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Pennon Group PLC
29 January 2025

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THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION.

FOR IMMEDIATE RELEASE.

PENNON GROUP PLC

13 for 20 Rights Issue of 185,928,002 New Ordinary Shares at 264 pence per New Ordinary Share

29 January 2025

Further to the separate announcement this morning, the board of directors (the "**Board**") of Pennon Group plc (the "**Company**" or "**Pennon**") is pleased to announce a proposed capital raise of approximately £490 million by way of a fully underwritten rights issue (the "**Rights Issue**") of 185,928,002 New Ordinary Shares at 264 pence per New Ordinary Share on the basis of 13 New Ordinary Shares for every 20 Existing Ordinary Shares. The purpose of the Rights Issue is to enable Pennon, as part of a comprehensive financing package, to deliver the step change in investment required through the K8 period to March 2030, whilst ensuring appropriate and sustainable gearing is maintained throughout.

The Rights Issue Price represents a 35.2% discount to the theoretical ex-rights price, based on the Closing Price of 500.81 pence per Ordinary Share on 28 January 2025 (being the last business day before the announcement of the terms of the Rights Issue) when adjusted for the upcoming 2024 Interim Dividend of 14.69 pence per Ordinary Share which will not be payable on the New Ordinary Shares as a result of the Existing Ordinary Shares turning ex-dividend before commencement of the Rights Issue offer period.[1]

HIGHLIGHTS

- As referred to in the separate announcement earlier this morning, having carefully considered Ofwat's Final Determinations for the K8 period, Pennon confirms that it accepts Ofwat's Final Determinations in respect of its regulated water businesses.
    - This brings with it clarity and visibility on the overall financing package required to deliver our capital investment plan out to March 2030, and importantly the profile and timing will deliver a record £3.2 billion[2] of investment and drive growth in RCV of at least 34% whilst targeting a return on regulated equity of approximately 7% over the K8 period

- As a result, Pennon has developed a comprehensive financing package to deliver on the K8 opportunity, including the Rights Issue.
    - The funding package is designed to ensure appropriate and sustainable gearing throughout K8, with Pennon maintaining its long-term gearing policy of 55-65% for the regulated water businesses, consistent with an investment grade credit profile, and with Group leverage being a few percentage points higher (but unlikely to exceed the gearing of the regulated water businesses by more than 5 percentage points)

- Pennon is adopting a dividend policy designed to present an attractive combination of underlying asset growth and income to our shareholders, under which:
    - the total dividend amount for the year to 31 March 2024 of £129.3 million[3] will be rebased on a

dividend per share basis (taking into account the effect of the Rights Issue); and

- Pennon intends to grow this rebased dividend per share, 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.

Further details of the Rights Issue and the Company's comprehensive financing package, including a description of the background to and reasons for the Rights Issue and its principal terms, are set out below.

PROSPECTUS

A prospectus (the "**Prospectus**") setting out full details of the Rights Issue is expected to be published on the Group's website at www.pennon-group.co.uk/investor-information later today.

The Prospectus will be submitted to the National Storage Mechanism and will be available for inspection at https://data.fca.org.uk/#/nsm/nationalstoragemechanism following publication.

The preceding summary should be read in conjunction with the full text of the announcement, together with the Prospectus.

Unless the context otherwise requires, words and expressions defined in the Prospectus shall have the same meanings in this announcement.

INDICATIVE SUMMARY TIMETABLE OF PRINCIPAL EVENTS

Record Date for entitlements under the Rights Issue	Close of business on 28 January 2025
Existing Ordinary Shares marked "ex-dividend" in respect of 2024 Interim Dividend	30 January 2025
Despatch of Prospectus and relevant Provisional Allotment Letter(s) (to Qualifying Non-CREST Shareholders, Qualifying CSN Shareholders and Qualifying WaterShare+ Shareholders only)	31 January 2025
Existing Ordinary Shares marked "ex-rights" by the London Stock Exchange	8:00 a.m. on 3 February 2025
Admission of New Ordinary Shares, and admission of and commencement of dealings in, Nil Paid Rights on a multi-lateral trading facility on the London Stock Exchange; start of subscription period	8:00 a.m. on 3 February 2025
Latest time and date for acceptance and payment in full of PINK and BLUE Provisional Allotment Letters (in the case of Qualifying CSN Shareholders and Qualifying WaterShare+ Shareholders only)	11:00 a.m. on 13 February 2025
Latest time and date for acceptance, payment in full (in the case of Qualifying CREST Shareholders and Qualifying Non-CREST Shareholders only) and, in the case of Qualifying Non-CREST Shareholders, registration of renunciation of WHITE Provisional Allotment Letters	11:00 a.m. on 17 February 2025
Expected date of announcement of the results of the Rights Issue through a Regulatory Information Service	By 8:00 a.m. on 18 February 2025
Dealings in New Ordinary Shares (fully paid) commence on the London Stock Exchange	**8:00 a.m. on 18 February 2025**

The Rights Issue is fully underwritten by Barclays Bank PLC and Morgan Stanley & Co. International plc acting as Underwriters, Joint Global Co-ordinators and Joint Bookrunners. Barclays Bank PLC and Morgan Stanley & Co. International plc are also acting as Joint Sponsors to the Company.

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

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IMPORTANT NOTICES

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A copy of the Prospectus will, following publication, be available on its website at www.pennon-group.co.uk/investor-information. Neither the content of the Company's website nor any website accessible by hyperlinks on the Company's website is incorporated in, or forms part of, this announcement. The Prospectus will provide further details of the securities being offered pursuant to the Rights Issue.

