non- underlying items 2022 £m	Non- underlying items (note 6) 2022 £m	Total 2022 £m	Before non- underlying items 2021 £m	Non- underlying items (note 6) 2021 £m	Total 2021 £m
<b>Profit for the year</b>		<b>129.6</b>	<b>(114.0)</b>	<b>15.6</b>	162.9	1,599.1	1,762.0
<b>Other comprehensive income/(loss)</b>							
<b>Items that will not be reclassified to profit or loss</b>							
Remeasurement of defined benefit obligations	30	24.9	–	24.9	(28.8)	–	(28.8)
Income tax on items that will not be reclassified	9	2.4	–	2.4	5.5	–	5.5
Total items that will not be reclassified to profit or loss		27.3	–	27.3	(23.3)	–	(23.3)
<b>Items that may be reclassified subsequently to profit or loss</b>							
Cash flow hedges		40.6	–	40.6	13.5	–	13.5
Income tax on items that may be reclassified	9	(6.5)	–	(6.5)	(2.4)	–	(2.4)
Total items that may be reclassified subsequently to profit or loss		34.1	–	34.1	11.1	–	11.1
<b>Other comprehensive income/(loss) for the year net of tax</b>	36	<b>61.4</b>	<b>–</b>	<b>61.4</b>	(12.2)	–	(12.2)
<b>Total comprehensive income for the year</b>		<b>191.0</b>	<b>(114.0)</b>	<b>77.0</b>	150.7	1,599.1	1,749.8
Total comprehensive income attributable to:							
Ordinary shareholders of the parent				76.8			1,750.0
Non-controlling interests				0.2			(0.2)

The notes on pages 196 to 249 form part of these financial statements.

## Balance sheets

At 31 March 2022

	Notes	Group		Company	
		2022 £m	2021 £m	2022 £m	2021 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	15	158.4	42.3	-	-
Other intangible assets	16	13.9	1.2	-	-
Property, plant and equipment	17	4,264.0	3,221.0	0.1	0.1
Other non-current assets	19	9.6	-	31.5	26.1
Deferred tax assets	31	-	-	13.1	12.5
Derivative financial instruments	23	14.8	3.8	1.0	2.3
Investments in subsidiary undertakings	20	-	-	1,310.8	846.4
Retirement benefit obligations	30	66.3	8.8	12.4	-
		<b>4,527.0</b>	<b>3,277.1</b>	<b>1,368.9</b>	<b>887.4</b>
<b>Current assets</b>					
Inventories	21	7.7	5.4	-	-
Trade and other receivables	22	270.9	216.8	49.8	73.0
Current tax receivable	27	1.5	0.1	-	-
Derivative financial instruments	23	5.6	1.3	0.6	1.1
Cash and cash deposits	25	519.0	2,919.3	306.7	2,495.6
		<b>804.7</b>	<b>3,142.9</b>	<b>357.1</b>	<b>2,569.7</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Borrowings	28	(240.2)	(88.3)	(312.8)	(283.4)
Financial liabilities at fair value through profit	24	(2.5)	(2.8)	(0.1)	(0.5)
Derivative financial instruments	23	-	(6.3)	-	(0.2)
Trade and other payables	26	(171.5)	(126.1)	(5.6)	(10.2)
Current tax liabilities	27	-	-	(3.4)	(4.4)
Provisions	32	(1.0)	(0.3)	-	-
		<b>(415.2)</b>	<b>(223.8)</b>	<b>(321.9)</b>	<b>(298.7)</b>
<b>Net current assets</b>		<b>389.5</b>	<b>2,919.1</b>	<b>35.2</b>	<b>2,271.0</b>
<b>Non-current liabilities</b>					
Borrowings	28	(2,961.7)	(2,766.7)	(154.5)	(184.4)
Other non-current liabilities	29	(137.2)	(128.3)	(8.6)	(8.6)
Financial liabilities at fair value through profit	24	(36.1)	(39.4)	-	(1.0)
Derivative financial instruments	23	-	(17.4)	-	-
Retirement benefit obligations	30	-	-	-	(5.5)
Deferred tax liabilities	31	(506.9)	(259.6)	-	-
		<b>(3,641.9)</b>	<b>(3,211.4)</b>	<b>(163.1)</b>	<b>(199.5)</b>
<b>Net assets</b>		<b>1,274.6</b>	<b>2,984.8</b>	<b>1,241.0</b>	<b>2,958.9</b>
<b>Shareholders' equity</b>					
Share capital	33	161.7	171.8	161.7	171.8
Share premium account	34	235.5	232.1	235.5	232.1
Capital redemption reserve	35	154.7	144.2	154.7	144.2
Retained earnings and other reserves	36	722.6	2,436.8	689.1	2,410.8
<b>Total shareholders' equity</b>		<b>1,274.5</b>	<b>2,984.9</b>	<b>1,241.0</b>	<b>2,958.9</b>
Non-controlling interests		0.1	(0.1)	-	-
<b>Total equity</b>		<b>1,274.6</b>	<b>2,984.8</b>	<b>1,241.0</b>	<b>2,958.9</b>

The profit for the year attributable to ordinary shareholders' equity dealt with in the accounts of the Parent Company is £74.5 million (2021 £1,312.3 million). The notes on pages 196 to 249 form part of these financial statements.

The financial statements on pages 190 to 249 were approved by the Board of Directors and authorised for issue on 30 May 2022 and were signed on its behalf by:

**Susan Davy**

Chief Executive Officer

Pennon Group plc

Registered Office: Peninsula House, Rydon Lane, Exeter, Devon, England EX2 7HR. Registered in England Number 2366640.

# Statements of changes in equity

For the year ended 31 March 2022

	Share capital (note 33) £m	Share premium account (note 34) £m	Capital redemption reserve (note 35) £m	Retained earnings and other reserves (note 36) £m	Non-controlling interests £m	Perpetual capital securities (note 37) £m	Total equity £m
<b>Group</b>							
At 31 March 2020	171.3	227.0	144.2	872.8	0.1	296.7	1,712.1
Profit for the year	-	-	-	1,762.2	(0.2)	-	1,762.0
Other comprehensive loss for the year	-	-	-	(12.2)	-	-	(12.2)
Total comprehensive income for the year	-	-	-	1,750.0	(0.2)	-	1,749.8
<i>Transactions with equity shareholders:</i>							
Dividends paid	-	-	-	(184.3)	-	-	(184.3)
Adjustment in respect of share-based payments (net of tax)	-	-	-	2.2	-	-	2.2
Redemption of perpetual capital securities	-	-	-	(3.3)	-	(296.7)	(300.0)
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(1.2)	-	-	(1.2)
Deferred tax recognised directly in equity	-	-	-	0.6	-	-	0.6
Proceeds from shares issued under the Sharesave Scheme	0.5	5.1	-	-	-	-	5.6
Total transactions with equity shareholders	0.5	5.1	-	(186.0)	-	(296.7)	(477.1)
At 31 March 2021	171.8	232.1	144.2	2,436.8	(0.1)	-	2,984.8
Profit for the year	-	-	-	15.4	0.2	-	15.6
Other comprehensive income for the year	-	-	-	61.4	-	-	61.4
Total comprehensive income for the year	-	-	-	76.8	0.2	-	77.0
<i>Transactions with equity shareholders:</i>							
Dividends paid	-	-	-	(1,590.3)	-	-	(1,590.3)
Shares purchased for cancellation (including related expenses)	-	-	-	(201.7)	-	-	(201.7)
Shares cancelled (note 33)	(10.5)	-	10.5	-	-	-	-
Adjustment in respect of share-based payments (net of tax)	-	-	-	2.2	-	-	2.2
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(1.2)	-	-	(1.2)
Proceeds from shares issued under the Sharesave Scheme	0.4	3.4	-	-	-	-	3.8
Total transactions with equity shareholders	(10.1)	3.4	10.5	(1,791.0)	-	-	(1,787.2)
<b>At 31 March 2022</b>	<b>161.7</b>	<b>235.5</b>	<b>154.7</b>	<b>722.6</b>	<b>0.1</b>	<b>-</b>	<b>1,274.6</b>

The notes on pages 196 to 249 form part of these financial statements.

## Statements of changes in equity (continued)

For the year ended 31 March 2022

	Share capital (note 33) £m	Share premium account (note 34) £m	Capital redemption reserve (note 35) £m	Retained earnings and other reserves (note 36) £m	Perpetual capital securities (note 37) £m	Total equity £m
<b>Company</b>						
At 31 March 2020	171.3	227.0	144.2	1,304.1	296.7	2,143.3
Profit for the year (note 10)	–	–	–	1,312.3	–	1,312.3
Other comprehensive loss for the year	–	–	–	(17.8)	–	(17.8)
Total comprehensive income for the year	–	–	–	1,294.5	–	1,294.5
<i>Transactions with equity shareholders:</i>						
Dividends paid	–	–	–	(184.3)	–	(184.3)
Redemption of perpetual capital securities	–	–	–	(3.3)	(296.7)	(300.0)
Adjustment in respect of share-based payments (net of tax)	–	–	–	1.4	–	1.4
Charge in respect of share options vesting	–	–	–	(2.2)	–	(2.2)
Deferred tax recognised directly in equity	–	–	–	0.6	–	0.6
Proceeds from shares issued under the Sharesave Scheme	0.5	5.1	–	–	–	5.6
Total transactions with equity shareholders	0.5	5.1	–	(187.8)	(296.7)	(478.9)
At 31 March 2021	171.8	232.1	144.2	2,410.8	–	2,958.9
Profit for the year (note 10)	–	–	–	74.5	–	74.5
Other comprehensive income for the year	–	–	–	(2.5)	–	(2.5)
Total comprehensive income for the year	–	–	–	72.0	–	72.0
<i>Transactions with equity shareholders:</i>						
Dividends paid	–	–	–	(1,590.3)	–	(1,590.3)
Shares purchased for cancellation (including related expenses)	–	–	–	(201.7)	–	(201.7)
Shares cancelled (note 33)	(10.5)	–	10.5	–	–	–
Adjustment in respect of share-based payments (net of tax)	–	–	–	0.9	–	0.9
Charge in respect of share options vesting	–	–	–	(2.6)	–	(2.6)
Deferred tax recognised directly in equity	–	–	–	–	–	–
Proceeds from shares issued under the Sharesave Scheme	0.4	3.4	–	–	–	3.8
Total transactions with equity shareholders	(10.1)	3.4	10.5	(1,793.7)	–	(1,789.9)
<b>At 31 March 2022</b>	<b>161.7</b>	<b>235.5</b>	<b>154.7</b>	<b>689.1</b>	<b>–</b>	<b>1,241.0</b>

The notes on pages 196 to 249 form part of these financial statements.

# Cash flow statements

For the year ended 31 March 2022

	Notes	Group		Company	
		2022 £m	2021 £m	2022 £m	2021 £m
<b>Cash flows from operating activities</b>					
Cash generated/(outflow) from operations	38	<b>334.2</b>	298.1	<b>(29.9)</b>	(69.4)
Interest paid	38	<b>(74.6)</b>	(80.2)	<b>(6.0)</b>	(23.1)
Tax paid		<b>(7.3)</b>	(7.4)	<b>(6.2)</b>	(1.7)
Net cash generated/(outflow) from operating activities		<b>252.3</b>	210.5	<b>(42.1)</b>	(94.2)
<b>Cash flows from investing activities</b>					
Interest received		<b>2.6</b>	4.3	<b>2.2</b>	8.1
Dividends received		–	–	<b>109.6</b>	43.5
Loan repayments received from joint ventures		–	4.0	–	–
Movement of restricted deposits		<b>89.1</b>	(23.6)	–	–
Purchase of property, plant and equipment		<b>(225.6)</b>	(190.1)	–	–
Acquisition of subsidiaries including acquisition costs, net of cash acquired	20, 44	<b>(421.2)</b>	–	<b>(434.0)</b>	–
Proceeds on disposal of subsidiaries, net of cash disposed at Group level and transaction costs		<b>9.2</b>	3,628.5	<b>9.2</b>	3,690.2
Purchase of intangible assets		<b>(3.4)</b>	(0.2)	–	–
Proceeds from sale of property, plant and equipment		<b>1.4</b>	0.4	–	–
Investment in subsidiary undertakings	20	–	–	<b>(45.0)</b>	(1.2)
Net cash (used in)/received from investing activities		<b>(547.9)</b>	3,423.3	<b>(358.0)</b>	3,740.6
<b>Cash flows from financing activities</b>					
Proceeds from issuance of ordinary shares		<b>3.8</b>	5.6	<b>3.7</b>	5.6
Purchase of ordinary shares by the Pennon Employee Share Trust		<b>(1.2)</b>	(1.2)	–	–
Proceeds from new borrowing		<b>61.0</b>	330.0	–	200.0
Repayment of borrowings		<b>(49.4)</b>	(1,265.4)	<b>(0.5)</b>	(1,231.4)
Cash inflows from lease financing arrangements		<b>15.0</b>	15.0	–	–
Lease principal repayments (including recoverable VAT paid)		<b>(258.9)</b>	(28.4)	–	–
Dividends paid		<b>(1,590.3)</b>	(184.3)	<b>(1,590.3)</b>	(184.3)
Repurchase of own shares and associated fees		<b>(201.7)</b>	–	<b>(201.7)</b>	–
Perpetual capital securities periodic return	37	–	(8.6)	–	(8.6)
Redemption of perpetual capital securities		–	(300.0)	–	(300.0)
Net cash used in financing activities		<b>(2,021.7)</b>	(1,437.3)	<b>(1,788.8)</b>	(1,518.7)
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(2,317.3)</b>	2,196.5	<b>(2,188.9)</b>	2,127.7
Cash and cash equivalents at beginning of the year	25	<b>2,668.5</b>	472.0	<b>2,495.6</b>	367.9
<b>Cash and cash equivalents at end of the year</b>	25	<b>351.2</b>	2,668.5	<b>306.7</b>	2,495.6

The cash flow statement above includes the entire Group, including cash flows relating to the discontinued Viridor business. Disaggregated information relating to the Viridor business is provided in note 45.

The notes on pages 196 to 249 form part of these financial statements.



# Notes to the financial statements

## 1. General information

Pennon Group plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 257. Pennon Group's business is operated through three principal subsidiaries. South West Water Limited, providing water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire and Wiltshire. Pennon Group 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.

On 2 June 2021, the Company approved the acquisition of the Bristol Water Holdings UK Limited ('Bristol Water'), which was completed on 3 June 2021. Bristol Water comprises Bristol Water plc, a regulated water only company serving a population of approximately 1.2 million in the Bristol region, and a 30% share in Water 2 Business Limited, a joint venture with Wessex Water. The acquisition was cleared by the Competition and Markets Authority on 7 March 2022, and the Bristol Water is consolidated in Pennon's accounts with effect from midnight on 2 June 2021.

On 8 July 2020, Pennon completed the sale of Viridor Limited, a recycling, energy recovery and waste management business. In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the net results for Viridor were presented within discontinued operations in the Group income statement for 2021. The effect of the disposal on the financial position of the Group is detailed in note 45.

## 2. Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented. Accounting policies applicable only to discontinued operations are disclosed in the annual report for the year ended 31 March 2021.

### (a) Basis of preparation

These financial statements have been prepared on the historical cost accounting basis (except for fair value items, principally acquisitions, transfers of assets from customers and certain financial instruments as described in accounting policy notes (b), (u) and (n) respectively) and in accordance with UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. The Company has taken advantage of section 408 of the Companies Act 2006 not to present the parent company profit and loss account.

A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

The going concern basis has been adopted in preparing these financial statements. At 31 March 2022 the Group has access to undrawn committed funds and cash and cash deposits totalling £816 million (£648 million excluding restricted cash). Having considered the Group's strong funding position and prudent financial projections, which take into account a range of possible impacts, as described in this report, the Directors have a reasonable expectation that the Group has adequate resource to continue in operational existence for the period which covers the period from approval of the 2022 financial statements through to 30 June 2023 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 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.

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2021 did not have a material impact on the net assets or results of the Group.

New standards or interpretations due to be adopted from 1 April 2022 are not expected to have a material impact on the Group's net assets or results. Existing borrowing covenants are not impacted by changes in accounting standards.

### (b) Basis of consolidation

The Group financial statements include the results of Pennon Group plc and its subsidiaries and joint ventures.

The results of subsidiaries and joint ventures are included from the date of acquisition or incorporation and excluded from the date of disposal. The results of subsidiaries are consolidated where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of joint ventures are accounted for on an equity basis.

Intra-group trading, loan balances and transactions are eliminated on consolidation.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business, together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets, is recorded as goodwill.

### (c) Revenue recognition

Group revenue is recognised following delivery of performance obligations and an assessment of when control over the product or service is transferred to the customer. Revenue is only recognised when collection of consideration is highly probable.

Revenue is recognised either when the performance obligation in the contract has been performed (point in time recognition) or 'over time' as the performance obligations to the customer are satisfied. For each obligation satisfied over time, the Group applies a revenue recognition method that accurately reflects performance in transferring control of the services to the customer.

## 2. Principal accounting policies (continued)

### (c) Revenue recognition (continued)

Where a contract with a customer includes more than one performance obligation, revenue is allocated to each obligation in proportion to a fair value assessment of the total contract sales value split across the services provided.

At the inception of a contract the total transaction price is estimated, being the fair value to which the Group expects to be entitled under the contract, including any variable consideration. Variable consideration is based on the most likely outcome of the performance obligations. Revenue excludes value added tax, trade discounts and revenue arising from transactions between Group companies.

#### Water (domestic and non-household retail)

For most of the services provided to domestic customers, contract terms are implied through statute and regulation in the absence of formal, written contracts. South West Water and Bristol Water have a duty under legislation to provide domestic customers with services regardless of payment and is not permitted to disconnect domestic customers for non-payment of bills. Charges are set via the periodic review price-setting process, regulated by Ofwat.

In respect of ongoing, continuous services to customers, such as the provision of drinking water and wastewater services, revenue is recognised over time in line with customer usage of those services.

Customers with an unmeasured supply are billed at the start of the year for the full amount of the annual charge but typically take advantage of a choice of payment arrangements to pay by regular instalments.

Customers with a metered supply are sent up to four bills per year, based either on actual meter readings or estimated usage. For these customers, revenue includes an estimation of the amount of unbilled usage at the period end. Payment options for domestic customers include an annual meter payment plan where customers agree to pay a fixed amount per month which is adjusted to reflect actual consumption at the end of the year.

A range of regulated services is offered to property developers and owners who require connection to the water and sewerage networks or need the networks to be extended or altered. Typically, these customers pay an estimate of the charges in advance as a deposit, which is treated as a contract liability and are billed or refunded the difference between the estimate and actual costs on completion of the work.

Where the performance obligation relates solely to a connection to the network, revenue is recognised at the point of connection when the customer is deemed to obtain control.

Where assets are constructed or provided by the Group or assets transferred to the Group, it is considered that there is an explicit or implied performance obligation to provide an ongoing water and/or wastewater service, with the result that revenue is recognised over a time no longer than the economic life of assets provided by or transferred to the Group.

Pennon Water Services provides specialist retail water and wastewater services to business customers. It raises bills and recognises revenue in accordance with its contracts with customers and in line with the limits established for the non-household periodic price-setting process where applicable.

## 2. Principal accounting policies (continued)

### Contract assets and liabilities

A trade receivable is recognised when the Group has an unconditional right to receive consideration in exchange for performance obligations already fulfilled. A contract asset is recognised when the Group has fulfilled some of its performance obligations but has not yet obtained an unconditional right to receive consideration. The amounts for contract assets, when applicable, are disclosed within note 19 (Other non-current assets) and note 22 (Trade and other receivables) as appropriate.

A contract liability is recognised when consideration is received in advance of the Group performing its performance obligations to customers, including, when appropriate, transfers of assets from customers (per paragraph (u) below). The value of contract liabilities is disclosed within note 26 (Trade and other payables) and note 29 (Other non-current liabilities) as appropriate.

### (d) Segmental reporting

Each of the Group's business segments provides services which are subject to risks and returns which are different from those of the other business segments. The Group's internal organisation and management structure and its system of internal financial reporting are based primarily on business segments.

The Group is organised into three operating segments. The water segment comprises the regulated water and wastewater services undertaken by South West Water and the regulated water services undertaken by Bristol Water. The aggregation of these two operating segments reflects, in the opinion of management, the similar economic characteristics, services offered, classes of customers and the regulatory environment that these businesses share. The non-household retail business reflects the services provided by Pennon Water Services. Other segments, including Pennon Group plc, are not reportable segments as they are not reported to Chief Decision makers. Segmental revenue and results include transactions between businesses. Inter-segmental transactions are eliminated on consolidation.

### (e) Goodwill

Goodwill arising on consolidation from the acquisition of subsidiary undertakings represents the excess of the purchase consideration over the fair value of net assets acquired, less any subsequent impairment charges.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs) or group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (i).

When a subsidiary undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of goodwill.

### (f) Other intangible assets

Other intangible assets include assets acquired in business combination and are capitalised at fair value at the date of acquisition. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful lives, with the expense charged to the income statement through operating costs.

## 2. Principal accounting policies (continued)

### (g) Property, plant and equipment

#### i) Infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS, and subsequent additions are recorded at cost less accumulated depreciation and impairment charges. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the Group. The cost of day to day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their useful economic lives, and are principally:

<b>Dams and impounding reservoirs</b>	200 years
<b>Water mains</b>	40 to 120 years
<b>Sewers</b>	40 to 120 years

Assets in the course of construction are not depreciated until commissioned.

