

Our CEO's review

“The fundamentals are strong for a more sustainable future”



Susan Davy

Group Chief Executive Officer

Our fundamentals are strong

As I look back on the year, the fundamentals are strong for a more sustainable future, reflected in record levels of investment, record support for customers, and as we create record numbers of jobs directly and in the supply chain, supporting the economic health of the regions we support.

With a strong balance sheet and good liquidity, we retain the agility and ability to respond when it matters most and for the longer term, and in delivering on our strategy focused on UK Water. We are growing sustainably, whether through acquisition or investment, with an efficiently funded and robust balance sheet, growing shareholder value. And this in turn, is ensuring we can make good operational progress, delivering on our 4 priorities and what matters most to our customers.

We are listening

The UK Water sector remains firmly in the spotlight, with regulatory, political and public scrutiny at an all-time high. It's difficult for any water company to ignore. We are listening

Our customer and community roadshows have been a personal highlight for me as we have directly faced into public anger of the sector, head on and we have focused on talking about what really matters most. From Bristol to Bournemouth, and across Devon, Cornwall and the Isles of Scilly, and soon to be in Sutton and East Surrey Water, we are slowly changing perceptions, one conversation at a time. At the same time, we have embarked on our largest ever direct customer engagement, gathering the views and feedback of over 250,000 customers and 1,000 stakeholders as part of our £2.8 billion PR24 business plan submission.

At Pennon, we all work in water because it is too important not to

150 years ago, water professionals were seen as one of the founding champions of public health. This is at our core of what we do. Today, climate change is the single biggest threat facing people and planet, water companies also need to demonstrate that we are also custodians of the environment, and as we look ahead.

That's why when asked, I always say that we all work in water because it is too important not to. Our c.4,000 employees, who live and work in the communities we support are bolstered by the wider supply chain, now collectively known as Amplify and nearly doubling the number of people we support as one of the largest private employers in the Greater South West. We are also a growing team, through our acquisition of SES Water, and we were delighted to be able to safeguard c.470 jobs.

In the year, we have also signed the Armed Forces Covenant and become a disability confident employer and continue to increase our responsibility on social mobility as a tier 1 funder of the Social Mobility Partnership, launching work experience clusters, and as we look to offer 5,000 work placements for young people by 2030.

I want to pay tribute to everyone who works for the Group and with us, as we couldn't deliver any of this without talented people doing great things for customers and each other and they are the real heroes in delivering this set of results.

Doing what's right

This has also been a year where we have refreshed our values, an opportunity to galvanise everyone who works for Pennon and our supply chain, as we grow and continue to evolve how we deliver for customers,

communities and the environment. I am proud of our new values. Developed bottom up with employee engagement sessions and with our top 100 leaders and in response to our customer and stakeholder feedback as part of PR24 preparations, our values will help us to stand apart.

They epitomise everything we do as a good corporate citizen, as we continue to deliver strong performance in external ESG benchmarks, retain the Fair Tax mark for the 6th year running, move 23,000 customers on to social tariffs and welcome over 2 million visitors to our lakes and reservoirs. This ensures that any customer or visitor to the region is never more than an hour away from water, and able to use them for health and recreation.

We remain the only water company in the sector to reinvest outperformance directly with customers, by giving them a unique opportunity to become shareholders in their local water company with Watershare+. With over 78,000 customer shareholders, all stakeholders can be assured that customers directly benefit. As we have acquired businesses as part of our growth strategy, Watershare+ is now one of the first commitments we make.

As CEO, it's also my job to lead from the front, and champion living our values. With executive remuneration continuing to be in the media, and regulatory spotlight, I recommended to the Remuneration Committee, that the annual bonus was foregone. It's the right thing to do.

A sound business - growing sustainably

We have a clear twin track organic and acquisitive growth strategy. With peak capital investment up nearly two thirds, year on year, this represents our largest ever water programme. That translates in accumulative RCV growth, of 65% and on track to 70% to 2025. This investment delivers asset backed, inflationary returns.

Our operations in the Group require reliable and efficient power supply and we are investing to increase our renewable energy provision through Pennon Power, with its first EBITDA contribution due in 2024/25, supporting our Net Zero ambitions and targeting to meet 40% of energy requirements of the Group. We are also delivering on our acquisition and consolidation strategy. We are realising the benefits we set out as part of the Bristol Water acquisition, and having acquired SES Water in January, safeguarding their financial resilience through a successful equity raise, we are now fast-tracking through the CMA process, ahead of plan.

