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Pennon Group plc

Full Year Results 2024/25

Pennon Group plc ('Pennon' or the 'Group') today announces its results for the full year ended 31 March 2025.

Susan Davy, Group Chief Executive Officer, commented:

"Pennon has delivered a resilient operational performance during a demanding year, while building a robust platform for the future. We have reshaped and reset the cost base, delivered record levels of capital investment and - following a successful rights issue - maintained a strong balance sheet.

"We are listening to our customers, who are quite rightly demanding water companies to do more for customers today and to step up investment for the future. We are doing both. We have worked diligently to help customers use less water and save more money with a range of campaigns and pilots. At the same time, our record year for investment has improved services that matter most to our customers. Whilst this has impacted profitability this year, it has been the right thing to do.

As the only water company to have received an outstanding rating for our business plan for the third consecutive time, we have a track record of setting and delivering on stretching business plans. Consistently around 70% of the stretching regulatory deliverables have been met which put us top quartile compared to the sector. Of course there is more to do, not least on those measures we didn't achieve, and our ambitious new plan includes a record £3.2bn of investment due to be completed by 2030.

We know customers are worried about rising bills to fund this level of investment. While we have made the tough decision to put bills up in 2025/26 - for the first time in over a decade - two thirds of our investments are being funded by our supportive investors and debt providers.

Ultimately everyone will benefit from the investments we are making - from building reservoirs, to fixing storm overflows, powering our net zero ambitions and helping to create economic growth. It's why we're able to make a £200m support package available to those who need it most. It's also why - as the dry weather persists - we're predicting that the South West won't need a hosepipe ban this summer. We could not do this without the 4,000 brilliant colleagues who walk in our customers shoes every single day, focusing on the priorities that matter most for customers. "

FINANCIAL PERFORMANCE

	2024/25	2023/24
Underlying revenue	**£1,047.8m**	£907.8m
Underlying EBITDA	**£335.6m**	£338.3m
Underlying (loss)/profit before tax	**(£35.1m)**	**£16.8m**
Non-underlying items before tax[1]	**(£37.6m)**	(£25.9m)
(Loss) before tax - statutory	**(£72.7m)**	**(£9.1m)**
(Loss) after tax - statutory	**(£56.8m)**	**(£8.5m)**
(Loss)/earnings per share		
Adjusted EPS	**(10.3p)**	5.1p
Basic EPS	**(16.1p)**	(2.9p)
Dividend per share[2]	**31.57p**	36.67p
Capital expenditure		
Group (incl. SES)	**£652.5m**	£649.5m
South West Water	**£588.7m**	£582.9m
	At 31 Mar 2025	**At 31 Mar 2024**
Water Group		
RCV[3]	**£5,983.1m**	£5,536.0m
Gearing[4]	**61.8%**	64.4%
SWW		
Cumulative RORE (real, notional)[5]	**6.0%**	7.6%
Cumulative RORE (nominal, notional[6])	**10.4%**	12.3%

Financial highlights

- Results for 2024/25 in line with management expectations[7], reflecting a full year of Sutton and East Surrey Group ('SES')
- Our successful water efficiency initiatives reducing customer demand has driven lower revenues in South

West Water ('SWW') with regulatory revenue mechanisms in place to protect future recovery

- c.5% operational efficiencies have offset inflationary cost pressures, we have also invested in new technology, including our new customer platform and increased our front-line activities to drive improved outcomes
- Our continued capital investment programme at £652.5m this year has increased finance costs, which have moved from £150.2m to £184.4m
- The resulting loss before tax on both an underlying and statutory basis reflects a point of inflection into K8 with an expected return to profitability in 2025/26 through increased revenue and a reset of our cost base
- Profitable sector leading B2B retailers; Pennon Water Services ('PWS') and Water2Business - with plans to consolidate SES Business Water
- Statutory loss before tax reflects the cost of interventions to return quality supplies following the Brixham water quality event (c.£21.0m) and the costs of restructuring to reshape the Group's activities (c.£16.6m)
- Capital expenditure to drive our commitments and priorities as well as accelerating delivery from K8 has continued at the levels seen last year
- Following the successful rights issue supporting £1.3bn of funding raised in the year, the balance sheet for the Group is robust with total Water Group RCV gearing of 61.8%, with Group gearing which includes other businesses a few percentage points higher
- Strong investment grade credit rating with liquidity of c.£1bn in place to support continued investment
- Return on regulated equity for SWW is relatively strong, equating to 10.4% on a nominal basis, and 6.0% on a real notional WaterShare basis (10.3% and 5.9% including Bristol Water)
- Inflation linked dividend, growing from CPIH (3.4%) from the 2023/24 £129m rebased[9] on a dividend per share basis of 31.57p.

Operational highlights

- Sector leading internal sewer flooding with a reduction in 2024/25 of 14% (68% over K7) and 11% in external sewer flooding in the year (20% over K7)
- One of only 5 companies to reduce storm overflows, down c.4% in 2024 compared with 2023 despite the exceptionally high rainfall and groundwater levels. Our focus on bathing waters has reduced spills by 20% over K7 (with 2024 and 2023 levels consistent)
- Investment in water resources, with Blackpool pit fully operational in 2024/25 and the new water treatment works at Rialton supplementing water available for use in Cornwall by c.34%, with the interventions already delivered in the previous year in Devon by 30% compared to the levels during the 2022 drought. As a result, despite the dry start to the year we are not predicting any water restrictions this summer
- Water quality investments are on track and we have already begun our planning and design for our K8 programme. Our quality first programme has delivered water quality improvements this year
- Pennon Power solar investments on track with PV construction complete at Fife and underway at Aberdeenshire and Cumbria. Cold commissioning at Fife completed, with energisation in June
- At the end of K7 100% of our South West and Bristol customers now find their bill affordable with c.£124m support benefiting over 150,000 customers over K7, including innovative tariffs driving water efficiency and affordability.

Outlook

- We are well positioned for the future and stand ready to implement government legislation
- As the only water company to have received an outstanding rating for our business plans for the 3rd consecutive time, we have a track record of setting and largely delivering on very stretching business plans.
- The foundations are in place and we are out of the blocks - already working on over 1,000 deliverables, representing around 1/3 of our £3.2bn investment.
- For 2025/26, we are anticipating a return to profitability, with EBIDTA expected to increase by 2/3rds through increased revenue and a reset of the cost base.
- Ultimately everyone will benefit from the investments we are making with a 34% growth in RCV over K8, as we drive efficiency and innovation as we build new reservoirs, fix storm overflows, power our net zero ambitions and deliver improved services for customers.
- In targeting 7% RORE - we will be delivering for all - and sharing that performance with customers through WaterShare.

Notes:

Results include the results of SES in the current period. SES was acquired on 10 January 2024 and therefore the prior year comparative year includes the impact from acquisition to 31 March 2024.

Measures with this symbol are defined in the Alternative Performance Measures (APM) section of this document, underlying measures are presented before non-underlying items

[1] Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial

performance.

2 Dividend policy of CPIH. 2024/25 dividend reflects 2023/24 base increased by CPIH of 3.4% at 31 March 2025.

3 Shadow RCV at 31 March 2025 based on PR24 pre-closing regulatory true-ups including in the PR24 Final Determination, adjustments for the levels of investment for Green Recovery, accelerated delivery, and transitional investment, alongside inflationary impacts and changes post the K8 Final Determination.

4 Based on Water Group (SWW including Bristol Water and SES Water) - net debt at period end/forecast shadow RCV at 31 March

5 Real cumulative RORE on underlying totex, financing and ODIs with notional gearing

6 Nominal cumulative RORE based on underlying real RORE using actual gearing plus average inflation over K7 at 4.3%

7 As set out in our Trading Statement in March 2025

8 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

Results presentation

A presentation of these results hosted by Susan Davy, Group Chief Executive Officer and Laura Flowerdew, Group Chief Financial Officer, will take place at London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS at 9:00am (BST), today, 3 June 2025. The presentation will be immediately followed by a Q&A and will both be available to view on our website here: https://www.pennon-group.co.uk/investor-information

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GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

Ending K7 resiliently, reshaped and reset in 2024/25, secured a strong platform for the future

I'm pleased to share my Chief Executive's Review for 2024/25, highlighting key aspects from the year, as we conclude the K7 (2020-2025) five-year delivery period and make a strong start on our new K8 (2025-2030) delivery period.

As a group focused on UK water, with a growing geographical footprint, we are rightly being challenged to do more for customers today and invest more for the future.

We are doing both.

I want to start by saying the fundamentals for the business are robust, and our performance for 2024/25 reflects the reset and reshaping we have done ahead of K8, in what has been a challenging year.

We have successfully closed out the K7 regulatory period to 2025, having delivered higher than allowed base regulatory returns and consistently been a top quartile performer against stretching regulatory outcome performance metrics. The solid operational performance, across all parts of the Group, whether you are a South West Water (SWW), Bristol Water (BW) or Sutton and East Surrey (SES) customer, was recognised in Ofwat's Water Company Performance Report in 2024. Alongside this, our Business to Business Retailers Pennon Water Services and W2B are consistently securing top ratings from Trustpilot.

We have worked diligently this year to support the affordability of bills with customers. Having held off increasing bills for over a decade, with continuing record investment we have had to make a tough decision and put the bills up for customers in the coming year in 2025/26, which is why we have focused on metering, water efficiency and financial support for those who need it most during 2024/25.

Of course, there are also areas where we need to improve our performance, which is one of the reasons we have also reshaped the group with clear business lines, aligned to our four strategic priorities, building water resources and improving water quality, tackling storm overflows and pollutions, driving environmental gains and supporting affordability and delivering for customers. I now have in place Managing Directors leading key delivery aspects for waste water, drinking water, retail services and renewable energy. This new structure ensures there is a direct line of sight into the business systems, processes and governance. Having considered the ongoing sector wide and company specific investigations, the refreshed pillars of governance are supporting rectifications we have identified through delivery on action plans as we await any findings.

Through rightsizing, we are focused on having more of our colleagues on the front line having increased these teams by c.35 %. This puts us in a good position as we head into K8.

Having received outstanding / good assessments for our SWW and SES respective business plans, we are well positioned to deliver on our plans for K8, with another period of significant growth.

With our robust deployment of capital, our growing footprint gives us a strong platform for delivery, and we were pleased to receive fast tracked clearance from the CMA in June 2024 for our acquisition of SES. Having integrated Bristol, we are well progressed with the SES integration, using our well-established integration blueprint.

Our capital delivery supply chain partnership 'amplify' has already been stood up delivering on over 1,000 schemes, representing one third of the £3.2 billion earmarked for investment to 2030. Expenditure for K8 was accelerated, and by April 2025 we had invested c.£85m (c.£65m to March 2025), kick starting our plans to reduce spills from storm by April 2025 we had invested c.£[illegible]m (c.£[illegible]m to March 2025), kick starting our plans to reduce spills from storm overflows, investing in water treatment enhancements and improving services to customers. Once again we have had record investment in 2024/25 at £652m, aligned with the step change run rate required for K8.

Of course, it's not what we do but how we do it that also matters. Our operations across the Group need a reliable and efficient power supply and we are investing to increase renewable energy provision through Pennon Power, supporting resilience and our Science Based Target Initiative underpinning our Net Zero ambitions.

Financially, we have good liquidity and a strong balance sheet having raised £1.3bn in 2024/25 following the rights issue earlier this year, coupled with debt capital market funding. We have encouraged customers to use less water, and for 2024/25 that has impacted our revenues. Coupled with the financing costs of accelerated capital investment, we have reported a loss this year. This is a point of inflection into K8, where we will see a return to profitability. We have driven cost base efficiencies to offset inflation increases and rightsized and right shaped the business, with cumulative efficiency benefits of c.£76m.

As part of our reshaping and reset, following the rights issue we have reset the dividend policy for 2024/25, growing the dividend in line with inflation from a rebased position.

Making progress on what matters most to customers, delivering on our four priorities

We remain resolutely focused on our customer's key priorities, areas we know they truly value. With record levels of investment in 2024/25, we are focused on tackling the use of storm overflows at our beaches and reducing pollutions, protecting water quality and enhancing resilience, driving environmental gains and supporting our customers in making sure their bills are as affordable as they can be, whilst delivering improved services.

Reducing pollutions and tackling the use of storm overflows

We rely upon the natural environment to deliver for customers and communities, and our achievements this year have been delivered against a backdrop of some challenging weather conditions; rainfall in 2024 was similar to last year, itself 11% higher than average and a record wet year. These two years of exceptional rainfall resulted in higher groundwater levels c.14% above normal levels.

Despite the exceptionally wet weather, we have made progress on waste water measures. Our approach has been two-fold - prioritising reducing pollutions to homes, businesses and land, alongside tackling pollutions to watercourses - given we look after a third of the nation's bathing waters. The number of homes and businesses impacted by internal sewer floodings to homes and businesses fell again this year by 14%, and over the five years since 2020 have reduced by 68%. External sewer floodings have also fallen by 11%, and 24% since 2020 respectively, supported by a 30% reduction in sewer collapses (37% in 2024/25) and reducing sewer blockages through our planned cleansing programme. We are the best performing company at tackling flooding to homes and businesses, and a top quartile performer for reducing pollutions to land.