This announcement is for information purposes only and is not intended to constitute, and should not be construed as, an offer to sell or issue, or a solicitation of any offer to purchase, subscribe for or otherwise acquire, the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares of the Company in the United States, New Zealand, China, Singapore, Hong Kong, South Africa, Japan, the United Arab Emirates or in any other jurisdiction where such offer or sale would be unlawful and, subject to certain exceptions, should not be distributed, forwarded to or transmitted in or into any jurisdiction, where to do so might constitute a violation of local securities laws or regulations. The distribution of this announcement, the Prospectus (once published), and any other document relating to the offering or transfer of Nil Paid Rights, Fully Paid Rights or New Ordinary Shares into jurisdictions other than the United Kingdom may be restricted by law, and, therefore, persons into whose possession this announcement, the Prospectus (once published), and/or any accompanying documents comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of such jurisdiction. In particular, subject to certain exceptions, this announcement, the Prospectus (once published) and the provisional allotment letters (once printed) should not be distributed, forwarded to or transmitted in or into the United States, New Zealand, China, Singapore, Hong Kong, South Africa, Japan, the United Arab Emirates, or any other jurisdiction where the extension or availability of the Rights Issue (and any other transaction contemplated thereby) would breach any applicable law or regulation.

This announcement does not constitute a recommendation concerning any investor's options with respect to the Rights Issue. The price and value of securities can go down as well as up. Past performance is not a guide to future performance. The contents of this announcement are not to be construed as legal, business, financial or tax advice. Each shareholder or prospective investor should consult his, her or its own legal adviser, business adviser, financial adviser or tax adviser for legal, financial, business or tax advice.

NOTICE TO ALL INVESTORS

Each of Barclays Bank PLC and Morgan Stanley & Co. International plc is authorised by the Prudential Regulation Authority ("**PRA**") and regulated by the FCA and the PRA in the United Kingdom. Each of Barclays Bank PLC and Morgan Stanley & Co. International plc is acting exclusively for the Company and no one else in connection with this announcement and the Rights Issue and will not regard any other person as a client in relation to the Rights Issue and will not be responsible to anyone other than the Company for providing the protections afforded to its clients nor for providing advice to any person in relation to the Rights Issue or any other matter, transaction or arrangement referred to in this announcement.

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NOTICE TO US INVESTORS

This announcement does not constitute an offer to sell, or a solicitation of offers to purchase or subscribe for, securities in the United States. The securities being offered pursuant to the Rights Issue have not been and will not be registered under the US Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or with any securities regulatory authority or under the relevant securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, resold, pledged, taken up, exercised, renounced, delivered, distributed or transferred, directly or indirectly, into or within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. Any sale in the United States of the securities mentioned in this communication will be made solely to "qualified institutional buyers" as defined in Rule 144A under the U.S. Securities Act. No public offering of the securities has been or will be made in the United States.

INFORMATION TO DISTRIBUTORS

Solely for the purposes of the product governance requirements of Chapter 3 of the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the UK Product Governance Requirements) may otherwise have with respect thereto, the New Ordinary Shares have been subject to a product approval process, which has determined that the New Ordinary Shares are: (a) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in Chapter 3 of the FCA Handbook Conduct of Business Sourcebook; and (b) eligible for distribution through all permitted distribution channels (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, "distributors" (for the purposes of the UK Product Governance Requirements) should note that: the price of the New Ordinary Shares may decline and investors could lose all or part of their investment; the New Ordinary Shares offer no guaranteed income and no capital protection; and an investment in the New Ordinary Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to any contractual, legal or regulatory selling restrictions in relation to the offer of New Ordinary Shares. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Underwriters will only procure investors who meet the criteria of professional clients and eligible counterparties.

For the avoidance of doubt, the Target Market Assessment does not constitute: (i) an assessment of suitability or appropriateness for the purposes of Chapters 9A or 10A, respectively, of the FCA Handbook Conduct of Business Sourcebook; or (ii) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to, the New Ordinary Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the New Ordinary Shares and determining appropriate distribution channels.

FORWARD-LOOKING STATEMENTS

This announcement may contain projections and other forward-looking statements. The words "believe", "expect", "anticipate", "intend", "estimate", "intend" and "plan" and similar expressions identify forward-looking statements. All statements other than statements of historical facts included in this announcement, including, without limitation, those regarding the Company's financial position, business strategy, potential plans and potential objectives, are forward-looking statements.

None of the Company, its officers, advisers or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur, in part or in whole.

By their nature, forward-looking statements involve assumptions, risks and uncertainties. Such forward-looking statements may involve known and unknown risks, uncertainties and other factors, which may cause the Company's actual results, performance or achievements to be materially different from those expected, any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are advised to read the Prospectus when published and the information incorporated by reference therein in their entirety, and, in particular, the section of the Prospectus headed Part I (*Risk Factors*), for a further discussion of the factors that could affect the Group's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this announcement, the Prospectus and/or the information incorporated by reference into the Prospectus may not prove to be accurate or may not occur. Prospective investors should therefore carefully review the Prospectus when published. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future.

Nothing in this announcement is intended as a profit forecast or estimate for any period, and no statement in this announcement should be interpreted to mean that earnings or earnings per share or dividend per share for the Company for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share or dividend per share for the Company.

The forward-looking statements in this announcement speak only as at the date of this announcement. To the extent required by applicable law or regulation (including as may be required by the Companies Act, the Prospectus Regulation Rules, the UK Listing Rules, MAR, the Disclosure Guidance and Transparency Rules and FSMA), the Company will update or revise the information in this announcement. Otherwise, neither the Company nor the Underwriters assume any obligation to update or provide any additional information in relation to such forward-looking statements. Additionally, statements of the intentions or beliefs of the Board and/or the Directors reflect the present intentions and beliefs of the Board and/or Directors, respectively, as at the date of this announcement and may be subject to change as the composition of the Board alters, or as circumstances require.

