

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

29 January 2025

Pennon Group plc

Acceptance of Ofwat's Final Determinations, launch of rights issue to support record investment, revised dividend policy

- Acceptance of Ofwat's Final Determination for South West Water (SWW) and Sutton and East Surrey (SES), following respective outstanding and good/standard business plan assessments
- c.£490m fully underwritten rights issue as part of a comprehensive financing package to support a record £3.2bn^[1] of investment to drive improved outcomes for customers and the environment
- Total dividend maintained, with dividend per share rebased, and a sustainable CPIH inflation linked growth policy to 2030.

Acceptance of Ofwat's Final Determinations

Following Ofwat's PR24 Final Determinations in December 2024 in respect of the K8 period (2025-2030) for the water businesses within the Pennon Group (SWW and SES), Pennon Group is announcing today that after careful consideration, SWW and SES will be accepting their respective Determinations and will not be seeking a reference to the Competition and Markets Authority (CMA).

The Final Determinations support a significant uplift in investment over the K8 period to 2030, with capital expenditure increasing from an expected K7 (2020-2025) outturn of c.£1.9bn, to a record c.£3.2bn. The investment will be across a range of transformational projects that are focused on areas like tackling the use of storm overflows, bolstering water resources through a new reservoir in the South West, and expanding our programme of nature recovery. With challenging performance commitments, the clarity and visibility of the Final Determinations, coupled with our advanced preparation for delivery mean we can confidently move forward, targeting c.7% Return on Regulated Equity (RORE), within Ofwat's expected RORE ranges.

For the third consecutive price review, Ofwat recognised the outstanding nature of SWW's business plan with a 30 bps uplift to the cost of equity (subject to meeting certain targets over the forthcoming period), whilst SES benefits from a 5 bps uplift for a good/standard plan.

An investor summary document detailing the assessment of the Determinations has been published on the Pennon website and can be accessed by the following link: <https://www.pennon-group.co.uk/investor-information/price-review-pr24>.

Launch of c.£490m rights issue as part of a comprehensive financing package

The step change in investment delivers growth in Regulatory Capital Value (RCV)^[2] of c.34% over the K8 period. To maintain robust balance sheet resilience, Pennon Group is today launching a fully underwritten c.£490m rights issue, used to fund increased investment in the water businesses.

SWW is consistently named in the top category for financial resilience by Ofwat, and since acquisition in 2024, Pennon Group has supported SES to improve its financial resilience which has been noted in Ofwat's most recent financial resilience report.

We anticipate gearing in the water business to be 60-65% consistent with our long-term gearing policy for the water businesses of 55%-65%. We are targeting retaining a strong investment grade credit rating

of Baa1 for the water companies over the K8 period, with Pennon Group leverage expected to be a few percentage points higher than the water businesses but unlikely to exceed c.5%.

Information in respect of the rights issue has been published on the Pennon website: [Investor Information | Pennon Group PLC](#)

Revised Pennon Group dividend policy

Considering the SWW and SES Final Determinations, and our overall comprehensive financing package for K8, we are announcing a revised dividend policy.

The total dividend amount for the year to 31 March 2024 of £129.3million^[3] will be rebased on a dividend per share basis (taking into account the effect of the Rights Issue), with the rebased dividend per share growing in absolute terms, by CPIH inflation from and in respect of the current financial year ending 31 March 2025 and each financial year thereafter to 31 March 2030.

Coupled with the c.34% organic RCV growth projections to 2030, this represents an attractive combination of underlying asset growth and income to our shareholders.

Susan Davy, Group Chief Executive Officer commented;

" We have listened to customers, communities, and stakeholders. With these record levels of investment, we will be transforming what we do, fixing storm overflows, building new reservoirs and creating natural habitats for wildlife. This is so much more than just about water. It's about much needed regional investment, creating jobs and building homes. At the same time, we will be supporting customers when they need it most, keeping bill increases low, with innovative tariffs and our £200m support package. We're doing this. "

A presentation hosted by Susan Davy, Group Chief Executive Officer and Laura Flowerdew, Group Chief Financial Officer, will be available at 08:00am (GMT) today, 29 January 2025. This will be followed by a live Q&A session at 08:45am (GMT). The presentation and Q&A session can be accessed here: www.pennon-group.co.uk/investor-information.

On 13 March 2025 we will bring our plan to life at our in-region Capital Markets Day with further details to follow.

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Disclaimer

The person responsible for making this announcement on behalf of Pennon is Andrew Garard, Group General Counsel and Company Secretary.

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[1] In forecast outturn prices

[2] RCV is used to measure the capital base of a company when setting price limits. The RCV increases through proportion of totex and an adjustment for inflation, net of the run-off mechanism (which is similar to depreciation of fixed assets) which is recognised in revenue. For K8 this represents a c.34% increase to 2030.

[3] The base dividend for the year ended 31 March 2024 was £129.3m, adjusted from the dividend paid in that year of £126.9m to remove the £2.4m one-off deduction in respect of the fine from the Environment Agency paid by South West Water

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