For the impacts on water courses, having made sure all our storm overflow monitors were installed at the end of 2022, we are equally focused on delivering against our 15-year programme to 2040 to reduce the use of the storm overflows. Despite the exceptional rainfall and groundwater levels, we were one of only five companies to reduce spills in 2024 - and for bathing waters, we have seen a reduction of 20% since 2020 consistent with last year. Our K7 WaterFit interventions are delivering ongoing benefits preventing c.15,000 spills and two thirds of our top spillers from last year have been resolved.

With critical national infrastructure, and a network length that could wrap around the circumference of the world, occasionally things go wrong, it is how we respond and how we strive to eliminate those occurrences that matters.

Overall pollution incidents to water courses have marginally fallen year on year, and whilst I am very disappointed that the level of incidents has not reduced further, and the number of more serious incidents in 2024 has risen from 2 to 4, there has been progress, with pollutions from our thousands of kilometres of network reduced by 40% since 2020, having installed thousands of network monitors that are allowing us to predict, avoid and alleviate incidents.

As we close the period, we are anticipating the EA's Environmental Performance Assessment, which measures 4% of all pollutions - and specifically those which impact watercourses, to maintain a 2-star rating for South West Water. In order for us to improve our rating, we must reduce the number of water course pollutions, and our recently published pollution incident reduction plan sets out how we will achieve this. We have a plan to get to EPA 4 star - we have been enacting it - and our regulatory settlement for the outstanding plan means we need to achieve this for the 2028 assessment.

Protecting water quality and enhancing water resilience

The top priority for our customers is safe clean drinking water, across Bristol, Bournemouth, Devon, Cornwall, the Isles of Scilly, and now with the recently acquired Sutton and East Surrey region.

We have been investing to enhance resilience and protect water quality.

This has been a monumental undertaking, with teams across South West Water and our supply chain partners. Blackpool pit has been fully operational during 2024/25, coupled with construction completing at the new treatment works at Rialton. That means for Cornwall we have supplemented resources available for use cumulatively since 2022 by 34%, with 4% extra delivery this year, having delivered the 30% uplift for Devon in 2023/24. Whilst there are rising concerns nationally about water resources, after the driest start to spring 2025 in 69 years, we have already learnt more about managing through drought than most given the 1 in 200 drought we experienced in the South West in 2022. Simply put - we have invested and innovated to break the cycle of drought - repurposing disused mines and quarries as mini reservoirs and building network recharge schemes. As a result, with the scenarios we have modelled, we do not anticipate restrictions to supply across our regions this summer.

There are always two sides to the coin. Reducing demand is also fundamental to future resilience alongside tackling our own production losses and leakage from our network. Across K7, we have reduced leakage by 13% in SWW, 1% in Bristol and 19% in SES. Whilst we narrowly missed the stretching leakage targets for 2024/25 for SWW and Bristol the in-year leakage results for 2024/25 were an 9%, 4% improvement respectively on the prior year. In SES leakage reduced by 3% meeting our 2024/25 target.

Our sector leading demand reduction schemes have focused on supporting customers to use less and save money. Leading with our 'Water is Precious' water efficiency campaign we are targeting both residents and visitors. In Cornwall residents were given £10 off their bills for delivering a 5% reduction in use. We are also trialling several firsts for the region with progressive tariff trials (seasonal and progressive) - early results are showing demand reductions from between 2% and 9%.

Whilst we are focused on protecting water resources, safe, clean drinking water remains customers' number one priority and we continue to make good progress in rolling out our successful Quality First culture and training programme in Bristol, with plans to extend to SES. The incident last year in Brixham, highlights just how important it is that customers can have confidence in their water supply. For eight weeks in the summer, teams worked is that customers can have confidence in their water supply. For eight weeks in the summer, teams worked tirelessly to return safe clean drinking water to the people and businesses in and around Brixham in Devon. Over 800 brilliant colleagues and supply chain partners supported customers during that period, flushing over 30km of network 27 times, and installing UV and filtration equipment to ensure the supply could be restored as quickly and safely as possible. I would like to thank customers for their incredible patience, and their kindness to colleagues who were working on the ground at all hours. We continue to work with the Drinking Water Inspectorate on the lessons learned from that incident.

Our underlying water quality is improving. With SES the top performer in the industry, and SWW the top performer for water and sewerage companies, we are confident that we can do even more as we share best practice[9]. For Bournemouth customers, we continue to make good progress, using state of the art off site build techniques for our new water treatment works at Alderney and Knapp Mill which will supply 85% of the Bournemouth population. In Devon and Cornwall, we are on track to finalise improvements at Stithians, Saint Cleer, Restormel and Littlehempston with tactical investments in Bristol delivered in 2024/25 - ahead of significant investment in K8 - showing improvements on last year's performance.

Driving environmental gains

1. We've improved river water quality at 37 sites[10], with an 80% reduction in phosphorus, and improved the RNAGS over K7 from 19% to 12%. Our award-winning catchment management programme, delivering 144,000 hectares of improvements, is leading the way for biodiversity gains as well as continuing to help the way others manage their land, improve water quality, biodiversity and climate resilience. The activities range from building ponds, improving farm tracks, slurry storage as well as planting trees and buffer strips to catch and filter water.

With our commitment to Net Zero, our investment in Pennon Power has continued with over half of our targeted capacity already under construction at three sites across Fife, Aberdeenshire and Cumbria, with one further site where we have appointed preferred partners. Returns for these assets, post energisation on an unlevered basis are between 7-9% and on a levered basis between 11-15%. With PV construction for Fife completed, energisation is expected in June 2025, having secured revised grid connection timings.

Supporting affordability, delivering for customers

In tackling affordability, it is about doing two things, keeping bills as low as possible and supporting those who find themselves struggling with affordability. By focusing on efficiency, we have kept bills as low as possible over the last decade to 2025, with increases below headline inflation over that period. We are supporting more customers than ever before with over 150,000 across the group benefitting from our support tariffs. By unlocking over £124m of financial support we have increased affordability to 100% for customers in South West and Bristol - having met our pledge of having zero customers in water poverty by March 2025. Alongside supporting customers, we have also supported 55 charities through our neighbourhood fund.

That said, with the significant investment we will be making, bills are rising by on average c.28% in 2025/26 for SWW customers, with the average water and sewerage bill now being c.£1.85 per day. Water bills for customers in Bristol and SES are set to rise by 5% and 3% respectively. We know customers are worried about the necessary bill increases to support investments. The majority of the funding will come from shareholders and debt providers, meaning that customers will pay around a third. At the same time, we will support those who need it most with a £200m support package, building on our 100% affordable bill pledge. We have continued to support our vulnerable customers through our priority services register to ensure they have our support when they need it.

And given you can't choose your water provider; we believe you should have a say which is why we plan to grow our unique water share plus scheme and will extend this scheme to SES customers for the first time. Through WaterShare plus, we are demonstrating how a socially responsible model can successfully develop in a monopoly market. Listening to our customers, in 2020 we launched our first WaterShare+ share issuance. Sharing financial outperformance arising from delivery on our regulatory plans, we have offered money off bills or share ownership. So far we have c.80,000 customers who have become shareholders through the two issuances we have had. This equates to nearly four times the number of institutional shareholders. Customers have all the voting rights this affords, whether holding us to account at quarterly public meetings, or attending the AGM, their voice is always the loudest. At the AGM in July, we will be seeking authority to launch a third issuance, distributing the funds set aside for this purpose following the rights issue earlier this year, and in doing so inviting customers of SES to participate for the first time.

One aspect I enjoy most about the scheme is the ability for me to meet so many of my customers. I have met over 1,000 customers through our customer roadshow campaign and the WaterShare meetings.

Key to building trust is reducing complaints and with Bristol recognised as a top performer for complaints and customer service, we see opportunities for improving across the Group - with South West reducing complaints by 7% last year.

We continue to support customers to use less and save more with our progressive charges' trials, underpinned by our smart metering programme.

Record investment and growth

Record investment in K7 - with £652m in 2024/25, at the run rate for K8.

Investment reflects the ongoing focus on transitioning to K8, as well as delivering the final regulatory commitments for K7. With more resilient water resources, excellent progress on our state of the art water treatment works in Bournemouth and 100% water quality at bathing waters, our investment is delivering benefits as we have closed out the regulatory period. We have accelerated K8 investment, which coupled with our strategy of consolidation in the UK water sector, has resulted in RCV growth of 75% over K7.

Investment in Pennon Power of £41m reflects the construction at three sites as the four site build programme accelerates.

Point of inflection for 2024/25

We have reset and reshaped ahead of K8.

Firstly, our successful water demand customer initiatives, helping customers to use less and save more, has meant that on a like for like basis, across the wholesale water businesses we have seen lower revenues, resulting in a loss before tax on both an underlying and statutory basis. Regulatory revenue mechanisms are in place to protect future recovery.

Secondly, having delivered c.£76m of cumulative annualised efficiency savings in 2024/25 as we reshape the Group and integrate SES, towards our targeted annualised savings of c.£86m in K8, this is an important base from which to deliver the K8 business plans.

Thirdly - having ramped up capital expenditure during K7, we are delivering at the required K8 run rate - with the supply chain alliance 'amplify' in place.

Our Return on Regulated Equity for SWW is relatively strong, at 10.4% on a nominal basis, and 6.0% on a real notional WaterShare basis (10.3% and 5.9% including Bristol). We are delivering for investors as well as customers - with robust relative performance on common ODIs, with overall cumulative ODI performance at c.70%. SES, with a reshaped balance sheet, will increase its performance in K8.

And finally - we have retained and grown our profitable sector leading B2B retailers PWS and Water2Business. They are both improving PBT against the prior year, with c.15% market share, delivering excellent customer service in England and Scotland, and with trust pilot scores that rival that of John Lewis and Amazon.

Underpinning all our activities is a robust funding position, with total water group RCV gearing of 61.8%. With a strong balance sheet and good liquidity, we maintain the agility to deliver on our strategy in UK Water and are well positioned for a sustainable future.

A sustainable future in the UK water sector

We share the Government's ambition for a step-change in environmental performance, and to drive economic growth and our significant investment plans for K8 will help us to achieve this.

Standing ready to implement new legislation, government review

This has also been a year in which many of the foundations, underpinning effective regulation, have been under review, with a new Government, new legislation and a renewed focus on the sector. The Water (Special Measures) Act, passed in February, has been an important first step, strengthening the power of water industry regulators, with Ofwat now consulting on the supporting rules. We have responded and await the outcome. As a principle, we always strive to ensure we maintain constructive working relationships with government and our regulators. It is what the public expects from us. However, to effectively regulate a transforming sector, we recognise that regulation should also reset. As a sector providing critical national infrastructure, we do believe we should be governed in the same way as other utilities, making a strong case for a more investable, resilient and predictable sector, and in unlocking long term capital at fair rates. We stand ready to implement what is required and continue to contribute to the independent Water Commission's review of water.

Our people

With a history and heritage built up over many years, we continue to learn, innovate and grow. Everyone who works at Pennon is fiercely proud of our heritage in the water sector, with generations of fathers, sons, mothers and daughters, who have dedicated their lives to water, and I am extremely proud of our brilliant teams.

Our c.4,000 talented colleagues don't just bring water to life every day; we drive economic growth, and break down barriers to opportunity, supporting livelihoods in the areas we serve. As one of the largest private employers in the South West, and across the Group, leadership is all about making this a great place to work, and a safe place to work. Our most recent employee engagement scores were the highest we have ever had, and health and safety engagement is consistently our best scoring area. Our health and safety track record has improved for the past five years, as we focus on making sure everyone who works for us and with us, goes home safe every single day, through our Home Safe culture programme, and with our lowest ever LTIFR rate, which has halved over the last 5 years.

Our partnerships with the wider supply chain and our 'amplify' alliance more than doubles our workforce and plays a critical role in the regions too. As a living wage employer, we continue to invest in skills and jobs, and the only water company recognised by the Government as a top 100 apprenticeship employer, with our earn and learn approach and as a member of the 5% club with platinum status. With our 680 apprenticeship and graduate placements we are well on with our own target of 1,000 by 2030. With organisations like the Institute of Water, we are focused on making sure we have the talent and trained colleagues we need across the sector for our record investment and delivery.

I'd personally like to thank my brilliant colleagues who serve our communities 24/7 and are a credit to the business.

Strong platform for the future

The fundamentals for the business are robust for a sustainable future.

Our growing footprint puts us on a strong platform for delivery. We have good liquidity, having delivered higher than base allowed regulatory returns and consistently been a top quartile performer against our regulatory outcome performance.

Following the successful oversubscribed rights issue earlier this year, we have a strong balance sheet.

In summary, whilst there is always more to do, we have successfully closed out this regulatory period to 2025.

As we look ahead, we are set to invest a record level of £3.2bn by 2030, having achieved a sector leading plan in SWW for 3 consecutive price reviews. With Managing Directors now in place for Water Services, Wastewater Services, Pennon Power and Retail Services, we are reshaping the Group aligned to the new model, with more resources and capabilities, on the front line, supported by expert corporate functions, ensuring we are well positioned to deliver our outstanding business plan for K8, and another period of significant growth.

Finally, it's not what we do but how we do it that matters, walking in the shoes of our customers and the regions we serve, living our values, and as we bring together customers and communities.