PENNON GROUP PLC

13 FOR 20 RIGHTS ISSUE OF 185,928,002 NEW ORDINARY SHARES AT 264 PENCE PER NEW ORDINARY

13 FOR 20 RIGHTS ISSUE OF 185,928,002 NEW ORDINARY SHARES AT 264 PENCE PER NEW ORDINARY SHARE[4]

1. INTRODUCTION

Today the Board of Pennon announces a proposed capital raise of approximately £490 million by way of a fully underwritten Rights Issue of 185,928,002 New Ordinary Shares at 264 pence per New Ordinary Share on the basis of 13 New Ordinary Shares for every 20 Existing Ordinary Shares. The Rights Issue Price represents a 35.2% discount to the theoretical ex-rights price, based on the Closing Price of 500.81 pence per Ordinary Share on 28 January 2025 (being the last Business Day before the announcement of the terms of the Rights Issue), adjusted for the 2024 Interim Dividend of 14.69 pence per Existing Ordinary Share which will not be payable on the New Ordinary Shares.

The net proceeds[5] from the proposed capital raise form part of a comprehensive financing package which will put Pennon's water businesses in a strong position to deliver on their next five-year phase under the regulatory period known as K8 (1 April 2025 - 31 March 2030). Importantly, the Rights Issue will ensure a sustainable balance sheet, supporting a step change in investment through the K8 period, following a period of strong growth and delivery over the K7 period (1 April 2020 - 31 March 2025).

Summary position

Having received Ofwat's Final Determinations for Pennon's regulated licenced water businesses for K8, we have been able to consider the:

- profile of revenues for the period to 2030, the required service deliverables and the opportunity to outperform the Final Determinations received, to deliver value for all stakeholders; and
- financing requirements for the step change in investment which is forecast for K8.

Given these, Pennon has carefully considered the outlook to 2030, and:

- accepts Ofwat's Final Determinations for its licenced water companies;
- anticipates K8 leverage post-Rights Issue of 60-65% for the regulated water businesses consistent with our long-term gearing policy of between 55-65% with a strong investment grade credit rating profile;
- Group gearing is anticipated to be a few percentage points higher than the regulated water businesses' (unlikely to exceed approximately 5% during the K8 period);
- will raise approximately £490 million of equity via the Rights Issue to ensure that prudent and sustainable leverage is maintained over the K8 period; and
- is adopting a dividend policy designed to present an attractive combination of underlying asset growth and income to our shareholders, under which the total dividend amount for the year to 31 March 2024 of £129.3 million[6] will be rebased on a dividend per share basis (taking into account the effect of the Rights Issue). Pennon intends to grow this rebased dividend per share, 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.

2. BACKGROUND TO AND REASONS FOR THE RIGHTS ISSUE

Pennon is an infrastructure group focused on the UK regulated water sector and complementary activities. The Company owns South West Water, which, operating through the South West Water, Bournemouth Water, Bristol Water and Isles of Scilly brands, provides regulated water and wastewater services in Devon, Cornwall, the Isles of Scilly and small areas of Dorset and Somerset, as well as water-only supply operations in Bournemouth and across parts of Dorset, Hampshire, Wiltshire, Bristol and the surrounding areas. The Company also owns Sutton and East Surrey Water (SES Water), which provides water-only supply operations in areas of the South East of England. Operating across these regions, Pennon delivers more than one billion litres of water to over four million people every day. The Group also owns national non-household water retail businesses: Pennon Water Services (an 80% holding), Water2Business (a 30% holding) and SES Business Water. Pennon Power, the Group's renewables investment arm, is developing four renewable projects across the UK to support delivery of the Group's Net Zero commitments.

Pennon has a proven track record of operating and optimising water and wastewater businesses. Aligned behind our purpose, '*Bringing water to life: supporting the lives of people and the places they love for generations to come*', we believe in the importance of operating in the public interest for the benefit of Shareholders, customers, employees and other key stakeholders.

We have a clear twin-track organic and acquisitive growth strategy. In the current K7 period, we have grown RCV by 75%[7], both through organic growth and investment in our existing drinking water and wastewater businesses, as well as through the acquisition of water-only companies in Bristol and the South East, driving additional growth and creating value. In terms of organic growth, in this regulatory period we continue to invest in our drinking water quality, as well as enhancing wastewater treatment processes, to improve the quality of water in our rivers and seas across Devon and Cornwall. We now achieve 100% bathing water quality compliance across our regions[8], compared with only 28% at privatisation in 1989. More recently in the K7 period, Pennon has invested a record £1.9 billion[9] of capex in South West Water which is delivering 45% organic RCV growth across the K7 period. This investment in critical, long-term infrastructure provides asset-backed, inflation-linked returns for investors.

The UK water sector is now entering a phase of additional and sustained investment, responding to the legislative and customer-supported improvements required. This new phase is expected to deliver material improvements in certain areas of focus, such as reducing the use of storm overflows, impacting our rivers and seas positively and contributing to maintaining resilient, high quality water supplies for all. It is also expected to deliver higher growth in RCV compared with historical baseline allowances across the next five years and beyond, with RCV growing to £7.9 billion by 2030. Successive governments have legislated to drive a step change in outcomes and associated investment, which are expected to be delivered over the coming decades.

The regulatory environment and Ofwat's PR24 process

Water businesses regulated by Ofwat operate under Licences granted to them to allow the provision of water and/or wastewater services across a geographical region. Ofwat plays a key role in setting prices for the sector; it is under a duty to protect the interests of customers and ensure that water companies properly carry out their statutory functions, whilst also ensuring that companies can secure reasonable returns on their capital to finance their operations and further the long-term resilience of the systems and services they provide.