#### ii) Other assets (being property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly to their residual value over their estimated economic lives, and are principally:

<b>Land and buildings – freehold buildings</b>	30 to 60 years
<b>Land and buildings – leasehold buildings</b>	Over the estimated economic lives or the lease period, whichever is the shorter
<b>Operational properties</b>	40 to 100 years
<b>Fixed plant</b>	20 to 40 years
<b>Vehicles, mobile plant and computers</b>	3 to 10 years

Assets in the course of construction are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Group. Borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. Assets transferred from customers are recognised at fair value as set out in accounting policy (u).

The assets' residual values and useful lives are reviewed annually.

Gains and losses on disposal are determined by comparing sale proceeds with carrying amounts. These are included in the income statement.

### (h) Leased assets

All are accounted for by recognising a right-of-use asset and a lease liability except for:

- Low value assets; and
- Leases with a duration of 12 months or less.

Contracts are initially measured at the present value of contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. After initial measurement, lease payments are allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The interest element of cash payments in respect of these leases is included within interest payments in determining net cash generated from operating activities. The capital element of the cash payment is included within cash flows from financing activities. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or the remaining economic life of the asset if shorter. When the Group revisits its estimate of lease term (because, for example, it reassesses an extension option), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which is discounted at the same discount rate that applied on lease commencement. In these circumstances an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

## 2. Principal accounting policies (continued)

### (h) Leased assets (continued)

Assets are included as property, plant and equipment as right-of-use assets at the present value of the minimum lease payments and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter. The corresponding liability is recorded as borrowings. The interest element of the rental costs is charged against profits using the actuarial method over the period of the lease.

The Group regularly uses sale and leaseback transactions to finance its capital programme. A sale and leaseback transaction is where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. If the sale criteria are met a lease liability is recognised, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the right retained. Any gain or loss arising relates to the rights transferred to the buyer. If the criteria for a sale under IFRS 15 have not been met the asset is not derecognised and no sale is recorded.

### (i) Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Assets subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Value-in-use represents the present value of projected future cash flows expected to be derived from a CGU, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the CGU. Impairments are charged to the income statement in the year in which they arise.

Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Where a previously impaired asset or CGU's recoverable amount is in excess of its carrying amount, previous impairments are reversed to the carrying value that would have expected to be recognised had the original impairment not occurred.

### (j) Investment in subsidiary undertakings

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid. Subsequently investments are reviewed for impairment on an individual basis annually or if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

### (k) Investment in joint ventures

Joint ventures are entities over which the Group exercises joint control. Investments in joint ventures are accounted for using the equity method of accounting. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture at the date of acquisition is recognised as goodwill and is included in the carrying value of the investment in the joint venture.

The carrying value of the Group's investment is adjusted for the Group's share of post-acquisition profits or losses recognised in the income statement and statement of comprehensive income. Losses of a joint venture in excess of the Group's interest are not recognised unless the Group has a legal or constructive obligation to fund those losses.

### (l) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress includes raw materials and the cost of bringing stocks to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price less cost to sell. The costs of items of inventory are determined using weighted average costs.

### (m) Cash and cash deposits

Cash and cash deposits comprise cash in hand and short-term deposits held at banks. Bank overdrafts are shown within current borrowings.

### (n) Financial instruments

Financial instruments are recognised and measured in accordance with IFRS 9. The Group classifies its financial instruments in the following categories:

#### i) Debt instruments at amortised cost

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition, interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through amortisation.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for expected credit losses (ECLs). In accordance with IFRS 9, each Group entity performs an impairment analysis at each reporting date to measure the ECLs. Each entity does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Each subsidiary has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.



## 2. Principal accounting policies (continued)

### (n) Financial instruments (continued)

#### iii) Trade payables

Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### iv) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, principally interest rate swaps and cross-currency interest rate swaps to hedge risks associated with interest rate and exchange rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value for the reported balance sheet.

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge); or
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

The gain or loss on remeasurement is recognised in the income statement except for cash flow hedges which meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are subsequently recognised in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at the end of each reporting period to ensure that the hedge remains highly effective.

The full fair value of a hedging derivative is apportioned on a straight-line basis between non-current and current assets and liabilities based on the remaining maturity of the hedging derivative.

Derivative financial instruments deemed held for trading, which are not subject to hedge accounting, are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

The Group uses cross-currency swaps for some of its foreign currency denominated private placement borrowings. The swaps either have the effect of (i) converting variable rate foreign currency borrowings into fixed rate sterling borrowings, (ii) converting fixed rate foreign currency borrowings into fixed rate sterling borrowings, or (iii) converting fixed rate foreign currency borrowings into floating rate sterling borrowings.

In January 2020, the IASB's interest rate benchmark reform amendments to IFRS 7 'Financial Instrument (FI) disclosures' and to IFRS 9 'FI recognition and measurement' (the 'Phase 1 amendments') were endorsed by the EU. The amendments modified hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are affected when current interest rate benchmarks are amended due to the ongoing interest rate benchmark reforms. The Group chose to early adopt the Phase 1 amendments, which were mandatory for annual reporting periods commencing after 1 January 2020, for its reporting period ended 31 March 2020.

In August 2020, Phase 2 of interest rate benchmark reform was published, effective from 1 January 2021. The amendments address issues that arise from the implementation of the reforms including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 Financial Instruments: Recognition and Measurement and IFRS 9: Financial Instruments hedge accounting requirements to hedging relationships directly affected by benchmark reform.

During the year ended 31 March 2022, the Group completed its interest rate benchmark reform transition project which assessed and implemented changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The Group's risk exposure that is directly affected by the interest rate benchmark reform is its floating rate debt, linked to the UK's benchmark rate GBP London Inter-Bank Offered Rate (GBP LIBOR) and a number of its foreign exchange contracts. The floating rate debt is fixed through cash flow hedges using interest rate swaps. Cross currency interest rate swaps are also used to hedge foreign currency risk within the Group's financial instruments. The Group has made amendments to the contractual terms of LIBOR-referenced floating-rate debt, swaps and foreign exchange contracts, and updated the relevant hedge designations. During 2021/22 the Group completed the conversion of all its LIBOR based debt instruments to the Sterling Overnight Index Average (SONIA).

## 2. Principal accounting policies (continued)

### (n) Financial instruments (continued)

#### v) Financial instruments at fair value through profit

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on a hedged item through a fair value hedging relationship. The fair values of these financial instruments are initially recognised on the date the hedging relationship is entered into and thereafter remeasured at each subsequent balance sheet date. The gain or loss on remeasurement for the period is recognised in the income statement.

#### vi) Receivables due from subsidiary undertakings

Amounts owed by subsidiaries are classified and recorded at amortised cost and reduced by allowances for ECLs. Estimated future credit losses are first recorded on initial recognition of a receivable and are based on estimated probability of default. Individual balances are written off when management deems them not to be collectible.

### (o) Taxation including deferred tax

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case, the tax is also recognised in the statement of comprehensive income or directly in equity as appropriate.

Current tax is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the position is uncertain. The Group includes a number of companies, including the parent company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payments for group relief are included within the current tax disclosures.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

### (p) Provisions

Provisions are made where there is a present legal or constructive obligation as a result of a past event and it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made. Where the effect of the time value of money is material the current amount of a provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as notional interest within finance costs.

### (q) Share capital and treasury shares

Ordinary shares are classified as equity.

Where the Company purchases the Company's equity share capital (treasury shares) the consideration paid, including any directly attributable costs, is deducted from equity until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable transaction costs, is included in equity.

The Group balance sheet includes the shares held by the Pennon Group plc Employee Benefit Trust, relating to employee share-based payments, which have not vested at the balance sheet date. These are shown as a deduction from shareholders' equity until such time as they vest.

#### *Share buy-back scheme and tender offer*

Shares purchased for cancellation are deducted from retained earnings at the total consideration paid or payable, including any related expenses. Where the Group has an irrevocable commitment to purchase shares for cancellation at the balance sheet date, a liability is recognised in other creditors based on the share price at the balance sheet date and retained earnings reduced by the amount of the liability.

Shares purchased and held by the Group (treasury shares) are deducted from the treasury reserve at the total consideration paid or payable. On cancellation of treasury shares, the cost is transferred from the treasury reserve to retained earnings.

When treasury shares are issued at below cost, an amount representing the difference between the cost of those shares and issue proceeds is transferred to retained earnings. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

### (r) Dividend distributions

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid; final dividends when approved by shareholders at the Annual General Meeting.

## 2. Principal accounting policies (continued)

### (s) Employee benefits

#### i) Retirement benefit obligations

The Group operates defined benefit and defined contribution pension schemes.

##### **Defined benefit pension schemes**

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the year less the fair value of plan assets. If the value of a plan's assets exceeds the present value of its obligations, the resulting surplus is only recognised if the Group has an unconditional right to that surplus.

The defined benefit obligation is calculated by independent actuaries who advise on the selection of Directors' best estimates of assumptions, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation. The increase in liabilities of the Group's defined benefit pension schemes, expected to arise from employee service in the year, is charged against operating profit.

Changes in benefits granted by the employer are recognised immediately as a past service cost in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

##### **Defined contribution scheme**

Costs of the defined contribution pension scheme are charged to the income statement in the year in which they arise. The Group has no further payment obligations once the contributions have been paid.

#### ii) Share-based payment

The Group operates a number of equity-settled, share-based payment plans for employees. The fair value of the employee services required in exchange for the grant is recognised as an expense over the vesting period of the grant.

Fair values are calculated using an appropriate pricing model. Non-market-based vesting conditions are adjusted for assumptions as to the number of shares which are expected to vest.

### (t) Fair values

The fair value of interest rate swaps is based on the market price to transfer the asset or liability at the balance sheet date in an ordinary transaction between market participants. The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of non-current bank loans and other loans, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

### (u) Transfers of assets from customers

Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised as a contract liability on the balance sheet. The contract liability reduces, and revenue is recognised in the income statement, as performance obligations are satisfied. The period over which the credit is recognised depends upon the nature of the service provided, as determined by the agreement with the customer. Where the service provided is solely a connection to the network, the credit is recognised at the point of connection. If the agreement does not specify a period, revenue is recognised over a period no longer than the economic life of the transferred asset used to provide the ongoing service.

The fair value of assets on transfer from customers is determined using a cost valuation approach allowing for depreciation.

### (v) Foreign exchange

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the closing balance sheet rate. The resulting gain or loss is recognised in the income statement.

### (w) Non-underlying items

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.

### (x) Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment are deducted from the cost of those assets. Grants and contributions receivable in respect of expenses charged against profits in the year have been included in the income statement.

### 3. Financial risk management

#### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: liquidity risk; market risk (interest rate and foreign currency risk); and credit risk.

The Group's treasury function seeks to ensure that sufficient funding is available to meet foreseeable needs and to maintain reasonable headroom for contingencies and manages inflation and interest rate risk.

The principal financial risks faced by the Group relate to liquidity, interest rate and credit counterparty risk.

These risks and treasury operations are managed by the Group Finance Director in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance, manage risk, optimise the use of surplus funds and manage overall interest rate performance. The Group does not engage in speculative activity.

#### i) Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities which are designed to ensure the Group has sufficient available funds for operations and planned expansions equivalent to at least one year's forecast requirements at all times. Details of undrawn committed facilities and short-term facilities are provided in note 28.

Refinancing risk is managed under a Group policy that requires that no more than 20% of Group net borrowings should mature in any financial year.

The Group and water business have entered into covenants with lenders. While terms vary, these typically provide for limits on gearing (primarily based on the water business's regulatory capital value and unregulated EBITDA) and interest cover. Existing covenants are not impacted by subsequent changes to accounting standards.

Contractual undiscounted cash flows, including interest payments, at the balance sheet date were:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due over 5 years £m	Total £m
<b>Group</b>					
31 March 2022					
<b>Non-derivative financial liabilities</b>					
Borrowings excluding lease liabilities	<b>70.0</b>	<b>101.4</b>	<b>221.0</b>	<b>1,596.9</b>	<b>1,989.3</b>
Interest payments on borrowings	<b>56.8</b>	<b>57.1</b>	<b>89.4</b>	<b>492.4</b>	<b>695.7</b>
Lease liabilities including interest	<b>189.4</b>	<b>46.4</b>	<b>227.7</b>	<b>1,157.7</b>	<b>1,621.2</b>
Trade and other payables	<b>134.4</b>	-	-	-	<b>134.4</b>
<b>Derivative financial liabilities</b>					
Derivative contracts – net payments/(receipts)	<b>(3.6)</b>	<b>(6.5)</b>	<b>(7.9)</b>	<b>(2.2)</b>	<b>(20.2)</b>
31 March 2021					
<b>Non-derivative financial liabilities</b>					
Borrowings excluding lease liabilities	40.1	70.0	194.0	1,111.7	1,415.8
Interest payments on borrowings	32.5	33.6	103.4	600.9	770.4
Lease liabilities including interest	55.3	37.8	267.3	1,543.0	1,903.4
Trade and other payables	93.3	-	-	-	93.3
<b>Derivative financial liabilities</b>					
Derivative contracts – net payments/(receipts)	9.3	6.7	3.9	(2.3)	17.6
<b>Company</b>					
31 March 2022					
<b>Non-derivative financial liabilities</b>					
Borrowings (including intercompany borrowings)	<b>312.8</b>	-	<b>75.1</b>	<b>79.4</b>	<b>467.3</b>
Interest payments on borrowings	<b>6.5</b>	<b>6.6</b>	<b>13.8</b>	<b>2.5</b>	<b>29.4</b>
Trade and other payables	<b>5.7</b>	-	-	-	<b>5.7</b>
31 March 2021					
<b>Non-derivative financial liabilities</b>					
Borrowings (including intercompany borrowings)	283.4	30.0	58.2	96.2	467.8
Interest payments on borrowings	5.8	5.3	14.0	5.2	30.3
Trade and other payables	10.2	-	-	-	10.2

### 3. Financial risk management (continued)

#### (a) Financial risk factors (continued)

##### ii) Market risk

The treasury policy states at least 60% of the Group's debt should be fixed, this is managed through fixed rate debt and the use of derivatives to ensure these levels are met. Of the Group's net borrowings a proportion is RPI index-linked. The interest rate for index-linked debt is based mainly upon an RPI measure; due to the change in the Ofwat methodology the Group has considered other index linked borrowings which are also used in determining the amount of revenue from customers in South West Water and Bristol Water. The Group uses a combination of fixed rate, index-linked borrowings and fixed rate interest swaps as cash flow hedges of future variable interest payments to achieve this policy. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not therefore an exposure for the Group. These instruments are analysed in note 23.

During 2021/22 the Group completed the conversion of all its LIBOR based debt instruments to SONIA. Below are the details of the hedging instruments and hedged items which are now based on SONIA rather than LIBOR rates, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing	Nominal £m	Hedged item
<b>Fair value hedges</b>	Pay compounded SONIA semi-annually, receive sterling fixed cross currency swap	2026	16	Fixed-rate Euro denominated financial instrument of the same maturity and nominal as the swap
<b>Cash flow hedges</b>	Receive compounded SONIA quarterly, pay GBP fixed interest rate swap	2024-2030	618	UK benchmark rate (compounded SONIA) issued financial instruments of the same nominals as the swaps
	Receive compounded SONIA semi-annually, pay GBP fixed interest rate swap	2025	100	UK benchmark rate (compounded SONIA) issued financial instruments of the same nominals as the swaps

The Group has accounted for the conversion from LIBOR to SONIA interest rates in accordance with Phases 1 and 2 of the amendments to IFRS 9. Further details are disclosed in note 2 (n) iv). The Group considers that the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed has ended as at 31 March 2022.

The Group has no significant interest-bearing assets upon which the net return fluctuates from market risk. Deposit interest receivable is expected to fluctuate in line with interest payable on floating rate borrowings. Consequently, the Group's income and cash generated from operations (note 38) are independent of changes in market interest rates.

For 2022 if interest rates on variable net borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £4.3 million (2021 £11.0 million), for the equity sensitivity fair value, with derivative impacts excluded.

For 2022 if the indices on index-linked borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £6.5 million (2021 £4.0 million).

Foreign currency risk occurs at transactional and translation level from borrowings and transactions in foreign currencies. These risks are managed through forward contracts, which provide certainty over foreign currency risk.

##### iii) Credit risk

Credit counterparty risk arises from cash and cash deposits, derivative financial instruments and exposure to customers, including outstanding receivables. Further information on the credit risk relating to trade and other receivables is given in note 22.

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. The Board has agreed a policy for managing such risk which is controlled through credit limits, counterparty approvals, and rigorous monitoring procedures.

The Group has no other significant concentration of credit risk. The Group's surplus funds are managed by the Group's treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet Board approved minimum criteria based on their short-term credit ratings and therefore be of good credit quality.



**3. Financial risk management** (continued)**(b) Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

The Group's policy is to have a minimum of 12 months pre-funding of projected capital expenditure. At 31 March 2022 the Group had cash and facilities, including restricted funds, of £816 million, meeting this objective.

In order to maintain or adjust the capital structure, the Group seeks to maintain a balance of returns to shareholders through dividends and an appropriate capital structure of debt and equity for each business segment and the Group.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings are analysed in note 39 and calculated as total borrowings less cash and cash deposits. Total capital is calculated as total shareholders' equity plus net borrowings. The Group currently manages a net borrowings position of £2,682.9 million.

The gearing ratios at the balance sheet date were:

	2022 £m	2021 £m
Net borrowings (note 39)	2,682.9	–
Total equity	1,276.6	2,984.8
Total capital	3,959.5	2,984.8
Gearing ratio	67.8%	0.0%

The water segment is also monitored on the basis of the ratio of its net borrowings to regulatory capital value. Ofwat's notional gearing target for the K7 (2020-25) regulatory period is set at 60%.

	Water business	
	2022 £m	2021 £m
Regulatory capital value	4,209.2	3,393.4
Net borrowings	2,710.5	2,273.6
Net borrowings/regulatory capital value	64.4%	67.0%

The Group has entered into covenants with lenders and, while terms vary, these typically provide for limits on gearing and interest cover. The Group has been in compliance with its covenants during the year.

**(c) Determination of fair values**

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial instruments are valued principally using level 2 measures as analysed in note 23.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying values, less expected credit losses, of trade receivables and payables are assumed to approximate to their fair values.

#### 4. Critical accounting judgements and estimates

The Group's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However, given the judgemental nature of such estimates, actual results could be different from the assumptions used.

##### Estimates

###### **Provision for doubtful debts**

The Group has a material level of exposure to collection of trade receivables. Provisions in respect of these balances are calculated with reference to historical credit loss experience, adjusted for forward-looking factors which by their nature are subject to uncertainty. Analysis of actual recovery compared with provisioning levels have not, to date, resulted in material variances.

Under its regular review procedures at the balance sheet date, the Group applies a simplified approach in calculating ECLs for trade receivables and contract assets. Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Each subsidiary has established a provision matrix that is informed by its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

In the year ended 31 March 2020 an additional assessment of ECLs was focused on the potential impact from the COVID-19 pandemic. The COVID-19 pandemic continues to impact on society and the economy around the world. Pressure on the UK economy continues from the COVID-19 pandemic with global commodity shortages pushing up prices leading to higher inflation which in turn impacts on the ability of households to pay their bills in what is being termed the 'cost of living crisis'. This additional pressure on households in the UK alongside the continued impacts of the pandemic are still being felt and as such the specific COVID-19 provision has now been incorporated into the main provision matrix calculation.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2022 the Group's current trade receivables were £296.2 million (2021 £253.2 million), against which £100.4 million (2021 £102.3 million) had been provided for ECLs (note 22).

###### **Retirement benefit obligations**

The Group operates defined benefit pension schemes for which actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The most recent triennial valuation of the main scheme was as at 31 March 2019, the outcome of which is summarised in note 30.

The pension cost and liabilities under IAS 19 are assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on CMI 2019 actuarial tables with an allowance for future longevity improvement. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in those assumptions and future funding obligations are set out in note 30.

##### Judgements

###### **Non-underlying items**

In establishing which items are disclosed separately as non-underlying, to enable a full understanding of the Group's financial performance, the Directors exercise their judgement in assessing the size, nature or incidence of specific items. See note 6 for further details.

###### **Other estimates**

Management assessed and resolved that the level of estimation for revenue recognition of accrued revenue relating to water and wastewater should not be considered critical as the estimates are largely calculated on a systematic basis and have not, to date, resulted in a material adjustment within the following 12-month period. However, management consider the total level of estimation of accrued revenue relating to water and wastewater to be material and highlight this as a material other estimate.

The acquisition of Bristol Water has been accounted for using the acquisition method under IFRS 3. The identifiable assets, liabilities and contingent liabilities are recognised at their fair value at date of acquisition (see note 44). The fair value of the net assets identified were determined with assistance from independent experts using professional valuation techniques appropriate to the individual category of asset or liability. Calculating the fair values of net assets, notably the fair values of property, plant and equipment given the nature of the infrastructure assets acquired, involves estimation and consequently the fair value exercise is recorded as an other accounting estimate. The depreciation charge is sensitive to the value of property, plant and equipment, a higher or lower fair value calculation would lead to a change in the depreciation charge in the period following acquisition. Both Bristol Water and South West Water operate in the same industry, therefore the companies have identical or similar transactions which do not require new significant judgements or estimates to be made by the Group.

The property, plant and equipment of the Group relates primarily to infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls) as well as other assets which include fixed plant and operational properties. The useful economic lives of these types of asset vary from 20 to 200 years. Asset lives are reviewed annually and amended where changes are made to assumptions relating to the expected life of the asset from judgement around usage and performance experience, technological advancement and other relevant factors. Overall assessments on the impact of climate change on long life assets have been completed and will be continuously updated for the latest available information. The most recent assessment of the impact on climate change, which includes the potential to mitigate adverse impacts, has not identified any specific impact on the useful economic lives of long life assets. Environmental factors and climate change form part of the planning process for new capital expenditure. The depreciation charge is sensitive to amendments of the useful economic lives of these assets, a significant change in the estimated life of these assets could have a material impact on depreciation, this is therefore noted as a material other estimate.

