SOUTH WEST WATER LIMITED
ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2024

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CHAIR'S LETTER

In my last letter as Chair, I want to thank our c.3,000 employees that live and work in the communities we serve. They continue to work tirelessly to deliver a water system that everyone can be proud of. Our responsibility goes beyond pipes, treatment works and reservoirs; it's about ensuring the natural rivers and 860 miles of coastline continues to thrive and to make our waters the benchmark for quality. It's also about ensuring that customers have a clean and plentiful supply of water. From apprentices to graduates, data scientists to lab technicians, environmentalists, engineers and customer service teams, everyone who works at South West Water shares the same ambition.

Today we are investing more than ever to improve our assets, in new and innovative ways, both nature first and future proof, building resilience in the face of a changing climate and population growth. It's no longer acceptable to build more concrete, or complex infrastructures, that have long term environmental impacts. From using reed beds to smart ponds and smart water butts, we want to protect the planet and use less.

In 2022, the South West experienced one of the driest years on record, with reservoirs hitting their lowest ever levels as we worked to protect both river health and ensure a continuous supply of clean drinking water to our customers. We moved quickly, innovating to repurpose ex quarries and mines to store water across Devon and Cornwall. Together with this, and by investing in desalination, we will continue to use innovative techniques to re-use what we have and break the cycle of drought.

Whilst 2022 was one of the driest, 2023 will be known for being one of the wettest. Whilst good for water resources, this has triggered more use of storm overflows and more pollution incidents that any of us agree is right. If we could go back to the Victorian era when the UK's infrastructure was built, we would make significant changes, and the design is the same the world over. What does set us apart from the rest of the world, is the monitoring. As one of the first water companies to achieve 100% monitoring, we will use the data and information to target our efforts, and we will fix this.

We know this will take time and we can do this, because 30 years ago, half of our sewage in the South West did go directly untreated into the sea. In a journey starting in the 1990s with Clean Sweep, and a £13bn investment, we created a legacy of wastewater services, and a first for the South West. The result is that we now have some of the best bathing water quality in the UK, up from c.29% in the 90s to 100% for the last three years running. Whilst excellent in between May and September, (when bathing water quality is monitored) it's clear we need to go further, ensuring excellent water all year round. We do need to reduce the use of storm overflows.

Post 2025 and as part of a wider £2.8bn investment plan across the Greater South West, our plans will also support 2,000 jobs directly and in the supply chain. It's a plan grounded in extensive customer research, and the Board and I met regularly with the independent Chair and deputy Chair of the WaterShare+ panel who led the engagement. We also received feedback from our 90,000 customers who are shareholders in our parent company, Pennon, through the WaterShare+ scheme. We're pleased this plan received strong support from customers and stakeholders – to invest more in the region, and we believe it's also aligned with Ofwat's objectives.

At the same time, the Board has committed to extend our zero-water poverty pledge to 2030, with a £200 million support package, as we find new ways to help our customers to save money. From our "Stop the Drop "to "Water is Precious" campaigns and innovative tariffs, we are helping customers to save water, save money and change how we all use water.

This will be my last Annual Report as Chair (as announced last year) and I am delighted that David Sproul will become the new Chair of the Company from 24th July 2024. David is currently the Chair of Starling Bank and has spent most of his career in professional services with Deloitte. I would like to congratulate David on his appointment and thank all my colleagues across South West Water for the last 8 years and I wish them all my best for the future. I would also like to personally thank CEO Susan Davy for her exemplary leadership and support throughout my time as Chair.

I am grateful to have worked alongside such a talented and dedicated team over many years and I look forward to continuing my relationship with South West Water as a customer.

OUR CEO's REVIEW

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, with an efficiently funded and robust balance sheet, growing stakeholder value. And this in turn, is ensuring we can make good operational progress, delivering on our four 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, 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 1000 stakeholders as part of our £2.8bn PR24 business plan submission.

AT SOUTH WEST WATER, 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.3,000 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.

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 Company 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 South West Water 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, in our parent company Pennon, all stakeholders can be assured that customers directly benefit.

A SOUND BUSINESS – GROWING SUSTAINABLY

We have a clear 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.

MAKING PROGRESS ON WHAT MATTERS MOST TO CUSTOMERS, DELIVERING ON OUR FOUR PRIORITIES

Turning to performance, we remain resolutely focused on our four 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 £13bn 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 five 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 two 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 two-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 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 1,250 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, 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.

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 out-reach 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 water share plus scheme to one in every 10 households.

OUR FOUR PRIORITIES

Water quality and resilience

Storm overflow and pollutions

Net Zero and Environmental gains

Addressing affordability and delivering for customers

A SUSTAINABLE FUTURE IN THE UK WATER SECTOR

We’re reshaping the Company 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 1000 projects and in support of our £2.8bn 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 Home Safe 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.

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 stakeholder 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 £625 million of liquidity since March 2023. 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.

BRIXHAM

In May 2024, drinking water in the Brixham area became contaminated with cryptosporidium. We therefore put a Boil Water Notice in place for 17,000 customers and were able to reduce this quickly down to c.2,500. Our teams worked day and night to clear our network and prevent further contamination using detailed scientific and engineering solutions. At the time of writing this report, the incident is ongoing and we are working hard to lift the boil water notice from the remaining customers. Incidents like this are extremely rare, but a reminder of the important role we have supporting our communities. We have been extremely grateful to our customers who have been incredibly patient and for the kindness they have shown to our teams. Our absolute priority throughout this incident has been the health of our customers and visitors - I would like to thank my team for their hard work and dedication to resolving this incident.

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, with an efficiently funded and robust balance sheet, growing stakeholder 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 four 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 South West Water is a fitting legacy on which we intend to build. On behalf of everyone who works for the Company, and will join us in the future, thank you Gill.

A BUSINESS THAT LISTENS AND ACTS

HOW WE LISTEN

We constantly listen carefully to our stakeholders to understand their concerns on the important issues of the day and to review and refine our strategy and actions and plans to deliver maximum benefit to the communities we serve. Our engagement approach involves regular dialogue so that we can build open, meaningful relationships, based on trust and transparency. Understanding our stakeholders' needs and priorities helps to shape our strategy and social purpose as well as shape our Board decisions. For more information on how stakeholder feedback shapes our Board decisions, read our Section 172(1) statement on page 145.

Below, we outline in detail our approach to engagement with each of our key stakeholders.

CUSTOMERS

WHO THEY ARE

Our businesses supply water and wastewater services to 3.5 million residents across the South West region. We also have 10 million visitors a year to the region that receive our services.

WHY WE ENGAGE

Understanding customer needs, expectations and concerns helps us to share our engagement with the people we serve and find better ways of meetings their needs.

We engage regularly with our customers and communities every day, whether by phone, in communities or through one-to-one interactions. We understand their concerns and priorities and share their sense of urgency about improving our network.

We also know that broader engagement is vital, whether it's educating children about the water cycle, supporting customers who need additional help through one-to-one meetings, or answering questions at public events.

We also engage and work with the Consumer Council for Water (CCW) - the voice for water Consumers.