The nature of water infrastructure means the industry operates over a long-term horizon, with strategies prepared over multi-decade time periods. Given the stability and long-term focus of this regulatory framework, the UK water sector has long been recognised as an attractive market for investment for well-operated and well-capitalised water companies, offering strong performers scope for outperformance against the regulatory allowances on a sustained basis. The visibility offered by this regulatory framework has allowed over £200 billion to be invested in the water sector since privatisation, delivering benefits for customers and providing high quality drinking water to consumers across England and Wales. Since privatisation, the regulatory framework has evolved and developed and the recently launched Government review into the water sector has a key objective of ensuring that we have stable and predictable regulation in place to support a period of expected higher investment.

Acceptance of the Final Determinations

Ofwat published its Final Determinations for the K8 regulatory period in December 2024, setting out allowed revenues for regulated businesses, which reflect the investment priorities, service delivery levels and outcomes that all water and sewerage companies will need to deliver.

For our regulated water businesses, South West Water and SES Water, we were pleased with Ofwat's recognition of the ambition and quality of our plans through its "outstanding" assessment of the South West Water plan and "standard" rating for SES Water. For South West Water, this represents the third consecutive top business plan assessment from Ofwat. This has allowed us to benefit from Final Determinations that set the businesses on the right footing for delivering on customer priorities whilst also growing the business through organic growth in K8, in addition to 75% growth delivered across K7. We anticipate baseline growth in RCV of at least 34% in the next five years as part of a 15-year investment programme, with growth opportunities to 2040 and beyond as the need for ongoing investment in our water and wastewater assets continues.

These K8 plans for our water businesses target a step change for shareholders, customers, regulators and stakeholders, with improvements across all our geographical areas, focused on our four strategic priorities: building water resources and improving water quality; tackling the use of storm overflows and pollutions; delivering net zero and environmental gains; and addressing affordability and delivering for customers.

Revenues of £5.6 billion (in nominal terms) were confirmed for the next five-year period through the Final Determinations for our regulated water businesses, South West Water and SES Water, alongside total expenditure assumptions of over £5.6 billion[10] (in nominal terms) over the next five years. This reflected 100% of revenue requested, with the gap between requested and allowed total expenditure levels narrowed to 97% for the water businesses compared with our business plan, and a significant improvement on the Draft Determinations issued by Ofwat in July 2024.

For SES Water, the Final Determination retained a higher differential between the regulatory outcome and company plans. However, given annualised synergies of c.£11 million are anticipated to result from integrating the water business into the wider Pennon Group, coupled with the improvement in revenues compared with the Draft Determination and lower risk in respect of outcome incentives, the overall Final Determination for SES Water is considered deliverable in the context of the Group.

Performance levels have been set at challenging levels, consistent with the rightly high expectations of customers and communities. In its Final Determinations, Ofwat has adjusted incentive rates and performance commitments levels, among other measures, to provide for a balance of incentives, cost protections and opportunity for reward.

The Final Determinations also provide an improved and more balanced package of Outcome Delivery Incentive ("**ODI**") levels compared with the Draft Determinations and with new protection mechanisms to manage balance sheet risk.

For ODIs, the Final Determinations introduced eight deadbands and 22 collars reducing downside risk, and both penalty rates and service levels aligned with our proposals on most measures. Ofwat has also introduced improved measures to manage other downside risks including the Outturn Adjustment Mechanism reflecting in-year industry performance and the Aggregate Sharing Mechanism to limit impacts of deviations in performance. There are also protections for over 50% of our cost base alongside the cost sharing mechanisms. Notified items over PFAS, Bioresources and asset health also provide protections over the balance sheet for areas of potential increased investment. As such, the Final Determinations and associated performance levels present stretching but more balanced targets compared with the Draft Determinations.

Returns for both debt and equity holders have increased compared with the Draft Determinations, providing the opportunity to deliver shareholder value through both ongoing returns, growth in the capital base and potential outperformance.

The Final Determinations saw the cost of equity allowance improve to 5.1%, whilst recognition of our "outstanding" plan provides the opportunity to increase equity returns through a 30bps upside for South West Water, subject to delivery of four conditions over the K8 period. For SES Water, a 5bps upside to the cost of equity has also been confirmed by Ofwat. The regulated businesses' allowed dividend was also revised higher in the Final Determinations.

Cost of debt also represents an improved real allowance of 3.15% compared to earlier proposals from Ofwat. South West Water's recent bond issuance under our EMTN programme demonstrates our ability to raise debt at or below the assumed allowed real cost of debt.

With service levels and outcomes confirmed, revenues increased to 100% of proposed levels and additional protections in place around both performance and expenditure risks, the Final Determinations represent a material shift from the Draft Determinations. Careful consideration has been given to the acceptability of both the South West Water and the SES Water Final Determinations, as well as the comparability to our own plans and any potential grounds for referral to the CMA. The Final Determinations reflect material improvement in both the cost of capital and revenues allowed. We have already embarked upon plans to drive efficiencies of around £86 million on an annualised basis through operational transformation and reshaping the business (approximately £55 million) and integration programmes (approximately £20 million for Bristol and approximately £11 million for SES) across the business that provide an opportunity to counteract shortfalls in regulatory allowances. We are also looking to drive outperformance (of approximately £300 million), targeting approximately 7% RORE over the K8 period, within Ofwat's range of expected returns (0.5% to 10.1% for South West Water and 0.1% to 10.4% for SES Water). As such, the Group considers the Final Determinations provide a challenging but manageable basis upon which both South West Water and SES Water may deliver their 2025 - 2030 business plans, and consequently has not requested a reference to the CMA in respect of either of its Final Determinations.