## 5. 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 Bristol Water. The non-household retail business reflects the services provided by Pennon Water Services.

Separate disclosures for Bristol Water Group on a stand-alone basis are also provided below as additional information.

The profit recognised on disposal of the Viridor business is provided in note 45.

Segment assets include goodwill and other intangible assets, property, plant and equipment, inventories, trade and other receivables and cash and cash deposits. 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, including additions from the Bristol Water acquisition since the date of acquisition.

	2022 £m	2021 £m
<b>Revenue</b>		
Water	<b>687.8</b>	563.0
Non-household retail	<b>195.3</b>	162.8
Other	<b>8.5</b>	5.6
Less intra-segment trading <sup>1</sup>	<b>(99.3)</b>	(86.8)
Total underlying revenue	<b>792.3</b>	644.6
Water non-underlying revenue (note 6)	-	(20.5)
	<b>792.3</b>	624.1
<b>Operating profit/(loss) before depreciation, amortisation and non-underlying items (Underlying EBITDA)</b>		
Water	<b>385.0</b>	340.6
Non-household retail	<b>3.4</b>	1.4
Other	<b>(4.5)</b>	(7.3)
	<b>383.9</b>	334.7
<b>Operating profit/(loss) before non-underlying items</b>		
Water	<b>244.0</b>	222.3
Non-household retail	<b>2.6</b>	0.7
Other	<b>(9.4)</b>	(7.7)
	<b>237.2</b>	215.3
<b>Profit/(loss) before tax and non-underlying items</b>		
Water	<b>146.0</b>	164.6
Non-household retail	<b>1.0</b>	(1.0)
Other	<b>(3.5)</b>	(6.6)
	<b>143.5</b>	157.0
<b>Profit/(loss) before tax</b>		
Water	<b>144.0</b>	140.6
Non-household retail	<b>1.0</b>	(1.0)
Other	<b>(17.3)</b>	(7.5)
	<b>127.7</b>	132.1

1. Intra-segment transactions between and to different segments are under normal market-based commercial terms and conditions. Intra-segment revenue of the other segment is at cost.

## 5. Segmental information (continued)

	Water £m	Non- household retail £m	Other £m	Eliminations £m	Group £m
<b>Balance sheet</b>					
<b>31 March 2022</b>					
Assets (excluding investments in joint ventures)	<b>4,872.8</b>	<b>57.1</b>	<b>776.3</b>	<b>(384.1)</b>	<b>5,322.1</b>
Investments in joint ventures	<b>9.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9.6</b>
Total assets	<b>4,882.4</b>	<b>57.1</b>	<b>776.3</b>	<b>(384.1)</b>	<b>5,331.7</b>
Liabilities	<b>(3,810.4)</b>	<b>(54.8)</b>	<b>(576.0)</b>	<b>384.1</b>	<b>(4,057.1)</b>
<b>Net assets</b>	<b>1,072.0</b>	<b>2.3</b>	<b>200.3</b>	<b>-</b>	<b>1,274.6</b>
31 March 2021					
Assets (excluding investments in joint ventures)	3,861.7	53.1	2,893.2	(388.0)	6,420.0
Investments in joint ventures	-	-	-	-	-
Total assets	3,861.7	53.1	2,893.2	(388.0)	6,420.0
Liabilities	(3,019.3)	(51.7)	(752.2)	388.0	(3,435.2)
Net assets	842.4	1.4	2,141.0	-	2,984.8

Segment liabilities of the water segment comprise of operating liabilities and borrowings. The other segment includes Company only assets and liabilities as well as Group taxation liabilities and should be considered in conjunction with the eliminations column.

	Notes	Water £m	Non-household retail £m	Other and eliminations £m	Group £m
<b>Other information</b>					
<b>31 March 2022</b>					
Amortisation of other intangible assets	<b>7</b>	<b>3.2</b>	<b>0.2</b>	<b>-</b>	<b>3.4</b>
Capital expenditure	<b>17</b>	<b>237.3</b>	<b>-</b>	<b>-</b>	<b>237.3</b>
Depreciation	<b>7</b>	<b>137.8</b>	<b>0.7</b>	<b>4.8</b>	<b>143.3</b>
Finance income	<b>8</b>	<b>3.9</b>	<b>-</b>	<b>(1.3)</b>	<b>2.6</b>
Finance costs (before non-underlying items)	<b>8</b>	<b>101.8</b>	<b>1.6</b>	<b>(7.1)</b>	<b>96.3</b>
31 March 2021					
Amortisation of other intangible assets	7	-	0.2	-	0.2
Capital expenditure	17	168.3	-	-	168.3
Depreciation	7	118.7	-	0.5	119.2
Finance income	8	0.8	-	3.4	4.2
Finance costs (before non-underlying items)	8	58.5	1.7	2.3	62.5

Finance income and costs above reflect the segment in which the amounts arise and exclude intercompany transactions.

**5. 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:

	Water £m	Non-household retail £m	Other £m	Total £m
<b>Year ended 31 March 2022</b>				
Segment revenue – underlying	<b>687.8</b>	<b>195.3</b>	<b>8.5</b>	<b>891.6</b>
Inter-segment revenue	<b>(90.9)</b>	<b>(0.2)</b>	<b>(8.2)</b>	<b>(99.3)</b>
Revenue from external customers	<b>596.9</b>	<b>195.1</b>	<b>0.3</b>	<b>792.3</b>
Significant service lines				
Water	<b>596.9</b>	–	–	<b>596.9</b>
Non-household retail	–	<b>195.1</b>	–	<b>195.1</b>
Other	–	–	<b>0.3</b>	<b>0.3</b>
	<b>596.9</b>	<b>195.1</b>	<b>0.3</b>	<b>792.3</b>
<b>Year ended 31 March 2021</b>				
Segment revenue – underlying	563.0	162.8	5.6	731.4
Segment revenue – non-underlying (note 6)	(20.5)	–	–	(20.5)
Inter-segment revenue	(81.6)	(0.4)	(4.8)	(86.8)
Revenue from external customers	460.9	162.4	0.8	624.1
Significant service lines				
Water	460.9	–	–	460.9
Non-household retail	–	162.4	–	162.4
Other	–	–	0.8	0.8
	460.9	162.4	0.8	624.1

The Group's country of domicile is the United Kingdom and this is the country in which it generates the majority of its revenue. The Group's non-current assets are all located in the United Kingdom.

Amounts included in the Water segment in respect of the Bristol Water Group:

	£m
<b>Revenues from Bristol Water Group</b>	
Revenue	<b>104.4</b>
Inter-segment revenue	<b>(0.5)</b>
Revenue from external customers	<b>103.9</b>
<b>Profit from Bristol Water Group</b>	
Operating profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)	<b>53.3</b>
Operating profit before non-underlying item	<b>29.3</b>
Profit before tax before non-underlying items	<b>9.2</b>
Profit before tax	<b>9.2</b>



## 6. Non-underlying items

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. The presentation of results is consistent with internal performance monitoring.

	Notes	2022 £m	2021 £m
<b>Revenue</b>			
WaterShare+ <sup>1</sup>		-	(20.5)
<b>Operating costs</b>			
Bristol Water acquisition costs <sup>2</sup>		(8.9)	-
CMA merger review and integration costs <sup>2</sup>		(6.9)	-
Pension curtailment charge <sup>3</sup>		-	(4.4)
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>(15.8)</b>	<b>(24.9)</b>
Net tax credit arising on non-underlying items above	9	1.3	4.8
Deferred tax change in rate <sup>4</sup>	9	(99.5)	-
<b>Net non-underlying charge</b>		<b>(114.0)</b>	<b>(20.1)</b>

- In September 2020, the Group offered its WaterShare+ scheme to its customers whereby customers could choose to accept a credit on their bill or take shares in Pennon Group plc. The value of the rebate equated to £20 per customer and the total value of £20.5 million was recognised in full as a non-underlying reduction to revenue in the year ended 31 March 2021. £19.3 million of the WaterShare+ credits were taken as credits on customers' bills, with the balance of £1.2 million being taken as shares in Pennon Group Plc. This item was non-underlying in nature given its individual size and its non-recurring nature.
- The Group incurred expenses of £15.8 million in the year ended 31 March 2022. £8.9 million of costs in connection with the acquisition of Bristol Water and £6.9 million on the resulting merger review by the Competition and Markets Authority and other integration costs, £1.7 million of which were employment costs.
- In the year ended 31 March 2021 the Group completed its employee consultation to modernise its ongoing pension arrangements. The outcome of the consultation resulted in a decision to close Pennon's principal defined benefit pension scheme to future accrual with effect from 30 June 2021. This resulted in a curtailment charge of £4.4 million in 2021.
- Following the Chancellor's Budget on 4 March 2021 and subsequent substantial enactment of the Finance Act on 24 May 2021, the UK's main rate of corporation tax will increase to 25% from 1 April 2023. All deferred tax assets and liabilities were therefore reviewed and where they crystallise after 1 April 2023 recalculated to crystallise at 25%, hence giving a non-underlying deferred tax charge of £99.5 million in 2022. This charge is considered non-underlying due to it arising from a material legislative change and its treatment is consistent with that applied in relation to previous changes in corporation tax rates.

## 7. Operating costs

	Notes	2022 £m	2021 £m
Employment costs before non-underlying items	13	90.4	75.0
Raw materials and consumables		22.9	18.1
Other operating expenses before non-underlying items include:			
Profit on disposal of property, plant and equipment		(1.0)	(0.1)
Short-term/low value asset lease expense		1.7	1.4
Trade receivables impairment	22	5.6	3.8
Depreciation of property, plant and equipment:			
• Owned assets		105.5	87.4
• Under leases		37.8	31.8
Amortisation of other intangible assets	16	3.4	0.2

Operating costs include a charge of £15.8 million (2021 £4.4 million) relating to non-underlying items, as detailed in note 6.

The costs above are exclusive of amounts relating to discontinued operations.

**7. Operating costs** (continued)

Fees payable to the Company's auditor in the year were:

	2022 £000	2021 £000
Fees payable to the Company's auditor and its associates for the audit of parent company and consolidated financial statements	360	217
Fees payable to the Company's auditor and its associates for other services:		
The audit of Company's subsidiaries	474	579
Audit-related assurance services	108	89
Other non-audit services	28	144
Services related to corporate finance transactions	-	443
<b>Total fees</b>	<b>970</b>	<b>1,472</b>
Fees payable to the Company's auditor in respect of Pennon Group pension schemes:		
Audit	55	36

Expenses reimbursed to the auditor in relation to the audit of the Group were £50,000 (2021 nil).

A description of the work of the Audit Committee is set out in its report on pages 146 to 151 which includes an explanation of how the auditor's objectivity and independence are safeguarded when non-audit services are provided by the auditor's firm.

**8. Net finance costs**

Notes	2022			2021		
	Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
<b>Cost of servicing debt</b>						
Bank borrowings and overdrafts	(73.9)	-	(73.9)	(32.6)	-	(32.6)
Interest element of lease payments	(20.3)	-	(20.3)	(25.7)	-	(25.7)
Other finance costs	(2.1)	-	(2.1)	(3.5)	-	(3.5)
Interest receivable	-	2.0	2.0	-	4.2	4.2
	<b>(96.3)</b>	<b>2.0</b>	<b>(94.3)</b>	(61.8)	4.2	(57.6)
<b>Notional interest</b>						
Retirement benefit obligations	30	-	0.6	(0.7)	-	(0.7)
<b>Net finance costs</b>	<b>(96.3)</b>	<b>2.6</b>	<b>(93.7)</b>	(62.5)	4.2	(58.3)

In addition to the above, finance costs of £1.3 million (2021 £0.9 million) have been capitalised on qualifying assets included in property, plant and equipment.

Other finance costs include £0.9 million (2021 nil) of dividends payable on listed preference shares issued by Bristol Water, which are classified as debt (see note 28).

Excluded from the amounts above are net finance costs relating to discontinued operations of nil (2021 £89.7 million), consisting of finance income of nil (2021 £6.0 million) and finance costs of nil (2021 £95.7 million) (see note 45).

**9. Taxation**

	Before non-underlying items 2022 £m	Non-underlying items (note 6) 2022 £m	Total 2022 £m	Before non-underlying items 2021 £m	Non-underlying items (note 6) 2021 £m	Total 2021 £m
<b>Analysis of charge in year</b>						
Current tax charge/(credit)	5.0	(1.3)	3.7	23.0	(3.9)	19.1
Deferred tax – other	8.9	-	8.9	6.6	(0.9)	5.7
Deferred tax arising on change of rate of corporation tax	-	99.5	99.5	-	-	-
Total deferred tax charge/(credit)	8.9	99.5	108.4	6.6	(0.9)	5.7
Tax charge/(credit) for year	13.9	98.2	112.1	29.6	(4.8)	24.8

UK corporation tax is calculated at 19% (2021 19%) 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 £1.7 million (2021 credit of £0.7 million) and a prior year deferred tax credit of £10.2 million (2021 £0.4 million charge). These items arise following discussion with and the subsequent submission of tax computations to HMRC. The largest adjustment relates to qualifying assets acquired in prior years, which are now being recognised.

## 9. Taxation (continued)

The tax for the year differs from the theoretical amount which would arise using the standard rate of corporation tax in the UK of 19% (2021 19%) as follows:

	2022 £m	2021 £m
<b>Reconciliation of total tax charge</b>		
Profit before tax for continuing operations	127.7	132.1
Profit multiplied by the standard rate of UK corporation tax of 19% (2021 19%)	24.3	25.1
Effects of:		
Expenses/(income) not deductible for tax purposes	1.8	(0.2)
Adjustments to tax charge in respect of prior years	(11.9)	(0.3)
Change in UK tax rates	99.5	-
Depreciation charged on non-qualifying assets	0.7	0.4
Other	(2.3)	(0.2)
Tax charge for year	112.1	24.8

Excluded from the above is a tax credit of nil (2021 £4.3 million credit) reported in the income statement under discontinued operations (see note 45).

	2022 £m	2021 £m
<b>Reconciliation of current tax charge</b>		
Profit before tax	127.7	132.1
Profit multiplied by the standard rate of UK corporation tax of 19% (2021 19%)	24.3	25.1
Effects of:		
Relief for capital allowances in place of depreciation	(36.3)	(21.5)
Disallowance of depreciation charged in the accounts	22.4	20.2
Other timing differences	(7.2)	(4.0)
Expenses/(income) not deductible for tax purposes	1.8	(0.2)
Adjustments to tax charge in respect of prior years	(1.7)	(0.7)
Depreciation charged on non-qualifying assets	0.6	0.4
Relief for capitalised interest and foreign exchange gains/losses	(0.2)	(0.2)
Current tax charge for year	3.7	19.1

The Group's current tax charge is lower than the UK headline rate of 19%, primarily due to the availability of capital allowances. Capital allowances provide tax relief when a business incurs expenditure on qualifying capital items such as plant and machinery used by the business. As an infrastructure business, these allowances help the Group to plan major investment and consequently to maintain lower customer bills, as corporation tax relief is given against the investments made.

From 1 April 2021 to 31 March 2023 a "super-deduction" on qualifying plant and machinery equivalent to 130% of spend on expenditure relating to contracts entered into after 3 March 2021 is available in respect of qualifying expenditure. The Group incurs significant capital expenditure each year as it maintains and enhances its assets for the benefit of its customers, communities and the environment. The first year allowance on certain other types of assets, including long-life was boosted to 50% for the same period, again for contracts entered into after 3 March 2021. These enhanced allowances have increased capital allowance claims for the year and hence reduce the current tax charge for the year. The same will apply for the year ended 31 March 2023. There is also a consequently higher deferred tax liability and charge due to the additional capital allowance deductions together with the increase in the rate of corporation tax to 25% from 1 April 2023.

Other differences relate to the timing of relief for items including pension contributions, general provisions and financial derivatives. The reduction in the tax charge arising from other differences in the year relates mainly to additional pension contributions made to fund deficits in the schemes.

In addition to the amounts recognised in the income statement, the following tax charges / (credits) (which include the effect of the change in tax rate) were recognised:

	2022 £m	2021 £m
<b>Amounts recognised directly in other comprehensive income</b>		
Deferred tax credit on defined benefit pension schemes	(2.4)	(5.5)
Deferred tax charge on cash flow hedges	6.5	2.4
<b>Amounts recognised directly in equity</b>		
Deferred tax charge on share-based payments	-	0.9
Deferred tax on costs relating to perpetual capital securities	-	(0.6)

Included in the deferred tax credit on defined benefit schemes above is a credit of nil (2021 £3.1 million credit) which has been accounted for in discontinued operations. Also included in the deferred tax charge/(credit) on share-based payments is a charge of nil (2021 £0.5 million charge) which has also been accounted for in discontinued operations.

### Factors affecting future tax charges

The UK main rate of corporation tax will increase to 25% from 1 April 2023. This change was substantively enacted on 24 May 2021, as such deferred tax liabilities and assets have been recalculated and recorded at the rate they are expected to unwind. This has been reflected through an increase in the tax charge in the income statement by £99.5 million, with a credit of £8.7 million taken through Other Comprehensive Income in respect of retirement obligations and derivatives.

**10. Profit of the parent company**

	2022 £m	2021 £m
Profit attributable to ordinary shareholders' equity dealt within the accounts of the parent company	<b>74.5</b>	1,312.3

As permitted by Section 408 of the Companies Act 2006, no income statement or statement of comprehensive income is presented for the Company.

**11. 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 (note 36), 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.

The weighted average number of shares and earnings used in the calculations were:

	2022	2021
Number of shares (millions)		
For basic earnings per share	<b>312.1</b>	421.1
Effect of dilutive potential ordinary shares from share options	<b>1.7</b>	1.6
For diluted earnings per share	<b>313.8</b>	422.7

**Basic and diluted earnings per ordinary share**

Earnings per ordinary share before non-underlying items and deferred tax are presented as the Directors believe that 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 changes in corporation tax rates and the level of long-term capital investment. Earnings per share have been calculated as follows:

	2022			2021		
	Profit after tax £m	Earnings per share		Profit after tax £m	Earnings per share	
<b>Continuing and discontinued operations</b>		Basic p	Diluted p		Basic p	Diluted p
Statutory earnings attributable to ordinary shareholders of the parent	<b>15.4</b>	<b>4.9</b>	<b>4.9</b>	1,762.2	418.5	416.9
Deferred tax charge before non-underlying items	<b>8.9</b>	<b>2.9</b>	<b>2.8</b>	14.2	3.4	3.4
Non-underlying items (net of tax)	<b>114.0</b>	<b>36.5</b>	<b>36.4</b>	(1,599.1)	(379.8)	(378.4)
Adjusted earnings	<b>138.3</b>	<b>44.3</b>	<b>44.1</b>	177.3	42.1	41.9

	2022			2021		
	Profit after tax £m	Earnings per share		Profit after tax £m	Earnings per share	
<b>Continuing operations</b>		Basic p	Diluted p		Basic p	Diluted p
Statutory earnings attributable to ordinary shareholders of the parent	<b>15.4</b>	<b>4.9</b>	<b>4.9</b>	107.5	25.5	25.4
Deferred tax charge before non-underlying items	<b>8.9</b>	<b>2.9</b>	<b>2.8</b>	6.6	1.6	1.6
Non-underlying items (net of tax)	<b>114.0</b>	<b>36.5</b>	<b>36.4</b>	20.1	4.8	4.7
Adjusted earnings	<b>138.3</b>	<b>44.3</b>	<b>44.1</b>	134.2	31.9	31.7

	2022			2021		
	Profit after tax £m	Earnings per share		Profit after tax £m	Earnings per share	
<b>Discontinued operations</b>		Basic p	Diluted p		Basic p	Diluted p
Statutory earnings attributable to ordinary shareholders of the parent	–	–	–	1,654.7	393.0	391.5
Deferred tax charge before non-underlying items	–	–	–	7.6	1.8	1.8
Non-underlying items (net of tax)	–	–	–	(1,619.2)	(384.6)	(383.1)
Adjusted earnings	–	–	–	43.1	10.2	10.2

## 12. Dividends

	2022 £m	2021 £m
<b>Amounts recognised as distributions to ordinary equity holders in the year</b>		
Interim dividend paid for the year ended 31 March 2021 6.77p (2020 13.66p) per share	28.6	57.5
Final dividend paid for the year ended 31 March 2021 14.97p (2020 30.11p) per share	63.2	126.8
Special dividend paid for the year ended 31 March 2021 355.0p (2020 nil) per share	1,498.5	–
	<b>1,590.3</b>	184.3
<b>Proposed dividends</b>		
Proposed interim dividend for the year ended 31 March 2022: 11.70p (2021 6.77p) per share	32.4	28.6
Proposed final dividend for the year ended 31 March 2022: 26.83p (2021 14.97p) per share	69.6	63.2
	<b>102.0</b>	91.8

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

The proposed interim dividend for 2022 was paid on 5 April 2022 and the proposed final dividend is subject to approval by shareholders at the AGM.

## 13. Employment costs

	Notes	2022 £m	2021 £m
Wages and salaries		96.3	72.5
Social security costs		9.7	7.6
Pension costs	30	11.1	15.1
Share-based payments	33	2.2	2.1
Total employment costs		<b>119.3</b>	97.3
Charged:			
• Employment costs (excluding non-underlying items) – consolidated income statement		90.4	75.0
• Employment costs (non-underlying items) – consolidated income statement		1.7	4.4
• Capital schemes – property, plant and equipment		27.2	17.9
Total employment costs		<b>119.3</b>	97.3

Details of Directors' emoluments are set out in note 14. There are no personnel, other than Directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the Group. Members of other executive committees assist the Directors in their duties but do not hold authority to control the activities of the Group.