GROUP CHIEF FINANCIAL OFFICER'S REVIEW

Our 2024/25 financial results were in line with expectations, reflecting the challenges seen across the UK water sector, as well as a relentless focus from our teams to meet the commitments we have made to customers and stakeholders, whilst investing in our assets to protect the environment and meet the expectations of the public.

Our underlying loss before tax of £35.1 million for the year (2023/24: underlying profit of £16.8 million), resulted from lower regulated revenue impacted by lower customer demand in Devon and Cornwall, driven by customer efficiency initiatives. Cost pressures have been seen as we strive to deliver against our regulatory targets. SES Group was acquired in January 2024, and this reflects the first full year in which SES has been incorporated into the results of the Group.

Depreciation and interest have increased as a result of the increased capital investment we have seen in the current and previous years. These investments have been reconciled into RCV as the K7 period ends, with a step-up in revenue associated with the allowed returns on such investments commencing from the 2025/26 financial year.

The Group's statutory loss before tax of £72.7 million for the year (2023/24: £9.1 million loss) includes non-underlying items of £37.6 million (2023/24: £25.9 million), the majority of which related to costs in relation to the cryptosporidium water quality incident and costs in connection with restructuring and reshaping actions. The statutory loss after tax of £56.8m (2023/24: £8.5 million) incorporates the associated tax credit on these results.

We were pleased to receive an 'outstanding' assessment for South West Water's Business Plan. In their Final Determination received in December 2024, Ofwat allowed 100% of the revenues requested in our Business Plan, and improved both the cost of capital and risk mitigations through cost adjustment mechanisms, compared with July's Draft Determination. We believe that the Final Determination provides a strong base for the business to deliver against its strategic priorities and confirmed we would accept that Determination in late January.

It is critical that we deliver on our strategic priorities, but that we also deliver the required outcomes and our capital programme as efficiently as possible. As such, in this period of transition from K7 to K8, we have continued to progress our efficiency programme, which targets annualised run rate savings of £86 million. In the 2024/25 financial year, we have focused on reshaping and realigning the business to ensure we are ready to deliver on the strategic priorities we have set for the next regulatory period.

With this in mind, we have restructured the business around our four business units, as well as continued with our programme of integration and transformation to ensure effective, efficient delivery. We have also invested in a number of measures to transform our underlying operational performance.

In addition to the restructure, we have continued to deliver our transformation and integration programmes. Synergies delivered through our acquisitions of Bristol Water and SES Water have delivered savings of c.£20 million and c.£9 million, respectively. Combined with base efficiency of c.£47million we have delivered c.£76 million of the expected annualised savings of c.£86 million for K8. These actions have resulted in non-underlying costs of £15.8 million in the current year but will provide a more effective and efficient delivery as we head into the next regulatory period.

We have continued to invest record levels of capital to deliver enhancements and benefits for the environment and our customers. Our group wide capital investment[11] of £652.5 million reflects £610.2 million of investment in our water businesses as we focus on delivering on our K7 commitments and transition to K8. Key investments, such as our new treatment works at Alderney and Knapp Mill, have progressed at pace, whilst our continued focus on the environment, through investment in our WaterFit and storm overflow programmes, have also driven capital investment in the year. Our programme to increase our water resources and strengthen our resilience to drought has also continued, leading to a 34% increase in water resources in Cornwall since the drought, as well as a 30% increase in Devon, positioning us well as we experience an exceptionally dry spring period across the UK.

Our current rate of investment aligns with that required to deliver our K8 programme of £3.2 billion[12] and which will deliver 34% growth in our regulatory asset base to 2030. To support this growth, ensuring a strong and resilient balance sheet has been a key focus. The completion of the £490 million fully underwritten rights issue in February 2025 was core to this; with over 93% of shareholders taking up their rights and the rump placing being more than four times over-subscribed, we are grateful to all those shareholders who supported the issuance. With the proceeds received, we close the K7 period with a water group gearing of 61.8%, well within our renewed gearing policy of 55-65% and within our anticipated range of 60-65% to 2030 for our Water Group. At 31 March 2025, SWW's net debt/forecast shadow RCV gearing ratio was 62.0% (31 March 2024: 63.5%), reflecting the benefit of the equity injection following the rights issue, notwithstanding continued record levels of capital expenditure and reduced operating cash flows.

Debt funding is also fundamental to our growth; during the year we secured strong investment grade credit ratings for South West Water Limited and ratings were uplifted for SES Group as a result of recognition from the ratings agency of the stronger balance sheet support provided by SES being part of the Pennon Group. These credit ratings have allowed us to secure funding through private placements, the public bond markets, lease financing and wider bilateral lending. Overall, we have raised £1.3 billion in debt and equity funding to the end of the year, as well as ensuring our EMTN programme, launched in July 2024, provides an efficient and flexible way to fund our ongoing funding and liquidity needs over the next five years.

We continue to outperform the regulatory cost of equity. Our RORE across the K7 period reflects a 6% real return to shareholders, outperforming the equity return allowed by Ofwat of 4.19% as a result of strong financing performance across the five-year cycle, partially offset by increased investment, cost pressures including higher power costs than allowed, and ODI performance.

Group performance - summary

	Revenue		**Underlying EBITDA**	
	2024/25	2023/24	**2024/25**	2023/24
SWW	**737.7**	729.8	**308.6**	332.5
SES Water	**82.8**	16.0	**29.6**	3.3
Total Water	**820.5**	745.8	**338.2**	335.8
Retail	**320.3**	253.5	**7.5**	7.7
Other	**12.8**	11.8	**(10.1)**	(5.2)
Intra-group	**(105.8)**	(103.3)	**-**	-
Group	**1,047.8**	907.8	**335.6**	338.3

SES was acquired on 10 January 2024 and has contributed to the Group financial results since that date. It largely comprises the regulated water company, Sutton and East Surrey Water plc ('SES Water'), along with non-regulated businesses including SES Business Water, a non-household retail business. The year to 31 March 2025 will be the first year where Pennon's results will include a full year of SES results; the 2023/24 financial year incorporated results from the date of acquisition only.

The Group's revenue for 2024/25 was £1,047.8 million (2023/24: £907.8 million). Water revenue increased by £74.7 million (10.0%), as a result of the full year contribution from SES Water of £82.8 million (2023/24: three months' contribution of £16.0 million). Revenue from South West Water (including Bristol and Bournemouth) was broadly flat year-on-year, as tariff increases were offset by lower customer demand in the first half of the year from South West Water customers, in response to our water efficiency campaigns and activities. Non-household retail revenue increased by £66.8 million to £320.3 million, with new contracts outside South West Water's regions contributing c. £14.9 million to this increase alongside the full year impact of the SES BW acquisition. SES BW has contributed £67.9 million of revenue in the year (2023/24: three months' contribution of £19.7 million).

Overall, the Group's underlying EBITDA has decreased 0.8% from £338.3 million to £335.6 million, with full year contribution from SES of £26.9 million (2023/24: three months' contribution of £3.6 million), leading to £23.3 million year-on-year benefit to underlying EBITDA, offset by a £23.9 million reduction in underlying EBITDA from South West Water, given flat revenue and increasing cost pressures.

Cash collections across the Group have remained robust during the financial year. Expected credit loss charges for 2024/25 of £9.7 million for the Group (0.9% of revenue) are in line with previous levels (2023/24: 0.8%).

The Group reported a statutory loss before tax of £72.7 million (2023/24: loss of £9.1 million) after non-underlying costs of £37.6 million (2023/24: £25.9 million). The Group recognised an underlying loss before tax of £35.1 million (2023/24: profit of £16.8 million), with SES Water and SES Business Water contributing an underlying loss before tax of £8.0 million (2023/24: £2.5 million). Group underlying loss before tax on a like-for-like basis (excluding SES) was £27.1 million (2023/24: profit of £19.3 million).

Segmental performance - Water businesses

South West Water

South West Water's revenue for 2024/25 was £737.7 million (2023/24: £729.8 million). The revenue growth of £7.9 million has been explained previously.

Underlying operating costs of £429.1 million (2023/24: £397.3 million) have increased year-on-year by £31.8 million. This reflects the impact of inflationary pressures, the cost of implementing the new digital customer services platform and a focus on delivering key finance commitments. These were partially offset by lower wholesale commodity power costs and efficiency savings.

South West Water's underlying EBITDA reduced by 7.2% to £308.6 million. Underlying operating profit has decreased by 17.5% reflecting the weakened EBITDA performance, and an increase in the depreciation charges of £5.9 million compared to last year, in line with our record, capital investment programme.

Net finance costs of £170.6 million (2023/24: £155.5 million), reflect an effective interest rate of 5.4%[13] (2023/24: 5.6%) The year-on-year increase of £15.1 million was as a result of higher debt, funding the capital programme.

South West Water's statutory loss before tax was £62.7 million (2023/24: loss of £1.0 million) after non-underlying costs of £32.4 million (2023/24: £15.6 million).

South West Water's capital expenditure was £588.7 million (2023/24: £582.9 million), a continuation of the increase in investment level from 2023/24. We have invested c.£2 billion over the K7 period, both in the underlying PR19 programme, but also in additional programmes, including WaterFit and storm overflow reductions, investing more in our wastewater infrastructure; Green recovery, delivering smarter, healthier homes in our regions; and water resources, increasing our resilience to climate change and drought. Further investment during a year of high rain fall has enabled a reduction in pollutions and spillages despite being the wettest hydrological year on record, as we drive operational improvements in support of our focus on protecting the natural environment, on which we rely.

SES Water

SES Water's revenue for 2024/25 was £82.8 million of revenue in the year (2023/24: £16.0 million from date of acquisition), and reducing costs on an annualised basis, leading to an improved EBITDA margin for the 2024/25 year.

SES Water capital investment of £21.5 million has focused on network resilience and metering, continuing its focus on smart networks and ensuring resilient supply of drinking water.

Following the Rights Issue in February 2025, £330.0 million of equity was passed down to South West Water and £50.0 million of equity was injected into SES Water to ensure appropriate gearing in each water business.

Segmental performance - non-household retail

Pennon Water Services[14]

Pennon Water Services has delivered a strong financial performance for the year through its continued focus on key strategic initiatives: growing through long-term contracts in targeted business sectors, good customer retention and strong control of operating costs despite additional cost pressures.

Non-household demand has fallen within our underlying water region; however, year-on-year revenue, EBITDA and profit before tax have continued to grow throughout 2024/25 aided by winning new contracts on a national basis.

The overall impact on revenues for Pennon Water Services, including the impact of new contract wins and tariff increases across the UK water market, is an increase of c.8% compared to the prior year. The business continued to maintain its focus on targeting high quality, sustainable customers who will benefit from the value-added services that form part of PWS' differentiated service proposition. New business wins contributed £13.9 million of additional revenue compared to the prior year, with inflation (net of customer attrition) contributing further to the increase.

The non-household market continues to be very competitive with low margins. As a result, a clear focus on cost control and efficiencies is critical to the success of the business. The business has improved its performance year-on-year, with underlying operating costs growing marginally and at a rate below the increase in revenues. As a result, the business has increased its underlying EBITDA by c.2.7% to £7.6 million (2023/24: £7.4 million). This strong performance has resulted in the business reporting a profit before tax of £5.4 million (2023/24: £4.7 million), an increase of 14.9%.

SES Business Water

SES Business Water's revenue for 2024/25 was £67.9 million during the year with underlying EBITDA at £(0.1) million.

Segmental performance - Other

The Other segment comprises the result of Pennon Group plc company and other Group businesses, including the recently acquired ancillary businesses of SES. The Other segment contributed an underlying loss before tax of £3.3 million in the year (2023/24: profit before tax of £0.1 million) with non-underlying costs of £1.5 million (2023/24: £0.7 million) associated with the closure of SES Home Services, a business providing plumbing services on a retail and business to business basis. This business was loss making and on 31 March 2025, it was announced that the business would be closed.

Group finance costs (net)

The increase of £34.2 million resulted from; £47.3 million from new and renewed debt facilities, the full year impact of financing SES Group (£16.1 million), offset by lower inflation and interest rates (£21.3 million), increased interest receivable as a result of the Rights Issue (£3.4 million) and higher levels of capitalised interest as we continue to invest record levels of capital in our water businesses (£9 million).

The Group continues to efficiently secure funding through its Sustainable Financing Framework and to ensure c.60% of its interest rate risk is mitigated in line with the Group Treasury Policy, which is achieved both through issuing fixed rate debt and effective interest rate hedging, with a further element being index-linked.

Share of post-tax profit from associated companies

The Group has a 30% interest in Water2Business Limited (W2B), a water retailer joint venture with Wessex Water. This investment is accounted for under the equity method and as the financial performance improves as it has gained scale, we have recognised £0.8 million of profit after tax in our 2024/25 results (2023/24: £0.7 million), an increase of 14%.

Acquisition accounting

As part of the requirements of acquisition accounting, we have finalised the fair values of the acquired balance sheet of SES Water. The provisional values reported in the Group's results to 31 March 2024 have been revised to reflect a £0.4 million decrease in the fair value of the acquired property, plant and equipment, including the network infrastructure, the fair value of SES Water's debt portfolio, and the deferred tax liabilities with a corresponding increase in Goodwill. The majority of the value is attributed to the SES Water business, recognising the strategic alignment of our acquisition with our other water companies.

Goodwill arising from the acquisition of £16.0 million, based on these fair values, has been recorded in the Group consolidated balance sheet and is attributable to the recognition of deferred tax liabilities on fair value gains recognised as part of the acquisition.