The K8 Plans - investment benefiting all stakeholders

Our £3.2 billion[11] capex investment programme for 2025 - 2030, of which 97% of totex cost allowances were recognised in the Final Determinations, represents an opportunity for Pennon to deliver a transformational programme of investment in line with our four strategic priorities: building water resources and improving water quality; tackling the use of storm overflows and pollutions; delivering net zero and environmental gains; and addressing affordability and delivering for customers. Our plan aligns with the priorities and expectations of our customers, as well as ensuring we can provide a strong growth opportunity for investors to 2030 and beyond whilst maintaining a stable, resilient business.

As part of our investment programme, we are proposing:

- to deliver our most ambitious water resources and water quality plan in decades;
- to tackle storm overflows and pollution through major investment in bathing beaches and our wastewater network; and
- to drive further environmental progress and continuing on our journey to net zero.

We remain very aware that the level of investment required has an impact on customer bills and so with a critical focus on our fourth priority, affordability and delivering for our customers, we have planned a £200 million package of measures to support affordable bills and an ongoing commitment to support all those customers in water poverty. Our bills remain lower in outturn prices than they were a decade ago, and we continue to innovate and develop our approach to ensuring affordable bills for all our customers through our progressive charging trials and water efficiency measures with 100%[12] of customers finding their bill affordable in South West Water. This focus has meant that our bills are forecast to have one of the lowest increases across the industry throughout K8.

Our teams are ready to deliver the step change in investment, having already accelerated £75m of storm overflow investment with Ofwat's agreement, to get a head start in 2024 and our front loaded profile drives operational improvements and performance.

Our delivery partnership "amplify" unites some of the country's best engineering companies, supported by a range of consultancy organisations, together with our in-house experts, to ensure we deliver in the right way, at the right cost, at the right time. Amplify has already started working on over 1,000 projects with c.£625 million worth of projects handed over, which will help our water businesses reduce the use of storm overflows, maintain the region's excellent bathing waters and help maintain high quality drinking water services, with resilient water resources in the face of climate change.

These factors, and the clarity and visibility that come with the Final Determinations, allow Pennon to now move forward with confidence. The Rights Issue, coupled with the comprehensive financing package we are effecting, will allow us to drive the business forward to deliver efficiently and effectively, whilst maintaining a resilient, agile balance sheet and setting the Group up for growth over the next five years.

A step change in investment to drive growth in RCV

For South West Water and SES Water, delivering on these plans provides a floor for RCV growth of at least 34% (approximately £2 billion) over the K8 period. This builds on the 75% growth across the K7 period, which comprised: 25% growth from South West Water's K7 final determination; c.20% further growth from additional in period investment opportunities including WaterFit, resilience, green recovery, accelerated investment and K8 transition spend (leading to a total organic growth level of 45%); and following our strategic objective to grow the business relative to the UK water industry, acquiring Bristol Water and SES Water in the period, providing a further 30% growth in the regulated water businesses.

Visibility and certainty on the timing and assumed profile of our capital expenditure allow us to start to deliver on our programmes and commitments early and our comprehensive financing package will ensure we do so with a strong and resilient balance sheet.

A strong track record of delivery in K7

Our business has a strong track record of delivering in our regulated water businesses, driving strong returns on regulated equity compared with allowances and focussing on delivering improvements for our customers and the environment.

In K7, we have achieved approximately 70% of all ODIs over the regulatory period, and demonstrated robust relative sector performance on the common ODIs that we will target to continue into K8. Whilst pollution targets remain a core focus area for South West Water, other metrics have been achieved at least once in K7 by companies in the Group. Seven measures have achieved upper quartile performance across a number of areas including unplanned outage, internal sewer flooding and water quality, providing opportunities for sharing best practice across our different water brands and delivery aligned with, or providing outperformance on, the targets set.

Our diversified debt portfolio supported strong financing performance in K7; our effective interest rates have been amongst the lowest in the sector, and approximately £300 million of financing outperformance has been delivered in K7 as a result of our diversified portfolio and effective hedging policy, which focuses on locking in outperformance against Ofwat's allowed cost of debt.[13]

The K7 period saw continued delivery of returns above the base level and allowed us to share financial benefits of outperformance with our customers through our innovative WaterShare+ scheme, giving them a stake and a say in our business by sharing over £40 million of outperformance through either reductions in their bills or allowing them a share in the business.

Targeting continued outperformance in K8

Following the Draft Determinations, we increased our investment in the final months of K7 in order to demonstrate a balanced performance on ODIs and to ensure we were delivering at the run rate for investment and with a focus on those common performance measures continuing into K8. With the Final Determinations materially confirming the scope and outputs of our plan, and better aligning to our incentive rates, this early transition will stand us in good stead to deliver effectively and efficiently in the next period.

We have been actively preparing the business to ensure that we are in a strong position, with the right team, to deliver on the next high-growth phase and target outperformance of the regulatory plan. This has started with reshaping and reorienting our business around our four strategic priorities and investing in our performance and front-line teams. This will ensure that we are ready and able to deliver the required investment at pace, including having pilots and programmes already under way to set us up for successful implementation.

In the first half of the 2024 / 2025 financial year, we realigned our business under four business units, Clean Water, Wastewater, Power and Retail. These business units are led by experienced management teams, who will be responsible for delivering the end-to-end outcomes customers and communities want to see. We have also announced £16 million of restructuring costs in the 2025 financial year; the restructuring will allow us to ensure we focus our cost base in areas aligned to the programme of work for K8 and ensure we can invest in the services and assets we need to deliver on our work.

Our K7 transformation, restructuring and integration programmes will set us in good stead to deliver efficiently against our Final Determinations and target totex outperformance over the five-year period. With c.£86 million annualised savings already underway through these programmes, alongside a relentless focus on ensuring an efficient and diversified debt portfolio, our plans anticipate that we will deliver on the outcomes at lower levels of expenditure and reduced cost of debt in real terms compared with the Final Determinations, supporting an improved and resilient financial position.