	2022	2021
<b>Employees (average full-time equivalent number)</b>		
The average monthly number of employees (including Executive Directors) was:		
Water	2,394	1,745
Non-household retail	177	160
Other	65	82
Total	<b>2,636</b>	1,987



**14. Directors' emoluments**

	2022 £000	2021 £000
Executive Directors:		
• Salary	775	857
• Performance-related bonus paid or payable	149	467
• Share-based payments	707	1,010
• Other emoluments, including payments in lieu of pension provision	116	164
Payment in lieu of notice on retirement	-	749
Non-Executive Directors	523	541
	<b>2,270</b>	3,788

The cost of share-based payments represents the amount charged to the income statement, as described in note 33. The aggregate gains on vesting of Directors' share-based awards amounted to a total of £180,000 (2021 £155,000).

Total emoluments include nil (2021 nil) payable to Directors for services as directors of subsidiary undertakings.

At 31 March 2022 no Directors (2021 one) are accruing retirement benefits under defined benefit pension schemes in respect of which the Group contributed. The pension scheme closed to future accrual on 30 June 2021 and during the period to closure to future accrual the company contributed £12,000 in respect of the one Director (12 months contributions to 31 March 2021 £29,000).

At 31 March 2022 two Directors (2021 one) are members of the Group's defined contribution pension scheme in respect of which the Group contributed £3,000 (2021 £10,000).

At 31 March 2022 two Directors received payments in lieu of pension provision (2021 two).

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) and share interests is shown in the Directors' remuneration report on pages 162 to 179.

**15. Goodwill**

	£m
Cost:	
At 1 April 2020	42.3
At 31 March 2021	42.3
Acquisition of Bristol Water Group (note 44)	116.1
At 31 March 2022	158.4
Carrying amount:	
At 1 April 2020	42.3
At 31 March 2021	42.3
<b>At 31 March 2022</b>	<b>158.4</b>

Goodwill acquired in a business combination is allocated at acquisition to the CGU expected to benefit from that business combination. During the year the Group acquired the Bristol Water Group, adding £116.1 million to goodwill (see note 44). The brought forward goodwill balance of £42.3 million is allocated to the water business. All goodwill represents the water business, therefore this is the lowest level at which goodwill is monitored and tested.

**Impairment testing of goodwill**

The Group tests goodwill for impairment annually, or more frequently if there are any indications that impairment may have arisen.

The recoverable amount of the water business segment is assessed using level 2 fair value hierarchy techniques, with reference to the market value of the water business, using a market-based observable premium to regulated capital value.

The results of tests performed during the year demonstrate significant headroom in the water CGU, and it is judged that no reasonable change in the key assumptions would cause the carrying amount of the CGUs to exceed the recoverable amount.

## 16. Other intangible assets

	Patents £m	Other £m	Total £m
Cost:			
At 1 April 2020	0.2	4.0	4.2
Additions	-	0.2	0.2
Disposals	-	(0.2)	(0.2)
At 31 March 2021	0.2	4.0	4.2
Additions	-	3.6	3.6
Acquisition of Bristol Water Group	-	12.8	12.8
Disposals	(0.2)	(0.8)	(1.0)
At 31 March 2022	-	19.6	19.6
Accumulated amortisation:			
At 1 April 2020	0.2	2.8	3.0
Charge for year	-	0.2	0.2
Disposals	-	(0.2)	(0.2)
At 31 March 2021	0.2	2.8	3.0
Charge for year	-	3.4	3.4
Disposals	(0.2)	(0.5)	(0.7)
At 31 March 2022	-	5.7	5.7
Carrying amount:			
At 1 April 2020	-	1.2	1.2
At 31 March 2021	-	1.2	1.2
<b>At 31 March 2022</b>	<b>-</b>	<b>13.9</b>	<b>13.9</b>

Patents have been derecognised in the year, the patents had been fully amortised over their estimated useful lives which at acquisition was 13 years.

Other, including computer software, is amortised over the useful life of the assets which at acquisition was ten years. The average remaining life is two years (2021 two years).

The carrying values of other intangible assets are reviewed annually or when events or changes in circumstance indicate that the carrying amounts may not be fully recoverable.

**17. Property, plant and equipment**

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
<b>Group</b>						
Cost:						
At 31 March 2020	125.8	2,004.5	762.4	1,960.0	119.1	4,971.8
Additions	0.1	17.0	2.6	49.4	99.2	168.3
Assets adopted at fair value	–	7.4	–	–	–	7.4
Grants and contributions	–	–	–	–	(3.7)	(3.7)
Disposals	–	–	–	(0.7)	–	(0.7)
Transfers/reclassifications	0.5	13.5	12.6	70.2	(96.8)	–
At 31 March 2021	126.4	2,042.4	777.6	2,078.9	117.8	5,143.1
Additions	1.3	40.5	7.5	67.3	120.7	237.3
Acquisition of Bristol Water Group	56.4	644.0	161.3	60.2	22.9	944.8
Assets adopted at fair value	–	11.0	–	–	–	11.0
Grants and contributions	–	–	–	–	(3.2)	(3.2)
Disposals	(0.2)	(1.2)	(1.3)	(2.4)	–	(5.1)
Transfers/reclassifications	2.8	17.7	7.2	46.3	(74.0)	–
At 31 March 2022	186.7	2,754.4	952.3	2,250.3	184.2	6,327.9
Accumulated depreciation:						
At 31 March 2020	16.0	312.5	280.1	1,191.4	–	1,800.0
Charge for year	2.9	23.1	13.9	82.8	–	122.7
Disposals	–	–	–	(0.6)	–	(0.6)
At 31 March 2021	18.9	335.6	294.0	1,273.6	–	1,922.1
Charge for year	4.2	33.7	19.2	89.5	–	146.6
Disposals	–	(1.2)	(1.3)	(2.3)	–	(4.8)
At 31 March 2022	23.1	368.1	311.9	1,360.8	–	2,063.9
Net book value:						
At 31 March 2020	109.8	1,692.0	482.3	768.6	119.1	3,171.8
At 31 March 2021	107.5	1,706.8	483.6	805.3	117.8	3,221.0
<b>At 31 March 2022</b>	<b>163.6</b>	<b>2,386.3</b>	<b>640.4</b>	<b>889.5</b>	<b>184.2</b>	<b>4,264.0</b>

Of the total depreciation charge of £146.6 million (2021 £122.7 million), £1.3 million (2021 £1.5 million) has been charged to capital projects, £2.0 million (2021 £2.0 million) has been offset by deferred income and £14.3 million (2021 £119.2 million) has been charged against profits. Asset lives and residual values are reviewed annually. During the year borrowing costs of £1.3 million (2021 £0.9 million) have been capitalised on qualifying assets, at an average borrowing rate of 4.1% (2021 2.7%).

Groups of assets forming cash generating units are reviewed for indicators of impairment. No indicators of impairment were identified during the year.

Asset lives are reviewed annually. No significant changes were required in 2021/22.

## 17. Property, plant and equipment (continued)

The Group leases many assets as a lessee, across several categories of asset. Right-of-use assets held under leases included in property, plant and equipment above were:

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
<b>Group</b>						
Cost:						
At 1 April 2020	35.1	404.9	481.5	519.0	–	1,440.5
Additions	0.2	8.8	0.7	5.7	–	15.4
At 31 March 2021	35.3	413.7	482.2	524.7	–	1,455.9
Additions	–	–	7.7	7.9	–	15.6
Acquisition of Bristol Water Group	0.5	0.1	–	1.7	–	2.3
Disposals	–	(14.1)	(114.3)	(152.6)	–	(281.0)
At 31 March 2022	35.8	399.7	375.6	381.7	–	1,192.8
Accumulated depreciation:						
At 31 March 2020	1.5	78.3	135.0	281.3	–	496.1
Charge / (credit) for year	1.3	(0.3)	7.8	23.0	–	31.8
At 31 March 2021	2.8	78.0	142.8	304.3	–	527.9
Charge for year	1.3	5.1	8.0	23.4	–	37.8
Disposals	–	(3.5)	(48.1)	(143.2)	–	(194.8)
At 31 March 2022	4.1	79.6	102.7	184.5	–	370.9
Net book amount:						
At 31 March 2020	33.6	326.6	346.5	237.7	–	944.4
At 31 March 2021	32.5	335.7	339.4	220.4	–	928.0
<b>At 31 March 2022</b>	<b>31.7</b>	<b>320.1</b>	<b>272.9</b>	<b>197.2</b>	<b>–</b>	<b>821.9</b>

When the group enters into sale and leaseback arrangements, the accounting for the arrangement depends on whether the transaction meets the criteria within IFRS 15 for a sale to have occurred. If the sale criteria are met, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the right retained. If the criteria for a sale under IFRS 15 have not been met the asset is not derecognised, but is reclassified to right-of-use assets (within property, plant and equipment). Right of use assets includes assets held under sale and leaseback arrangements with a carrying value of £793.7 million.

During 2021 the depreciation on leased infrastructure assets included a credit of £5.1 million in respect of depreciation on owned assets which had been treated as relating to leased assets in the 2020 financial statements. There was a corresponding charge to depreciation on owned infrastructure assets in 2021.

	Fixed and mobile plant, vehicles and computers £m
<b>Company</b>	
Cost:	
At 31 March 2020	0.4
Disposals	(0.1)
At 31 March 2021	0.3
At 31 March 2022	0.3
Accumulated depreciation:	
At 31 March 2020	0.2
Charge for year	0.1
Disposals	(0.1)
At 31 March 2021	0.2
At 31 March 2022	0.2
Net book value:	
At 31 March 2020	0.2
At 31 March 2021	0.1
<b>At 31 March 2022</b>	<b>0.1</b>

Asset lives and residual values are reviewed annually.

**18. Financial instruments by category**

The accounting policies for financial instruments that have been applied to line items are:

	Notes	Fair value		Amortised cost		Total £m
		Derivatives used for fair value hedging £m	Derivatives used for cash flow hedging £m	Debt instruments at amortised cost £m	Trade receivables and trade payables £m	
<b>Group</b>						
<b>31 March 2022</b>						
<b>Financial assets</b>						
Amounts owed by joint ventures	19	-	-	9.6	-	9.6
Trade receivables	22	-	-	-	180.9	180.9
Derivative financial instruments	23	1.2	19.2	-	-	20.4
Cash and cash deposits	25	-	-	519.0	-	519.0
Total		1.2	19.2	528.6	180.9	729.9
<b>Financial liabilities</b>						
Borrowings	28	-	-	(3,201.9)	-	(3,201.9)
Amounts owed to joint ventures	26	-	-	-	(1.8)	(1.8)
Trade payables	26	-	-	-	(107.5)	(107.5)
Total		-	-	(3,201.9)	(109.3)	(3,311.2)
31 March 2021						
Financial assets						
Trade receivables	22	-	-	-	150.9	150.9
Derivative financial instruments	23	2.8	2.3	-	-	5.1
Cash and cash deposits	25	-	-	2,919.3	-	2,919.3
Total		2.8	2.3	2,919.3	150.9	3,075.3
Financial liabilities						
Borrowings	28	-	-	(2,855.0)	-	(2,855.0)
Derivative financial instruments	23	-	(23.7)	-	-	(23.7)
Trade payables	26	-	-	-	(74.4)	(74.4)
Total		-	(23.7)	(2,855.0)	(74.4)	(2,953.1)
<b>Company</b>						
<b>31 March 2022</b>						
<b>Financial assets</b>						
Amounts owed by subsidiaries	19,22	-	-	79.7	-	79.7
Other receivables	22	-	-	0.7	-	0.7
Derivative financial instruments	23	1.2	0.4	-	-	1.6
Cash and cash deposits	25	-	-	306.7	-	306.7
Total		1.2	0.4	387.1	-	388.7
<b>Financial liabilities</b>						
Borrowings	28	-	-	(467.3)	-	(467.3)
Trade payables	26	-	-	-	(0.7)	(0.7)
Total		-	-	(467.3)	(0.7)	(468.0)
31 March 2021						
Financial assets						
Amounts owed by subsidiaries	19,22	-	-	86.0	-	86.0
Other receivables	22	-	-	11.7	-	11.7
Derivative financial instruments	23	2.8	0.6	-	-	3.4
Cash and cash deposits	25	-	-	2,495.6	-	2,495.6
Total		2.8	0.6	2,593.3	-	2,596.7
Financial liabilities						
Borrowings	28	-	-	(467.8)	-	(467.8)
Derivative financial instruments	23	-	(0.2)	-	-	(0.2)
Trade payables	26	-	-	-	(1.2)	(1.2)
Total		-	(0.2)	(467.8)	(1.2)	(469.2)



## 19. Other non-current assets

### Non-current receivables

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Amounts owed by subsidiary undertakings	–	–	31.5	26.1
Amounts owed by related parties (note 43)	9.6	–	–	–
	9.6	–	31.5	26.1

Non-current receivables were due:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Between 1 and 2 years	9.6	–	5.2	5.2
Over 2 years and less than 5 years	–	–	15.6	15.6
Over 5 years	–	–	10.7	5.3
	9.6	–	31.5	26.1

The fair values of non-current receivables were:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Amounts owed by subsidiary undertakings	–	–	31.5	27.0
Amounts owed by joint ventures	9.6	–	–	–
	9.6	–	31.5	–

## 20. Investments

### Subsidiary undertakings

	£m
<b>Company</b>	
At 31 March 2020	845.2
Investment in subsidiary undertakings	1.2
At 31 March 2021	846.4
Investment in subsidiary undertakings:	
Bristol Water acquisition	419.6
South West Water share acquisition	45.0
Impairment of investment in subsidiary	(0.2)
<b>At 31 March 2022</b>	<b>1,310.8</b>

The recoverable amount of investments is determined based on value-in-use calculations, which are set out in note 15.

The acquisition of Bristol Water on 2 June 2021 reflects a £425.1 million cash outflow, net of £5.5 million in relation to an intercompany loan acquired through the acquisition.

The Company subscribed to 45 million £1 ordinary shares in South West Water Limited at a cost £45.0 million.

The Company has impaired the value of Peninsula Leasing Limited during the year in advance of the intended dissolution of the company in the next financial year.

**20. Investments** (continued)**Investment in associates and joint ventures**

Following the acquisition of Bristol Water Holdings UK Limited on 2 June 2021, the Group acquired the following investments in associates and joint ventures:

Name of entity	Principal activity	Place of business/ country of incorporation	% of ownership	Measurement method
Water 2 Business Limited ("W2B")	National retailer in the non-household market and provides retail water services to non-household customers	England	30%	Equity
Bristol Wessex Billing Services Limited ("BWBSL")	Meter reading, billing, debt recovery and customer contact management services	England	50%	Equity
Searchlight Collection Limited	Debt collection services	England	50%	Equity

The carrying value of the Group's share of these investments in associates and joint ventures at the date of acquisition and at 31 March 2022 is nil. The Group's share of the profits and other comprehensive income of these investments in associates and joint ventures from the date of acquisition to 31 March 2022 is nil.

The Group's joint ventures are all private companies and there are no quoted market prices available for the shares. Summarised financial information for the joint ventures and investments in associates is set out below:

**Summarised balance sheets**

	2022 £m			2021 £m		
	W2B	BWBSL	Searchlight	W2B	BWBSL	Searchlight
<b>Current</b>						
Cash and cash equivalents	–	1.1	–	–	–	–
Other current assets	53.6	2.0	0.1	37.8	3.4	0.1
<b>Total current assets</b>	<b>53.6</b>	<b>3.1</b>	<b>0.1</b>	37.8	3.4	0.1
<b>Non-current assets</b>	<b>6.5</b>	–	–	7.3	–	–
Financial liabilities (excluding trade payables)	(1.1)	–	–	(1.4)	–	–
Current liabilities (including trade payables)	(28.0)	(3.1)	–	(13.1)	(3.4)	–
<b>Total current liabilities</b>	<b>(29.1)</b>	<b>(3.1)</b>	–	(14.5)	(3.4)	–
<b>Non-current liabilities</b>	<b>(32.2)</b>	–	–	(33.1)	–	–
<b>Net assets</b>	<b>(1.2)</b>	–	<b>0.1</b>	<b>(2.5)</b>	–	<b>0.1</b>

**Summarised statement of comprehensive income**

	2022 £m			2021 £m		
	W2B	BWBSL	Searchlight	W2B	BWBSL	Searchlight
Revenue	193.5	15.8	0.3	139.3	15.9	0.2
Cost of sales and other operating expenses	(190.9)	(15.8)	(0.3)	(141.0)	(15.9)	(0.2)
Interest	(0.7)	–	–	(0.9)	–	–
Pre-tax profit/(loss)	1.9	–	–	(2.6)	–	–
Taxation (charge) / credit	(0.6)	–	–	0.4	–	–
<b>Total comprehensive income</b>	<b>1.3</b>	–	–	(2.2)	–	–

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of these amounts) adjusted for differences in accounting policies between the Group and associates. W2B's year-end date is 30 June. BWBSL's and Searchlight's year ends are 31 March.

## 21. Inventories

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Raw materials and consumables	7.7	5.4	–	–

## 22. Trade and other receivables – current

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Trade receivables	296.2	253.2	–	–
Less: allowance for expected credit losses in respect of trade receivables	(100.4)	(102.3)	–	–
Net trade receivables	195.8	150.9	–	–
Amounts owed by subsidiary undertakings	–	–	48.2	59.9
Other receivables	41.1	29.3	0.7	11.7
Accrued income	26.4	28.2	0.1	0.1
Prepayments	7.6	8.4	0.8	1.3
	270.9	216.8	49.8	73.0

Trade receivables include accrued income relating to customers with water budget payment plans. Due to the ongoing impact on demand patterns caused by the COVID-19 pandemic and a resulting population shift to the region, overall demand has increased in the South West Water business, causing increased levels of receivables despite the resilient cash collection performance. Additionally, trade receivables have increased following the acquisition of Bristol Water.

Accrued income includes £22.0 million (2021 £21.7 million) in respect of metered accrual revenue in the retail water business. Metered accrual revenue relates to performance obligations that have been fully extinguished in providing services to customers prior to the reporting date. Payment in respect of these services is a matter of time following issuance of invoices.

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value.

There is no concentration of credit risk in trade receivables. The Group has a large number of customers who are dispersed and there is no significant loss on trade receivables expected that has not been provided for.

The Group applies the simplified approach in calculating the expected credit losses for trade receivables allowing a provision matrix to be used which is based on the expected life of trade receivables, default rates for different customer categories within the collection process and forward-looking information.

As at 31 March, an analysis of the ageing of trade receivables is as follows:

	2022 £m	2021 £m
<b>Group</b>		
Not due	68.9	40.3
Past due 1 – 30 days	17.4	18.2
Past due 31 – 120 days	20.2	18.9
More than 120 days	189.7	175.8
	296.2	253.2

The aged trade receivables above are taken directly from aged sales ledger records.

The Group's operating businesses specifically review separate categories of debt to identify an appropriate allowance for expected credit losses as outlined in note 2 (n) ii). South West Water Limited and Bristol Water PLC have a duty under legislation to continue to provide domestic customers with services regardless of payment. The expected credit loss rate applied ranges from 0% (not due) to 100% (>120 days and untraced previous occupier).

No material expected credit loss provision has been recognised in respect of amounts owed by subsidiary undertakings.

The movement in the allowance for expected credit losses in respect of trade receivables was:

	2022 £m	2021 £m
At 1 April	102.3	106.1
Provision for expected credit losses	5.5	3.8
Receivables written off during the year as uncollectable	(7.4)	(7.6)
At 31 March	100.4	102.3

**23. Derivative financial instruments**

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
<b>Derivatives used for cash flow hedging</b>				
Non-current assets	14.1	1.8	0.3	0.3
Current assets	5.1	0.5	0.1	0.3
Current liabilities	-	(6.3)	-	(0.2)
Non-current liabilities	-	(17.4)	-	-
<b>Derivatives used for fair value hedging</b>				
Non-current assets	0.7	2.0	0.7	2.0
Current assets	0.5	0.8	0.5	0.8

The Group's financial risks and risk management policies are set out in note 3. The fair value of derivatives is split between current and non-current assets or liabilities based on the maturity of the cash flows. The ineffective portion recognised in the income statement arising from hedging relationships was nil (2021 nil).

During the year a £5.8 million charge (2021 £4.7 million charge) was recognised in profit and loss relating to cash flow hedges previously recognised through other comprehensive income and recorded in the hedging reserve. A £40.6 million credit (2021 £13.5 million credit) was recognised in other comprehensive income for cash flow hedges that may be classified subsequently to profit and loss.

Interest rate swaps, primarily cash flow hedges, and fixed rate borrowings are used to manage the mix of fixed and floating rates to ensure at least 60% of Group net borrowings are at fixed rate.

At 31 March 2022 the Group had interest rate swaps to swap from floating to fixed rate and hedge financial liabilities with a notional value of £718 million and a weighted average maturity of 3.5 years (2021 £801 million, with 4.4 years). The weighted average interest rate of the swaps for their nominal amount was 1.14% (2021 1.29%).