HOW WE ENGAGE

- Our customer contact and support centres – we now hold the BSI ISO 22458 KiteMark for Vulnerability and Inclusive Service.
- Customer feedback – has driven improvements to MyAccount and Incident Management
- WaterShare+ Customer Advisory Panel – an independent group of customer, business, and social representatives. The membership of the Panel is strengthened with expert advisors from Consumer Council for Water, the Environment Agency and Natural England. 1 in 14 of our customers are now shareholders in our parent company thanks to the WaterShare+ scheme.
- PR24 Business Plan - we engaged with more than 250,000 customers to inform the strategic priorities for our plan to reflect the views of households, visitors, retailers and housing developers.
- Customer AGM
- WaterFit Live – our interactive map with real-time storm overflow, and investment information for coastal communities.
- Awesome Water – attending over 28 events and reaching 55,000 people through fun, interactive display and activities.
- Roadshows and local events – bringing the experts into communities to address concerns and answer key questions.
- Customer research and focus groups.
- Community, Charity and Education projects.
- Neighbourhood and Water- Saving Community Funds.
- Communication campaigns – water-efficiency and leakage messaging targeting households, businesses and visitors to the region.

KEY CHALLENGES AND HOW WE ARE RESPONDING

- The provision of clean, safe drinking water continues to be the number one priority for our customers – we are focused on building new resources, investment to upgrade infrastructure and reducing leakage.
- Reducing pollution and protecting our bathing waters – we are building trust through a commitment to a programme of sampling and monitoring. WaterFit Live is evolving to share the near real-time status of all 1,600 overflows including rivers and is supported by face-to-face roadshows in coastal communities to respond to customer concerns.
- Ensuring we are a socially responsible business - focus on achieving net zero by 2030, focusing on key environmental projects. We are also creating an independent WaterFit environmental advisory board.

- As the cost-of-living crisis continued, keeping bills affordable for everyone and supporting those who need additional help is crucial. We are focused on extending our zero water poverty pledge to 2030, ensuring fair pricing for all customers and to accelerate smart metering.

COMMUNITIES

WHO THEY ARE
Our businesses operate in the heart of local communities and we engage with the groups that represent them and provide forums for our customers to come together as a community to express their views.

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

Our charitable donations and community funds support hundreds of amazing causes making a real difference to the lives of people and the places they love. Our education programme has the goal of inspiring future champions across the region to learn about the value of water in fun and interactive ways.

Our community outreach programme works directly in the communities we serve. It achieves this by offering support to those who need a little extra help when it matters most and talking directly to customers about environmental challenges and how we can work together to secure the future we all want to see.

For over a decade, we have been working with local community partners to protect and restore our environment using nature-based solutions to make a difference. This includes working with local farmers to create more sustainable farming practices, planting trees and restoring the South West's precious peatlands to boost nature and reduce harmful runoff into waterways.

Our partnerships with charities also seek to provide health and recreational benefits to local communities through the use of our lakes and reservoirs – helping us support the health and wellbeing in our region.

HOW WE ENGAGE
- Our Stakeholder Forum – that has brought over 1,000 stakeholders across the region together over the last two years to review and co-develop plans
- A roadshow programme across the South West Water region, focused on providing information at a local level and delivered in coastal communities. This provides a forum to talk about local upcoming plans, and listen to and answer customer concerns.
- Print, digital and social media – including our 'Water is Precious' Campaign and engaging our communities in behavioural change campaigns including Love Your Loo, and Think Sink!
- Bi-annual Conservation and Recreation Forum Specific partner engagement to support access to our land and sites for recreation in the South West – e.g. South West Lakes Trust
- An education programme working with primary schools. This has delivered a record year, with 116 lessons relating to the water cycle, sewer misuse and water efficiency to over 4,000 children.
- The Awesome Water programme; this consisted of 28 event days across the South West involving over 55,000 people. This enabled direct feedback and the sharing of important messages around sewage misuse, water efficiency, drought and the hosepipe ban.
- The South West Water Neighbourhood Fund; This has been running for three years, in that time we have given out £100,000 to 56 different charities and groups helping 22,000 individuals across the South West.
- Bristol Water 'Together for Good' programme; this is a community lottery providing the opportunity for a different charity or community scheme to win £500 towards a project that benefits the community.
- Bi-annual Conservation and Recreation Forum
- Specific partner engagement to support access to our land and sites for recreation in the South West – e.g. South West Lakes Trust

KEY CHALLENGES AND HOW WE ARE RESPONDING
- Our region has over a third of the nation's bathing waters and it is important that we protect these vital recreational areas – we have for three years maintained 100% bathing water quality where we operate.
- We continue to progress rivers into bathing waters, with our River Dart and Tavy pilot study and support for communities to seek designation on four stretches of river.
- We provide access to our 40 inland lakes and reservoirs, so that local communities can continue enjoying them for health and recreation – used by two million visitors a year
- All of this means that any customer or visitor is never more than an hour away from a bathing water, with nature and recreation on everyone's doorsteps.

PEOPLE

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

WHY WE ENGAGE
Our employees are our greatest asset. We provide the opportunity for them to be engaged at multiple levels of the business and through a variety of two-way dialogue and feedback channels so we can listen to them and make improvements based on their feedback of what's important to them. We continually engage and communicate with our people on their health, safety and wellbeing, our organisational culture, promoting diversity and inclusion, training and development. We use a variety of mechanisms to engage with colleagues including pulse surveys, listening sessions, employee forums and trade union representation.

HOW WE ENGAGE
- Great Place To Work pulse surveys and work with senior leaders to develop local actions plans
- 100% senior employee representation either through RISE (employee forum) or bargaining agreements with our Trade Union partners GMB and Unite in our operational teams.
- Two-way communication activities including – fortnightly Big Chats, 'Ask Susan' email, monthly senior leadership calls and listening sessions
- Executive and Board site visits.
- Employee training programmes.
- Internal communication activities including, weekly internal newsletter, social channels e.g. Viva Engage and our Company-wide intranet.
- Monthly 'Time to Talk' sessions, primarily focusing on wellbeing, featuring both internal and external speakers.
- Regular 'This is Me' features including videos and podcasts.
- Regular appraisals and one-to-ones.

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

ENVIRONMENT

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

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

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

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

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

HOW WE ENGAGE

- Regular meetings and liaison with environmental partners in our operational areas in relation to specific strategic projects and objectives
- Regular attendance by operational colleagues at local, regional and national working groups, forums and partnership meetings to ensure our priorities and actions are represented and that insight gathered is fed back into the business
- Our senior leadership team, including CEO Susan Davy, meets routinely with CEOs and leaders of environmental organisations and charities
- Regular meetings with the Environment Agency as environmental regulator, both at strategic and catchment level.
- Every two months we host our "Let's Talk Water" stakeholder forum to share progress on our environmental programme and share ideas for collaboration.

KEY CHALLENGES AND HOW WE ARE RESPONDING

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

SUPPLIERS

WHO THEY ARE

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

WHY WE ENGAGE

We want to be ready to meet the challenges of the future through our investment programmes and have made extensive preparations to ensure that our programme is deliverable. We are ready to meet the step change in the scale of the programme for AMP8.