We continue to increase our investment to close out the final months of K7, delivering on our core commitments whilst focussing on improving our performance where required, notably around pollutions and storm overflows, including through the £75 million early start programme which Ofwat agreed. Underlying performance on environmental pollutions through the Environment Agency's measures continues to be a focus for the Group, with improvements in our network and treatment works. We also continue to invest to improve performance, particularly in more extreme weather conditions, to ensure we can reduce our impact on the environment and meet the targets anticipated over the forthcoming period.

Whilst Ofwat has now targeted 2028 as the date for meeting the EPA 4* rating in order to receive upside benefit from our K8 business plan, we continue to focus on improvements in the near-term to drive improvements as quickly as possible. We are also actively engaged in the Environment Agency's consideration of their annual performance assessment (EPA) for K8, where we are pressing for an evolved comparative framework.

With 100% of revenues and 97% of expenditure allowed by Ofwat compared with our original business plans, we consider the Final Determinations are stretching but also provide us confidence with delivery and allow us to target outperformance across totex, financing costs and ODIs set by Ofwat. We are targeting a RORE of approximately 7% across the period, well within Ofwat's range of expected performance (0.5% to 10.1% for South West Water and 0.1% to 10.4% for SES Water). This targeted outperformance benefits customers through improved service delivery and our unique WaterShare+ sharing mechanism, whilst also providing headroom to accelerate further investment where appropriate.

Pennon's non-regulated businesses

In addition to our regulated businesses, Pennon has activities in renewable power generation and non-household water retail. Our operations require reliable and efficient power supply, and we are investing:

- to increase our renewable energy provision through our newly formed Pennon Power business - supporting our net zero ambitions; and
- to meet approximately 40% of the energy requirements of the Group, including self-generated power, through our own resources.

Ofwat's Final Determinations provide some protection for downside risk in respect of energy costs for K8, in light of the material increases in commodity prices experienced across the water sector during the K7 period. This mechanism is beneficial, as an ex-post, index linked, cost sharing mechanism. Coupled with the development of Pennon Power, which provides us with an at-scale, captive renewable energy producer, this should result in reduced costs and earnings volatility if energy price volatility continues - by meaningfully hedging our significant energy costs, whilst generating strong expected equity returns of 11-15%[14].

Two of the four renewable energy projects currently developed by Pennon Power are under construction with energisation at one site expected on or around 1 April 2025. By 2027, we will have completed the remaining approximately £56 million of investment. The first project is expected to be operational by 1 April 2025 and when complete, the four projects are expected to generate the equivalent of approximately 40% of the Group's energy demand for the financial year ended 31 March 2024, with potential for projects on operational sites to add further value through reduction of non-commodity costs.

The remaining £56 million investment will be financed by debt capital, with no proceeds from the Rights Issue to be allocated to Pennon Power. We will continue to review and consider optimising the ownership and funding of these assets closer to or after project completion, in order to deliver the best returns and use of capital for Shareholders.

We also own interests in three national non-household water retail businesses which have a combined market share of around 15%: Pennon Water Services, Water2Business and SES Business Water. These operate in a competitive market across the UK. Our plans to deliver synergies across these entities, whilst driving greater efficiency and effectiveness in delivery, alongside anticipated growth from underlying increases in prices, are also expected to provide increasing returns as well as the opportunity to capitalise on opportunities from increasing the customer base in businesses which are recognised for high performance in their sector.

A comprehensive financing package for K8

Following the Final Determinations, we now have clarity on our K8 plans, importantly including allowed revenues and the scale and profile of our capital programme.

With the operational and funding visibility that this provides, we have developed a comprehensive financing package to realise the Group's record £3.2 billion[15] high-growth capex investment plan for 2025-2030 whilst preserving a sustainable approach to gearing. The net proceeds of the Rights Issue (excluding the WaterShare+ Proceeds (as described below)) form part of this comprehensive financing package.

The key pillars of this comprehensive financing package to support such investment comprise:

- c.£86 million of targeted annual benefits from reshaping the business and realising cost synergies;
- ensuring appropriate and sustainable gearing by maintaining water company leverage within the 55-65% gearing policy, consistent with strong investment grade credit ratings;
- a Group leverage approach that will be a few percentage points higher than the regulated water businesses' (unlikely to exceed approximately 5% during the K8 period);
- an equity raise of approximately £490 million through the Rights Issue to ensure that gearing remains within our policy and that prudent and sustainable leverage is maintained over the K8 period; and

- a progressive dividend policy with ongoing growth in dividend per share aligned with CPIH.

Collectively, this comprehensive financing package puts Pennon in a strong funding position to deliver on the growth opportunity in K8 and beyond, with investment producing compelling RCV growth (estimated at approximately 34% for the K8 period) whilst maintaining the Group's efficient and prudent capital structure.

Our conservative approach to balance sheet management, coupled with our strong investment grade credit ratings, and the launch of our EMTN programme in July 2024, should allow us to fund future growth at debt costs consistent with or below Ofwat's allowed cost of debt. We will continue to seek to optimise our overall Group portfolio through the use of a range of debt instruments, as appropriate.

The Board unanimously believes that this comprehensive financing plan will allow the Group to fund a significant increase in capital investment, maintain its strong investment grade credit rating, deliver for customers and achieve value for all stakeholders throughout the K8 period.

Use of proceeds

The Rights Issue is expected to raise approximately £490 million in gross proceeds and approximately £470 million in net proceeds (after deduction of estimated commissions, fees and expenses).

These net proceeds (excluding the WaterShare+ Proceeds (as described below)) will be used to fund the increased investments in our regulated water businesses, as described in detail above.