The periods for which the cash flow hedges are expected to affect future profit or loss are as follows:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due over 5 years £m	Total £m
<b>Group</b>					
31 March 2022					
Assets	5.1	5.0	7.0	2.1	19.2
31 March 2021					
Assets	0.5	0.3	0.8	0.7	2.3
Liabilities	(6.3)	(6.1)	(11.3)	-	(23.7)
<b>Company</b>					
31 March 2022					
Assets	0.1	0.2	0.1	-	0.4
31 March 2021					
Assets	0.3	0.1	0.2	-	0.6
Liabilities	(0.2)	-	-	-	(0.2)

**Valuation hierarchy**

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

### 23. Derivative financial instruments (continued)

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The Group's financial instruments are valued using level 2 measures:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
<b>Assets</b>				
Derivatives used for cash flow hedging	19.2	2.3	0.4	0.6
Derivatives used for fair value hedging	1.2	2.8	1.2	2.8
Derivatives not in a hedge accounting relationship	-	-	-	-
Total assets	20.4	5.1	1.6	3.4
<b>Liabilities</b>				
Derivatives used for cash flow hedging	-	(23.7)	-	(0.2)
Derivatives not in a hedge accounting relationship	-	-	-	-
Total liabilities	-	(23.7)	-	(0.2)

### 24. Financial instruments at fair value through profit

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Current liabilities	2.5	2.8	0.1	0.5
Non-current liabilities	36.1	39.4	-	1.0

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on the hedged item which had been designated in a fair value hedging relationship.

The hedged item was the £150 million bond issued by South West Water Finance Plc in 2010 which matures in July 2040 (see note 28). The hedging relationship was de-designated in previous periods at which point the fair value amount recognised at that point ceased to be revalued. The fixed financial liability at the point of de-designation is released to the income statement over the remaining life of the debt.

**25. Cash and cash deposits**

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Cash at bank and in hand	57.3	56.1	6.7	30.1
Short-term bank deposits	50.0	437.0	50.0	315.0
Other deposits	411.7	2,426.2	250.0	2,150.5
Total cash and cash deposits	519.0	2,919.3	306.7	2,495.6

Group short-term deposits have an average maturity of one working day (2021 one working day).

Group other deposits have an average maturity of 78 days (2021 33 days).

Group other deposits include restricted funds of £161.7 million (2021 £250.8 million) to settle long-term lease liabilities (note 28) and £6.1 million held in an instant access account under the terms of other loan agreements. Restricted funds are available for access, subject to being replaced by an equivalent valued security.

For the purposes of the cash flow statement cash and cash equivalents comprise:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Cash and cash deposits as above	519.0	2,919.3	306.7	2,495.6
Less: deposits with a maturity of three months or more (restricted funds)	(167.8)	(250.8)	-	-
	351.2	2,668.5	306.7	2,495.6

**26. Trade and other payables – current**

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Trade payables	107.5	74.4	0.7	1.2
Contract liabilities	3.3	2.0	-	-
Other tax and social security	4.3	2.7	0.8	0.9
Accruals	29.5	28.1	2.1	-
Other payables	25.1	18.9	2.0	8.1
Amounts owed to joint venture	1.8	-	-	-
	171.5	126.1	5.6	10.2

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

The movement in the contract liabilities was:

	Group	
	2022 £m	2021 £m
<b>Contract liabilities</b>		
At 1 April	130.3	124.9
Revenue recognised in the year	(2.0)	(2.1)
Consideration received in advance of completion of performance obligations	12.2	7.5
At 31 March	140.5	130.3

The analysis of contract liabilities between current and non-current is:

	Group	
	2022 £m	2021 £m
Current	3.3	2.0
Non-current (note 29)	137.2	128.3
	140.5	130.3

Performance obligations related to the current contract liabilities balance above are expected to be satisfied, and revenue will be recognised, within the financial year ended 31 March 2023.



## 27. Current tax assets/(liabilities)

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Current year debtor / (creditor)	<b>2.8</b>	(2.0)	<b>(0.2)</b>	(1.2)
Prior year tax items	<b>(1.3)</b>	2.1	<b>(3.2)</b>	(3.2)
	<b>1.5</b>	0.1	<b>(3.4)</b>	(4.4)

## 28. Borrowings

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
<b>Current</b>				
Bank and other loans	<b>40.0</b>	40.1	–	–
Private placements	<b>30.0</b>	–	<b>30.0</b>	–
Amounts owed to subsidiary undertakings	–	–	<b>282.8</b>	283.4
	<b>70.0</b>	40.1	<b>312.8</b>	283.4
Leases	<b>170.2</b>	48.2	–	–
Total current borrowings	<b>240.2</b>	88.3	<b>312.8</b>	283.4
<b>Non-current</b>				
Bank and other loans	<b>641.9</b>	499.3	<b>49.9</b>	49.7
Private placements	<b>279.3</b>	301.0	<b>104.6</b>	134.7
Fixed rate bonds	<b>213.2</b>	134.9	–	–
RPI index-linked bonds	<b>773.0</b>	440.5	–	–
Listed preference shares	<b>12.5</b>	–	–	–
	<b>1,919.9</b>	1,375.7	<b>154.5</b>	184.4
Leases	<b>1,041.8</b>	1,391.0	–	–
Total non-current borrowings	<b>2,961.7</b>	2,766.7	<b>154.5</b>	184.4
Total borrowings	<b>3,201.9</b>	2,855.0	<b>467.3</b>	467.8

The Company issued a £100 million private placement in July 2007 maturing in 2022. Interest is payable at a fixed rate of 3.3%. During 2021, as part of the Group debt restructuring plans, a liability management process was completed resulting in £70 million of the outstanding notional being repaid.

South West Water Finance Plc issued a £150 million fixed rate bond in July 2010 maturing in 2040 with a cash coupon of 5.875%. Prior to acquisition by Pennon, Bristol Water Plc issued fixed rate bonds of £57.5 million maturing in 2033 with a cash coupon of 6.010%.

South West Water Finance Plc issued a £200 million RPI index-linked bond in July 2008 maturing in 2057 with a cash coupon of 1.99%. Bournemouth Water Limited issued a £65 million RPI index-linked bond in April 2005 maturing in 2033 with a cash coupon of 3.084%. This instrument was transferred to South West Water Limited in April 2017. Prior to acquisition by Pennon, Bristol Water Plc issued RPI index-linked bonds totalling £91 million maturing in 2032 with a cash coupon of 3.635% as well as a £40 million RPI index-linked bond maturing in 2041 with a cash coupon of 2.70%.

Fair value adjustments of £169 million in relation to the acquisition of Bournemouth Water Limited and Bristol Water Plc have been allocated to the instruments to which they relate.

Included within Bank and other loans are loans with the European Investment Bank and a £50 million CPI index-linked loan.

The listed preference shares were issued by Bristol Water Plc at £1 in 1992. They are held by external shareholders and are listed on the London Stock Exchange. Shareholders are entitled to receive dividends at 8.75% per annum on the par value of the shares on a cumulative basis; these dividends are payable half yearly on 1 April and 1 October. On winding up, the preference shareholders rank ahead of Bristol Water ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members. The authorised preference share capital consists of 14,000,000 8.75% irredeemable cumulative preference shares of £1 each. The preference shares are classified as liabilities in the consolidated balance sheet of the Group and the related dividends are classified as finance costs.

In the current year, European Investment bank loans, which were previously included as a separate line item in the table above, have been aggregated with Bank and other loans. The change has been made as EIB loans are less significant now and share similar characteristics to bank loans. Comparative figures have been restated for consistency.

**28. Borrowings** (continued)

The fair values of non-current borrowings, valued using level 2 measures (as set out in note 23) were:

	2022		2021	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Group</b>				
Bank and other loans	<b>641.9</b>	<b>650.5</b>	499.3	500.4
Private placements	<b>279.3</b>	<b>272.0</b>	301.0	306.4
Fixed rate bonds	<b>213.2</b>	<b>256.7</b>	134.9	202.6
RPI index-linked bond	<b>773.0</b>	<b>885.9</b>	440.5	550.1
Listed preference shares	<b>12.5</b>	<b>24.9</b>	–	–
	<b>1,919.9</b>	<b>2,090.0</b>	1,375.7	1,559.5
Leases	<b>1,041.8</b>	–	1,391.0	–
	<b>2,961.7</b>	<b>2,090.0</b>	2,766.7	1,559.5
<b>Company</b>				
Bank and other loans	<b>49.9</b>	<b>51.8</b>	49.7	55.2
Private placements	<b>104.6</b>	<b>105.1</b>	134.7	136.5
	<b>154.5</b>	<b>156.9</b>	184.4	191.7

Under IFRS 16 the disclosure of the fair value of leases is not required.

Where market values are not available, fair values of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates.

The maturity of non-current borrowings, excluding leases, was:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Between 1 and 2 years	<b>101.4</b>	70.0	–	30.0
Over 2 years and less than 5 years	<b>221.0</b>	194.0	<b>75.1</b>	58.2
Over 5 years	<b>1,597.5</b>	1,111.7	<b>79.4</b>	96.2
	<b>1,919.9</b>	1,375.7	<b>154.5</b>	184.4

The weighted average maturity of non-current borrowings, excluding leases, was 14.2 years (2021 15.0 years).

Undrawn committed borrowing facilities at the balance sheet date were:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Floating rate:				
Expiring within 1 year	<b>50.0</b>	–	<b>25.0</b>	–
Expiring after 1 year	<b>247.0</b>	285.0	<b>80.0</b>	105.0
	<b>297.0</b>	285.0	<b>105.0</b>	105.0

## 28. Borrowings (continued)

### Information on leases

The Group has leases for various assets as shown in note 17.

The maturity of lease liabilities was:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Within 1 year	170.1	48.2	–	–
Over 1 year and less than 5 years	180.6	243.2	–	–
Over 5 years	861.2	1,147.8	–	–
	<b>1,211.9</b>	1,439.2	–	–

Analysed as:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Current	170.1	48.2	–	–
Non-current	1,041.8	1,391.0	–	–
	<b>1,211.9</b>	1,439.2	–	–

For the purposes of calculating debt or borrowings under the Group's financing agreements, all of which were negotiated under IFRS prior to the implementation of IFRS 16, borrowings that were previously categorised as operating leases under IAS 17 are excluded from the definition of debt. As at 31 March 2022 the carrying value of leases previously categorised as IAS 17 operating leases was £36.9 million (2021 £35.4 million).

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

The discount rate used to calculate the lease liabilities above involves estimation. Where the Group cannot readily determine the rate implicit in the lease the Group uses an estimated incremental borrowing rate (IBR). At 31 March 2022 the range of IBRs used was between 2.6% and 3.9% (2021 between 2.93% and 4.50%) and the weighted average IBR across all leases was 3.3% (2021 3.8%). If the weighted average rate used increased or decreased by 10bps, this would result in a c.1.1% increase or reduction in the present value of lease liabilities recognised at 31 March 2022 (2021 c.1.2%).

The period for repayment of certain leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £161.7 million at 31 March 2022 (2021 £250.8 million), are currently being held to settle the lease liability subject to rights to release by negotiation with the lessor. The deposits are subject to a registered charge given as security to the lessor for the balance outstanding.

Cash outflows in respect of leasing relate to principal repayments of £231.4 million (2021 £28.4 million) and interest repayments of £17.2 million (2021 £19.1 million), in addition to inflows from lease financing arrangements of £15 million (2021 £15.0 million).

Other information required to be disclosed under IFRS 16 is included in note 17.

## 29. Other non-current liabilities

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Amounts owed to subsidiary undertakings	–	–	8.6	8.6
Contract liabilities	137.2	128.3	–	–
	<b>137.2</b>	128.3	<b>8.6</b>	8.6

Non-current contract liabilities relate to consideration received in advance of the Group performing its performance obligations to customers where performance obligations will not be completed within 12 months of the balance sheet date. The overall movement in total contract liabilities is disclosed in note 26. Contract liabilities reflect the fair value of assets transferred from customers in the water segment. The majority of the contract liabilities included above are expected to unwind after five years.

### 30. Retirement benefit obligations

During the year the Group operated a number of defined benefit pension schemes and also defined contribution schemes. The principal plan within the Group is the Pennon Group Pension Scheme (PGPS), which is a funded defined benefit, final salary pension scheme in the UK. Following the acquisition of Bristol Water, the Group also assumed defined benefit obligations through Bristol Water's membership of Water Companies Pension Scheme ('WCPS').

The Group's pension schemes are established under trust law and comply with all relevant UK legislation. The assets of the Group's pension schemes are held in separate trustee administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of schemes' trustees is determined by the schemes' trust documentation. The Group has a policy for the PGPS that one-half of all trustees, other than the Chair, are nominated by members of the schemes, including pensioners.

Bristol Water's membership of WCPS is through a separate section of that scheme. The assets of the section are held separately from those of the Group and are invested by discretionary fund managers appointed by the trustees of the scheme. The employees in the section ceased to earn additional defined benefit pensions on 31 March 2016. There were no employer contributions to the scheme from that date and from 30 June 2016, with the agreement of the trustees, deficit contributions also ceased. All eligible employees were offered membership of a stakeholder pension scheme.

In 2018 the trustees of the Bristol Water section of the WCPS purchased a bulk annuity policy to insure the benefits for members of the section. Following this the method for valuing the liabilities of the pension scheme has remained the same. However, the scheme assets, in the form of the insurance policy, now materially match the value of the liabilities. The process to buy up and wind up the scheme is continuing, including discussions regarding the release of the surplus on completion of this process.

#### Defined contribution schemes

Pension costs for defined contribution schemes were £7.6 million (2021 £6.4 million), of which £7.6 million (2021 £4.4 million) relates to the Continuing Group.

#### Defined benefit schemes

##### Assumptions

The principal actuarial assumptions at 31 March were:

	2022 %	2021 %
Rate of increase in pensionable pay	3.0	3.2
Rate of increase for current and future pensions	3.1	2.9
Rate used to discount schemes' liabilities and expected return on schemes' assets	2.75	2.05
Inflation	3.6	3.2

##### Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2019 actuarial tables with an allowance for future longevity improvement.

The average life expectancy in years of a member having retired at age 62 on the balance sheet date is projected as:

	2022	2021
Male	24.9	24.7
Female	27.2	27.0

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2022	2021
Male	26.0	25.5
Female	28.3	27.9

The sensitivities regarding the principal assumptions used to measure the schemes' liabilities are:

	Change in assumption	Impact on schemes' liabilities
Rate of increase in current and future pensions	+/- 0.5%	+/- 5.3%
Rate used to discount schemes' liabilities	+/- 0.5%	-/+ 8.7%
Inflation	+/- 0.5%	+/- 6.7%
Life expectancy	+/- 1 year	+/- 4.2%

The sensitivity analysis shows the effect of changes in the principal assumptions used for the measurement of the pension liability. The method used to calculate the sensitivities is approximate and has been determined taking into account the duration of the liabilities and the overall profile of each scheme's membership. This is the same approach as has been adopted in previous years.

### 30. Retirement benefit obligations (continued)

The amounts recognised in the balance sheet, excluding amounts transferred to liabilities directly associated with assets classified as held for sale, were:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Present value of financial obligations	(985.9)	(901.7)	(190.7)	(205.7)
Fair value of plan assets	1,056.5	910.5	203.1	200.2
Surplus/(deficit) of funded plans	70.6	8.8	12.4	(5.5)
Less: restriction of surplus	(4.3)	–	–	–
Net asset/(liability) recognised in the balance sheet	66.3	8.8	12.4	(5.5)

The movement in the net defined benefit obligation over the accounting period is as follows:

	2022			2021		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	(901.7)	910.5	8.8	(685.3)	691.9	6.6
Acquisition Bristol Water Group	(175.4)	183.2	7.8	–	–	–
Current service cost	(2.9)	(0.6)	(3.5)	(6.3)	–	(6.3)
Past service cost, curtailments and gains/losses on settlements	(0.1)	–	(0.1)	54.9	(53.7)	1.2
Interest (expense)/income	(20.8)	21.4	0.6	(15.7)	15.0	(0.7)
	(23.8)	20.8	(3.0)	32.9	(38.7)	(5.8)
Remeasurements:						
(Loss) / return on plan assets excluding amounts included in interest expense	–	(33.1)	(33.1)	–	59.7	59.7
Loss from change in demographic assumptions	(0.7)	–	(0.7)	–	–	–
Gain / (loss) from change in financial assumptions	80.4	–	80.4	(75.9)	–	(75.9)
Experience (losses) / gains	(22.2)	0.5	(21.7)	3.9	–	3.9
	57.5	(32.6)	24.9	(72.0)	59.7	(12.3)
Contributions:						
Employers	–	27.8	27.8	–	50.6	50.6
Payments from plans:						
Benefit payments	57.5	(57.5)	–	39.2	(39.2)	–
	57.5	(29.7)	27.8	39.2	11.4	50.6
Transfer (from)/to liabilities directly associated with assets held for sale	–	–	–	(216.5)	186.2	(30.3)
<b>At 31 March</b>	<b>(985.9)</b>	<b>1,052.2</b>	<b>66.3</b>	<b>(901.7)</b>	<b>910.5</b>	<b>8.8</b>

#### Disposal of Viridor

In the prior year, prior to the completion of the Viridor sale in July 2020, the responsibilities for certain pension schemes that Viridor participated in transferred to Pennon Group plc. The net liabilities of the transferred obligations were £30.3 million.

Certain schemes that transferred from Viridor to Pennon were in respect of Viridor's Greater Manchester contract which ceased in May 2019. In respect of these obligations an agreement was reached, in September 2020, to transfer the liabilities of the active employees of the Greater Manchester contract to the new operator's pension fund. This resulted in a gain on settlement of £5.6 million which has been recognised in non-underlying items within discontinued operations (see note 45). A settlement payment of £7.2 million was made to ensure that the plan was fully funded on transfer to the new operator.

#### Modernisation of pension arrangements

The Group completed its employee consultation in June 2020 to modernise its ongoing pension arrangements. The outcome of the consultation resulted in a decision to close the Pennon principal defined benefit pension scheme to future accrual with effect from 30 June 2021. This resulted in a curtailment charge of £4.4 million in 2021, which was included within non-underlying items for the Continuing Group (see note 6).

The overall net gain of £1.2 million arising in respect of the settlement in connection with Greater Manchester and the curtailment charge is shown in the amounts recognised in the income statement for the year ended 31 March 2021.

#### Recognition of surplus on principal pension scheme

The net surplus on retirement benefits has increased in the year following the acquisition of Bristol Water, whose scheme is in surplus, and additional contributions made to the Group's principal pension scheme. In accordance with IAS 19 'Employee Benefits' the value of the net pension scheme surplus that can be recognised in the statement of financial position is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. In respect of the Group's principal pension scheme, PGPS, the surplus has been recognised as the Group believes that ultimately it has an unconditional right to a refund of any surplus assuming the full settlement of the plan's liabilities in a single event, such as a scheme wind up.

**30. Retirement benefit obligations** (continued)*Acquisition of Bristol Water*

The value of obligations and plan assets acquired with Bristol Water were measured in accordance with IAS 19 at the date of acquisition. The Group believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised. This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a tax deduction of 35% is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been applied to restrict the value of the surplus recognised for this scheme.

The total amount credited/charged to Other Comprehensive Income for remeasurement of defined benefit obligations of £24.9 million credit (2021 charge of £28.8 million) includes a charge of nil (2021 £16.5 million) that has been accounted for in discontinued operations.

The movement in the Company's net defined benefit obligation over the accounting period is as follows:

	2022			2021		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	(205.7)	200.2	(5.5)	(48.0)	47.9	(0.1)
Current service cost	(0.4)	–	(0.4)	(0.5)	–	(0.5)
Past service cost and gains and losses on settlements	–	–	–	58.4	(53.7)	4.7
Interest (expense)/income	(4.2)	4.2	–	(3.2)	2.9	(0.3)
	(4.6)	4.2	(0.4)	54.7	(50.8)	3.9
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	–	(13.7)	(13.7)	–	(22.4)	(22.4)
Gain/(loss) from change in financial assumptions	12.3	–	12.3	(3.3)	–	(3.3)
Experience losses	(4.6)	–	(4.6)	(0.8)	–	(0.8)
	7.7	(13.7)	(6.0)	(4.1)	(22.4)	(26.5)
Contributions:						
Employers	–	24.3	24.3	–	47.5	47.5
Payments from plans:						
Benefit payments	11.9	(11.9)	–	8.2	(8.2)	–
	11.9	12.4	24.3	8.2	39.3	47.5
Transfer (from)/to Group companies prior to sale	–	–	–	(216.5)	186.2	(30.3)
<b>At 31 March</b>	<b>(190.7)</b>	<b>203.1</b>	<b>12.4</b>	<b>(205.7)</b>	<b>200.2</b>	<b>(5.5)</b>

The schemes' assets relating to the Continuing Group were:

	2022			2021		
	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	219.0	–	21	170.0	–	19
Government bonds	96.1	–	9	116.1	–	13
Other bonds	270.1	79.3	33	246.3	101.0	38
Diversified growth	67.8	–	6	145.9	–	16
Property/Infrastructure	69.6	11.4	8	56.7	8.0	7
Insurance linked security	78.2	147.8	22	55.2	–	6
Other (including cash funds)	3.9	9.0	1	11.3	–	1
	804.7	247.5	100	801.5	109.0	100



### 30. Retirement benefit obligations (continued)

The Company's share of the schemes' assets at the balance sheet date was:

	2022			2021		
	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	49.7	–	24	37.4	–	19
Government bonds	21.8	–	11	25.5	–	13
Other bonds	61.3	18.0	39	54.1	22.2	38
Diversified growth	15.4	–	8	32.1	–	16
Property/Infrastructure	15.8	2.6	9	12.5	1.7	7
Insurance linked security	17.7	–	9	12.2	–	6
Other	0.8	–	–	2.5	–	1
	<b>182.5</b>	<b>20.6</b>	<b>100</b>	176.3	23.9	100

Through its defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The schemes hold a significant proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long term, but can give rise to volatility and risk in the short term. As the funding of the schemes improves, an increasing proportion of the schemes' assets are invested in less volatile asset classes such as cash and bonds which more closely reflect market movements in the schemes' liabilities. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In conjunction with its investment advisers, the trustees have structured the schemes' investments with the objective of balancing investment returns and levels of risk. The asset allocation for the main scheme has three principal elements:

- Holding of cash funds and bonds which are expected to be less volatile than most other asset classes and reflects market movements in the schemes' liabilities
- A proportion of assets with fund managers having freedom in making investment decisions to maximise returns
- Investment of a proportion of the schemes' assets in alternative asset classes which give the potential for diversification (currently property, insurance linked securities and diversified growth).