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

HOW WE ENGAGE

- We unveiled our major new alliance, Amplify, with some of the country's best engineering companies to deliver South West Water's major infrastructure plan for 2025-2030, worth £2.8 billion. It will drive investment into the local economy, creating around 2,000 new jobs, with new treatment works and reservoirs among the investments planned as part of the company's ongoing commitment to its customers, communities, and the environment. To help deliver these projects, BAM Nuttall, Clancy, Mott McDonald Bentley, Tilbury Douglas, MWH Treatment and Network Plus Envolve are Amplify's main construction partners following a highly competitive tendering process. They will be supported by a range of consultancy organisations: Stantec, Long O'Donnell, and Turner & Townsend will ensure best value for money; while Aecom, ChandlersKBS and Turner & Townsend will ensure best value-for money; while Aecom, Arcadis, Pell Frischmann, Stantec and WSP will produce innovative designs.
- Supplier reviews and audits
- Code of Conduct for Supply Chain Partners
- Sustainable Procurement Policy
- Formal contracts and framework agreements
- E-procurement and Risk Management platforms.

KEY CHALLENGES AND HOW WE ARE RESPONDING

- We are driving alternative ways of working through our new partnership
- We are adopting a 'nature first' approach and securing the best talent and expertise from our
- partners

- Our established mobilisation board is already working on the delivery of current schemes
- We minimise risk of supplier failure and/or insolvency through comprehensive due diligence checks and continually seek to strengthen resilience within our supply chain

REGULATORS

WHO THEY ARE
We have an open dialogue and meet regularly with our regulatory bodies: Ofwat, the Environment Agency, the Drinking Water Inspectorate, Natural England, and the Health and Safety Executive (HSE).

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

We also engage with key trade and customer bodies, including CCW – the voice for water consumers.

Our independent WaterShare+ advisory Customer Advisory Panel is now well established and provides reviews and challenges of all aspects of our business performance and business plans.

HOW WE ENGAGE
- Regular meetings
- Action plans, reports and reviews
- Consultations
- Workshops and our Stakeholder Forum
- One-to-one meetings

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

POLICY MAKERS

WHO THEY ARE
We create open and transparent relationships with the widest range of policy makers, from local MPs, who seek to reflect the priorities of their constituents, to UK government who ultimately set water priorities and policy, through bodies such as the Department for Environment, Food & rural Affairs (Defra), Natural England, and the Environment Agency. We engage with Parliamentary Committees regularly to set the tone of legislative activity, ensuring that South West Water's voice is heard at the heart of Government. But we don't just engage with the Government, we work cross-party to ensure that South West Water's values are heard across the political divide.

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

As one of the largest employers and businesses in the Greater South West, we have a responsibility to support the local economy and support growth in the region. Working with regional and national political stakeholders, we are able to talk about our best-in-class skills agenda to those across our area, delivering vital up-skilling across the Greater South West as play our part in growing the economy.

HOW WE ENGAGE
- Our parent company is a member of Water UK, which works with government, regulators and stakeholders to develop policy on water and the sustainable delivery of water services in the UK
- We meet on a regular basis with MPs, hosting site visits and constituency-based meetings, as well as events in Westminster. We also contribute to round table debates whilst briefing MPs and Ministers ahead of Parliamentary debates, setting the narrative before a word is spoken.
- We regularly respond to all consultations, such as the Government's consultation on wet wipes, which has been seen cross-party promises to ban non-flushables in the next parliament.

- Pennon is one of the founding members of Back the South West campaign, and in July 2021, published our response to the G7 legacy, 'Levelling Up the Great South West'. This has helped focus our social mobility activity and recruitment opportunities across the region, offering varying roles and opportunities for the range of our communities, providing jobs across our operations and bringing talent and diversity into the business.

KEY CHALLENGES AND HOW WE ARE RESPONDING

Our sector faces generational change, with challenges from population growth, climate change, rising environmental standards from the Environment Act and evolving customer and political priorities. These challenges will require further investment, and continuing evolution of the sector's regulatory framework, to be able to flex to meet changing priorities and meet the needs sustainably, whilst keeping customer bills low.

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

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

HOW WE ACT

2023/24 INVESTMENT HIGHLIGHTS

Financial year 2023/24 has seen our largest in-year capex investment to date. here are some highlights mapped against our strategic priorities:

Water quality and resilience

3 new sources in development including desalination plant

£369.3m of total investment in clean water

Storm overflow and pollutions

2,732m^3 of storage increases

£213.6m of total investment in wastewater

Net Zero and environmental gains

Addressing affordability and delivering for customers

23,000 customers moved onto social tariffs in the year

£18.3m of financial support to customers

WATER QUALITY AND RESILIENCE – INCREASING WATER RESOURCES

In 2022/23 we announced our approach to breaking the cycle of drought in the South West which would be achieved through enhancing our supplies across Devon and Cornwall as well as targeting water efficiency.

During 2023/24 we have broken the drought cycle with our strategic reservoirs reaching 100% peak capacity in early April 2024 – a third of this storage was achieved through our interventions.

A new supply at Gatherley was delivered in the year (adding to the Lyd pumping scheme last year), reaching our 30% target for Devon. We have also achieved 30% in Cornwall with the completion of a new 22km pipeline network and raw water pump station at another redundant quarry in Mid-Cornwall, named Blackpool Pit. This new pipeline network and pump station will supply raw water straight to Cornwall's strategic water treatment works in Lostwithiel.

We continue with our investments at Porth Rialton and desalination to deliver the remaining 15% for Cornwall.

STORM OVERFLOW AND POLLUTIONS – INCREASING STORM STORAGE CAPACITY AND REDUCING INFILTRATION

HATHERLEIGH

Prior to the project being completed the site had no existing storm storage. Following agreement with the Environment Agency, a below ground storm tank with a capacity of 120m^3 was installed at the end of Q1 2023; this was a year ahead of the original regulatory deadline. As part of the programme a new inlet pumping station control kiosk and instrumentation for the storm tank were also installed.

The investment has led to a c.90% year-on-year reduction in spills in calendar year 2023 with this trend continuing into Q1 2024. This is set against a backdrop of increasing frequency and volume of rainfall since installation.

CHITTLE HAMHOLT

Completed at the end of Q4 2023, the project comprised the installation of a balancing tank (with a capacity of 62m^3) to reduce flows during periods of high rainfall and an intervention to remove an unpermitted connection to the sewer network which materially increased flow into the system. The combination of the investment made and action taken by South West Water has led to a c.70% year-on-year reduction in spills in Q1 2024.

BEALS MILL

New rising main control infrastructure. Beals Mill has historically been a site where we have experienced our highest number of spills hence at the top of our list of engineering priorities this year.

A number of interventions to reduce infiltration of groundwater into the sewer network have been completed in the year. These include the replacement of the rising main on the network, the rehabilitation of 31 manholes within the area and 600m of new sewer lining.

Attention now moves to the works to ensure the full spill reduction benefits are achieved.

BERE ALSTON

The investment at Bere Alston has focused on reducing groundwater infiltration into the sewer network and removing the flow of surface water from the combined drainage and sewer network in the area.

Works included the installation of 1,640m of new sewer lining, the rehabilitation of 60 manholes, 245 dig-down repairs to pipework and the separation of 3 areas of surface water from the combined system.