WaterShare+ Proceeds

In implementing the Rights Issue, the Directors recognise the position of the Company's WaterShare+ Shareholders. The Company launched its unique WaterShare+ Scheme, which allows customers to become Shareholders, in 2020, with a further scheme launched in 2022. The WaterShare+ Schemes are a unique and pioneering arrangement, endorsed by Ofwat, that rewards the Group's customers when the business outperforms, by offering eligible customers Ordinary Shares in the Company or money off their water bill. To date, the Group has shared over £40 million with its customers through bill reductions or Ordinary Shares in the Company (2020: £20 per household and 2022: £13 per household). The Group has issued approximately 140,000 shares to customers via the 2020 and 2022 WaterShare+ Schemes and 1 in 14 South West Water customers are now Shareholders in the Group via both WaterShare+ Schemes, and we are looking to increase this in the next five years. The two WaterShare+ Schemes have received strong support from customers and Shareholders and align with the Group's philosophy of ensuring customers benefit directly.

Due to the Rights Issue Price and ratio that 13 New Ordinary Shares are being issued on the basis of 20 Existing Ordinary Shares, the Directors acknowledge that many WaterShare+ Shareholders will only be entitled to fractional entitlements to New Ordinary Shares under the Rights Issue, rather than the right to subscribe for any additional New Ordinary Shares.

Accordingly, to the extent net proceeds arising from the sale of fractional entitlements under the Rights Issue and Rump Sale Proceeds are retained and accrue for the benefit of the Company, the Directors intend that, later during 2025, those proceeds of sale will be applied by the Company (subject to receiving the requisite Shareholder approval in due course) towards offering those WaterShare+ Shareholders who, because of the Rights Issue ratio, will not be entitled to subscribe for any New Ordinary Shares, the opportunity to receive a single further Ordinary Share in recognition of their not being able to participate in the Rights Issue. In this announcement, we describe these retained proceeds which are intended to be used for this purpose as the "**WaterShare+ Proceeds**". Further information concerning the use of the WaterShare+ Proceeds will be announced by the Company in due course.

Dividend Policy

We also recognise the importance of sustainable, predictable, inflation-backed dividend income to our Shareholders, coupled with the contribution of asset growth to Shareholder returns which we expect from our significant investment programme over the next five years.

We are adopting a dividend policy designed to present an attractive combination of underlying asset growth and income to our shareholders, under which the total dividend amount for the year to 31 March 2024 of £129.3 million[16] will be rebased on a dividend per share basis (taking into account the effect of the Rights Issue). Pennon intends to grow this rebased dividend per share, 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.

The implied dividend per share dilution from the Rights Issue, once adjusting for the bonus factor for comparability purposes under accounting standard IAS33, is approximately 18.6%.

The dividend policy is consistent with Ofwat's proposed guidance on appropriate dividends from the regulated water businesses, which form the vast majority of Pennon's earnings and cashflows, and with our gearing targets as set out above.

3. CURRENT TRADING AND OUTLOOK

The outlook for the current financial year remains consistent with expectations, with revenues broadly flat H1 to H2 as a result of lower customer demand impacting H1 revenue, and total expenditure also flat across the year, reflecting an ongoing focus on delivering the remaining K7 commitments and ensuring a strong start to K8. Interest costs and depreciation increase as a result of the continued investment programme. In December 2024, the Group issued a further £250 million bond under its existing EMTN programme, at a coupon of 5.75%.

4. PRINCIPAL TERMS AND CONDITIONS OF THE RIGHTS ISSUE

4.1 Overview

Pennon proposes to raise gross proceeds of approximately £490 million (approximately £470 million after deduction of estimated commissions, fees and expenses) by way of the Rights Issue.

(A) Pricing

The Rights Issue Price represents a discount of 47.3% to the Closing Price of 500.81 pence per Existing Ordinary Share on 28 January 2025 (being the last Business Day before the announcement of the terms of the Rights Issue), adjusted for the 2024 Interim Dividend of 14.69 pence per Existing Ordinary Share which will not be payable on the New Ordinary Shares, and a discount of 35.2% to the theoretical ex-rights price of 407.52 pence per Existing Ordinary Share, by reference to the Closing Price on the same date and adjusted on the same basis. Upon completion of the Rights Issue, the New Ordinary Shares will represent approximately 39.4% of the Company's enlarged issued ordinary share capital (excluding any shares held in treasury) following the Rights Issue.

The Rights Issue Price has been set, following discussions with major Shareholders, at the level which the Board considers necessary to ensure the success of the Rights Issue, taking into account the aggregate proceeds to be raised. The Board believes that the Rights Issue Price, and the discount which it represents, is appropriate.

(B) Dilution

The Rights Issue will result in 185,928,002 New Ordinary Shares being issued and the number of Ordinary Shares (excluding any shares held in treasury) being increased by approximately 65.0%.

If a Qualifying Shareholder does not (or is not permitted to) take up any New Ordinary Shares under the Rights Issue, such Qualifying Shareholder's shareholding in Pennon will be diluted by up to 39.4% as a result of the Rights Issue[17].

4.2 Key terms

On and subject to, among other things, the terms and conditions of the Rights Issue, 185,928,002 New Ordinary Shares will be offered by way of rights at the Rights Issue Price of 264 pence per New Ordinary Share to Qualifying Shareholders on the basis of:

13 New Ordinary Shares for every 20 Existing Ordinary Shares

held and registered in their name at close of business on the Record Date (and so in proportion to the number of Existing Ordinary Shares then held, subject to fractional entitlements).

New Ordinary Shares will be provisionally allotted (nil paid) to all Qualifying Shareholders. However, Provisional Allotment Letters will not be sent to, and Nil Paid Rights will not be credited to CREST stock accounts of, Qualifying Shareholders with registered addresses in the United States or in any of the other Excluded Territories, except where the Company and the Underwriters are satisfied that such action would not result in the contravention of any registration or other legal or regulatory requirement in such jurisdiction.