Non-underlying items

Non-underlying items for 2024/25 were a net charge before tax of £37.6 million (2023/24: net charge of £25.9 million). Non-underlying items are those that in the Directors' view should be separately identified by virtue of their size, nature or incidence and where they believe excluding non-underlying items provides a more useful comparison of business trends and performance.

The non-underlying charge includes:

- £21.0 million of costs in relation to the Brixham water quality incident which includes enhanced customer compensation, provision of bottled water over an eight-week period, and extensive interventions to clean and filter the network
- £15.8 million of costs in connection with restructuring and reshaping actions
- £0.8 million of acquisition-related costs in relation to Pennon Power and SES.

The non-underlying charges in the year give rise to a net tax credit of £8.9 million in relation to the above items.

Responsible approach to tax

We are proud of our responsible approach to tax. The Group has maintained the Fair Tax Mark accreditation for the year, having been the first water company to achieve this status and holding the award continuously since 2018.

The overall 2024/25 tax credit for the Group was £15.9 million (2023/24: credit of £0.6 million). On an underlying basis, the net tax credit for 2024/25 for the Group of £7.0 million (2023/24: charge of £4.3 million) consisted of:

- Current tax charge of £0.8 million, reflecting an effective tax charge rate of 2.3% (2023/24: credit of £0.6 million, 3.6%). The reduction in rate is due to the Group generating tax losses, all of which are carried forward for future relief. These tax losses reflect the enhanced capital allowances available because of full expensing and first year allowances, pension payments made during recent years where tax relief is now due, and capitalised interest, which for tax purposes is deductible in the year incurred.
- Deferred tax credit of £7.8 million (2023/24: charge of £4.9 million). This primarily reflects a current year deferred tax credit in relation to tax losses carried forward for utilisation in later periods, partially offset by a charge in relation to capital allowances in excess of depreciation charged across the Group, largely due to full expensing, and a charge in respect of pension payments paid in previous years and where tax relief is now due.

There was also a non-underlying current tax credit in the year of £0.5 million (2023/24: £nil) and a deferred tax credit in the year of £8.4 million (2023/24: £4.9 million) relating to the non-underlying items. This related to losses carried forward for utilisation in later years.

Given the Group's continued capital investment programme and full expensing deductions together with 50% first year allowances on long life assets and integral features, the Group does not expect to generate taxable profits for the foreseeable future, and therefore does not expect to make any corporation tax payments in the immediate future.

Earnings per share (basic and diluted)

The earnings per share calculations reflect an increase in weighted average shares due to the rights issue in February 2025. The Group has recorded a statutory loss per share of 16.1 pence per share for the year ended 31 March 2025 (2023/24: loss of 2.9 pence per share). This includes a net non-underlying charge before tax of £37.6 million (2023/24: £25.9 million) and a net non-underlying tax credit of £8.9 million (2023/24: charge of £4.9 million).

Our adjusted earnings per share excludes the impact of deferred tax charges and non-underlying items. For the Group, we have generated adjusted earnings per share for 2024/25 of (10.3) pence (2023/24: 5.1 pence).

Basic and diluted earnings per share figures and the weighted average number of shares for the comparative period have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share. Amounts as originally stated at 31 March 2024 were (3.6)p basic and diluted earnings per share, 6.2p basic and diluted adjusted earnings per share.

Movement in Net debt

Pennon Group - summarised net debt flow (£m)	**2024/25 flows**
Net debt excluding other non-cash indebtedness 1 April	**(3,684.8)**
Opening balance 1 April (restated)	**(3,844.8)**
Cash generated from operations	**233.6**
Corporation tax received	**3.0**
Net interest paid	**(132.0)**
Capital investment	**(666.7)**
Proceeds from Rights Issue	**491.0**
Share Issue transaction costs	**(15.4)**
Ordinary dividends paid	**(126.9)**
Non-cash index-linked accretion	**(33.4)**
Other movements[15]	**13.4**
Closing balance 31 March excluding other non-cash indebtedness	**(4,078.2)**
Net debt excluding fair value uplifts 31 March	**(3,936.2)**[16]

The Group's cash flow from operating activities for 2024/25 was £233.6 million (2023/24: £261.7 million). This recognises robust cash collection in the period, whilst we remain focused on supporting customers through a range of affordability measures where they may financially vulnerable. Operating cash flows continue to reflect the lower levels of underlying profitability, impacted by lower customer demand and cost pressures from inflation and delivering on our operational performance commitments.

Net interest payments were £132.0 million (2023/24: £109.1 million) with the higher payment in 2024/25 driven by increased debt consequent on our ongoing record levels of capital investment, partially offset by lower inflation and interest rates.

Capital investment has resulted in an increase in capital expenditure cash outflows of £68.6 million to £666.7 million (2023/24: £598.1 million). This includes c.£32.2 million (2023/24: £49.0 million) of cash outlay for the investment in Pennon Power.

Sustainable net debt

We completed an equity rights issue in order to ensure we maintain financial discipline with the leverage and capital structure for the Group. Proceeds from the rights issue, net of associated expenses, were £475.6 million.

Other significant movements in net debt in 2024/25 include payment of our interim and final dividends for 2023/24 totalling £126.9 million (interim and final dividends for 2022/23: £111.7 million) and £33.4 million (2023/24: £46.8 million) of non-cash indexation on our loan instruments.

The Group's net debt at 31 March 2025 was £4,078.2 million (31 March 2024 (restated): £3,810.5 million). This includes acquisition-related fair value adjustments of £109.8 million (31 March 2024: £125.7 million) which are released over the life of the related debt instruments and other non-cash accounting adjustments of £32.2million (31 March 2024: £35.2million). The Group's net debt position excluding these adjustments is £3,936.2 million (31 March 2024 (restated): £3,684.8 million).

Robust liquidity and flexible funding strategy

Group debt at 31 March 2025 (£m)	**Gross debt**	**Net debt**
Pennon Group Plc	**247.2**	**202.2**
Water Group	**4,107.1**	**3,698.3**
SWW	3,815.9	3,481.7
SES Water	291.2	216.6
Other Group companies	**155.9**	**133.6**
Intercompany borrowing eliminations	**(97.9)**	**(97.9)**
Total adjusted group (excluding FV and hedging)	**4,412.3**	**3,936.2**
Non-cash indebtedness[17]	142.0	142.0
Total Group	**4,554.3**	**4,078.2**

As at 31 March 2025, the Group had £1,036.1 million of cash and committed facilities (31 March 2024: £601.4 million). This consists of cash and cash deposits of £476.1 million (31 March 2024: £171.4 million), including £58.2 million (31 March 2024: £37.4 million) of restricted funds representing deposits with lessors against future lease obligations, and £560.0 million (31 March 2024: £430.0 million) of undrawn committed facilities.

Since 31 March 2024, the Group has secured c.£1,140 million of new debt, through its diverse portfolio of debt, consisting of:

consisting of:

- £300 million in US private placements with an average maturity of 15 years
- £650 million through our inaugural public bond issuances under our EMTN[18] programme
- £65 million of new term loans and leasing with an average maturity of 6 years
- £125 million of new and renewed revolving credit facilities.

These issuances signal the move to more benchmark-sized transactions in both the private placement and public bond markets as the scale of capital expenditure and ongoing refinancing grows. The bond followed the launch of our £2.5 billion EMTN programme, which allows us to issue funding across the forthcoming regulatory period to fund the growth in the business and improvement in services reflected in our Business Plan.

Resulting from the changes above and drawing of new debt during the year, South West Water gross debt at 31 March 2025 was £3,815.9 million (31 March 2024: £3,287.8 million). The debt has a maturity of up to 32 years with a weighted average maturity of 14 years.

South West Water[19] net debt at 31 March 2025 is a mix of fixed/swapped (£2,460.7 million, 71%), floating (£243.7 million, 7%) and index-linked borrowings (£777.3 million, 22%), which reflects our diverse debt portfolio and compares to a 2024 industry average[20] of fixed/swapped 32%, floating 12% and index-linked 56%. Where appropriate, derivatives are used to fix the rate on floating rate debt.

At 31 March 2025, South West Water's net debt to RCV ratio[21] stood at 62.0% (31 March 2024: 63.5%). This is due to increased capital investment and reduced in period operating cash flows.

South West Water's cost of finance, with an effective interest rate in 2024/25 of 5.4%[16] (2023/24: 5.6%), continues to benefit from the diverse portfolio of debt.

SES Water's net debt portfolio predominantly reflects index linked and fixed rate debt, based on the legacy portfolio acquired at the date of acquisition. Subsequent to the equity injections in 2024/25, SES Water's gearing levels relative to RCV have reduced to 59.3%, with recognition from Ofwat of their improving financial resilience as a result of Pennon's ownership.

The effective interest rate on the SES debt book is 7.2% (adjusted for the March injection of equity). As a material component of this debt book is index linked, it is anticipated this rate will decrease as UK inflation rates reduce. In addition, over time, as the legacy debt matures, we anticipate it will also benefit from being part of the diverse debt portfolio and hedging strategy employed by the wider Group.

Strong investment grade ratings

During the first half of the year the Group, through South West Water, has achieved two strong credit ratings with Moody's and Fitch. We were pleased that despite the sector wide downgrade by Moody's due to ongoing regulatory risk, and the impact of the Determinations on the wider sector, our credit rating remained unchanged subsequent to the Final Determination. We were also pleased that SES Water's credit rating was upgraded by Moody's in November, in recognition of the benefit gained from being part of the wider Pennon Group and its resilient balance sheet.

South West Water launched its EMTN programme in July 2024, establishing a programme for access to the debt capital markets. This included the first public ratings for South West Water ahead of the appointee licence requirement for two ratings by April 2025. Following the Final determination outcome, both rating agencies have reaffirmed the rating, maintaining the Baa1 (negative) and BBB+ (Stable) ratings.

The Group maintains its commitment to maintaining strong investment grade ratings across the water businesses and has showed significant commitment through the January 2025 equity raise to support this.

Creating economic value in the regulated business

Regulatory Capital Value (RCV)

31 March 2025	
SWW	4,900.1
BRL	717.7
SWB	**5,617.8**
SES	365.3
Water Group	**5,983.1**

Total Water Business RCV of £5,983.1 million includes the benefit of regulatory reconciliation items in the PR24 Final Determination, inflation of 3.4% at March 2025, as well as additional accelerated investment and expenditure to drive outcomes in 2024/25.

Return on Regulated Equity

During K7 we continued to deliver South West Water RORE performance of 6.0% cumulatively, with Bristol achieving 5.1% cumulatively, equating to c.£146.0 million of outperformance. This consists of c.£344.0 million financing outperformance (inclusive of the benefit from tax allowances), net of c.£140.0 million totex overspend, and c.£58.0 million ODI net penalty impact. This has enabled the funding of additional capital investment initiatives as noted above.

WaterShare RORE	**South West Water**	**Bristol Water**	**SES Water**
Base return	4.0%	4.5%	4.1%
Financing	4.2%	1.2%	(1.9%)
Totex	(1.6%)	0.6%	4.5%

ODI	(0.6%)	(1.2%)	(2.5%)
Cumulative RORE	**6.0%**	**5.1%**	**4.2%**

The cumulative benefits from the structure of our debt book on financing costs persist, but have reduced due to the impact of falling inflation. Totex performance has been impacted in year due to peak levels of capital expenditure following past outperformance.

ODI performance across the South West Water group in 2024/25 has continued to be dominated by pollutions underperformance, partly mitigated by areas of outperformance such as internal sewer flooding, catchment management and bathing waters. As a consequence, South West Water has incurred a penalty of c.£19 million (2023/24: penalty c.£12.1 million). South West Water continues to build on its ODI performance with c.70% either on track or ahead of target across a broad range of challenging bespoke, common, and comparative measures. ODI performance for Bristol Water is on track to achieve c.70% of its ODIs and has resulted in a net financial penalty of c. £4 million (2023/24: penalty of c.£1.7 million). ODI performance for SES is on track to achieve c.52% of its ODIs and has resulted in a net financial penalty of c.£2 million.

Across K7, South West Water has created c.£910 million of value for the Group from base returns, RORE outperformance and the growth in RCV over the five year period. The South West Water Board has taken a prudent approach to its dividend payments in making distributions to Pennon Group and as result c.£200 million has been distributed in K7 to date. This results in over c.£710 million of retained value (including dividends declared but not yet paid of £45 million) in South West Water, which the South West Water Board will consider as K7 closes.

Dividends

The Group continues to strive to deliver on its commitments to customers, shareholders and stakeholders as our investments drive strong and sustainable results. Around 50% of Pennon's shareholders are UK-based investors including individuals, pension funds, and charities. Over a third of the Group's c.3,500 employees (excluding SES Water) are shareholders and following the second issuance of our unique WaterShare+ initiative, around 80,000 customers are now also shareholders.