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected increases in pensionable pay.

The future cash flows arising from the payment of the defined benefits are expected to be settled primarily in the period between 15 and 40 years from the balance sheet date.

The 2019 triennial actuarial valuation of the principal defined benefit scheme was agreed in 2020 with an actuarial valuation deficit of £53.0 million. The Group has made deficit recovery contributions of £0.4 million during the current financial year (2021 £2.8 million), in accordance with the agreed 2019 actuarial valuation. No further deficit recovery contributions are outstanding from the 2019 actuarial valuation. Additional contributions of £23 million (2021: £36 million) were paid into the scheme using some of the proceeds from the Viridor disposal. The Group monitors funding levels on an annual basis and the Group expects to pay only scheme exposures of around £1.5 million, during the year ended 31 March 2023. The schedule of contributions in the 2019 valuation is in line with the 2016 triennial actuarial valuation. These ceased when the scheme closes to future accrual on 30 June 2021. The 2022 triennial actuarial valuation is underway.

The last formal actuarial valuation of the Bristol Water section of the WCPS was at 31 March 2017.

**31. Deferred tax**

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates.

Movements on deferred tax were:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Liabilities/(assets) at 1 April	259.6	261.6	(12.5)	(1.8)
Acquisition of Bristol Water Group	134.8	–	–	–
Charged to the income statement	8.9	4.2	3.1	1.8
Charged/(credited) to equity, including impact of change in tax rate	4.1	(0.2)	(3.5)	(4.8)
Other non-underlying charges/(credits) in the income statement	99.5	(6.0)	(0.2)	(7.7)
Liabilities/(assets) at 31 March	506.9	259.6	(13.1)	(12.5)

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The majority of the Group's deferred tax liability is expected to be recovered over more than one year. The majority of the Company's deferred tax asset is expected to be recovered over more than one year. All deferred tax assets and liabilities within the same jurisdiction are offset.

The movements in deferred tax assets and liabilities were:

**Group****Deferred tax liabilities**

	Accelerated tax depreciation £m	Fair value adjustments £m	Short-term liabilities including provisions £m	Retirement benefit obligations £m	Total £m
At 1 April 2020	274.4	17.1	–	–	291.5
Charged/(credited) to the income statement	1.9	(0.1)	–	–	1.8
At 31 March 2021	276.3	17.0	–	–	293.3
Acquisition of Bristol Water Group	83.8	64.7	–	–	148.5
Charged/(credited) to the income statement	2.6	(0.9)	–	–	1.7
Non-underlying charge to the income statement	88.5	5.3	–	–	93.8
Reclassification from deferred tax assets	–	–	18.6	9.7	28.3
<b>At 31 March 2022</b>	<b>451.2</b>	<b>86.1</b>	<b>18.6</b>	<b>9.7</b>	<b>565.6</b>

**Deferred tax assets**

	Derivatives £m	Share-based payments £m	Tax losses £m	Fair value adjustment £m	Short-term liabilities including provisions £m	Retirement benefit obligations £m	Total £m
At 1 April 2020	(14.7)	(2.0)	–	(8.9)	(1.8)	(2.5)	(29.9)
Charged/(credited) to the income statement	0.4	(0.1)	–	0.6	0.6	0.9	2.4
Non-underlying charge/(credit) to the income statement	–	–	(4.2)	–	0.3	(2.1)	(6.0)
(Credited)/charged to equity, including impact on change in tax rate	2.3	0.4	(0.6)	–	–	(2.3)	(0.2)
At 31 March 2021	(12.0)	(1.7)	(4.8)	(8.3)	(0.9)	(6.0)	(33.7)
Charged/(credited) to the income statement	0.5	(0.1)	(3.3)	1.9	0.4	7.8	7.2
Acquisition of Bristol Water Group	–	–	–	(32.8)	19.1	–	(13.7)
Non-underlying charge/(credit) to the income statement	0.3	(0.2)	(2.5)	(2.2)	–	10.3	5.7
(Credited)/charged to equity, including impact on change in tax rate	6.5	–	–	–	–	(2.4)	4.1
Reclassified to deferred tax liabilities	–	–	–	–	(18.6)	(9.7)	(28.3)
<b>At 31 March 2022</b>	<b>(4.7)</b>	<b>(2.0)</b>	<b>(10.6)</b>	<b>(41.4)</b>	<b>–</b>	<b>–</b>	<b>(58.7)</b>

## Net liability

At 31 March 2021	259.6
<b>At 31 March 2022</b>	<b>506.9</b>

An element of the deferred tax credited to the income statement in 2021 was reported as part of discontinued operations (see note 45).

### 31. Deferred tax (continued)

#### Company

##### Deferred tax assets

	Retirement benefit obligations £m	Derivatives £m	Share-based payments £m	Tax losses £m	Total £m
At 1 April 2020	(0.1)	(0.9)	(0.8)	–	(1.8)
Charged/(credited) to the income statement	1.9	–	(0.1)	–	1.8
Non-underlying credit to equity	–	–	–	(0.6)	(0.6)
Non-underlying credit to the income statement	(3.5)	–	–	(4.2)	(7.7)
(Credited)/charged to equity, including impact on change in tax rate	(5.1)	0.9	–	–	(4.2)
At 31 March 2021	(6.8)	–	(0.9)	(4.8)	(12.5)
Charged/(credited) to the income statement	6.5	–	(0.1)	(3.3)	3.1
Non-underlying charge/(credit) to the income statement	2.5	–	(0.2)	(2.5)	(0.2)
Credited to equity, including impact on change in tax rate	(3.5)	–	–	–	(3.5)
<b>At 31 March 2022</b>	<b>(1.3)</b>	<b>–</b>	<b>(1.2)</b>	<b>(10.6)</b>	<b>(13.1)</b>

Deferred tax (charged)/credited to equity or other comprehensive income during the year was:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Remeasurement of defined benefit obligations	2.4	(2.4)	(3.5)	(5.1)
Costs related to perpetual capital securities	–	(0.6)	–	–
Cash flow hedges	(6.5)	2.4	–	0.9
Share-based payments	–	0.4	–	–
	<b>(4.1)</b>	<b>(0.2)</b>	<b>(3.5)</b>	<b>(4.2)</b>

The above excludes deferred tax accounted for in equity relating to the discontinued operations in 2021.

Capital allowances are available when a business incurs qualifying expenditure on capital items such as infrastructure assets. Capital allowances provide tax relief on these items in place of accounting depreciation which is not tax deductible. Over the period of ownership of an asset, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates typically vary from 3% up to 100% in certain instances, with most items qualifying at either 6% or 18% per annum. Given the Group's continuing capital expenditure programme, it is unlikely that the deferred tax liability will crystallise in the near future.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. The adjustments for this are reflected in the current tax reconciliation. As explained in note 9, the Government has introduced capital expenditure super-deduction allowance incentives for the two-year period to April 2023 which increases the rate of capital allowances to up to 130% for expenditure on qualifying plant and machinery. This provides an increase in current tax relief for the Group with a consequently higher deferred tax liability and charge due to the additional capital allowance deductions and the increase in the rate of corporation tax to 25% from 1 April 2023.

Short-term temporary differences arise on items such as retirement benefit obligations, derivatives, fair value adjustments and share-based payments because the treatment of such items is different for tax and accounting purposes. These differences reverse over future years following that in which they arise, as is reflected in the deferred tax charge in these financial statements. Specifically, retirement benefit obligations will crystallise over the life of the pension scheme and/or the period when spreading applies (this can be up to three years for spreading purposes), whilst share-based payments will crystallise over the remaining lives of the share schemes, which are up to five years. Short-term liabilities including provisions will typically crystallise in the following year.

The fair value liability relates to the revaluation of tangible fixed assets on the acquisitions of Bournemouth Water and Bristol Water. The fair value asset relates to the revaluation of debt on the acquisitions of Bournemouth Water and Bristol Water. These items will be released over their remaining life which is up to 115 years.

Where interest charges or other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

Derivatives reflect the fair value movements on treasury derivatives. The balance will crystallise when derivative items are either terminated or mature, the life of these items can be up to ten years.

Tax losses relate to non-trade deficits carried forwards in relation to the UK's corporate interest restriction rules, these are anticipated to be utilised within the next five to ten years.

**32. Provisions**

	Restructuring £m	Total £m
<b>Group</b>		
At 1 April 2021	0.3	0.3
Utilised	(0.3)	(0.3)
Charged to the income statement	1.0	1.0
<b>At 31 March 2022</b>	<b>1.0</b>	<b>1.0</b>

The restructuring provision relates principally to severance costs and will be utilised within one year.

**33. Share capital****Allotted, called-up and fully paid**

	Number of shares		£m
	Treasury shares	Ordinary shares	
<b>Group and Company</b>			
At 1 April 2020 ordinary shares of 40.7p each	8,443	421,036,557	171.3
For consideration of £5.6 million, shares issued under the Company's Sharesave Scheme	–	1,083,624	0.5
At 31 March 2021 ordinary shares of 40.7p each	8,443	422,120,181	171.8
Share consolidation	(2,815)	(140,708,916)	–
For consideration of £3.8 million, shares issued under the Company's Sharesave Scheme	–	582,427	0.4
Shares cancelled	–	(17,146,744)	(10.5)
<b>At 31 March 2022 ordinary shares of 61.05p each</b>	<b>5,628</b>	<b>264,846,948</b>	<b>161.7</b>

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

On 16 July 2021, the Group paid a special dividend of £1.5 billion to shareholders in relation to the return of capital to shareholders announced on 3 June 2021. In order to maintain the comparability of the Company's share price before and after the special dividend, a share consolidation was approved at the General Meeting held on 28 June 2021. Shareholders received 2 New Ordinary shares of 61.05 pence each for every 3 Existing Ordinary shares of 40.7 pence each.

During the year, the Group announced and began a process to purchase ordinary shares at an aggregate cost of £400 million by September 2022. During the year the Group purchased £199.6 million of ordinary shares from the market at an average ordinary share price of 1,164 pence. The shares acquired under the tender offer were immediately cancelled, creating a capital redemption reserve of £10.5 million. The maximum number of shares that can be repurchased in connection with the Programme is 42,183,689 (being the maximum authority granted by Pennon's shareholders at Pennon's AGM on 22 July 2021).

**Employee share schemes**

The Group operates a number of equity-settled share plans for the benefit of employees. Details of each plan are:

**i) Sharesave Scheme**

An all-employee savings-related plan is operated that enables employees, including Executive Directors, to invest up to a maximum of £500 per month for three or five years. These savings can then be used to buy ordinary shares, at a price set at a 17% or 20% discount to the market value at the start of the savings period, at the third or fifth year anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Group before the option exercise period commences.

Outstanding options to subscribe for ordinary shares of 61.05 pence each under the Company's share option schemes are:

	Date granted and subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March	
			<b>2022</b>	2021
24 June 2015	683p	2018 – 2020	–	2
29 June 2016	709p	2019 – 2021	–	37
28 June 2017	767p	2020 – 2022	<b>28</b>	31
3 July 2018	635p	2021 – 2023	<b>112</b>	674
9 July 2019	620p	2022 – 2024	<b>447</b>	484
19 July 2020	928p	2023 – 2025	<b>234</b>	266
6 July 2021	879p	2024 – 2026	<b>680</b>	–
			<b>1,501</b>	1,494

### 33. Share capital (continued)

#### i) Sharesave Scheme (continued)

The number and weighted average exercise price of Sharesave options are:

	2022		2021	
	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	1,494	687	2,536	652
Granted	723	879	286	928
Forfeited	(43)	695	(441)	689
Exercised	(582)	640	(789)	638
Expired	(91)	817	(98)	686
<b>At 31 March</b>	<b>1,501</b>	<b>789</b>	1,494	687

The weighted average price of the Company's shares at the date of exercise of Sharesave options during the year was 1,216 pence (2021 1,021 pence). The options outstanding at 31 March 2022 had a weighted average exercise price of 789 pence (2021 687 pence) and a weighted average remaining contractual life of 1.96 years (2021 1.5 years). The number of exercisable Sharesave options at 31 March 2022 was 2,000 (2021 3,000) and the weighted average exercise price of exercisable Sharesave options was 635 pence (2021 698 pence).

The aggregate fair value of Sharesave options granted during the year was £2.0 million (2021 £0.4 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model at the date of issue of the options were:

	2022	2021
Weighted average share price (pence)	1,187	1,089
Weighted average exercise price (pence)	879	928
Expected volatility	27%	21.0%
Expected life	3.4 years	3.5 years
Risk-free rate	0.10%	0.10%
Expected dividend yield	3.0%	4.0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years.

#### ii) Long-term incentive plan (LTIP)

Executive Directors and senior management receive an annual grant of conditional shares. Share awards vest subject to the achievement of specific performance conditions measured over a performance period of not less than three years.

The number and price of shares in the LTIP are:

	2022		2021	
	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	999	843	1,346	781
Granted	221	1,141	229	1,074
Vested	-	-	(280)	787
Lapsed	(50)	790	(296)	791
<b>At 31 March</b>	<b>1,170</b>	<b>902</b>	999	843

The awards outstanding at 31 March 2022 had a weighted exercise price of 902 pence (2021 843 pence) and a weighted average remaining contractual life of 2.3 years (2021 3.3 years).

The aggregate fair value of awards granted during the year was £1.0 million (2021 £1.0 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depends on non-market performance vesting conditions.

**33. Share capital** (continued)**iii) Annual Incentive Bonus Plan – deferred shares**

Awards under the plan to Executive Directors and senior management involve the release of ordinary shares in the Company to participants. There is no performance condition since vesting is conditional upon continuous service with the Group for a period of three years from the award. The number and weighted average price of shares in the Annual Incentive Bonus Plan are:

	2022		2021	
	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	345	847	524	772
Granted	82	1,141	99	1,079
Vested	(75)	761	(277)	788
Lapsed	(2)	941	(1)	755
Cancelled	(144)	903	–	–
<b>At 31 March</b>	<b>206</b>	<b>955</b>	345	847

The awards outstanding at 31 March 2022 had a weighted average exercise price of 955 pence (2021 847 pence) and a weighted average remaining contractual life of 1.1 years (2021 1.3 years). The Company's share price at the date of the awards ranged from 756 pence to 1,141 pence (2021 762 pence to 1,079 pence).

The aggregate fair value of awards granted during the year was £0.9 million (2021 £1.1 million), determined from market value. No option pricing methodology is applied since dividends paid on the shares are receivable by the participants in the scheme.

Further details of the plans and options granted to Directors, included above, are shown in the Directors' remuneration report.

**34. Share premium account**

	£m
<b>Group and Company</b>	
At 1 April 2020	227.0
Shares issued under the Sharesave Scheme	5.1
At 31 March 2021	232.1
Shares issued under the Sharesave Scheme	3.4
<b>At 31 March 2022</b>	<b>235.5</b>

**35. Capital redemption reserve**

The capital redemption reserve represents the redemption of B shares and cancellation of deferred shares arising from a capital return to shareholders undertaken during 2006, together with the redemption of shares during the year ended 31 March 2022.

	£m
<b>Group and Company</b>	
At 1 April 2020	144.2
At 31 March 2021	144.2
Share capital redeemed	10.5
<b>At 31 March 2022</b>	<b>154.7</b>



### 36. Retained earnings and other reserves

	Own shares £m	Hedging reserve £m	Retained earnings £m	Total £m
<b>Group</b>				
At 31 March 2020	(4.5)	(28.1)	905.4	872.8
Profit for the year	-	-	1,762.2	1,762.2
Other comprehensive income/(loss) for the year	-	11.1	(23.3)	(12.2)
Dividends paid relating to 2020	-	-	(184.3)	(184.3)
Credit to equity in respect of share-based payments (net of tax)	-	-	2.2	2.2
Charge in respect of share options vesting	2.2	-	(2.2)	-
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(1.2)	-	-	(1.2)
Redemption of perpetual capital securities	-	-	(3.3)	(3.3)
Deferred tax recognised directly in equity	-	-	0.6	0.6
At 31 March 2021	(3.5)	(17.0)	2,457.3	2,436.8
Profit for the year	-	-	15.4	15.4
Other comprehensive income for the year	-	34.1	27.3	61.4
Dividends paid relating to 2021	-	-	(1,590.3)	(1,590.3)
Credit to equity in respect of share-based payments (net of tax)	-	-	2.2	2.2
Charge in respect of share options vesting	0.8	-	(0.8)	-
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(1.2)	-	-	(1.2)
Shares purchased for cancellation (included related expenses)	-	-	(201.7)	(201.7)
<b>At 31 March 2022</b>	<b>(3.9)</b>	<b>17.1</b>	<b>709.4</b>	<b>722.6</b>

The own shares reserve represents the cost of ordinary shares in Pennon Group plc issued to or purchased in the market and held by the Pennon Group plc Employee Benefit Trust to satisfy awards under the Group's Annual Incentive Bonus Plan.

The market value of the 238,000 ordinary shares (2021 423,000 ordinary shares) held by the Trust at 31 March 2022 was £2.6 million (2021 £4.1 million).

	Hedging reserve £m	Retained earnings £m	Total £m
<b>Company</b>			
At 1 April 2020	(3.9)	1,308.0	1,304.1
Profit for the year	-	1,312.3	1,312.3
Other comprehensive income/(loss) for the year	3.8	(21.6)	(17.8)
Dividends paid relating to 2020	-	(184.3)	(184.3)
Credit to equity in respect of share-based payments (net of tax)	-	1.4	1.4
Charge in respect of share options vesting	-	(2.2)	(2.2)
Redemption of perpetual capital securities	-	(3.3)	(3.3)
Deferred tax recognised directly in equity	-	0.6	0.6
At 31 March 2021	(0.1)	2,410.9	2,410.8
Profit for the year	-	74.5	74.5
Other comprehensive income/(loss) for the year	0.1	(2.6)	(2.5)
Dividends paid relating to 2021 (including £1.5 billion special dividend)	-	(1,590.3)	(1,590.3)
Shares purchased for cancellation (including related expenses)	-	(201.7)	(201.7)
Credit to equity in respect of share-based payments (net of tax)	-	0.9	0.9
Charge in respect of share options vesting	-	(2.6)	(2.6)
<b>At 31 March 2022</b>	<b>-</b>	<b>689.1</b>	<b>689.1</b>

In making decisions about the level of dividends to be proposed the Directors take steps to check that retained earnings reflect realised profits and are therefore distributable within the requirements of the Companies Act 2006.

**37. Perpetual capital securities**

	£m
<b>Group and Company</b>	
At 1 April 2020	296.7
Redemption of perpetual capital securities	(296.7)
At 31 March 2021	-
<b>At 31 March 2022</b>	<b>-</b>

On 22 September 2017 the Company issued £300 million 2.875% perpetual capital securities. Costs directly associated with the issue of £3.3 million were set off against the value of the issuance. They had no fixed redemption date but the Company could at its sole discretion redeem all, but not part, of these securities at their principal amount on 22 May 2020 or any subsequent periodic return payment date after this.

The Company had the option to defer periodic returns on any relevant payment date, as long as a dividend on the ordinary shares had not been paid or declared in the previous 12 months. Deferred periodic returns were to be satisfied only on redemption or payment of dividend on ordinary shares, all of which only occur at the sole discretion of the Company. As the Company paid a dividend in the 12 months prior to the periodic return date of 22 May 2020, a periodic return of £8.6 million was recognised as a financial liability in 2020.

The securities were fully redeemed during 2021 by a cash payment of £300 million.

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

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

**Cash generated from operations**

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Profit for the year	<b>15.6</b>	1,762.0	<b>74.5</b>	1,312.3
Adjustments for:				
Share-based payments	<b>2.2</b>	3.1	<b>1.1</b>	1.3
Profit on disposal of property, plant and equipment	<b>(1.0)</b>	(0.1)	-	-
Profit on disposal of discontinued operations	-	(1,682.7)	-	-
Profit on disposal of investment in subsidiary undertaking	-	-	-	(1,287.1)
Depreciation charge	<b>143.3</b>	119.2	-	-
Amortisation of intangible assets	<b>3.4</b>	0.2	-	-
Investment impairment charge	-	-	<b>0.4</b>	-
Continuing Group:				
• non-underlying pension items	-	4.4	-	(4.7)
• non-underlying Bristol Water acquisition costs	<b>8.9</b>	-	<b>8.9</b>	-
• non-underlying CMA merger review and integration costs	<b>6.9</b>	-	<b>4.8</b>	-
Discontinued operations:				
• non-underlying pension items	-	(5.6)	-	-
• non-underlying restructuring costs and share scheme charge	-	6.8	-	6.2
• non-underlying debt retirement cost	-	74.4	-	74.4
Share of post-tax profit from joint ventures	-	(4.3)	-	-
Finance income (before non-underlying items)	<b>(2.6)</b>	(10.1)	<b>(6.5)</b>	(11.0)
Finance costs (before non-underlying items)	<b>96.3</b>	83.7	<b>10.8</b>	27.6
Dividends receivable	-	-	<b>(94.5)</b>	(101.6)
Taxation charge	<b>112.1</b>	20.5	<b>(2.7)</b>	(23.7)
Changes in working capital:				
Increase in inventories	<b>(0.6)</b>	(4.0)	-	-
(Increase)/decrease in trade and other receivables	<b>(14.3)</b>	(42.4)	<b>6.9</b>	(3.4)
Increase in service concession arrangements receivable	-	(3.8)	-	-
(Decrease)/increase in trade and other payables	<b>(12.2)</b>	27.4	<b>(9.6)</b>	(15.4)
Decrease in retirement benefit obligations from contributions	<b>(24.2)</b>	(47.3)	<b>(24.0)</b>	(44.3)
Increase/(decrease) in provisions	<b>0.4</b>	(3.3)	-	-
Cash generated/(outflow) from operations	<b>334.2</b>	298.1	<b>(29.9)</b>	(69.4)
Group cash generated/(outflow) from operations comprises:				
• Cash generated from discontinued operations	-	28.7	-	-
• Cash generated/(outflow) from Continuing Group	<b>334.2</b>	269.4	<b>(29.9)</b>	(69.4)
Cash generated/(outflow) from operations	<b>334.2</b>	298.1	<b>(29.9)</b>	(69.4)

Included within cash generated/(outflow) from operations is £5.1 million relating to the non-underlying CMA merger review and integrations costs (Company £3.9 million).