Entitlements to New Ordinary Shares under the Rights Issue will be rounded down to the nearest whole number and fractions of New Ordinary Shares will not be provisionally allotted to Qualifying Shareholders. Holdings of Existing Ordinary Shares in certificated form, holders of Existing Ordinary Shares in uncertificated form, holdings of Existing Ordinary Shares through the Corporate Sponsored Nominee and holdings of Existing Ordinary Shares through the WaterShare+ Nominee, will each be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

Any fractional entitlements to New Ordinary Shares which arise will be aggregated into whole New Ordinary Shares and sold in the market on behalf of the relevant Shareholders. The total proceeds of the sale (net of related expenses (including any applicable brokerage fees and commissions and amounts in respect of related irrecoverable VAT)) due will be paid in due proportion to each of the relevant Shareholders. Any proceeds of sale (net of related expenses (including any applicable brokerage fees and commissions and amounts in respect of related irrecoverable VAT)) due to each of the relevant Shareholder(s) of less than £5.00 will be aggregated and will accrue for the benefit of the Company and become part of the WaterShare+ Proceeds as described above.

The Rights Issue has been fully underwritten by the Underwriters in accordance with the terms and subject to the conditions of the Underwriting Agreement, details of which will be set out in the Prospectus.

The Rights Issue is conditional upon (among other things): (i) the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission); and (ii) Admission becoming effective by not later than 8:00 a.m. on 3 February 2025 (or such later time and/or date as the Company and the Underwriters each acting in good faith may agree in writing).

Certain resolutions authorising the allotment of further shares in the Company and the waiver of pre-emption rights in connection with a rights issue were passed at the 2024 Annual General Meeting. These authorities will be relied upon for the purposes of the Rights Issue.

Applications will be made to the: (i) FCA for the New Ordinary Shares to be admitted to listing on the equity shares (commercial companies) category of the Official List; and (ii) London Stock Exchange for the New Ordinary Shares to be admitted to trading on its main market for listed securities. It is expected that the Rights (Nil and Fully Paid) will be admitted to trading on a multi-lateral trading facility of the London Stock Exchange. It is expected that Admission will become effective on 3 February 2025, that dealings in the Rights (Nil and Fully Paid) will commence as soon as practicable after 8:00 a.m. on that date, and that dealings in the New Ordinary Shares (fully paid) will commence on the London Stock Exchange at the time and date shown in the Expected Timetable of Principal Events set out in the Prospectus.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with, and will carry the same voting and dividend rights as, the Existing Ordinary Shares, save for the right to receive the 2024 Interim Dividend which shall only be paid in respect of the Existing Ordinary Shares on the register as at the 2024 Interim Dividend record date of 31 January 2025.

Overseas Shareholders, including Shareholders resident in the United States, should refer to section 7 (*Overseas Shareholders*) of Part VIII (*Terms and Conditions of the Rights Issue*) of the Prospectus once published for further information regarding their ability to participate in the Rights Issue.

Some questions and answers, together with details of further terms and conditions of the Rights Issue, including the procedure for acceptance and payment and the procedure in respect of rights not taken up, will be set out in Part VII (*Questions and Answers about the Rights Issue*) and Part VIII (*Terms and Conditions of the Rights Issue*) of the Prospectus once published.

5. DIRECTORS' INTENTIONS

The Directors consider that the Rights Issue is in the best interests of Pennon and the Shareholders of Pennon taken as a whole. Each Director who holds Existing Ordinary Shares has irrevocably undertaken to take up in full their rights to subscribe for New Ordinary Shares under the Rights Issue or to sell a sufficient number of their Nil Paid Rights during the nil paid dealing period to meet the costs of taking up the balance of their entitlements to New Ordinary Shares.

6. RISK FACTORS AND FURTHER INFORMATION

Shareholders' attention is drawn to the Risk Factors set out in the Prospectus. Shareholders should read the whole of the Prospectus before deciding on the action to take in respect of the Rights Issue.

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[1] 3 - 17 February 2025.

[2] Forecast outturn prices.

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

[4] ***Note to draft***: Chair's letter inserted as at 28.01.25 (GM version 3 am).

[5] Excluding the WaterShare+ Proceeds.

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

[7] Includes 45% organic growth (including green recovery, accelerated investment and transition spend) of which c.20% has been determined through the PR24 process and will be recognised at 31 March 2025 in the closing K7 true-up, with revenue recognition starting in the K8 delivery period.

[8] For those beaches impacted by our own assets on a like for like basis.

[9] At outturn prices. Includes transitional spend.

[10] FD allowance in outturn prices assuming inflation of 2.3% on average over K8 and 3.5% for 2024/2025.

[11] Forecast outturn prices.

[12] Based on the K7 bespoke affordability ODI.

[13] Based on the cost of debt allowance of 3.15% + 2.3% = 5.45% assumed average inflation over K8. 2024/25 equivalent inflation at

[illegible] Based on the cost of debt allowance of [illegible] assumed average inflation over [illegible] equivalent inflation at 3.5%.

[14] Based on 55% assumed leverage, pre-tax, and 7-9% unleveraged pre-tax returns.

[15] Forecast outturn prices.

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

[17] For the purposes of calculating: (i) the number of New Ordinary Shares to be issued pursuant to the Rights Issue; (ii) the specified increases to the Company's issued ordinary share capital resulting from the Rights Issue; and (iii) the specified dilutive effect of the Rights Issue, the issuance of any Ordinary Shares in respect of the vesting or exercise of any awards under the Share Plans which may occur between the Latest Practicable Date and the completion of the Rights Issue and any shares held in treasury have been disregarded.

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