In January 2025 the Board announced our dividend policy to 2030 of growing the base dividend in line with CPIH. As a result, they have recommended a final dividend of 19.43 pence per share for the year ended 31 March 2025. Together with the interim dividend of 12.14 pence per share paid on 4 April 2025 this gives a total dividend per share for the year of 31.57 pence. Proposed dividends per share for the 2024 comparative period have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

The proposed total dividend for 2024/25 is increased by 5.4% year on year to £133.7 million (2023/24: £126.9 million adjusted for £2.4 million fines). This reflects an increase in line with CPIH on the 2023/24 dividend adjusted to remove the £2.4 million one off deduction in respect of the fine from the Environmental Agency paid by SWW. Current year dividends are covered 2.5 times by underlying EBITDA (2023/24: 2.7 times). Pennon Group plc has substantial retained earnings and a sustainable balance sheet to support its stated dividend policy. The strong fundamentals of its principal operating subsidiary, South West Water Limited, underpin this policy with its strong RORE and growing RCV. Dividends are charged against retained earnings in the year in which they are paid.

Investing for sustainable growth - renewable energy generation

Investment in renewable energy generation is an important part of achieving our Net Zero strategy and is aligned with our long term sustainable growth strategy with respect to the UK environmental infrastructure.

Pennon Power was established to support delivery of the Group's Net Zero commitments and to provide financial protection from energy price volatility whilst providing sustainability financial returns and contributing towards Group profitability.

To date c.£145 million has been committed to build four assets, and once all four sites are operational, Pennon Power will generate enough electricity each year to power c.50,000 homes.

Of this overall commitment, we have incurred total costs of c.£100 million to date, relating to project acquisition and construction costs incurred to date.

Our first project at Fife is expected to commence energy generation in June 2026, with Aberdeenshire and Cumbria sites energising in the second half of the financial year 2025/26. Buckinghamshire will commence construction in 2025/26 and is expected to energise in 2026/27.

Financial outlook[22]

Looking to 2025/26 we expect revenue to increase with regulated revenues for the Water Group reset to align with the impact of both the Final Determination and inflation. This leads to an expected increase in Water Group revenues by £180-£240 million. Non-household retail revenues will also increase by c.20-25%, in line with sector wide tariff increases. Following energisation, we anticipate receiving first revenues from Pennon Power on the Fife project in Q2 2025/26.

We expect total operating costs across the regulated Water Group to be broadly stable, as upward cost pressures from inflation and operational delivery will be offset by anticipated benefits from our ongoing operational efficiency and transformation programme. Total Group operating costs are expected to increase as a result of wholesale costs relating to the non-household retail business outside our region increasing aligned with wider water tariff increases.

The step change in revenue, aligned with the cost movements set out, are expected to result in underlying EBITDA increasing in 2025/26 by around two thirds compared with 2024/25.

Depreciation and amortisation charges are expected to increase by c.5-10% as a result of our continued K8 Water Group capital investment programme, and from projects for Pennon Power once commissioned.

Similarly, expected debt requirements to support our record levels of capital investment, both from the full year effect of current year financing and into 2025/26, are expected to increase net finance costs at a Water Group and therefore Group level leading to an increase in net financing costs for the Group of £25-35million.

Overall capital expenditure is expected to increase in 2025/26, as required under our capital programme for K8 delivery, and the associated front-loaded profile to ensure early benefits delivered to customers and communities across our regions. The build-out of our Pennon Power renewable energy sites will continue across the year. This is expected to lead to Group capital expenditure in the range of £710 million to £740 million.

expected to lead to Group capital expenditure in the range of £710 million to £740 million.

We remain in a strong position from a liquidity perspective with additional facilities already raised during the year, the successful Rights Issue in 2025/26, and with further programmes planned, supported by our strong investment grade credit ratings.

The Group's RCV is expected to increase in line with K8 business plan levels of investment. We target a RORE over K8 of 7% delivered through totex and financing efficiencies, coupled with strong operational performance. In 2025/26 we expect outperformance to be focused on financing and cost efficiencies, with a target to achieve a neutral ODI position in terms of financial reward or penalty.

TECHNICAL GUIDANCE FOR FY 2025/26

		FY 2024/25	Change
Revenue*	• Regulated Water Group revenue increasing by £180-£240m aligned with Final Determination allowed revenues • Non-household retailers increase revenue in line with sector wide tariff increases • Pennon Power first revenues from Q2, following energisation	£1,047.8	▲
Operating costs*	• Stable water operating costs with upward cost pressures offset by operational efficiency programmes. • Non-household retailer costs increased as sector wide wholesale charge increases take off	(£712.2m)	▲
EBITDA	• EBITDA increasing by two-thirds year on year	£335.6m	▲
Depreciation*	• Increase by c.5-10% as a result of ongoing investment programme and as Pennon Power projects are commissioned	(£187.1m)	▲
Net interest	• Record capital investment programme and full year impact of 2024/25 debt issuances, increasing by £25-35m reflecting continued record investment	(£184.4m)	▲
Capital expenditure	• £710-740m Group wide capital investment • Front loaded Water Group investment over K8 to deliver early benefits • Ongoing construction for Pennon Power projects, with Fife energisation	£652.5m	▲
RORE	• 7% target over K8 • Driving financing efficiency - effective interest rate below Ofwat allowances[23] • Driving totex efficiency • Neutral ODIs over 2025/26[24]	6.0%	▲

*Underlying basis

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks

During the year there have been continued sector specific and broader geopolitical developments that have created an environment of continued heightened risk and uncertainty. Notwithstanding that from a regulatory perspective there is certainty as a result of the PR24 Final Determination, there remains continued focus on the financeability of the broader sector as well as ongoing government-commissioned reviews of the sector, the impact of global trade wars and of the continued war in Ukraine impacting operational costs and energy prices.

The Board has carried out a detailed review of the Group's principal risks in the context of the Group's strategic objectives and priorities as well as the external environment within which it operates. This has included:

- Confirming that the Group's risk appetite statements remain appropriate.
- Receiving and reviewing updates on the Group's principal risks, including movements in the risk exposure.
- Undertaking horizon scanning of emerging risks and trends.
- Performing deep dive reviews into key risk areas.
- Through the Audit Committee, confirming the effectiveness of the risk management and internal control framework.

This has resulted in the following material changes to the Group's principal risks compared with those previously reported:

- The risk of failure to receive CMA approval for the acquisition of Sutton and East Surrey has been removed as a principal risk following approval being received from the CMA.

The Group's principal risks are:

Law, Regulation and Finance

1. Changes in Government policy
2. Changes in regulatory frameworks and requirements
3. Non-compliance with laws and regulations
4. Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments
5. Non-compliance or occurrence of an avoidable health and safety incident
6. 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

7. Macro-economic near-term risks impacting on inflation, interest rates and power prices

Operating Performance

8. Failure to secure, treat and supply clean drinking water

8. Failure to improve wastewater performance resulting in environmental commitments not being delivered

9. Failure to provide excellent service or meet the needs and expectations of our customers and communities

9. Inability to attract and retain staff with the skills to deliver the Group's strategy

Business Systems and Capital Investment

10. Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes in K8
11. Inadequate technological control or cyber-attack results in a breach of the Group's assets, systems and data

FINANCIAL TIMETABLE

3 June 2025	Full Year Results 2024/25
June 2025	Annual Report and Accounts Published
24 July 2025	Annual General Meeting 2025
24 July 2025*	Ordinary shares quoted ex-dividend
25 July 2025*	Record date for final dividend
8 August 2025*	Final date for receipt of DRIP applications
4 September 2025*	Final dividend payment date
September 2025	Trading Statement
November 2025	Half Year Results 2025/26

* Subject to obtaining shareholder approval at the 2025 Annual General Meeting

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements relating to the Pennon Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group management which may constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", "outlook", "plan", "probably", "project", "remain", "seek", "should", "target", "will", "would" and related and similar expressions, as well as statements in the future tense. All statements other than of historical fact may be forward-looking statements and represent the Group's belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Group's control. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation, development or performance of the Group and the estimates and historical results given herein. Important risks, uncertainties and other factors that could cause actual results, performance or achievements of Pennon Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements include, among other things, changes in Government policy, regulatory and legal reform; compliance with laws and regulations; maintaining sufficient finance and funding to meet ongoing commitments; non-compliance or occurrence of avoidable health and safety incidents; tax compliance and contribution; failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase; non-recovery of customer debt; poor operating performance due to extreme weather or climate change; macro-economic risks impacting commodity and power prices and other matters; poor customer service and/or increased competition leading to loss of customer base; business interruption or significant operational failure/incidents; difficulty in recruitment, retention and development of skills; non-delivery of regulatory outcomes and performance commitments; failure or increased cost of capital projects/exposure to contract failures; failure of information technology systems, management and protection, including cyber risks; and all other risks in the Pennon Group Annual Report published in June 2025. Such forward looking statements should therefore be construed in light of all risks, uncertainties, and other factors, including without limitation those identified above, and undue reliance should not be placed on them. Nothing in this report should be construed as a profit forecast.

Any forward-looking statements are made only as of the date of this document and no representation, assurance, guarantee or warranty is given in relation to them including as to their accuracy, completeness, or the basis on which they are made. The Group accepts no obligation to revise or update publicly these forward-looking statements or adjust them as a result of new

Group accepts no obligation to revise or update publicly these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

A number of companies, including Pennon Group plc, continue to be aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters which imply a connection to the company concerned. If shareholders have any concerns about any contact they have received, then please refer to the Financial Conduct Authority's website www.fca.org.uk/scamsmart. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

PENNON GROUP PLC

Consolidated income statement for the year ended 31 March 2025

	Notes	**Before non-underlying items 2025 £m**	**Non-underlying items (note 4) 2025 £m**	**Total 2025 £m**	Before non-underlying items 2024 £m	Non-underlying items (note 4) 2024 £m	Total 2024 £m
Revenue	3	**1,047.8**	**-**	**1,047.8**	907.8	-	907.8
Operating costs							
Employment costs		**(151.1)**	**(11.7)**	**(162.8)**	(114.8)	(0.7)	(115.5)
Raw materials and consumables used**		**(51.7)**	**(0.2)**	**(51.9)**	(37.4)	-	(37.4)
Other operating expenses**		**(499.7)**	**(25.7)**	**(525.4)**	(410.2)	(25.2)	(435.4)
Financial assets impairment		**(9.7)**	**-**	**(9.7)**	(7.1)	-	(7.1)
Earnings before interest, tax, depreciation and amortisation	3	**335.6**	**(37.6)**	**298.0**	338.3	(25.9)	312.4
Depreciation and amortisation		**(187.1)**	**-**	**(187.1)**	(172.0)	-	(172.0)
Operating profit/(loss)	3	**148.5**	**(37.6)**	**110.9**	166.3	(25.9)	140.4
Finance income	5	**15.0**	**-**	**15.0**	12.6	-	12.6
Finance costs	5	**(199.4)**	**-**	**(199.4)**	(162.8)	-	(162.8)
Net finance costs	5	**(184.4)**	**-**	**(184.4)**	(150.2)	-	(150.2)
Share of post-tax profit from associated companies		**0.8**	**-**	**0.8**	0.7	-	0.7
(Loss)/profit before tax	3	**(35.1)**	**(37.6)**	**(72.7)**	16.8	(25.9)	(9.1)
Taxation credit/(charge)	6	**7.0**	**8.9**	**15.9**	(4.3)	4.9	0.6
Profit/(loss) for the year		**(28.1)**	**(28.7)**	**(56.8)**	12.5	(21.0)	(8.5)
Attributable to:							
Ordinary shareholders of the parent				**(57.9)**			(9.5)
Non-controlling interests				**1.1**			1.0
Earnings per ordinary share*	7						
(pence per share)							
- Basic				**(16.1)**			(2.9)
- Diluted				**(16.1)**			(2.9)

*Earnings per ordinary share restated for 2024, see note 7.
**Raw materials and consumables used and other operating expenses have been restated, see note 2.

The above results were derived from continuing operations.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the year ended 31 March 2025

	Before non-underlying items 2025 £m	**Non-underlying items (note 4) 2025 £m**	**Total 2025 £m**	Before non-underlying items 2024 £m	Non-underlying items (note 4) 2024 £m	Total 2024 £m
(Loss)/profit for the year	**(28.1)**	**(28.7)**	**(56.8)**	12.5	(21.0)	(8.5)
Other comprehensive income / (loss)						
Items that will not be reclassified to profit or loss						
Remeasurement of defined benefit obligations	**3.5**	**-**	**3.5**	(7.7)	-	(7.7)
Income tax on items that will not be reclassified	**(0.9)**	**-**	**(0.9)**	2.2	-	2.2
Total items that will not be reclassified to profit or loss	**2.6**	**-**	**2.6**	(5.5)	-	(5.5)
Items that may be reclassified subsequently to profit or loss						
Loss on cash flow hedging*	**(19.7)**	**-**	**(19.7)**	(34.7)	-	(34.7)
Hedging losses recycled to profit or loss*	**15.4**	**-**	**15.4**	18.3	-	18.3

Income tax on items that may be reclassified	**2.4**	**-**	**2.4**	4.1	-	4.1
Total items that may be reclassified subsequently to profit or loss	**(1.9)**	**-**	**(1.9)**	(12.3)	-	(12.3)
Other comprehensive income/(loss) for the year net of tax	**0.7**	**-**	**0.7**	(17.8)	-	(17.8)
Total comprehensive (loss)/income for the year	**(27.4)**	**(28.7)**	**(56.1)**	(5.3)	(21.0)	(26.3)
Total comprehensive (loss)/income attributable to:						
Ordinary shareholders of the parent			**(57.2)**			(27.3)
Non-controlling interests			**1.1**			1.0

*Movements on cash flow hedges were presented net in 2024, the presentation has been restated to present as gross, see note 2 for further detail.