STORM OVERFLOW AND POLLUTIONS – WATERFIT LIVE

We launched Waterfit Live ahead of the 2023 bathing season, to give customers more information about the impact of our wastewater network on their local beach. Our interactive beach maps provide a live view to see if a storm overflow is in operation at their local beach and the potential for it to be temporarily affecting bathing water quality.

Alongside the map, we have also shared information about the bathing water quality at that beach, the improvement over time, and the work we are undertaking to further enhance water quality at our bathing waters through our WaterFit programme.

Our community engagement programme has responded to interest around the near real time information we have been sharing on storm overflows, by holding both online and face-to-face events with local communities such as Exmouth, Harlyn Bay and Lyme Regis.

As well as giving customers the opportunity to challenge us, these roadshows have allowed us to explain our short- and long-term plans, provide data on sampling in their local area and explain how we manage the impact of new developments on our network. We also gathered feedback from local communities that will help shape investment priorities and the way in which we continue to engage with them in the future.

ADDRESSING AFFORDABILITY AND DELIVERING FOR OUR CUSTOMERS – WATER POVERTY MODEL AND AFFORDABILITY TOOLKIT

To achieve our target of eradicating water poverty by 2030, we have worked with CACI and ICS to develop a water poverty model, supported by an extensive suite of data, allowing us to identify high levels of probability those customers who are in water poverty and in need of our support.

To deliver this we have announced our largest ever package of support of over £200 million by 2030.

This includes:

- Proactive auto-enrolment of customers onto tariffs to remove them from water poverty.
- Affordability toolkits to give customers flexibility in how they receive support.
- Taking a water-efficiency-first approach.
- Working with partners to ensure we engage with and support customers.

Using this tool, we have already identified those in water poverty and begun to auto-enrol these customers onto support tariffs. In the South West Water area, we auto-enrolled 8,000 customers onto our WaterCare tariff in 2022/23 and a further 18,000 in 2024/25; with more customers set to benefit into 2025 and beyond.

Our approach to helping those in water poverty is supported by our affordability toolkit. This provides a range of options to help customers lower their water bill, including switching to a metered tariff, payment breaks, water efficiency advice and home visits, low tariffs and help with managing debt.

HOW WE ARE PREPARING FOR THE FUTURE

We are not just focussed on meeting the immediate challenges we face. CREWW, is a 25-year research partnership between South West Water and the University of Exeter (UoE). It builds on many years of collaboration between the two organisations including our catchment management programme, Upstream Thinking (first pioneered in 2006) which has acted as a beacon of change which others in the water sector have followed.

CREWW is bringing together subject matter experts from SWW and UoE, under one roof, who will combine their knowledge and expertise to undertake innovative research into some of our most pressing challenges facing us as a business and the water industry. The outcomes will help inform our operations and enable us to better deliver for our customers, the region and the environment.

Officially opened in March 2024, the new dedicated, operationally net zero research facility is underpinned by a £21 million capital and research investment by South West Water. It is the only water sector partnership to receive support from the UK Research Partnership Investment Fund (UKRPIF), as well as being the largest supported RPIF-sponsored project in the South West.

CREWW has already begun working on projects including the creation of a state-of-the-art laboratory which will tackle the scourge of microplastics on our environment. The project represents an investment of £1.4 million from South West Water and will initially develop our understanding of the presence of microplastics in sewage sludge to inform our wastewater operations. In the long-term, the ambition is to provide guidance and support to any stakeholders involved in sewage operations, their management or monitoring, as well as regulators. The project team at CREWW is headed up by Professor Tamara Galloway, an internationally leading scientist in the field of microplastics. Tamara and her team work alongside wastewater experts from South West Water, including Helen Dobby, the company's Head of Environmental Performance.

SOUTH WEST WATER'S GROUP CONTEXT

South West Water Limited is a subsidiary of Pennon Group plc (which is South West Water's immediate and ultimate parent company), a FTSE 250 company, whose principal significant trading subsidiaries are shown below:

Note: South West Water's subsidiaries are described in note 19 (page 242).

SOUTH WEST WATER
South West Water provides regulated water and wastewater services across Cornwall, Devon, Isles of Scilly and parts of Dorset and Somerset, water only services in areas of Dorset, Hampshire and Wiltshire (the Bournemouth Water area), Bristol and a small amount of non-appointed services. It is responsible for delivering the 2020-25 business plan, in the original South West Water area of operation, the Bournemouth Water and the Bristol Water areas of operation. South West Water provides retail services to residential (household) customers.

SES WATER
On 10 January 2024, Pennon Group plc acquired 100% of the issued capital of Sumisho Osaka Gas Water UK Limited, the holding company of Sutton and East Surrey Water plc ("SES Water") and certain other ancillary businesses. The acquisition is currently subject to an ongoing review by the Competition and Markets Authority (the "CMA") and SES Water continues to be managed separately from South West Water and is not included in this report.

PENNON WATER SERVICES
Pennon Water Services provides retail services to non-household customers. Whilst part of the wider Pennon Group, South West Water has in place robust policies and practices to ensure full competition compliance with the market codes for the non-household retail market.

SOUTH WEST WATER'S SUBSIDIARIES
South West Water Customer Services manages South West Water's billing, collections and customer contact activities.

Peninsula Properties (Exeter) previously advised South West Water on property development opportunities. The Company has now ceased trading.

South West Water Finance acts as a financing company, raising borrowings for South West Water.

Bristol Water plc is the former operating company of Bristol Water. The company retains external debt and the defined benefit pension scheme.

THE MARKET IN WHICH WE OPERATE

HOUSEHOLD WATER SECTOR

The industry was privatised in 1989 in response to the demands for high quality water and the need to clean up routine pollution to rivers and seas. Since then, £200 billion has been invested, catching up the previous decades of under-investment, and improving services and protecting the environment.

Every day, homes and businesses receive a continuous supply of world-class water – ranked consistently as among the best the water in the world. Household and non-household consumers have seen significant improvements to customer service. And with the installation and upgrade of vital infrastructure across communities, environmental standards are higher than they have ever been, with improvements to the quality of rivers, lakes and coastal waters.

This is particularly so in the regions we serve. When South West Water was privatised, nearly half of all sewage in the region was untreated and discharged directly into the sea. Testing carried out to assess levels of harmful bacteria showed bathing water quality was low, with only 28% passing the most stringent tests. We invested, including through our Clean Sweep programme, to ensure that world class wastewater services were put in place for the first time – so that all sewage is now treated through one of our 655 treatment works.

Privatisation was set alongside the establishment of independent regulators, which has provided powerful incentives to the industry to innovate and transform in order to drive efficiency, deliver against the obligations, and ensure a stable operating environment for investors.

Greater innovation and efficiencies have been delivered alongside record investment – due to the sector's stable regulation, which has long attracted investors. Investors are essential to the sector, providing investment that has supported record levels of investment whilst keeping bills affordable - with bills remaining at around £1 a day. Without this investment, all water companies would collect all expenditure requirements through customer bills on a 'pay as you go' basis – which would make bills much more volatile and higher than they are today.