### 38. Analysis of cash flows given in the statement of cash flows (continued)

Reconciliation of total interest paid:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Interest paid in operating activities	74.6	80.2	6.0	23.1
Interest paid in investing activities	1.3	0.9	–	–
Total interest paid	75.9	81.1	6.0	23.1

The above includes the entire Group, including cash flows relating to the discontinued operations business. Disaggregated information relating to the discontinued business is provided in note 45.

During the year, the Group completed a number of sale and leaseback transactions in respect of its infrastructure assets as part of its ongoing financing arrangements. Cash proceeds of £15 million (2021 £15.0 million) were received and a gain of nil (2021 nil) was recognised. These assets are primarily being leased back over an initial 10-year lease term at market rentals.

### 39. Net borrowings

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Cash and cash deposits	519.0	2,919.3	306.7	2,495.6
Borrowings – current				
Bank and other current borrowings	(70.0)	(40.1)	(30.0)	–
Lease obligations	(170.2)	(48.2)	–	–
Amounts owed to subsidiary undertakings	–	–	(282.8)	(283.4)
Total current borrowings	(240.2)	(88.3)	(312.8)	(283.4)
Borrowings – non-current				
Bank and other non-current borrowings	(1,907.4)	(1,375.7)	(154.5)	(184.4)
Listed preference shares	(12.5)	–	–	–
Lease obligations	(1,041.8)	(1,391.0)	–	–
Total non-current borrowings	(2,961.7)	(2,766.7)	(154.5)	(184.4)
Total net (borrowings)/cash	(2,682.9)	64.3	(160.6)	2,027.8

**39. Net borrowings** (continued)

The movements in net borrowings during the periods presented were as follows:

Group

	Net borrowings at 1 April 2020 £m	Viridor disposal £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2021 £m
Cash and cash deposits	665.9	–	2,253.4	–	–	2,919.3
Bank and other current borrowings	(40.7)	–	163.3	(162.5)	(0.2)	(40.1)
Current lease obligations	(19.2)	–	18.8	(43.2)	(4.6)	(48.2)
Bank and other non-current borrowings	(2,235.6)	–	772.1	162.5	(74.7)	(1,375.7)
Non-current lease obligations	(1,419.3)	–	(15.0)	43.2	0.1	(1,391.0)
	(3,048.9)	–	3,192.6	–	(79.4)	64.3
Net borrowings in Disposal Group	(215.1)	179.0	38.0	–	(1.9)	–
Net borrowings in total Group	(3,264.0)	179.0	3,230.6	–	(81.3)	64.3

	Net borrowings at 1 April 2021 £m	Bristol Water acquisition £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2021 £m
Cash and cash deposits	<b>2,919.3</b>	<b>6.1</b>	<b>(2,406.4)</b>	–	–	<b>519.0</b>
Bank and other current borrowings	<b>(40.1)</b>	<b>(9.0)</b>	<b>49.4</b>	<b>(70.4)</b>	<b>0.1</b>	<b>(70.0)</b>
Current lease obligations	<b>(48.2)</b>	<b>(0.2)</b>	<b>232.8</b>	<b>(365.5)</b>	<b>10.9</b>	<b>(170.2)</b>
Bank and other non-current borrowings	<b>(1,375.7)</b>	<b>(516.7)</b>	<b>(61.0)</b>	<b>70.4</b>	<b>(24.4)</b>	<b>(1,907.4)</b>
Listed preference shares	–	<b>(12.5)</b>	–	–	–	<b>(12.5)</b>
Non-current lease obligations	<b>(1,391.0)</b>	<b>(1.2)</b>	<b>(15.0)</b>	<b>365.5</b>	<b>(0.1)</b>	<b>(1,041.8)</b>
Net borrowings	<b>64.3</b>	<b>(533.5)</b>	<b>(2,200.2)</b>	–	<b>(13.5)</b>	<b>(2,682.9)</b>

Other non-cash movements for the Group in 2021 includes £69.3 million of make whole costs associated with the retirement of debt from the discontinued operations, which crystallised on settlement as well as the increase in borrowings from interest which is rolled into the amount repayable. Other non-cash movements for the Group in 2022 includes the increase in borrowings from interest which is rolled into the amount repayable.

Net debt acquired as part of the Bristol Water acquisition includes £134.8 million fair value adjustments.

Company

	Net borrowings at 1 April 2020 £m	Cash flows £m	Other non-cash movements £m	Net borrowings at 31 March 2021 £m
Cash and cash deposits	367.9	2,127.7	–	2,495.6
Bank and other loans due within one year	(6.1)	6.1	–	–
Amounts due to subsidiary undertakings	(284.4)	1.0	–	(283.4)
Bank and other loans due after one year	(1,135.4)	1,024.3	(73.3)	(184.4)
	(1,058.0)	3,159.1	(73.3)	2,027.8

	Net borrowings at 1 April 2021 £m	Cash flows £m	Other non-cash movements £m	Net borrowings at 31 March 2022 £m
Cash and cash deposits	<b>2,495.6</b>	<b>(2,188.9)</b>	–	<b>306.7</b>
Bank and other loans due within one year	–	–	<b>(30.0)</b>	<b>(30.0)</b>
Amounts due to subsidiary undertakings	<b>(283.4)</b>	<b>0.5</b>	<b>0.1</b>	<b>(282.8)</b>
Bank and other loans due after one year	<b>(184.4)</b>	–	<b>29.9</b>	<b>(154.5)</b>
	<b>2,027.8</b>	<b>(2,188.4)</b>	–	<b>(160.6)</b>

The significant cash flows in the prior year and reduction in net borrowings reflect the receipt of proceeds on the disposal of Viridor and subsequent repayment of borrowings in connection with that investment.

Other non-cash movements for the Company in 2021 includes £69.3 million of make whole costs associated with the retirement of debt from the discontinued operations, which crystallised on settlement as well as the increase in borrowings from interest which is rolled into the amount repayable.

As noted in note 28, the presentation of the Group's and the Company's debt instruments has been amended in order to better reflect the economic risks and substance of the instruments, with comparatives at 31 March 2021 reclassified accordingly.

#### 40. Subsidiary and joint venture undertakings at 31 March 2022

Principal subsidiary companies	Registered office address	Country of incorporation, registration and principal operations
<b>Water</b>		
Bristol Water Plc	Bridgwater Road, Bristol, BS13 7AT	England
South West Water Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South West Water Finance Plc	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South West Water Customer Services Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
<b>Non-household retail</b>		
Pennon Water Services Limited*(1)	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
<b>Other</b>		
Peninsula Insurance Limited*(2)	Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ	Guernsey
* Indicates the shares are held directly by Pennon Group plc, the Company.		
1. 80% of share capital owned by Pennon Group plc. All shares in issue are ordinary shares.		
2. Captive insurance company established with the specific objective of financing risks emanating from within the Group.		
Other trading companies	Registered office address	Country of incorporation
Bristol Water Holdings UK Limited*	Bridgwater Road, Bristol, BS13 7AT	England
Bristol Water Core Holdings Limited	Bridgwater Road, Bristol, BS13 7AT	England
Bristol Water Holdings Limited	Bridgwater Road, Bristol, BS13 7AT	England
Peninsula Properties (Exeter) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Defined Contribution Pension Trustee Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Pension Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Trustee Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England

**40. Subsidiary and joint venture undertakings at 31 March 2022** (continued)

Other dormant companies	Registered office address	Country of incorporation
Acetip	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Albion Water (Shotton) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Alderney Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Analaq Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Aquacare (BWH) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Avon Valley Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Bournemouth Water Investments Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Bournemouth Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
BWH Enterprises Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Cambridge Water Business Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Centre for Environmental Research Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
D.M.P (Holdings) Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
ELE Datasystems	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Exe Continental	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Greenhill Environmental Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Haul Waste Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Water Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Leasing Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Power Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Share Scheme Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon South West Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Waste Management Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
pHOX Systems Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Rydon Properties Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Seal Security Systems Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Source for Business Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South Staffordshire Water Business Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SSWB Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SWW Pension Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
The Metropolitan Water Company Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Contracting Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Enterprises Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor South West Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste 2 Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Water West Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
West Hampshire Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England

The subsidiary undertakings are wholly owned unless stated otherwise and all shares in issue are ordinary shares. All companies above are consolidated in the Group financial statements.

Joint Ventures and Associates	Registered office address	Country of incorporation	Stake (%)
Bristol Wessex Billing Services Limited	1 Clevedon Walk, Nailsea, Bristol, BS48 1WA	England	50
CREWW Executive Board Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England	50
Searchlight Collections Limited	PO BOX 930 Galmington Office, Galmington Trading Estate, Cornishway West, Taunton, Somerset, TA1 9LQ	England	50
Water 2 Business Limited	21e Somerset Square, Nailsea, Bristol, United Kingdom, BS48 1RQ	England	30

\* Indicates the shares are held directly by Pennon Group plc, the Company.



## 41. Contingencies

Contingent liabilities

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Guarantees:				
Performance bonds	9.7	–	9.7	–
	9.7	–	9.7	–

Guarantees in respect of performance bonds in 2022 relate to changes to the collateral requirements for the non-household retail business with other wholesalers.

### Other contractual and litigation uncertainties

Ofwat and the Environment Agency announced an industry-wide investigation into sewage treatment works on 18 November 2021. Since that time, Ofwat announced enforcement actions against certain companies. South West Water was not one of those companies but Ofwat have stated that their industry-wide investigation continues. The Environment Agency investigation is ongoing. The potential outcome of these investigations remains unknown.

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.

## 42. Capital commitments

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Contracted but not provided	59.5	76.7	–	–

## 43. Related party transactions

Group companies entered into the following transactions with joint ventures which were not members of the Group. Transactions listed below with INEOS Runcorn (TPS) Limited and Lakeside Energy from Waste Limited related to Viridor and were reported as part of discontinued operations in 2021. Bristol Wessex Billing Services Limited and Water 2 Business Limited are joint venture investments of Bristol Water plc.

	2022 £m	2021 £m
<b>Sales of goods and services</b>		
INEOS Runcorn (TPS) Limited	–	3.5
Water 2 Business Limited	14.5	–
<b>Purchase of goods and services</b>		
Lakeside Energy from Waste Limited	–	3.8
INEOS Runcorn (TPS) Limited	–	2.2
Bristol Wessex Billing Services Limited	2.4	–

### Year-end balances

	2022 £m	2021 £m
<b>Receivables due from related parties</b>		
Water 2 Business Limited (including loan receivable of £9.6 million)	11.1	–
Bristol Wessex Billing Services Limited	0.9	–
<b>Payables due to related parties</b>		
Water 2 Business Limited	0.4	–
Bristol Wessex Billing Services Limited	1.4	–

The receivables due from related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made, or are considered necessary, for doubtful debts in respect of these amounts due.

The loans to Water 2 Business Limited are due to be repaid on 28 February 2023 and carry interest at LIBOR plus 1.75%.

**43. Related party transactions** (continued)**Company**

The following transactions with subsidiary undertakings occurred in the year:

	2022 £m	2021 £m
Sales of goods and services (management fees)	9.0	10.5
Purchase of goods and services (support services)	0.5	3.3
Interest receivable	1.3	4.7
Dividends received	94.5	101.6

Sales of goods and services to subsidiary undertakings are at cost. Purchases of goods and services from subsidiary undertakings are under normal commercial terms and conditions which would also be available to unrelated third parties.

**Year-end balances**

	2022 £m	2021 £m
<b>Receivables due from subsidiary undertakings</b>		
Loans	31.5	26.1
Trading balances and other receivables	48.2	59.9

£26.1 million of the loan balance is due for repayment in instalments over a five-year period following a receipt of a request to repay. No request to repay has been issued at the current time. Interest on £13.1 million (2021 £13.1 million) of the loans has been charged at a fixed rate of 5%. Interest on £13.0 million (2021 £13.0 million) of the loans has been charged at 12-month LIBOR +3.0%.

The remaining loan receivable of £5.4 million is with Bristol Water Holdings UK Limited (BWHUK). As part of the acquisition of the Bristol Water Group, Pennon Group plc acquired a loan receivable from BWHUK with a principal repayable of £5.5 million. This loan receivable is due for repayment on 31 December 2023 and the rate of interest charged on the amount outstanding is 0%. Under the requirements of IFRS9 the fair value of the loan is recognised using the rate of 3.565% (comprising an indicative market rate of 0.765% and a margin of 2.8%). The difference between the fair value and the notional value is amortised over the remaining term of the loan with the effective interest being charged to the income statement.

No material expected credit loss provision has been recognised in respect of loans to subsidiaries (2021 nil).

	2022 £m	2021 £m
<b>Payables due to subsidiary undertakings</b>		
Loans	282.8	283.4
Trading balances	8.6	8.6

The loans from subsidiary undertakings are unsecured and interest-free without any terms for repayment.

#### 44. Acquisition of Bristol Water Group

On 2 June 2021, the Company acquired 100% of the issued share capital and voting rights of Bristol Water Holdings UK Limited, the holding company of the Bristol Water Group. Bristol Water Group comprises Bristol Water plc, a regulated water only company and a 30% share in Water 2 Business Limited, a joint venture with Wessex Water. The purpose of the acquisition was to grow the Group's core water business by expanding into a geographically contiguous region. The acquisition of the Bristol Water Group was reviewed by the Competition and Markets Authority and given full clearance on 7 March 2022. The Bristol Water Group is consolidated in Pennon's accounts with effect from the completion of acquisition at midnight on 2 June 2021.

The details of the business combination are as follows:

	£m
<b>Fair value of consideration transferred</b>	
Amount settled in cash	<b>419.6</b>
Recognised amounts of identifiable net assets	
Property, plant and equipment	<b>944.8</b>
Intangible assets	<b>12.8</b>
Other non-current assets	<b>9.9</b>
Inventories	<b>1.7</b>
Trade and other receivables	<b>22.3</b>
Cash and cash deposits (including restricted cash of £6.1 million)	<b>18.9</b>
Current tax liability	<b>(2.2)</b>
Borrowings	<b>(545.1)</b>
Trade and other payables	<b>(32.3)</b>
Provisions	<b>(0.3)</b>
Retirement benefit obligations	<b>7.8</b>
Deferred tax liabilities	<b>(134.8)</b>
Identifiable net assets	<b>303.5</b>
Goodwill on acquisition	<b>116.1</b>
Consideration for equity settled in cash	<b>419.6</b>
Payment to acquire loan to former parent	<b>5.5</b>
Cash and cash equivalents acquired (excluding restricted cash)	<b>(12.8)</b>
Net cash outflow on acquisition	<b>412.3</b>
Acquisition costs paid charged to expenses	<b>8.9</b>
<b>Net cash paid relating to the acquisition</b>	<b>421.2</b>

Acquisition related costs of £8.9 million are not included as part of the consideration transferred and have been recognised as an expense in the consolidated income statement within other operating expenses.

The fair value of trade and other receivables acquired as part of the business combination amounted to £22.3 million with a gross contractual amount of £38.9 million. At the acquisition date the Group's best estimate of the contractual cash flows expected not to be collected amounted to £16.6 million.

As part of the acquisition of Bristol Water, the Group acquired interests in two joint ventures, Bristol Wessex Billing Services Limited ("BWBSL") and Water 2 Business Limited ("water2business"). These two interests are accounted for using the equity method. Currently the carrying values of these investments equates to nil, representing the relevant share of the net assets of each of these interests.

Fair values on acquisition have been updated from those disclosed at half year results to 30 September 2021, with some changes being required, primarily to the acquired tax balances. This has led to a reduction in the total value of goodwill recognised on acquisition by £2.3 million.

The goodwill that arose on the acquisition can be attributed to synergies expected to be derived from the combination and the value of the workforce which cannot be recognised as an intangible asset. Goodwill has been allocated to the water segment. The goodwill arising is not expected to be tax deductible. From the date of acquisition on 2 June 2021, Bristol Water Group contributed £103.9 million (excluding £0.5m intercompany revenue as outlined in note 5) and £9.2 million to the Group's revenue and pre-tax profits respectively. Had the acquisition occurred on 1 April 2021, the contribution to the Group's revenue would have been £124.6 million and the contribution to the Group's profit before tax for the period would have been £11.1 million.

#### 45. Discontinued operations

On 18 March 2020, the Group entered into a formal sale agreement to dispose of Viridor Limited to Planets UK Bidco Limited (Bidco), a newly formed company established by funds advised by Kohlberg Kravis Roberts & Co. L.L.P. (KKR). The Viridor business which represented the entirety of the waste operating segment was classified as a discontinued operation at that date. Consequently, Viridor has not been presented as an operating segment in the segment note. The sale completed on 8 July 2020 and the results of the discontinued operation and the effect of the disposal on the financial position of the Group were as follows:

	Before non-underlying items 2022 £m	Non-underlying items (see below) 2022 £m	Total 2022 £m	Before non-underlying items 2021 £m	Non-underlying items (see below) 2021 £m	Total 2021 £m
<b>Discontinued operations</b>						
<b>Revenue</b>	-	-	-	192.2	-	192.2
Operating costs						
Employment costs	-	-	-	(34.4)	0.5	(33.9)
Raw materials and consumables used	-	-	-	(22.4)	-	(22.4)
Other operating expenses	-	-	-	(81.1)	(1.7)	(82.8)
<b>Earnings before interest, tax, depreciation and amortisation</b>	-	-	-	54.3	(1.2)	53.1
Depreciation and amortisation	-	-	-	-	-	-
<b>Operating profit</b>	-	-	-	54.3	(1.2)	53.1
Finance income	-	-	-	6.0	-	6.0
Finance costs	-	-	-	(21.3)	(74.4)	(95.7)
<b>Net finance costs</b>	-	-	-	(15.3)	(74.4)	(89.7)
Share of post-tax profit from joint ventures	-	-	-	4.3	-	4.3
<b>Profit before tax</b>	-	-	-	43.3	(75.6)	(32.3)
Taxation (charge)/credit	-	-	-	(7.8)	12.1	4.3
<b>Profit from operating activities, net of tax</b>	-	-	-	35.5	(63.5)	(28.0)
Gain on sale of discontinued operation	-	-	-	-	1,682.7	1,682.7
<b>Profit from discontinued operations, net of tax</b>	-	-	-	35.5	1,619.2	1,654.7
Attributable to:						
Ordinary shareholders of the parent			-			1,654.7
<b>Cash flows used in discontinued operations</b>					<b>2022 £m</b>	<b>2021 £m</b>
Cash generated from operations					-	28.7
Interest paid					-	(17.6)
Tax paid					-	(4.4)
Cash flows from operating activities					-	6.7
Cash flows from investing activities					-	(24.0)
Cash flows from financing activities					-	(79.2)
<b>Net decrease in cash and cash equivalents from discontinued operations, net of inter-company</b>					-	(96.5)

#### Non-underlying items

Non-underlying items in 2021 represent employment costs (restructuring, accelerated share scheme charges and a settlement gain on transfer of pension liabilities), other operating restructuring costs and finance costs relating to debt retirements of £74.4 million, together with the related taxation credit.

#### 45. Discontinued operations (continued)

The net assets relating to the Disposal Group at the date of disposal and the gain on disposal are shown below:

	2021 £m
<b>Assets of the Disposal Group</b>	
Goodwill	340.8
Other intangible assets	86.9
Property, plant and equipment	1,619.2
Other non-current assets	266.7
Investment in joint ventures	64.4
Inventories	33.4
Trade and other receivables	298.7
Current tax asset	0.6
Cash and cash deposits	61.7
<b>Total assets</b>	<b>2,772.4</b>
<b>Liabilities of the Disposal Group</b>	
Borrowings	(240.7)
Trade and other payables	(157.7)
Provisions	(236.8)
Other non-current liabilities	(12.7)
Retirement benefit obligations	1.5
Deferred tax liabilities	(109.4)
<b>Total liabilities</b>	<b>(755.8)</b>
<b>Net assets disposed of</b>	<b>2,016.6</b>
Consideration received in cash, net of transaction costs	3,690.2
Deferred consideration	9.2
<b>Gain on sale before income tax and reclassification of reserves</b>	<b>1,682.8</b>
Items previously recognised in equity recycled to the income statement	(0.1)
<b>Gain on sale of discontinued operation</b>	<b>1,682.7</b>
<b>Net cash inflow arising on disposal</b>	
Consideration received in cash, net of transaction costs	3,690.2
Less: cash and cash deposits disposed of	(61.7)
	<b>3,628.5</b>

#### Deferred consideration

Under the sale agreement deferred consideration may be receivable in future. The fair value of the amount expected to be received at 31 March 2021 was estimated at £9.2 million and this amount was received in the financial year ended 31 March 2022. The receipt of further deferred consideration remains possible, albeit the likelihood is judged as not probable and has therefore not been recognised in the financial statements.