PENNON GROUP PLC

Consolidated balance sheet at 31 March 2025

	Notes	2025 £m	(restated, note 13) 2024 £m
ASSETS			
Non-current assets			
Goodwill		**179.9**	179.9
Other intangible assets		**62.2**	60.3
Property, plant and equipment		**5,849.4**	5,374.3
Other non-current assets		**8.7**	8.7
Financial assets at fair value through profit		**0.6**	0.9
Derivative financial instruments		**22.4**	17.4
Investments in associated companies		**1.8**	1.0
Retirement benefit obligations		**22.0**	26.6
		6,147.0	5,669.1
Current assets			
Inventories		**12.8**	13.2
Trade and other receivables		**391.8**	355.4
Current tax receivable		**0.9**	6.0
Derivative financial instruments		**9.8**	23.4
Cash and cash equivalents*	11	**417.9**	134.0
Restricted funds*		**58.2**	37.4
Retirement benefit assets		**9.2**	-
		900.6	569.4
LIABILITIES			
Current liabilities			
Borrowings	11	**(257.4)**	(240.7)
Financial liabilities at fair value through profit		**(0.3)**	(0.1)
Derivative financial instruments		**(0.5)**	(5.4)
Trade and other payables		**(331.0)**	(346.5)
Provisions		**(6.8)**	-
		(596.0)	(592.7)
Net current assets		**304.6**	(23.3)
Non-current liabilities			
Borrowings	11	**(4,296.9)**	(3,775.5)
Other non-current liabilities		**(171.3)**	(154.9)
Derivative financial instruments		**(1.6)**	(3.3)
Deferred tax liabilities		**(530.6)**	(548.4)
Provisions		**(0.5)**	(1.1)
		(5,000.9)	(4,483.2)
Net assets		**1,450.7**	1,162.6
Shareholders' equity			
Share capital	9	**288.1**	174.6
Share premium account		**755.0**	398.2
Capital redemption reserve		**157.1**	157.1
Retained earnings and other reserves		**248.0**	431.3
Total shareholders' equity		**1,448.2**	1,161.2
Non-controlling interests		**2.5**	1.4
Total equity		**1,450.7**	1,162.6

*The 2024 balance sheet has been restated, see note 2 for further detail.

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PENNON GROUP PLC

Consolidated statement of changes in equity for the year ended 31 March 2025

Retained

	Share capital (note 9) £m	Share premium account £m	Capital redemption reserve £m	earnings and other reserves £m	Non-controlling interests £m	Total equity £m
At 31 March 2023	159.5	237.6	157.1	570.6	0.4	1,125.2
Profit for the year	-	-	-	(9.5)	1.0	(8.5)
Other comprehensive loss for the year	-	-	-	(17.8)	-	(17.8)
Total comprehensive (loss) / income for the year	-	-	-	(27.3)	1.0	(26.3)
Transactions with equity shareholders:						
Dividends paid	-	-	-	(111.7)	-	(111.7)
Shares issued	15.1	164.9	-	-	-	180.0
Transaction costs arising on shares issued	-	(4.7)	-	-	-	(4.7)
Adjustments in respect of share-based payments (net of tax)	-	-	-	1.1	-	1.1
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(1.4)	-	(1.4)
Proceeds from shares issued under the Sharesave Scheme	-	0.4	-	-	-	0.4
Total transactions with equity shareholders	15.1	160.6	-	(112.0)	-	63.7
At 31 March 2024	174.6	398.2	157.1	431.3	1.4	1,162.6
Profit for the year	**-**	**-**	**-**	**(57.9)**	**1.1**	**(56.8)**
Other comprehensive loss for the year	**-**	**-**	**-**	**0.7**	**-**	**0.7**
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**(57.2)**	**1.1**	**(56.1)**
Transactions with equity shareholders:						
Dividends paid	**-**	**-**	**-**	**(126.9)**	**-**	**(126.9)**
Rights issue*	**113.5**	**377.5**	**-**	**-**	**-**	**491.0**
Transaction costs arising on rights issue	**-**	**(20.5)**	**-**	**-**	**-**	**(20.5)**
Transaction costs arising on shares issued	**-**	**(0.2)**	**-**	**-**	**-**	**(0.2)**
Adjustments in respect of share-based payments (net of tax)	**-**	**-**	**-**	**2.0**	**-**	**2.0**
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	**-**	**-**	**-**	**(1.2)**	**-**	**(1.2)**
Total transactions with equity shareholders	**113.5**	**356.8**	**-**	**(126.1)**	**-**	**344.2**
At 31 March 2025	**288.1**	**755.0**	**157.1**	**248.0**	**2.5**	**1,450.7**

* On 17 February 2025 the Company completed a rights issue to existing shareholders on the basis of 13 ordinary shares for every 20 fully paid ordinary shares held. As a result, 185,928,002 ordinary shares with an aggregate nominal value of £113.5m were issued for cash consideration of £491.0m. Transaction costs directly attributable to the rights issue of £20.5m were incurred and have been accounted for as a deduction from share premium, cash paid in relation to the transaction costs amounted to £15.4m with the rest held on the balance sheet as payable.

PENNON GROUP PLC

Consolidated statement of cash flows for the year ended 31 March 2025

	Notes	2025 £m	2024 £m
Cash flows from operating activities			
Cash generated from operations	10	**233.6**	261.7
Interest paid	10	**(143.1)**	(116.2)
Tax paid		**3.0**	3.4
Net cash generated from operating activities		**93.5**	148.9
Cash flows from investing activities			
Interest received		**11.1**	7.1
Purchase of property, plant and equipment		**(663.1)**	(555.1)
Acquisition of subsidiaries, net of cash acquired		**-**	(62.7)
Deposit of restricted funds		**(20.8)**	(4.3)
Purchase of intangible assets		**(5.5)**	(43.8)
Proceeds from sale of property, plant and equipment		**1.9**	0.8
Net cash used in investing activities		**(676.4)**	(658.0)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**491.0**	175.7
Share issue transaction costs		**(15.4)**	-
Purchase of ordinary shares by the Pennon Employee Share Trust		**(1.2)**	(1.4)
Proceeds from new borrowing		**920.0**	574.5
Repayment of borrowings		**(328.5)**	(168.7)
Cash inflows from lease financing arrangements	10	**25.0**	64.8
Lease principal repayments (including net recoverable VAT paid/recovered)		**(97.2)**	(22.4)
Dividends paid	8	**(126.9)**	(111.7)
Net cash used in financing activities		**866.8**	510.8
Net increase/(decrease) in cash and cash equivalents		**283.9**	1.7
Cash and cash equivalents at beginning of year*	11	**134.0**	132.3

Cash and cash equivalents at beginning of year	11	134.0	132.3
Cash and cash equivalents at end of year	11	**417.9**	134.0

* Cash and cash equivalents has been restated, see note 2 for further detail.

PENNON GROUP PLC

Notes

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 47. Pennon Group's business is operated through its principal subsidiaries. South West Water Limited, provides water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire, Wiltshire and Bristol. Sutton and East Surrey Water plc ("SES Water") provides water only services in the South East region. Sutton and South East Surrey Water Services ("SESWS") provides water and wastewater retail services to non-household customer accounts. 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. The Company owns a 30% share in Water 2 Business Limited, a joint venture with Wessex Water, operating in the same sector as Pennon Water Services Limited and SESWS.

2. Basis of preparation

The Group's financial information has been prepared in accordance with the recognition and measurement requirements of UK adopted international accounting standards. It has been prepared on a basis consistent with that adopted in the previous year. The financial statements have been prepared under the historical cost convention (except for fair value items, principally acquisitions, transfer of assets from customers and certain financial instruments as described in the 2024 Annual Report and Accounts which are available on the Company website www.pennon-group.co.uk). Whilst the financial information included in this Preliminary Results Announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Preliminary Results Announcement does not constitute the Company's statutory accounts for the years ended 31 March 2025 and 31 March 2024 within the meaning of Section 435 of the Companies Act 2006 but is derived from those statutory accounts. The Group's statutory accounts for the year ended 31 March 2024 have been filed with the Registrar of Companies. The Group's Financial Statements for the year ended 31 March 2025 were approved by the Board on 3 June 2025. They have been reported on by the Group's auditors and will be delivered to the registrar of companies in due course. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006

In the prior year 'Cash and cash deposits' consisted of 'Cash and cash equivalents' and 'Restricted funds'. As restricted funds do not form part of cash and cash equivalents has been re-presented in the 2024 balance sheet. Cash and cash equivalents totalled £134.0 million and Restricted funds £37.4 million at 31 March 2024. An adjustment has also been reflected in the cash flow statement, the opening and closing values of cash and cash equivalents in the prior year have been restated to £132.3 million and £134.0 million respectively from £143.7 million and £145.4 million.

In the prior year 'Financial liabilities at fair value through profit' (FVTP) included a £2.5m current liability and £31.8m non-current liability. These items relate to an unamortised hedging adjustment following a decision to de-designate a hedging relationship on a bond in a prior period. The unamortised hedging adjustment has been reclassified to be shown as part of borrowings to align with the debt for which the hedge was entered into.

In the prior year purchases of water from wholesalers by SESWS were presented as raw materials in operating costs, to align with the existing group presentation this has been reclassified to other operating expenses, the total being £14.4m.

In the prior year movements on cash flow hedges were presented net in the statement of comprehensive income, the presentation has been amended to show the gross values in relation to the loss on cash flow hedging (2024: £34.7 million) and hedging gains recycled to profit or loss (2024: £18.3 million).

Adjustments to the prior period have been made in relation to the acquisition of SES as detailed in note 13.

The going concern basis has been adopted in preparing these financial statements. At 31 March 2025 the Group has access to undrawn committed funds and cash and cash equivalents totalling £977.9 million, including cash and other short-term deposits of £417.9 million and £560.0 million of undrawn facilities. Cash and cash equivalents excludes £58.2

2. Basis of preparation (continued)

million of restricted funds deposited with financial institutions which are available for access, subject to being replaced by an equivalent valued security. The Group has an expected headroom of £379.6 million at 30 September 2026.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Group's going concern status, to do this the Group's business plan has been stress-tested. Whilst the Group's risk management processes seek to mitigate the impact of principal risks, individual sensitivities against these risks 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 FY 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 30 September 2026. The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic impacts such as inflation and interest rate increases and operational impacts such as ensuring adequate water resources and failure of operational assets.

A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Group collectively. The combined weighted impact of the risks occurring is a cash outflow of c.£108.5 million, this value is considered equivalent to an extreme one-off event that could occur by 30 September 2026, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Group over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. In the combined scenario to ensure that the Group was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. In the combined stress test scenario, the group has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Group. However, if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

We have considered the Group's funding position and financial projections, which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Having considered these factors, the Directors have a reasonable expectation that that the Group will meet the requirements of its covenants and has adequate resources to continue in operational existence for the period to at least the end of the going concern assessment period of 30 September 2026, 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 regarding the sufficiency of funds available to the Group to support this additional spend or any risk 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.

3. 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 SES Water. The non-household retail business reflects the services provided by Pennon Water Services and SESWS.

	2025	2024
Revenue	**£m**	£m
Water	**820.5**	745.8
Non-household retail	**320.3**	253.5
Other	**12.8**	11.8
Less intra-segment trading(1)	**(105.8)**	(103.3)
Total underlying revenue	**1,047.8**	907.8
Operating profit before depreciation, amortisation and non-underlying items (underlying EBITDA)		
Water	**338.2**	335.8
Non-household retail	**7.5**	7.7
Other	**(10.1)**	(5.2)
	335.6	338.3
Operating profit before non-underlying items		
Water	**153.8**	169.9
Non-household retail	**7.2**	6.9
Other	**(12.5)**	(10.5)
	148.5	166.3
Loss before tax before non-underlying items		
Water	**(35.6)**	11.8
Non-household retail	**4.3**	4.9
Other	**(3.8)**	0.1
	(35.1)	16.8
Loss before tax		
Water	**(71.7)**	(13.4)
Non-household retail	**4.3**	4.9
Other	**(5.3)**	(0.6)
	(72.7)	(9.1)

(1) Intra-segment trading between different segments is under normal market based commercial terms and conditions. Intra-segment revenue of the other segment is at cost.

3. 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:

Year ended 31 March 2025	**Water**	**Non-household retail**	**Other**	**Total**

	£m	**£m**	**£m**	**£m**
Segment revenue - underlying	**820.5**	**320.3**	**12.8**	**1,153.6**
Inter-segment revenue	**(100.6)**	**(0.2)**	**(5.0)**	**(105.8)**
Revenue from external customers	**719.9**	**320.1**	**7.8**	**1,047.8**
Significant service lines				
Water	**719.9**	**-**	**-**	**719.9**
Non-household retail	**-**	**320.1**	**-**	**320.1**
Other	**-**	**-**	**7.8**	**7.8**
	719.9	**320.1**	**7.8**	**1,047.8**

Year ended 31 March 2024	Water	Non-household retail	Other	Total
	£m	£m	£m	£m
Segment revenue - underlying	745.8	253.5	11.8	1,011.1
Inter-segment revenue	(91.4)	(0.2)	(11.7)	(103.3)
Revenue from external customers	654.4	253.3	0.1	907.8
Significant service lines				
Water	654.4	-	-	654.4
Non-household retail	-	253.3	-	253.3
Other	-	-	0.1	0.1
	654.4	253.3	0.1	907.8

The Group's country of domicile is the United Kingdom and this is the country in which it generates the majority of its revenue.