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

Turning to performance, we remain resolutely focused on our 4 customer priorities across the Greater South West. We are investing to protect water quality and enhance resilience; tackling storm overflows at our beaches and eradicating pollutions across Devon and Cornwall and driving environmental gains, wherever we serve. At the same time, we have successfully managed customer bills to be lower than they were 10 years ago, and as we pledge to eradicate water poverty. Bills in the region are no longer the outliers in the sector they once were, in the aftermath of post privatisation, and the £13 billion legacy costs involved in putting waste water treatment into the region for the first time.

This is a year in which the weather has been both our friend and our foe.

With 10 named storms and 12 yellow weather warnings since September, it is a sobering statistic that 5 of the 10 wettest Februarys have been in the last 5 years, and with average rainfall increasing by 50% when compared to long term averages in the second half of the year. On one hand with more rainfall, we have been able to break the back of the drought we experienced in 2022, and in doing what we said we would by achieving 100% strategic reservoir capacity for Devon and Cornwall by April, ahead of target.

This has been a monumental undertaking, from teams across South West Water and the supply chain as we have opened 2 reservoirs at Blackpool Pit this year and Hawks Tor last year, and increased treatment capacity at Rialton, alongside pump recharge schemes. We are also on track to deliver a 2-phase desalination scheme for Cornwall. It is not just been about fixing the here and now. We are investing enough now to protect resources over the next 25 years, building trust in our services for the longer term. We have delivered on our 2025 target for Devon, with 30% greater resource availability and are on track for 45% in Cornwall, with 30% delivered to date.

There are always two sides to the coin, as in addition to diversifying our portfolio, it has also been about reducing demand. We are delivering on our leakage targets. And our sector-leading demand reduction schemes, are focused on supporting customers to use less water and save money, with c.500 water saving devices provided every single day last year and we are piloting trial tariff schemes to better distribute charges and encourage water efficiency.

Overall, water quality continues to deliver upper quartile performance. We have delivered a step change in the Isles of Scilly, with zero failures of water treatment processes for Devon, Cornwall and Bournemouth, and with a robust action plan in place for Bristol to address the legacy issues we inherited.

The significantly increased wastewater flows we have also impacted our headline performance for wastewater pollutions and the use of storm overflows, with rising groundwater levels and increasing flows into the network. Historically, 70% of our pollutions have occurred in our networks. The work we have done over the last few years is working, with performance stabilising. We are achieving sector-leading internal sewer flooding performance, outperforming regulatory targets for sewer collapses and blockages and maintaining the gains we have made previously in reducing network pollutions.

Turning to the 20% increase in flows we have seen in 2023; we are focused on infiltration work. We have redoubled efforts at both our treatment works and pumping stations, where the higher levels of flows have driven spikes in performance. By reinvigorating action plans, our treatment works performance has recovered from the degradation we saw last year, stabilising performance into 2024, with a combination of inlet and storm tank cleansing and risk-based generator servicing, site-based compliance, reedbed surveys and refurbishments. Efforts have now turned to the 1250 pumping stations, with improved site MOTs, and enhanced cleansing as well as tackling power resilience.

Reducing pollutions remains a top priority for the Board, and everyone who works in Wastewater. I am reassured that we have maintained serious pollution incidents at the lowest level for 2023 (2), noting we are aiming for zero. For all other incidents, we have a revised trajectory to achieving 4 star performance for the 2025 calendar year.

Our four strategic priorities

Water quality and resilience



Storm overflow and pollutions



Net zero and environmental gains



Addressing affordability and delivering for customers



We are clear and transparent about where we are, and over time, we have improved self-reporting of pollutions incidents, and now are one of the best in the sector.

The same higher levels of flows impacting pollutions, has made demonstrable improvements in storm overflows numbers, challenging to see at a headline number. On a like for like basis, the investments we are making today, are delivering underlying performance improvements and which we will see in future years. Of the c.280 interventions planned, they have all been completed or are underway. And we're equally focused on a nature first approach.

As we focus on improving 49 of 151 beaches through our WaterFit investment programme by 2025, WaterFit Live is giving communities and visitors to the region near real time information about their favourite beach, alongside community roadshows, as we place communities at the heart of our future plans. And whilst beaches are a priority, we are equally focused on improving river water quality with RNAGs reduced from 19% to 12.4% and on track to get to our 2025 target.

One of the benefits of taking a nature-based approach is reduced costs for customers over the longer term. With a nature first approach to investment, our award-winning catchment management programme 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.