Consolidation and mergers across the sector over the last 30 years has provided benefits to customers, setting new benchmarks for the sector. Today, there are 16 privately owned water companies – of which 11 provide water and wastewater services and five provide water only services. Collectively these provide clean water through a mains network that is 340,000km long, and wastewater services through 567,000km of sewers and 6,000 wastewater treatment plants.

Our parent company, Pennon, is one of the three FTSE-listed companies that supply water and wastewater services across England and Wales. South West Water provides water and wastewater services to a population of c.3.5 million across the South West of England.

THE WATER SECTOR REGULATORY FRAMEWORK

Water companies have a vital role in society, operating in the public interest to ensure safe and reliable water and wastewater services for all.

As a provider of water and wastewater services, we are subject to regulation on price and performance by economic, quality and environmental regulators. This regulatory framework is designed to safeguard the best interests of customers and the environment.

Defra sets the overall water and sewerage policy framework in England while our Regulators focus on specific aspects including water and sewerage policy, economic, environmental, drinking water quality and the customers we serve.

OUR REGULATORS

- **Department for Environment, Food and Rural Affairs (Defra)** - Defra sets the overall policy framework in England, including the environmental and service requirements. Climate change, growth, consumer expectations, and macroeconomic trends all impact on the policies that Defra sets.
- **Ofwat** - Ofwat is the economic regulator, with duties to protect the interests of consumers, ensure companies can carry out their functions, and ensure companies can finance their functions – through promoting efficiency, innovation, competition and economic growth.
- **Environment Agency (EA)** - The EA is the environmental regulator focused on protecting and improving the environment. It is also responsible for managing and reducing flood risk. The EA is a principal adviser to Defra on the water environmental.
- **Drinking Water Inspectorate (DWI)** - The DWI is the drinking water quality regulator, with responsibility for ensuring that companies supply wholesome water that is clean and safe to drink.
- **Consumer Council for Water (CCW)** - CCW represent the needs of customers, and support customers who have complaints about their water company.

- **Natural England** - Natural England is the government's advisor on the natural environment, with the aim to protect and improve the natural environment.

OUR REGULATORY POSITIONING
What we do now is crucial in terms of delivering plans now and planning for the future. And as we operate at the forefront of the changing regulatory water markets – we remain well placed to respond to change and to identify further growth opportunities.

Our strategy is to be a responsible leader for the regions we serve today and every day. Our vision is to create collaboration opportunities and drive transformational changes through innovation across the value chain of the water sector.

We are focused on demonstrating leadership within the water sector. At the heart of this is how we manage water and the water cycle.

We are pioneering new technologies and methods to improve customer service, efficiency and resilience while working closely with industry peers, as appropriate, and our supply chain to identify and implement best working practice across all areas of the business.

- We are continuing to upgrade and modernise our networks and assets to address climate change and accommodate a growing population
- We are leveraging digital technology to better monitor and understand factors that impact water quality and availability, enhancing our ability to track and understand consumption to support customer engagement and affordability, optimising performance, and to understand and prioritise the innovations in water quality management.
- We are learning more about the use of nature-based solutions which restore or imitate natural processes – such as improving water storage by creating smart ponds or restoring peatlands – we see these as mainstream, scalable options for water management.
- We are exploring opportunities to build water resilience through non-climate dependent water sources, such as repurposing quarries and wastewater treatment and reuse – with only a fraction of wastewater currently reused this is important area for future development.

With the opportunities that we see, we welcome the development of market mechanisms within the sector to drive innovation and value for customers, the environment and stakeholders.

OUR FUTURE PLANS: 2025 TO 2030

THE FIVE-YEARLY BUSINESS PLANNING CYCLE

Every five years, we submit our future plans to the economic regulator, Ofwat. Our business plans set out our investment proposals, performance improvements and targets, the benefits of our plans for customers and communities, and the impacts on customer bills.

In October 2023 all 16 regional companies submitted their business plans to Ofwat as part of the 2024 Periodic review of prices (PR24), covering the period 2025-30 (AMP8). This saw an unprecedented £96 billion of investment planned for AMP8 – a near-doubling of the £51 billion of AMP7.

OUR PLAN FOR THE SOUTH WEST

In October 2023, we shared our Plan for Change 2025-2030.

Our PR24 Business Plan represents a step-change in our long-term strategic approach. It includes a clear outline for all stakeholders of our purpose and strategic ambition, and our priorities for the next 25 years and five year focus. This has reinforced how we will prioritise, plan and manage for the future and ensure that we are focused on things that matter the most to people, communities and the local economies where we operate.

Our plan 2025-2030 is a no surprises plan, as we continue to do what we said we would. It's a plan that goes further in tackling the biggest challenges in our region, as we invest to protect water quality and enhance resilience, tackle storm overflows at our beaches, eradicate pollutions and protect the environment from climate change.

Our £2.8 billion investment will create c.2,000 jobs in the region, as we commit to providing 1,000 apprentices and graduate opportunities to 2030. It will provide much needed job security in the wider supply chain across the region. It's also a balanced plan, between water and wastewater, and one we are well placed to deliver. To further bolster our best-in-class approach to accountability, we are developing our new Environmental Advisory Panel to hold us to the same high standards as our WaterShare+ Customer Advisory Panel protecting customer interests.

Overall this plan has received strong support that we should invest more, with universal agreement that the priorities are the right ones. We therefore consider that it meets Ofwat's quality and ambition assessments, with an outcome framework anchored in customers' expectation and aligned with Ofwat's objectives for PR24.

In summary, our 2025-2030 business plan is a plan building on the momentum we have today, and which goes further in tackling the biggest challenges in our region, as we invest to protect water quality and resilience, tackle storm overflows at our beaches, eradicate pollutions and protect the environment from climate change. With a laser like focus on efficiency, it is also a plan that supports customer affordability. Our £2.8 billion investment is an ambitious plan, the right plan, and the right deal for our region.

CUSTOMER DRIVEN PLAN

Our customers have been at the heart of developing our Business Plan for 2025 to 2030; to this end, we have had more direct feedback and engagement than ever before and we have listened to the views of more than 250,000 customers. These interactions have led to the creation of our four strategic priorities.

PR24 INVESTMENT HIGHLIGHTS

Water quality and resilience

Upgrading a third of water treatment works across our region and investing in two new treatment works in Bristol, alongside Bournemouth's completion of state-of-

Storm overflow and pollutions

By 2030, we will have tackled all storm overflows at our bathing beaches, shellfish waters and high spilling sites – 20 years ahead of the government mandated target, given the

Net Zero and Environmental gains

Continue with our 'Promise to the Planet' to become Net Zero by 2030 by decarbonising our operations, and reducing emissions of Nitrous Oxide and repurposing methane

Addressing affordability and delivering for customers

Importantly, in a cost of living crisis, we appreciate how unwelcome it is for any bills to increase. In response, we have challenged ourselves to ensure that the

the-art ceramic new treatment works.

Resurrecting plans for the Cheddar 2 reservoir to boost water resources in the Greater South West.

Creating a water grid to ensure all our strategic reservoirs are connected, ensuring we can move resources across the region

Reducing leakage levels to less than 10% on our network and less than 4% on customers' networks.

importance of tourism to our region.