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Notes (continued)

4. Non-underlying items

Non-underlying items are those that in the Directors' view are required to 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.

	2025	2024
	£m	£m
Operating Costs		
Brixham water quality incident[1]	**(21.0)**	-
Restructuring/Transformational costs[2]	**(15.8)**	(13.9)
SES Water Group acquisition costs[3]	**(0.7)**	(9.6)
Renewables Projects acquisition costs[4]	**(0.1)**	(0.6)
Drought costs[5]	-	(1.8)
Earnings before interest, tax, depreciation and amortisation	**(37.6)**	(25.9)
Net tax credit arising on non-underlying items above[6]	**8.9**	4.9
Net non-underlying charge	**(28.7)**	(21.0)

(1) On 15 May 2024 an outbreak of cryptosporidium was detected in the water supply in the Brixham area of Devon, causing South West Water to issue a notice to customers in the area to boil water before consuming. £21.0 million (2024 £nil) of costs have been incurred which includes enhanced customer compensation, provision of bottled water over an eight-week period, and extensive interventions to clean and filter the network. £0.8m of the costs incurred were employment costs.

(2) £15.8 million (2024: £13.9 million) of costs were incurred in connection with the business transformation of the Group, £10.9 million (2024: £0.7 million) of which were employment costs. These restructuring and transformation costs are one-off in nature and incidence, with the benefits from incurring these costs expected to endure into the future on a recurring basis. Further costs are not expected to arise in the year ended 31 March 2026.

(3) In the year the Group incurred expenses of £0.7 million (2024: £9.6 million) in connection with the acquisition of SES Water Group. Due to the one-off nature and incidence of the costs they have been classified as non-underlying.

(4) Expenses in connection with the strategic review of renewal energy generating investments, not directly attributable to the intangible assets acquired, totalled £0.1 million (2024: £0.6 million). Due to the one-off nature and incidence of the costs they have been classified as non-underlying.

(5) In financial year 2022/23, a combination of elevated demand from increased tourism and record-breaking extremes of prolonged dry and hot weather led to extremely low water storage levels in the Cornwall region. Drought permits were issued allowing increased extractions and water-saving measures for the South West Water region were implemented for the first time since 1995. To ensure the region could be supplied with water over the summer and continuing into 2023, South West Water instigated a series of mitigating measures and one-off expenditure to address the situation. £1.8 million of specifically identifiable costs were recognised in the first eight months of 2023/24.

(6) The net tax credit arising on non-underlying items, relates to a deferred tax credit in respect of tax losses carried forwards. The prior year credit reflected a £4.9 million current tax credit also in respect of transformation losses carried forwards.

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Notes (continued)

5. Net finance costs

	2025			2024		
	Finance costs	**Finance income**	**Total**	Finance costs	Finance income	Total
	£m	**£m**	**£m**	£m	£m	£m
Cost of servicing debt						
Bank borrowings and overdrafts	**(138.6)**	**-**	**(138.6)**	(113.0)	-	(113.0)
Interest element of lease payments	**(49.9)**	**-**	**(49.9)**	(44.0)	-	(44.0)
Other finance costs	**(10.9)**	**-**	**(10.9)**	(5.8)	-	(5.8)
Interest receivable	**-**	**11.1**	**11.1**	-	7.1	7.1
Net gains on derivative financial instruments	**-**	**2.3**	**2.3**	-	3.8	3.8
	(199.4)	**13.4**	**(186.0)**	(162.8)	10.9	(151.9)
Notional interest						
Retirement benefit obligations	**-**	**1.6**	**1.6**	-	1.7	1.7
Net finance costs	**(199.4)**	**15.0**	**(184.4)**	(162.8)	12.6	(150.2)

In addition to the above, finance costs of £27.7 million (2024 £15.5 million) have been capitalised on qualifying assets included in property, plant and equipment, at an average borrowing rate of 5.7% (2024 6.4%).

Other finance costs include £1.1 million (2024 £1.1 million) of dividends payable on listed preference shares issued by Bristol Water, which are classified as debt.

6. Taxation

	Before non-underlying items 2025	**Non-underlying items (note 4) 2025**	**Total 2025**	Before non-underlying items 2024	Non-underlying items (note 4) 2024	Total 2024
	£m	**£m**	**£m**	£m	£m	£m
Analysis of charge						
Current tax charge/(credit)	**0.8**	**(0.5)**	**0.3**	(0.6)	-	(0.6)
Deferred tax (credit)/charge	**(7.8)**	**(8.4)**	**(16.2)**	4.9	(4.9)	-
Tax (credit) / charge for the year	**(7.0)**	**(8.9)**	**(15.9)**	4.3	(4.9)	(0.6)

UK corporation tax is calculated at 25% (2024 25%) of the estimated assessable profit for the year.
UK corporation tax for the Group is stated after a charge relating to prior year current tax of £0.3 million (2024: £0.6 million credit) and a prior year deferred tax charge of £0.7 million (2024: £nil). These items relate to prior year adjustments in respect of capital allowances claimed in accordance with UK tax legislation (2024 additional interest deductions).

Notes (continued)

7. 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 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.

Basic and diluted earnings per share figures and the weighted average number of shares for the comparative period have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share. Amounts as originally stated at 31 March 2024 were (3.6)p basic and diluted earnings per share, 6.2p basic and diluted adjusted earnings per share and 266.6 million weighted average number of shares.

Potential ordinary shares, as discussed above, that could dilute basic earnings per share in the future, were not included in the calculation for statutory earnings per share because they were anti-dilutive for the current year. The weighted average number of shares and earnings used in the calculations are detailed in the table below.

	2025	2024
Number of shares (millions)		
For basic earnings per share	**360.5**	322.5
Effect of dilutive potential ordinary shares from share options	**-**	-
For diluted earnings per share	**360.5**	322.5

Basic and diluted earnings per ordinary share

Earnings per ordinary share before non-underlying items and deferred tax are presented as the Directors believe 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:

	2025			2024 (restated)		
	(Loss)/ profit after tax £m	**Earnings per share Basic p**	**Diluted p**	Profit after tax £m	Earnings per share Basic p	Diluted p
Statutory earnings attributable to ordinary shareholders of the parent	**(57.9)**	**(16.1)**	**(16.1)**	(9.5)	(2.9)	(2.9)
Deferred tax (credit)/charge before non-underlying items	**(7.8)**	**(2.1)**	**(2.1)**	4.9	1.5	1.5
Non-underlying items (net of tax)	**28.6**	**7.9**	**7.9**	21.0	6.5	6.5
Adjusted earnings	**(37.1)**	**(10.3)**	**(10.3)**	16.4	5.1	5.1

PENNON GROUP PLC

Notes (continued)

8. Dividends

	2025	2024
	£m	£m
Amounts recognised as distributions to ordinary equity holders in the year:		
Interim dividend paid for the year ended 31 March 2024: 11.60p (restated) (2023 10.71p) restated per share	**40.1**	33.9
Final dividend paid for the year ended 31 March 2024: 25.07p (restated) (2023 24.60p) per share	**86.8**	77.8
	126.9	111.7

Proposed dividends

Interim dividend paid for the year ended 31 March 2025: 12.14p (2024 11.60p restated) per share	**42.0**	40.2
Final dividend paid for the year ended 31 March 2025: 19.43p (2024 25.07p restated) per share	**91.7**	86.7
	133.7	126.9

The proposed interim and final dividends have not been included as liabilities in these financial statements.

The proposed interim dividend for 2025 was paid on 4 April 2025 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting.

Proposed dividends per share for the 2024 comparative period have been restated and adjusted for the bonus factor of 1.21 to reflect the bonus element of the February 2025 rights issue, in accordance with IAS 33 Earnings per Share and as detailed in note 11. The proposed interim dividend for the year ended 31 March 2025 of 14.69p as announced previously has been restated to 12.14p as adjusted by the bonus factor.

9. Share capital

Allotted, called-up and fully paid

	Number of shares		
	Treasury shares	Ordinary shares	£m
At 31 March 2023 ordinary shares of 61.05p each	5,628	261,315,489	159.5

For consideration of £460,000, shares issued under the Company's Sharesave Scheme	-	72,299	-
Shares cancelled	-	24,657,535	15.1
At 31 March 2024 ordinary shares of 61.05p each	5,628	286,045,323	174.6
For consideration of £21,000, shares issued under the Company's Sharesave Scheme	-	3,386	-
Rights issue	-	185,928,002	113.5
At 31 March 2025 ordinary shares of 61.05p each	**5,628**	**471,976,711**	**288.1**

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Notes (continued)

9. Share capital (continued)

Shares held as treasury shares may be sold, re-issued for any of the Company's share schemes, or cancelled.

On 17 February 2025 the Company completed a rights issue to existing shareholders on the basis of 13 ordinary shares for every 20 fully paid ordinary shares held. As a result, 185,928,002 ordinary shares with an aggregate nominal value of £113.5m were issued for cash consideration of £491.0m. Transaction costs directly attributable to the rights issue of £20.5m were incurred and have been accounted for as a deduction from share premium.

During the year ended 31 March 2024 the Group issued 24,657,535 new ordinary shares of 61.05 pence each in connection with the acquisition of SES Water Group (see note 13). The equity capital raise was used to reduce leverage in the enlarged group following the acquisition.

10. Analysis of the cash flows given in the statement of cash flows

Reconciliation of profit for the year to cash generated from operations:

	2025	2024
	£m	£m
Cash generated from operations		
(Loss)/profit for the year	**(56.8)**	(8.5)
Adjustments for:		
Share-based payments	**2.0**	1.2
Profit on disposal of property, plant and equipment	**(1.2)**	(0.7)
Depreciation charge	**184.7**	168.2
Amortisation of intangible assets	**2.3**	3.7
Intangible impairment charge	**1.3**	-
Share of post-tax profit from associated companies	**(0.8)**	(0.7)
Finance income	**(15.0)**	(12.6)
Finance costs	**199.4**	162.8
Taxation credit	**(15.9)**	(0.6)
Changes in working capital:		
Decrease/(increase) in inventories	**0.4**	(1.1)
Increase in trade and other receivables	**(42.5)**	(47.6)
Decrease in trade and other payables	**(30.5)**	(2.0)
Increase/(decrease) in provisions	**6.2**	(0.4)
Cash generated from operations	**233.6**	261.7

	2025	2024
Reconciliation of total interest paid	**£m**	£m

Interest paid in operating activities	**143.1**	116.2
Total interest paid	**143.1**	116.2

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Notes (continued)

11. Net borrowings

	2025 £m	2024 (Restated) £m
Cash and cash equivalents	**417.9**	134.0
Restricted funds	**58.2**	37.4
	476.1	171.4
Borrowings - current		
Bank and other current borrowings	**(224.5)**	(188.8)
Lease obligations	**(32.9)**	(51.9)
Total current borrowings	**(257.4)**	(240.7)
Borrowings - non-current		
Bank and other non-current borrowings	**(3,265.1)**	(2,691.8)
Listed preference shares	**(12.5)**	(12.5)
Lease obligations	**(1,019.3)**	(1,071.2)
Total non-current borrowings	**(4,296.9)**	(3,775.5)
Total net borrowings	**(4,078.2)**	(3,844.8)

An unamortised hedging adjustment has been reclassified from fair value through profit and loss to borrowing in the current year and the prior year restated.

12. Contingent liabilities

	2025 £m	2024 £m
Guarantees: Performance bonds	**20.0**	13.8

Ofwat and the Environment Agency (EA) announced an industry-wide investigation into sewage treatment works on 18th November 2021. On 27th June 2022, as part of its ongoing investigation, Ofwat announced enforcement action against South West Water Limited and the company is now included alongside all other waste water companies. The Group continues to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The Group has undertaken its own internal investigation and investment interventions have been undertaken at a small number of our sites. In addition, the Group has looked for opportunities for additional future investment to include further storm storage and an extension of its sewer misuse programme which has been shared with Ofwat. Ofwat have yet to formally respond on the investigation and the timing of a response is unknown, although has been potentially indicated for later in 2025. Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply from closing the investigation with no further action, agreeing to formal S.19 undertakings through to fining the Group up to 10% of its revenue in relation to the regulated wastewater business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty. On 23rd May 2023 Ofwat announced an investigation into South West Water's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to assurance processes which include independent checks and balances carried out by an external technical auditor. The Group continues to work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation. The Group has undertaken its own internal investigation into the data and third party experts have concluded the calculations are within a tolerance as reported, as a result there were no detrimental impacts to customers through Outcome Delivery Incentives ('ODIs'). The Group recognises opportunities to enhance data quality to improve the estimation process and these have been shared

12. Contingent liabilities (continued)

with Ofwat. Until such time that an initial response is received, the potential outcome of these investigations continues to be unknown. Ofwat has a range of options that it could apply from closing the investigation with no further action, agreeing to formal S.19 undertakings through to fining the Group up to 10% of its revenue in relation to the regulated drinking water business. Given the wide range of possible outcomes therefore the potential outcome of this investigation continues to be unknown, and it is not possible to estimate any obligations arising from the investigation with any certainty.