#### Taxation on the discontinued operations

The gain on sale of discontinued operations qualified for Substantial Shareholding Exemption and consequently was not subject to corporation tax. The taxation charge from discontinued operations before non-underlying items in 2021 of £7.8 million includes a deferred tax charge of £7.6 million.

## 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. The following APMs have been added or amended to those presented previously to reflect the changing nature of the Group following the sale of Viridor in July 2020 and the acquisition of Bristol Water in June 2021:

- An APM for 2021/22 has been added for Basic adjusted earnings per share – Continuing Operations (adjusted for share consolidation). To aid comparability, this new APM, which is presented on a basis other than in accordance with IAS 33, includes the full impact of the share consolidation as if it had taken place at the start of the previous financial year and recalculates the resulting Adjusted earnings per share measure.
- The APM for effective interest rate has been expanded to outline the calculation for the effective interest rate of South West Water Limited, Bristol Water Group and together the water business segment. In previous periods South West Water Limited was presented. This change has been made to reflect the acquisition of Bristol Water and the resulting combined effective interest rate of the water business.
- The APM 'Group return on capital employed' has been changed to 'South West Water return on capital employed' due to this metric providing a more meaningful comparison of performance due to the Group holding a net cash position at 31 March 2021.

### 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 6 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 2022

£m	Non-underlying items			Statutory results	Earnings per share (p)
	Underlying	Deferred tax change of rate	Acquisition and merger review costs		
EBITDA (see below)	383.9	–	(15.8)	368.1	
Operating profit	237.2	–	(15.8)	221.4	
Profit before tax	143.5	–	(15.8)	127.7	
Taxation	(13.9)	(99.5)	1.3	(112.1)	
Profit after tax				15.6	
Non-controlling interests				(0.2)	
Profit after tax attributable to shareholders				15.4	4.9

#### Underlying earnings reconciliation 2021

£m	Non-underlying items			Statutory results	Earnings per share (p)
	Underlying	WaterShare+	Pension curtailment charge		
EBITDA (see below)	334.7	(20.5)	(4.4)	309.8	
Operating profit	215.3	(20.5)	(4.4)	190.4	
Profit before tax	157.0	(20.5)	(4.4)	132.1	
Taxation	(29.6)	3.9	0.9	(24.8)	
Profit after tax from continuing operations				107.3	
Profit after tax from discontinued operations				1,654.7	
Profit after tax				1,762.0	
Non-controlling interests				0.2	
Profit after tax attributable to shareholders				1,762.2	418.5

### Underlying EBITDA

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



**Basic adjusted earnings per share – Continuing Operations (adjusted for share consolidation)**

	2022	2021
<b>Basic weighted average number of shares</b>		
Basic weighted average number of shares (millions) (note 11)	312.1	421.1
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (millions)	(36.6)	(140.4)
<b>Adjusted basic weighted average number of shares (adjusted for share consolidation) (millions)</b>	<b>275.5</b>	<b>280.7</b>
Basic adjusted earnings per share from continuing operations before exceptional items and deferred tax (pence) (note 11)	44.3	31.9
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (pence)	5.9	15.9
Basic adjusted earnings per share from continuing operations before exceptional items and deferred tax (adjusted for share consolidation) (pence)	<b>50.2</b>	<b>47.8</b>

**Effective interest rate**

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

**South West Water Limited**

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

	2022 £m	2021 £m
Net finance costs after non-underlying items	76.8	56.5
Net interest on retirement benefit obligations	0.4	(0.4)
Capitalised interest	1.0	0.9
<b>Net finance costs for effective interest rate calculation</b>	<b>78.2</b>	<b>57.0</b>
Opening net debt	2,273.5	2,307.2
Closing net debt	2,305.2	2,273.5
Average net debt (opening net debt + closing net debt divided by 2)	2,289.4	2,290.4
<b>Effective interest rate (%)</b>	<b>3.4</b>	<b>2.5</b>

**Bristol Water Group**

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

	2022 £m
Net finance costs after non-underlying items (from 3 June 2021)	20.1
Net interest on retirement benefit obligations (from 3 June 2021)	(0.2)
Capitalised interest (from 3 June 2021)	0.3
<b>Net finance costs for effective interest rate calculation (from 3 June 2021)</b>	<b>20.2</b>
Net finance costs for effective interest rate calculation (1 April 2021 to 2 June 2021)	2.4
<b>Net finance costs for effective interest rate calculation</b>	<b>22.6</b>
Opening net debt <sup>1</sup>	395.6
Closing net debt	405.3
Average net debt (opening net debt + closing net debt divided by 2)	400.5
<b>Effective interest rate (%)</b>	<b>5.6</b>

1. Opening net debt of £395.6 million reflects 31 March 2021 Bristol Water Group net debt. On acquisition on 2 June 2021, Bristol Water Group's net debt was £391.4 million. Net debt excludes fair value adjustments.

## Alternative Performance Measures (continued)

### Water business

A combined measure reflecting the mean average interest rate payable on the water business' net debt, which excludes interest costs not directly associated with water business net debt. This measure is presented to assess and monitor the combined relative cost of financing for the water business.

	2022 £m	2021 £m
Net finance costs for effective interest rate calculation	100.8	57.0
Opening net debt (at 31 Mar 2021)	2,669.1	2,307.2
Closing net debt	2,710.5	2,273.5
Average net debt (opening net debt + closing net debt divided by 2)	2,689.8	2,290.4
<b>Effective interest rate (%)</b>	<b>3.7</b>	2.5

### Underlying interest cover

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

	2022 £m	2021 £m
Net finance costs after non-underlying items	93.7	58.3
Net interest on retirement benefit obligations	0.6	(0.7)
<b>Net finance costs for interest cover calculation</b>	<b>94.3</b>	57.6
Operating profit before non-underlying items	237.2	215.3
<b>Interest cover (times)</b>	<b>2.5</b>	3.7

### Group dividend cover

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

	2022 £m	2021 £m
<b>Proposed dividends</b>	<b>102.0</b>	91.8
Profit for the year attributable to ordinary shareholders	15.4	1,762.2
Deferred tax charge before non-underlying items	8.9	14.2
Non-underlying items after tax in profit for the year	114.1	(1,599.1)
<b>Adjusted profit for dividend cover calculation</b>	<b>134.8</b>	177.3
<b>Dividend cover (times)</b>	<b>1.4</b>	1.9

### 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.

	2022 £m	2021 £m
Additions to property, plant and equipment	237.3	168.4
Additions to intangible assets	3.6	0.2
<b>Capital investment</b>	<b>240.9</b>	168.6

### Capital payments

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

	2022 £m	2021 £m
Cash flow statements: purchase of property, plant and equipment	225.6	190.1
Cash flow statements: purchase of intangible assets	3.4	0.2
Cash flow statements: proceeds from sale of property, plant and equipment	(1.4)	(0.4)
<b>Capital payments relating to the Group</b>	<b>227.6</b>	189.9
Capital payments relating to discontinued operations	-	(32.3)
<b>Capital payments relating to continuing operations</b>	<b>227.6</b>	157.6

### South West Water return on capital employed

The total of underlying operating profit divided by capital employed (net debt plus total equity invested). An average value for this metric is part of the long-term incentive plan for Directors.

	2022 £m	2021 £m
<b>Underlying operating profit – South West Water</b>	<b>214.5</b>	222.3
Capital employed:		
Net debt	<b>2,233.8</b>	2,198.6
Total equity invested	<b>295.9</b>	250.9
<b>Capital employed for return on capital employed calculation</b>	<b>2,529.7</b>	2,449.5
Return on capital employed:	<b>8.5%</b>	9.1%

### Continuing operations operational cash inflows and other movements

Cash generated from operations before pension contributions and other movements.

	2022 £m	2021 £m
Cash generated from operations per cash flow statements	<b>334.2</b>	298.1
Remove: cash generated from discontinued operations	-	(28.7)
<b>Cash generated from operations from the Continuing Group</b>	<b>334.2</b>	269.4
Other movements <sup>1</sup>	<b>2.6</b>	(3.6)
Pension contributions	<b>27.9</b>	50.2
<b>Operational cash inflows and other movements</b>	<b>364.7</b>	316.0

1. Other movements reflect operational movements not related to operating cash flows, such as proceeds from share issues and share trust purchases for the employee share schemes.

### 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.3.9% for South West Water and c.4.4% for Bristol Water for the period 2020-25) plus totex outperformance, financing outperformance and ODI outperformance. Returns are calculated post tax and post sharing (only a proportion of returns are attributed to shareholders and shown within RORE). The three 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.

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 2020-25, the notional equity proportion is 40.0%.

References are made to Ofwat RORE and WaterShare RORE which utilise differing inflation assumptions and the disclosure of tax.

Further information on this metric can be found in South West Water and Bristol Water's annual performance report and regulatory reporting, published in July each year.

### Totex

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

### Outcome Delivery Incentives (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.

## Glossary

CIC	community interest company, a type of company introduced by the UK Government in 2005 under the Companies (Audit, Investigations and Community Enterprise) Act 2004, designed for social enterprises that want to use their profits and assets for the public good
C-MeX	customer measure of experience, a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain
CPI	consumer price index, a measure of inflation in a representative sample of retail goods and services using a geometric mean and excluding e.g. housing costs
CPIH	consumer price index, a measure of inflation in a representative sample of retail goods and services using a geometric mean, including owner occupiers' housing costs
DNV	an independent management consultancy specialising in technical assurance in the utility sector
EBITDA	earnings before interest, tax, depreciation and amortisation
EIB	European Investment Bank
ERF	energy recovery facility
ESG	environmental, social and governance
Fair Tax Mark	an independent certification scheme which recognises organisations that demonstrate they are paying the right amount of corporation tax at the right time. In December 2018, Pennon became the first water services and waste management utility to receive it (see page 79)
GHG	greenhouse gases (see page 89)
GMP	guaranteed minimum pension
GRREC	Glasgow Recycling and Renewable Energy Centre
GVA	gross value added, the measure of the value of goods and services produced in an area, industry or sector of an economy
HomeSafe	our health & safety improvement programme (see page 56)
K7	the current regulatory price review period during which South West Water's 2020-25 New Deal business plan will be implemented (see page 66)
KPI	key performance indicator, our measures of business performance against the key targets monitored by Board and Pennon Executive (see page 14)
LTIFR	lost time injury frequency rate
MRF	materials recycling facility
ODI	outcome delivery incentives, 15 of which are common across all water companies while others are bespoke to South West Water (see page 16)
Ofwat	The Water Services Regulation Authority, or Ofwat, is the body responsible for economic regulation of the privatised water and sewerage industry in England and Wales
PRF	plastics recycling facility
ROCE	return on capital employed
RORE	return on regulated equity
RPI	retail price index, a measure of inflation in a representative sample of retail goods and services using an arithmetic mean
SIM	service incentive mechanism, a measure of customer service
STEM	science, technology, engineering and mathematics
Sustainable Financing Framework	the way we link financial impacts with sustainability impacts; the Framework aligns with the Green Bond Principles, the Social Bond Principles and the Green Loan Principles (see page 79)
Totex	total expenditure
WaterShare	the programme through which we shared the benefits of outperformance against our 2015-20 business plan targets with water customers
WaterShare+	the enhanced benefit sharing mechanism introduced for water customers under our 2020-25 New Deal business plan (see page 69)

## Five-year financial summary

	Continuing operations			Total Group		
	2022 £m	2021 £m	2020 £m	2020 £m	2019 £m	2018 £m
<b>Income statement</b>						
Revenue before non-underlying items	<b>792.3</b>	644.6	636.7	1,389.9	1,478.2	1,393.0
Operating profit before non-underlying items	<b>237.2</b>	215.3	245.5	361.5	351.0	323.9
Net finance costs before non-underlying items	<b>(93.7)</b>	(58.3)	(62.5)	(88.7)	(83.2)	(74.5)
Share of profit in joint ventures	<b>–</b>	–	–	14.8	12.4	9.4
Profit before tax and non-underlying items	<b>143.5</b>	157.0	183.0	287.6	280.2	258.8
Net non-underlying items before tax	<b>(15.8)</b>	(24.9)	10.1	13.9	(19.9)	4.1
Taxation charge	<b>(112.1)</b>	(24.8)	(70.6)	(95.2)	(37.7)	(41.0)
Profit for the year	<b>15.6</b>	107.3	122.5	206.3	222.6	221.9
Attributable to:						
Ordinary shareholders of the parent	<b>15.4</b>	107.5	116.6	200.4	214.3	200.6
Perpetual capital security holders	<b>–</b>	–	7.0	7.0	8.6	21.5
Non-controlling interests	<b>0.2</b>	(0.2)	(1.1)	(1.1)	(0.3)	(0.2)
Dividends proposed/declared	<b>102.0</b>	91.8	184.3	184.3	172.7	162.0
Earnings per ordinary share (basic):						
From continuing and discontinuing operations						
Earnings per share	<b>4.9p</b>	25.5p	27.7p	47.7p	51.1p	48.0p
Deferred tax before non-underlying items	<b>2.6p</b>	1.6p	2.4p	7.9p	3.1p	4.4p
Non-underlying items (net of tax)	<b>36.5p</b>	4.8p	5.3p	6.9p	3.6p	(1.8p)
Non-controlling interests' share of non-underlying items	<b>–</b>	–	(0.2p)	(0.2p)	–	–
Adjustment for full year depreciation charge in the Disposal Group	<b>–</b>	–	–	(0.6p)	–	–
Proportional adjustment on perpetual capital returns	<b>–</b>	–	–	–	–	0.3p
Earnings per share before non-underlying and deferred tax	<b>44.3p</b>	31.9p	35.2p	61.7p	57.8p	50.9p
Declared dividends per share	<b>38.53p</b>	21.74p	43.77p	43.77p	41.06p	38.59p
	<b>2022 £m</b>	2021 £m	2020 £m	2019 £m	2018 £m	
<b>Capital expenditure</b>						
Acquisitions (including investment in joint ventures)	<b>425.1</b>	–	–	54.8	8.4	
Property, plant and equipment	<b>237.3</b>	168.3	326.8	387.2	389.0	
<b>Balance sheet</b>						
Non-current assets	<b>4,527.0</b>	3,277.1	3,226.0	5,364.5	5,125.0	
Net current assets <sup>1</sup>	<b>389.5</b>	2,919.1	2,595.8	583.9	412.6	
Non-current liabilities	<b>(3,641.9)</b>	(3,211.4)	(4,109.7)	(4,268.6)	(3,898.5)	
Net assets	<b>1274.6</b>	2,984.8	1,712.1	1,679.8	1,639.1	
<b>Number of employees</b> (average full time equivalent for year)						
Water	<b>2,394</b>	1,745	1,623	1,616	1,575	
Waste management	<b>–</b>	–	2,986	3,426	3,285	
Non-household retail	<b>177</b>	160	143	104	81	
Other businesses	<b>65</b>	82	101	93	73	
	<b>2,636</b>	1,987	4,853	5,239	5,014	

1. Net current assets for 2020 includes assets held for sale of £2,675.3 million and liabilities directly associated with assets classified as held for sale of £756.3 million.

# Shareholder information

## Financial calendar, including Dividend Reinvestment Plan (DRIP) alternative

Financial year end	31 March
Ex-dividend date for 2022 final dividend	21 July 2022
2022 Annual General Meeting	21 July 2022
Record date for 2022 final dividend	22 July 2022
Final date for receipt of DRIP applications	11 August 2022
2022 final dividend payable	5 September 2022
2022/23 half-yearly results announcement	30 November 2022
2023 interim dividend payable	April 2023
2022/23 final results announcement	1 June 2023
2023 Annual General Meeting	July 2023
2023 final dividend payable	September 2023

## Shareholder analysis at 31 March 2022

Number of holding of shares	Number of shareholders	% of total shareholders	% of ordinary shares
1-100	2,658	15.96	0.03
101-1,000	8,429	50.62	1.54
1,001-5,000	4,575	27.48	3.61
5,001-50,000	695	4.17	3.23
50,001-100,000	83	0.50	2.34
100,001+	211	1.27	89.25
	16,651		

	Number of accounts	% of total accounts	% of total shares
Individuals	15,072	90.52	6.48
Companies	112	0.67	0.38
Trust companies (pension funds etc.)	4	0.02	0.00
Banks and nominees	1,463	8.79	93.14
	16,651		

## Major shareholdings

Investors who have notified interests in the issued share capital of the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules are as follows. This includes all notifications up to 30 May 2022 (being a date not more than one month prior to the date of the Company's Notice of Annual General Meeting):

	Number of voting rights (direct and indirect)	% of voting rights	Date notified
BlackRock Inc	16,413,878	5.82%	25/08/21
Impax Asset Management	12,663,862	4.736%	16/02/22
Pictet Asset Management	13,324,523	5.031%	14/04/22
Norges Bank	10,059,986	3.7985%	22/04/22
Lazard Asset Management LLC	13,443,374	5.076%	18/05/22



## Registrar

All enquiries concerning shareholdings including notification of change of address, loss of a share certificate or dividend payments should be made to the Company's registrar, Link Asset Services, who can be contacted as follows:

Link Asset Services  
Pennon Group Share Register 10<sup>th</sup> Floor  
Central Square  
29 Wellington Street Leeds  
LS1 4DL

Telephone: 0371 664 9234 (calls are charged at standard geographic rate and will vary by provider).

Lines are open 8.30am-5.30pm Monday-Friday, excluding public holidays in England and Wales.

Overseas telephone: +44 371 664 9234  
(calls outside the United Kingdom will be charged at the applicable international rate).

Email: [pennon@linkgroup.co.uk](mailto:pennon@linkgroup.co.uk)  
Website: [www.signalshares.com](http://www.signalshares.com)

## ShareGift service

Through ShareGift, an independent charity share donation scheme, shareholders who only have a small number of shares with a value that makes it uneconomical to sell them can donate such shares to charity. Donations can be made by completion of a simple share transfer form which is available from the Company's registrar, Link Asset Services, or by contacting ShareGift on 020 7930 3737 ([www.sharegift.org](http://www.sharegift.org)).

## Individual savings accounts

Shareholders may gain tax advantages by holding their shares in the Company in an Individual Savings Account (ISA).

## Dividend Reinvestment Plan (DRIP)

Subject to obtaining shareholder approval at the 2022 Annual General Meeting for the payment of a final dividend for the year ended 31 March 2022, full details of the DRIP and how to participate will be published on the Company's website at [www.pennon-group.co.uk/dividends/dividend-reinvestment-plan-drip](http://www.pennon-group.co.uk/dividends/dividend-reinvestment-plan-drip).

The full timetable for offering the DRIP is given opposite.

The DRIP provides shareholders with an opportunity to invest the cash dividend they receive on their Pennon Group plc shares to buy further shares in the Company at preferable dealing rates.

## Corporate information

### Registered office

Peninsula House Rydon Lane Exeter  
Devon EX2 7HR

Company registration number: 2366640

### Company Secretary

Simon A F Pugsley

### Corporate brokers

Barclays Bank PLC  
Morgan Stanley & Co. International plc

### Independent auditors

Ernst & Young LLP

## Online portfolio service

The online portfolio service provided by Link Asset Services gives shareholders access to more information on their investments. Details of the portfolio service are available online at [www.signalshares.com](http://www.signalshares.com).

## Electronic communications

The Company has passed a resolution which allows it to communicate with its shareholders by means of its website.

Shareholders currently receiving a printed copy of the annual report who now wish to sign up to receive all future shareholder communications electronically can do so by registering with Link Asset Services' share portal.

Go to <http://www.signalshares.com> to register, select 'Account Registration' and then follow the on-screen instructions by inputting your surname, your Investor Code (which can be found on your proxy form) and your postcode, as well as entering an email address and selecting a password.

By registering to receive your shareholder communications electronically, you will also automatically receive your dividend confirmations electronically.

## Electronic proxy voting

Pennon encourages the use of electronic proxy voting and no longer provides paper proxy forms alongside the AGM Notice. We believe that is both more efficient and consistent with our important environmental sustainability responsibilities and objectives.

You may register your proxy votes via [www.signalshares.com](http://www.signalshares.com).

Registering your vote electronically is entirely secure and ensures the privacy of your personal information. Alternatively, if you wish to vote by post you may request a hard copy proxy form by contacting our registrar, Link Asset Services. Contact details are provided above.

## Pennon's website

<http://www.pennon-group.co.uk> provides news and details of the Company's activities plus links to its subsidiaries' websites.

The Investor Information section contains up-to-date information for shareholders including detailed share price information, financial results, dividend payment dates and amounts, and stock exchange announcements. There is also a comprehensive shareholder services section which includes information on buying, selling and transferring shares, and how to notify a change in personal circumstances, for example, a change of address.

## Beware of share fraud

The following is taken from the ScamSmart section of the Financial Conduct Authority's website ([www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)).

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

### How to avoid share fraud

- Keep in mind that firms authorised by the Financial Conduct Authority (FCA) are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation; note the name of the person and firm contacting you and then end the call.

Check the Financial Services Register from <http://www.fca.org.uk> to see if the person and firm contacting you is authorised by the FCA.

- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.

Search the FCA Warning List of unauthorised firms at [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart).

Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme. Seek impartial advice from a financial adviser before you make an investment.

- Remember: if it sounds too good to be true, it probably is!

5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000.

### Report a scam

If you are approached by fraudsters, please tell the FCA using the share fraud reporting form at <http://www.fca.org.uk/scams> where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you can report this at any time to Action Fraud using their Online Fraud Report Tool at [www.actionfraud.police.uk/reporting-fraud-and-cyber-crime](http://www.actionfraud.police.uk/reporting-fraud-and-cyber-crime) or by calling 0300 123 2040.







[www.carbonbalancedpaper.com](http://www.carbonbalancedpaper.com)  
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Designed by Black Sun Plc



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Registered Number: 2366640