In the meantime, and to restore confidence in our bathing waters, we will implement a first of its kind monitoring regime so everyone can feel they can enjoy being in the water at their favourite beach

We are implementing our "Green First" approach to investment, working with nature to improve drainage and reduce storm overflows.

Expanding our nature recovery programme - extending Upstream Thinking into new catchments, planting 300,000 trees and re-naturalising waterways for wildlife – working with nature to build resilience

Transforming sludge treatment processes to protect rivers.

necessary increases are fair. The Board has pledged to extend our commitment to ensure zero customers in water poverty to 2030.

Delivering our largest ever package of support with over £200m of affordability measures

Introducing a range of fair tariffs to help customers use less and save more.

The Draft Determination will be received from Ofwat in July 2024, with the Final Determination to be received later in the year. Therefore, the position for 2025 onwards is subject to the final Ofwat determination.

OUR BUSINESS MODEL

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

DELIVERING SERVICES THROUGH…

Water Resources, treatment and distribution - Ensuring an available and sufficient supply of raw water is critical to ensuring a continuous supply to customers. Our operations play a vital part in maintaining the level of river flows and their ecological health – from the level of water we release from our reservoirs into rivers, to the level we abstract and take to our treatment plants. Protecting the region's precious resources is at the heart of what we do.

We take water from our reservoirs, rivers and groundwater sources and transport it to our treatment works, where it is treated to a high standard using a number of processes. Once the water is clean, safe and reliable we transport this to customers' homes through our c.29,000km of water pipes.

Services to homes and our wider communities – We manage an extensive network to deliver uninterrupted supplies to our customers whilst keeping customers' bills affordable. Our household contact centre is focused on providing excellent end-to-end customer experiences. From providing water and sanitation, through to environmental protection, recreational facilities, education, local jobs and investment for future generations. The services we provide are essential for the health and economic wellbeing of our local communities.

Wastewater collection, treatment and recycling - We maintain and operate c.23,000km of sewers in the South West region, removing waste from the homes and properties of our customers. Through our programme of proactive interventions, informed by extensive data and AI, we keep our network in the best possible condition, identifying and repairing issues alongside an extensive sewer cleaning programme.

We treat wastewater to a high standard at our 655 wastewater treatment works before returning treated wastewater to the environment, safely. Bioresources created during the treatment process are a valuable source of both nutrients and energy and contributes to a circular economy.

HOW WE DELIVER

ESG is at the heart of how we deliver our business model, We pride ourselves on doing the right thing.

The quality of the services that we provide is of critical importance to our business, however we place an equal weight on how we deliver those services through strong financial governance, a focus on the environment and investment in our people – in effect our ESG DNA. In this section, we reflect of how we have, this year, brought this approach to life.

Firstly, we focus on our approach to ensuring that we are financially sustainable, both from a balance sheet point of view and in relation to our ESG responsibilities; next we focus on our environmental delivery strategy which is central to everything we do; then we look at how we invest in our c.3,000 colleagues to ensure they are valued and safe in turn delivering excellent customer service and driving growth and opportunity in the regions we serve.

STRONG AND ETHICAL FINANCIAL GOVERNANCE

We continue to maintain financial resilience underpinned by an ethical approach, as evidenced by retaining our Fair Tax Mark accreditation and adherence to our financing framework.

FINANCIAL RESILIENCE

Our current gearing is at a relatively low level compared to the sector, and as we move into the next regulatory period our gearing will benefit from regulatory true-up adjustments taking our opening Regulator Capital Value (RCV) to c.£5.4bn. Through 2025 to 2030 we anticipate nominal RCV growth of 38% (real – 25%) reflecting our long-term investments and the value being created for customers, the environment as well as employees and customers.

Having considered Ofwat's cost of capital and retail net margins, we have prepared our plan on that basis. We plan to continue to finance activities in a way that will maintain key financial ratios, consistent with a strong investment grade rating. We will take a balanced approach to the sharing of delivery and operational risks between stakeholders.

We have set stretching targets and a cost base that assumes efficiency is delivered to ensure we play our part in making this plan efficient and affordable. We are confident, and well positioned in our capital delivery capability across the South West. We have appointed new delivery partners with long term contracts that can run out to 10 years. Advance planning for the transition to the plan's delivery model has been underway since September 2022, broadening our supply chain alliance, with partners already in place and delivering our current plans.

We have considered how else to rebuild trust with our actions. We have demonstrated constraint in our approach to executive pay ensures we take a holistic view of performance including outcomes for both customers and the environment.

SUSTAINABLE FINANCING FRAMEWORK

Created in 2018 and updated in 2021, the Company has developed a Sustainable Financing Framework, in alignment with the ICMA Green Bond Principles (GBP), Social Bond Principles (SBP) and the LMA Green Loan Principles (GLP) and Sustainability linked loan principles (SLL). Under the Framework, the Company can issue securities as well as enter into financing relationships to support investment across the Company's activities. The Company aims to raise all new debt through the framework in 23/24 c.85% was achieved.

FAIR TAX MARK

We were proud to have been awarded the Fair Tax Mark for the sixth year in a row in December 2023. The Fair Tax Mark accreditation scheme is the gold standard of responsible tax conduct. It seeks to encourage and recognise organisations that pay the right amount of corporation tax at the right time and in the right place.

The company became the first UK business in the water industry to be awarded the Fair Tax Mark in 2018 and has now successfully retained it each year since.

INVESTING IN OUR ENVIRONMENT

The environment and nature first solutions underpin three of our four strategic priorities set out in our K8 Business Plan evidencing our commitment to improving our communities and in turn the lives of our customers. We have delivered against this commitment in a multitude of ways as set out below.

COLLABORATING FOR NATURE RECOVERY

South West Water is engaged and participating in the range of local and regional public, private and third sector partnerships tacking action to tackle climate change and nature recovery, including the local nature partnerships. We also convene forums and events, including our Let's Talk Water stakeholder forum, to engage partners and share best practice, reflecting together on progress and developing shared plans for the future. We are proud of the delivery partnerships with whom we monitor, collaborate and deliver our environmental improvement and biodiversity enhancement activities.

BIODIVERSITY ENHANCEMENT

Catchment management protects and improves river quality and critical water abstraction sources to provide clean, safe drinking water, reducing the need for treatment. It is supported by our customers as part of South West Water's commitment to protect and enhance the environment in the drinking water catchments in which we operate. This performance commitment is designed to incentivise an increase in the area of land under active improved catchment management as part of the 'Upstream Thinking' and the more recent 'Green Recovery' project interventions. The annual target for Upstream Thinking is 10,000 hectares of new land under active improved catchment management (50,000 more hectares over the five-year regulatory period). The Green Recovery programme will deliver a further 10,000 hectares of new land under active management during the four years it will be active leading up to 2025. In 2023/24 a further 11,854 hectares of land were added to our Upstream Thinking project whilst a further 3,364 hectares were added to the Green Recovery programme, resulting in an annual delivery of 15,218 hectares against an annual combined target of 13,000 hectares. This brings our cumulative position to 126,733 hectares of new areas under active catchment management since April 2015, well over the target for this plan period of 123,209 hectares.