On 2nd February 2024 summons were received by South West Water Limited from the EA in relation to alleged non permitted discharges at 7 locations with a total of 30 charges. The EA have since withdrawn 6 of these charges relating to 1 site. At a hearing on 14th November 2024, South West Water pleaded guilty to 5 of the charges and the sentencing hearing for all 24 charges will take place in the third quarter of 2025 with judgment following at a later date.

On 15th May 2024, cryptosporidium was detected in South West Water's water network and, in response, boil water notices were issued for certain customers in the Brixham area that were lifted in a phased manner completing on 8th July 2024. South West Water continues to assist the Drinking Water Inspectorate in their ongoing investigation, the outcome of which is not known at this time.

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.

13. Acquisition of SES Water Group

On 10 January 2024, the Pennon Group acquired 100% of the issued share capital of Sumisho Osaka Gas Water UK Limited, which has subsequently been renamed Sutton and East Surrey Group Holdings Limited ('SESGHL'). SESGHL is the holding company of the SES Water Group which comprises Sutton and East Surrey Water plc ('SES Water'), a regulated water only company, and certain other ancillary businesses. The purpose of the acquisition was to expand the Group's presence in water supply across Southern England.

The acquisition of SESGHL was reviewed by the Competition and Markets Authority and given full clearance on 14 June 2024. For the year ended 31 March 2024, the SESGHL Group has been consolidated into Pennon Group plc's consolidated financial statements from 10 January 2024 due to management's assessment of obtaining control of SESGHL as of that date in accordance with IFRS.

The net assets recognised in the 31 March 2024 financial statements were based on a provisional assessment of their fair value. This valuation exercise has now been finalised. Final Fair values on acquisition are shown in the table below. Corresponding amounts for the financial year ended 31 March 2024 have also been restated in the Statement of Financial Position.

The fair value of trade and other receivables acquired as part of the business combination amounted to £63.1 million with a gross contractual amount of £82.6 million. At the acquisition date the Group's best estimate of the contractual cash flows expected not to be collected amounted to £19.5 million.

The Goodwill that arose on acquisition is attributable to the recognition of deferred tax liabilities on fair value gains recognised as part of the acquisition. None of the goodwill recognised is expected to be deductible for tax purposes. Goodwill has been allocated to the water segment. The acquisition of the SES Water Group provides a strategic fit for Pennon Group plc as the Group expands its presence in water supply across Southern England.

13. Acquisition of SES Water Group (continued)

The details of the business combination are as follows:

	10 January 2024 Adjustments included until 31 March 2024	Adjustments	10 January 2024 Adjustments included until 9 January 2025
	£m	**£m**	**£m**
Fair value of consideration transferred			
Amount settled in cash	**90.2**	**-**	**90.2**
Total consideration transferred	**90.2**	**-**	**90.2**
Fair value of assets and liabilities recognised on acquisition			
Property, plant and equipment	**441.6**	**12.7**	**454.3**
Intangible assets	**11.6**	**(7.4)**	**4.2**
Inventories	**2.1**	**-**	**2.1**
Trade and other receivables	**61.4**	**1.7**	**63.1**
Cash and cash deposits	**27.5**	**-**	**27.5**
Current tax receivable	**0.4**	**-**	**0.4**
Borrowings	**(360.1)**	**(1.3)**	**(361.4)**
Trade and other payables	**(65.3)**	**(5.3)**	**(70.6)**
Retirement benefit obligations	**3.3**	**-**	**3.3**
Deferred tax liabilities	**(47.5)**	**(0.1)**	**(47.6)**
Provisions	**(0.4)**	**(0.7)**	**(1.1)**
Identifiable net assets	**74.6**	**(0.4)**	**74.2**
Goodwill on acquisition	**15.6**	**0.4**	**16.0**
Outflow of cash to acquire subsidiary, net of cash acquired			
Consideration for equity settled in cash	**90.2**	**-**	**90.2**
Cash and cash equivalents acquired	**(27.5)**	**-**	**(27.5)**
Net cash outflow on acquisition	**62.7**	**-**	**62.7**

Total acquisition related costs of £10.3 million, including £9.6 million incurred in the prior year, are not included as part of the consideration transferred and were recognised as an expense in the consolidated income statement within other operating expenses.

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PENNON GROUP PLC

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.

(i) 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 4 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:

		Non-underlying items					
Underlying earnings reconciliation 31 March 2025	**Underlying £m**	**Brixham water quality incident £m**	**Restructuring/Transformational costs £m**	**SES acquisition £m**	**Renewables acquisition £m**	**Statutory results £m**	**Earnings per share p**
EBITDA (see below)	**335.6**	**(21.0)**	**(15.8)**	**(0.7)**	**(0.1)**	**298.0**	
Operating profit	**148.5**	**(21.0)**	**(15.8)**	**(0.7)**	**(0.1)**	**110.9**	
Profit before tax	**(35.1)**	**(21.0)**	**(15.8)**	**(0.7)**	**(0.1)**	**(72.7)**	
Taxation	**7.0**	**5.2**	**3.7**	**-**	**-**	**15.9**	
Profit after tax						**(56.8)**	
Non-controlling interests						**(1.1)**	
Profit after tax attributable to shareholders						**(57.9)**	**(16.1)**

(i) Underlying earnings (continued)

		Non-underlying items					
Underlying earnings reconciliation 31 March 2024	Underlying £m	Drought costs £m	SES acquisition £m	Renewables acquisition £m	Transformation £m	Statutory results £m	Earnings per share p
EBITDA (see below)	338.3	(1.8)	(9.6)	(0.6)	(13.9)	312.4	
Operating profit	166.3	(1.8)	(9.6)	(0.6)	(13.9)	140.4	
Profit before tax	16.8	(1.8)	(9.6)	(0.6)	(13.9)	(9.1)	
Taxation	(4.3)	0.5	0.9	0.1	3.4	0.6	
Profit after tax						(8.5)	
Non-controlling interests						(1.0)	
Profit after tax attributable to shareholders						(9.5)	(2.9)

(ii) Underlying EBITDA

Underlying EBITDA (earnings before interest, tax, depreciation and amortisation and non-underlying items) is used to assess and monitor operational underlying performance.

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Alternative performance measures (continued)

(iii) Effective interest rate

A measure of the mean average interest rate payable on net debt associated with South West Water Limited's group of companies, including Bristol Water plc, 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.

	2025 £m	2024 £m
Net finance costs before non-underlying items (note 5)	**184.4**	150.2
Remove: net finance income before non-underlying items not associated with South West Water Limited's group of companies	**(13.8)**	5.3
Net finance costs before non-underlying items associated with South West Water Limited's group of companies	**170.6**	155.5
Net interest on retirement benefit obligations associated with South West Water Limited's group of companies	**1.1**	1.4
Capitalised interest	**23.1**	14.1
Non-debt related interest	**(4.5)**	-
Net finance costs for effective interest rate calculation	**190.3**	171.0
Group net debt / (cash) (opening) (note 11)	**3,844.8**	3,001.8
Remove: Unamortised hedging adjustment	**(34.3)**	(36.4)
Remove: opening net debt not associated with South West Water Limited's group of companies	**(515.8)**	(100.1)
Opening net debt for calculation	**3,294.7**	2,865.3
Group net debt (closing) (note 11)	**4,078.2**	3,844.8
Remove: Unamortised hedging adjustment	**(32.2)**	(34.3)
Remove: closing net debt not associated with South West Water Limited's group of companies	**(564.3)**	(515.8)
Equity injection on 31 March 2025	**330.0**	-
Closing net debt for calculation	**3,811.7**	3,294.7
Average net debt (opening net debt + closing net debt divided by 2)	**3,553.2**	3,080.0
Effective interest rate (%)	**5.4**	5.6

(iv) Effective cash cost of interest
Effective cash cost of interest is calculated on the same basis as the effective interest cost calculation above, but excludes finance costs that are not paid in cash, but accrete to the carrying value of debt (principally the inflationary impact of indexation on index-linked debt).

	2025 £m	2024 £m
Net finance costs for effective interest rate calculation (as above)	**190.3**	171.0
Remove non-cash interest accrued (income statement indexation charge)	**(26.3)**	(55.5)
Net finance costs for effective cash cost of interest calculation	**164.0**	115.5
Opening net debt (as above)	**3,294.7**	2,865.3
Closing net debt (as above)	**3,811.7**	3,294.7
Average net debt (opening net debt + closing net debt divided by 2)	**3,553.2**	3,080.0
Effective cash cost of interest (%)	**4.6**	3.8

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Alternative performance measures (continued)

(v) Underlying interest cover
Underlying net finance costs (excluding pensions net interest cost) divided by operating profit before non-underlying items.

	2025 £m	2024 £m
Net finance costs before non-underlying items (note 5)	**184.4**	150.2
Net interest on retirement benefit obligations (note 5)	**1.6**	1.7
Net finance costs for interest cover calculation	**186.0**	151.9
Operating profit before non-underlying items (see APM (i) above)	**148.5**	166.3
Interest cover (times)	**0.8**	1.1

(vi) EBITDA dividend cover
Underlying EBITDA for the Group divided by proposed combined interim and final dividends.

	2025	2024

	£m	£m
Underlying EBITDA (see APM (i) above)	**335.6**	338.3
Proposed dividends (note 8)	**133.7**	126.9
EBITDA dividend cover (times)	**2.5**	2.7

(vii) Group dividend cover
Proposed dividends divided by profit for the year before non-underlying items and deferred tax

	2025	2024
	£m	£m
Proposed dividends (note 8)	**133.7**	126.9
Loss for the year attributable to ordinary shareholders	**(57.9)**	(9.5)
Deferred tax charge before non-underlying items (note 6)	**(7.8)**	4.9
Non-underlying items after tax in profit for the year (note 4)	**28.7**	21.0
Adjusted (loss)/profit for dividend cover calculations	**(37.0)**	16.4
Group dividend cover (times)	**-**	0.1

(viii) 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.

	2025	2024
	£m	£m
Additions to property, plant and equipment	**647.0**	604.5
Additions to intangible assets	**5.5**	45.0
Capital investment	**652.5**	649.5

(ix) 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.

	2025	2024
	£m	£m
Cash flow statements: purchase of property, plant and equipment	**663.1**	555.1
Cash flow statements: purchase of intangible assets	**5.5**	43.8
Cash flow statements: proceeds from sale of property, plant and equipment	**(1.9)**	(0.8)
Capital payments relating to the Group	**666.7**	598.1

PENNON GROUP PLC

Alternative performance measures (continued)

(x) Group return on capital employed
The total of underlying operating profit divided by capital employed (net debt plus total equity invested).

	2025 £m	2024 £m
Capital employed (opening):		
Net debt (note 11)	**3,844.8**	3,001.8
Remove: Unamortised hedging adjustment	**(34.3)**	(36.4)
Total equity invested	**729.9**	554.2
Opening capital employed for return on capital employed calculation	**4,540.4**	3,519.6
Capital employed (closing):		
Net debt (note 11)	**4,078.2**	3,844.8
Remove: Unamortised hedging adjustment	**(32.2)**	(34.3)
Total equity invested	**1,200.2**	729.9
Closing capital employed for return on capital employed calculation	**5,246.2**	4,540.4
Underlying operating profit (see APM (i) above)	**148.5**	166.3
Capital employed for return on capital employed calculation (opening capital employed + closing capital employed divided by 2)	**4,893.3**	4,030.0
Return on capital employed (%)	**3.0**	4.1

(xi) 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.

(xii) Totex
Operating costs and capital expenditure of the regulated water and wastewater business (based on the Regulated Accounting Guidelines).
PENNON GROUP PLC

Alternative performance measures (continued)

(xiii) Outcome Delivery Incentive (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.
(xiv) Regulatory Capital Value (RCV)
RCV has been developed for regulatory purposes and is primarily used in setting price limits.
RCV is widely used by the investment community as a proxy for the market value of the regulated business and forms part of covenant debt limits.

Shadow RCV reflects the addition of anticipated regulatory adjustments which amend RCV at the end of a regulatory period. These changes are accrued due to performance through ODIs, changes in levels of totex expenditure, changes in inflation rates and other regulatory adjustments.

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[9] The exceptional events at Brixham and Cheam are recognised by the DWI as water quality events and therefore are not included in the CRI score.

[10] 33 sites complete, 4 under construction

[11] Capital investment includes Property, Plant and Equipment additions plus intangible additions

[12] At forecast outturn prices

[13] Based on South West Water group, including Bristol Water excluding SES

[14] Pennon Water Services (PWS) - 80:20 joint venture with South Staffordshire.

[15] Includes unwind of fair value adjustments

[16] Carrying value of fair value acquisition adjustments to net debt as at 31 March 2025 - £29.3 million Bournemouth Water, £71.0 million Bristol Water and SES Water £9.5 million and unamortised hedge adjustment of £32.2m.

[17] Including acquisition related fair value adjustments and non-cash adjustments on legacy debt

[18] Euro Medium Term Note

[19] Based on South West Water Group, including Bristol Water excl. SES.

[20] UK water position as at 31 March 2023 as per published Annual Performance Reports - weighted average.

[21] Based on South West Water group including Bristol Water net debt/shadow RCV.

[22] All guidance measured on an underlying basis.

[23] Based on CPIH at 31 March 2025 of 3.4%, nominal allowance of 6.55%

[24] Subject to EPA consultation finalisation

END

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