Activities range from installing water side fencing, building ponds, improving farm tracks, slurry storage, under sowing maize, as well as planting trees and buffer strips to catch and filter water. With c.127,000 cumulative hectares restored, we are also exceeding our tree planting target at over 250,000.

Having worked on our catchments for the last 15 years, we have the science to back up the improvements and I was delighted that we officially opened our partnership with the University of Exeter in March 2024 providing research through a state-of-the-art laboratory into the key challenges and issues facing water, wastewater and the environment globally.

In tackling affordability, it is about two things, keeping bills as low as they can be for all customers, and secondly, supporting those who are struggling. We have always been focused on being as efficient as we can be in delivering services, and in keeping bill increases to 2025 well below inflation. In fact bills for Devon and Cornwall are lower today than they were 10 years ago. That's why we continue to support customers and communities having provided over £100 million of customer support with 132,000 customers benefiting from one or more of our affordability initiatives tariffs, building awareness of our customer outreach engagement programmes. As a result, 100% of customers in Bristol find their bills affordable and 98% across other regions.

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 Watershare+ scheme to one in every 10 households and will extend this scheme to SES Water customers for the first time.

A sustainable future in the UK Water Sector

We're reshaping the Group to be even more efficient, as we grow, and to ensure we are performance led, with planned improvements in processes and operational effectiveness which will deliver synergies. We are bolstering delivery of the wider supply chain, collectively known as Amplify, with a two-tier supplier model already in place and supporting 1,000 projects and in support of our £2.8 billion investment plan for the region and delivery of RCV growth.

And to be a sustainable business, I've always been clear, our investments can't just be in assets, they're in people too. We are the only water company to have been recognised as a Top 100 employer for apprenticeships. With over 470 apprenticeships to date and accredited as a gold employer for our "earn and learn" approach, c.1 in 10 colleagues have either undertaken an apprenticeship or graduate programmes. As we promote social mobility, we are giving young people the opportunity to dive into their local water company. For the third-year running we have had our best health and safety performance, as we deliver on our HomeSafe strategy to ensure everyone who works for us and with us goes home safe every single day.

We're also leveraging technology, trialling AI in customer services and using predictive modelling to support wastewater operations.

“We have a robust financial position with solid financial performance and well positioned for the next regulatory period.”

Robust Financial Position

Overall, we have a robust financial position with solid financial performance and well positioned for the next regulatory period. Our efficiency programmes are focused on keeping costs below inflationary levels and despite the impacts of the unprecedented wet weather. Furthermore, with a robust balance sheet, we are also efficiently funded and growing shareholder value. Our strategy for financing will continue to seek to ensure we remain one of the most efficient in the sector, and delivered in the right way as we continue to make progress.

We have raised £1.2 billion of liquidity since March 2023, and completed the successful equity raise of £180 million for the SES Water acquisition. Our water group gearing at 63.5% is in line with policy, reflecting the increased investment spend in assets and the timing of RCV build and with a near doubling of sector-leading base returns. And the development of the B2B retailers, Pennon Water Services and Water2Business, are delivering a c.50% increase in EBITDA and increase in market share through providing excellent customer services.

We have carefully considered the final dividend position for 2023/24, considering the new guidance from Ofwat in March 2024. We've made an assessment on the performance of the Group in the round, including the performance of the B2B retailers and the development of Pennon Power, and the overall robust performance of our water businesses.

It's in this context, we think it's right to reflect on Ofwat's guidance on dividends. The final Pennon dividend has therefore been adjusted to reflect the fines linked to a SWW prosecution we had in May 2023, where we were fined £2.4 million, with the ultimate shareholders of the Group, bearing that impact, and not customers. The revised recommended final dividend is 30.33 pence per share.

In Summary

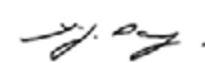
Our fundamentals are strong, reflected in record levels of investment, record support for customers, and creating record levels of jobs directly and in the supply chain, supporting the economic health of the region. We are growing sustainably, whether through acquisition or investment with an efficiently funded and robust balance sheet, growing shareholder value.

The building blocks are in place, focusing on not only what we do, but how we do business. And this in turn, is ensuring we are making good operational progress, delivering on our 4 priorities and what matters most to customers.

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, with robust financials.

And finally

I could not end this update, without paying my personal respects to Gill Rider, our out-going Chair. She has been both a mentor and a Chair, and her championing of diversity and inclusion across Pennon is a fitting legacy on which we intend to build. On behalf of everyone who works for the Group, and will join us in the future, thank you Gill.



Susan Davy
Group Chief Executive Officer

20th May 2024