BIODIVERSITY COMPLIANCE
In order for South West Water to avoid pollution harming the most special and rare habitats and species present across the South West, we have a particular focus on freshwater locations. This includes sites which are designated as a Site of Special Scientific Interest, as a Special Area of Conservation, as a Special Protected Area, or as a County Wildlife Site. During 2023/24, there were no pollutions events at any of these locations and therefore, as in the previous three years, the target was met. This outcome supports the South West Water commitment to achieving the outcomes of the Government Environmental Improvement plan and its ambitions to improve the condition of all Sites of Special Scientific Interest in the next ten years.

PREVENTING BIODIVERSITY DETERIORATION
The maritime nature, climate and geography of the South West means that wildlife and nature are particularly under threat of deterioration from the presence and spread of invasive non-native species (INNS). INNS can impact on all aspects of the business with significant operational, compliance, reputational and financial risks and are considered to be one of the most significant causes of biodiversity loss globally. We have delivered biosecurity installations at South West Water sites, to prevent the introduction of new and spread of existing INNS and over the last year we have accelerated our delivery of guidance and awareness raising signage which are now installed at 121 sites.

We have also installed biosecurity wash down facilities and are scoping two further watercraft washdowns. Our exemplar biosecurity wash down facilities at Roadford, includes a pressure washer for watercraft, an angling dip tank and a boot scrub.

PUTTING NON-NATIVE TREES TO GOOD USE TO HELP RESTORE DAMAGED PEATLANDS
The Natural Resources Team have removed non-native trees from two wastewater treatment sites to remove large conifer trees as part of biodiversity improvements. The trees that have been removed have been replaced with native broadleaf species such as oak, hazel, lime and rowan that offer much greater benefits to birds and other species.

The logs from the cut conifer trees have been recycled for use in peatland restoration work at two South West Water sites – Burrator Reservoir in Devon and Park Pit in Cornwall. This work is being carried out by the South West Peatland Partnership, A £13 million project, led by South West Water, which is delivering peatland restoration in the South West of England.

The wood removed from the sites has been used by the South West Peatland Partnership to create leaky wooden dams, or timber rounds, which help to trap water in the environment, restoring dried and degraded peat bogs. The work will ultimately help to prevent run-off from the land into the watercourse, improving water quality in the area and trapping carbon in the landscape.

INVESTING IN OUR PEOPLE

As one of the largest employers in the region, with almost 3,000 colleagues, we have a responsibility and duty to make a positive societal contribution. Our goal is to be the Employer of Choice across our region through promoting social mobility, prioritising Diversity and Inclusion by addressing racial and gender inequality. We provide safe, secure and meaningful employment where all employees are paid fairly for the work they do and where trust is high. We want to show that it is a dynamic and exciting time to be working in the water industry.

Over the past 10 years the South West has seen significant population growth. It's been estimated that more people moved to the region during the pandemic and just after than had been anticipated by 2050. This increase in population has an impact on many different areas of society, including employment, housing and opportunities for young people.

With a double coastline and dispersed population, many coastal towns around the South West suffer from high rates of poverty, unemployment and health risk factors, together with poor housing and public service provision, poor public transport and communication connections.

All this goes to show that whilst the greater South West region has traditionally had a reputation as a well-off area, in reality the picture is far more complex. This places an even greater responsibility on South West Water, as the largest private sector employer in the region, and given the wider supply chain we support.

Our Reward Strategy continues to evolve each year, noting the feedback we receive from colleagues ensuring it aligns to our People Strategy and our new Company values. The key focus for this year has been on supporting colleagues during the cost-of-living crisis. Prioritising those colleagues that need it most and bringing forward the employee bonus payments to help those in most need.

At South West Water we take our social stewardship role seriously, whether that's through driving our environmental improvements or growing the number of jobs we support. Our exciting business plans submitted to our regulators this year plan to create 2,000 new jobs as part of a wider £2.8 billion investment plan across the Greater South West – a doubling of investment from the first half of this decade. Our business plan fosters our new Values and aims to have a positive impact on customers, communities, colleagues and the environment.

Our approach to Human capital seeks to goes further; supporting Community Investment and social mobility across the Greater South West by creating education and employment opportunities across our region; ensuring we pay our employees a fair wage for doing a fair day's work and therefore well placed to be able to make a wider societal contribution; and delivering our Diversity and Inclusion strategy by prioritising diversity of thought, gender and ethnicity to promote social mobility and opportunity for all.

This is all part of a wider strategy to be the employer of choice in the region, and in creating a Great Place to Work.

OUR NEW COMPANY VALUES

South West Water has evolved in recent years, with the acquisition of Bristol Water. This created an appropriate opportunity to evaluate and refresh the corporate values that had been in place for some years, resulting in a new set of values that more properly reflect who the Company is today and represent our people at their best.

Corporate values are guiding concepts that shape our culture, behaviour, and decision-making processes. They help colleagues match their actions and behaviours with the company's overarching mission and objectives, giving a framework for how colleagues should engage with one another, with customers, and with other stakeholders. This will help strengthen South West Water's collective values, offer everyone with a set of authentic and emotive guiding principles, provide clear direction for supporting behaviours, and distinguish us from the rest of the industry.

It was critical to develop a set of values that not only reflect today's business and teams, but are also more than just words on a poster. We intended to develop a set of values that are distinctively South West Water, are interwoven into daily actions, and are consistently demonstrated by our teams across the Company.

The new values were developed after intensive involvement and listening sessions with the Board, the larger leadership group, colleague representative groups such as the employee forum, and comprehensive colleague listening groups. Our values also incorporate the views of our customers collated during our biggest ever customer listening exercise conducted during PR24.

Our new values acknowledge a significant shift in how we seek to deliver our strategic priorities across the Company and are intended to serve as a unifying thread across all areas of the Company. The goal is to distinguish ourselves from all other water firms and environmental infrastructure businesses. The new values will differentiate how we carry out our plans.

The new values are:

Be YOU

Be you
We want you to bring your best every day. Be open and inclusive, work together and win as one team. Let your passion inspire

Be ROCK SOLID

Be rock solid
We want you to be the one we all look up to. Be trusted. Act with integrity and make good on your promises. Build trust, one

Be the FUTURE

Be the future
We encourage you to be curious and challenge convention. Share ideas with confidence and purpose, and help share our

those around you. Be authentic, make your mark and be you.	relationship at a time. Be rock solid.	future. Embrace change. Drive progress. Own the challenge. Be the future

IMMERSING THE ORGANISATION

A complete Values launch programme has been established to ensure that the values are followed as guiding principles by all colleagues. This began in January 2024 and will continue through 2025.

To properly embed the values, we need behavioural change accompanied by a new structure for recruitment, induction, performance management, and reward. Setting the tone from the top is also important in ensuring that these principles are reflected across the company.

To ensure a successful launch and embedding of the new values, as well as to accelerate our cultural transformation, the strategy includes the development of a behavioural framework and training, both in workshop format for leaders and e-learning for all colleagues. This supporting training component will ensure that all colleagues understand what the values mean and how their actions at work affect performance. Senior executives will participate in face-to-face workshops as part of a series of leadership sessions held throughout the year.

An internal communication campaign will also continue for several months through all business areas, informing colleagues about what each of the values implies, how they can bring these to life, and where they will see the values interwoven into daily company operations.

Across the Company we have developed a coherent approach to leadership, culture, talent, and skills development which will not only help us unlock the full potential in our business, ensuring we are match fit today, but also in anticipation of future challenges.

Ensuring our people are at the heart of all these key areas of focus will mean we continue to successfully deliver for all our customers and stakeholders which rely on us. Our people are our greatest asset. We are proud of the values we live by in all that we do and we have been delighted in how our employees have risen to the challenges we have faced throughout the last year and in going above and beyond to deliver for our business and our customers.

We continue to work to develop strong relationships with our employees and Trade Union Partners, ensuring we are engaging with these important stakeholders in our business in all aspects of our People Strategy.

As a purpose-led organisation, South West Water has strong values and ethics which are important barometers in fostering the culture and beliefs that we require to be successful. One of the key reasons why we use the Great Place to Work to survey our employees is that it is one of the few providers that seeks to measure values and ethics. These are notoriously difficult areas to measure as they are impacted by individual’s personal values and ethics. See page 132 on how the Board monitors culture.

GREAT PLACE TO WORK

To enhance our Great Place To Work (GPTW) Colleague Survey, we have introduced pulse surveys during the year to give colleagues additional opportunities to provide structured feedback during the year. The pulse surveys provide a regular stream of feedback in additional to the full survey which we conduct annually.

We are delighted to be formally recognised as a Great Place To Work and continue to work hard to keep engaging and supporting our employees to enable them to be able to bring their best to work and to ensure we are creating the best work environment and supporting them appropriately.

LISTENING AND ACTING ON EMPLOYEES’ VIEWS

Under the Financial Reporting Council’s (FRC) code of standards, companies are required to explain how they are incorporating employee views in Board decisions. You can read more on how the Board are engaging and making decisions in our Section 172(1) statement on pages 145 to 147.

SPEAK UP

Our Speak Up whistleblowing policy continued to operate throughout the year, providing another engagement channel. Speak Up helps to create an open, transparent and safe working environment, where employees feel able to speak up and are supported if they do so. Read more on Speak Up on page 165 in the Corporate Governance Report.

Additionally, all employees are invited to pose questions or comments to our senior leaders through our new Open Door communication channels. This new approach brings together several employee communication channels and encourages employees and senior leaders to keep connecting more.

ENHANCING OUR EMPLOYEE COMMUNICATIONS

Each year, we review and seek to enhance our employee communications and engagement channels.

Our regular Big Chat video calls with our CEO and the Executive team continue to be very well supported by employees with strong engagement. Items discussed largely focus on the topical business issues of the time plus key employee highlights. We have also broadened the group of speakers, involving colleagues from all areas and levels across the company.

Our Time to Talk sessions focus on a broad range of topics and are supported by many external specialist speakers and facilitators. Topics discussed include mental health, the cost-of-living crisis, financial wellbeing, apprenticeships and business specific initiatives including nature and catchment management.

Our internal communications tool and discussion platform, Viva Engage, is growing in popularity and is now used regularly by over 2,000 company employees.

For our remote teams working tirelessly around the clock, we host regular breakfast meetings supported by our senior leaders. These have proved to be helpful in promoting more effective two-way communication with front-line operational teams.

WaterWorks is the name given to the monthly performance measures dashboard which helps employees keep updated on how we are delivering for our customers, communities and the environment. It’s important that all our employees are kept regularly updated on these critical measures regardless of which part of the company they work for.

TALENT DEVELOPMENT

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

As part of the Pennon Group, we joined the 5% club, an organisation with over 1,000 members that aims to address the issue of poverty arising from high youth unemployment and a shortage of the right skills for the workplace of today and tomorrow. For the second year running, we were delighted when we were awarded Gold Membership status into the 5% Club as we have around 10% of our employees undertaking apprenticeships or on a formal structured graduate programme. We were the only utility sector company to achieve the Gold Membership accolade and have done so for two years. Achieving Gold status demonstrates our long-term commitment to investing in structured Apprenticeship and Graduate programmes for our employees.

APPRENTICESHIPS

We are delighted that one of our apprentices, Meg Ginsberg, was awarded a Special Recognition Award at the National Apprenticeship Awards for being an outstanding apprentice and ambassador. Meg is a Project Management Apprentice in our Engineering Department. Despite being a wheelchair user, nothing holds Meg back and she thrives in this role, leading by example and promoting apprenticeship and Women in Engineering at every opportunity.

We have a long-standing commitment to apprenticeships. After doubling our commitment and target for apprenticeships where we now pledge to support 1,000 roles by 2030, we are delighted to report we are ahead of schedule and have supported 470 since 2020. Attracting and developing the next generation of talented employees is vital in building resilience in our workforce and ensuring we can deliver the essential services our customers and communities deserve.

OUR GRADUATE PROGRAMME

After launching our new Graduate Programme in 2021 and setting a long-term commitment to recruit 100 graduates, we have doubled this commitment to now support 200 new graduates on a structured 2-year development programme by 2030.

Since the launch, the graduate programme has recruited 85 talented graduates, with 55% being female and over half being ethnically diverse or international graduates. Attracting larger numbers of female and ethnically diverse employees has been a core part of our people strategy. We are delighted our graduate programme is helping deliver this outcome whilst providing high-quality career opportunities for all these individuals.

LEADERSHIP DEVELOPMENT

We continue to invest in our leaders and utilising our ‘Best of the Best’ mindset following our integration with Bristol Water, we have rolled out two leadership programmes across the business, LEAD Aspire and LEAD Programme.

LEAD Aspire is a four-day programme for employees who have been recognised as being a leader of the future and are working towards this as part of their personal development plan. The programme allows them to develop their leadership mindsets and approaches, explore leadership theories, models and best practices, and learning how you don’t need a title to be a leader. The four-day programme also has Senior Leaders from across the business sharing their thoughts on leadership, providing great insight into their personal experiences of leadership and how it has shaped them.

Our LEAD Programme is for our current manager and leadership population to help them hone their leadership skills, working across a six-month programme on leadership mindset, such as personal impact and purpose led leadership and skills areas such as coaching and mentoring, inclusive leadership, and building high-performing teams.

Throughout 2023/24, we delivered 20,000 training days, ensuring that on average each employee received 50 hours of training – 7 days.

PRIORITISING HEALTH AND WELLBEING

Our wellbeing strategy is a core area in our People strategy to ensure our people know that we care about them. It is estimated that in any given week, one in six people of working age experience a common mental health problem like stress, depression or anxiety. Most of us will understand, from personal experiences or friends and family, the huge personal cost that this can bring.

Separately, data from Champion Health, our online wellbeing platform provider, supports the outcomes from the Great Place to Work survey. 93% of employees who completed the Health Assessment were motivated to change, with their three key areas being improving energy levels, reducing stress and improving mental wellbeing.

Our Wellbeing strategy focuses on four main areas:

- **Mental** - Taking care of our Minds, coping effectively with life and creating satisfying relationships
- **Physical** - Encompassing the major external and internal factors such as social health
- **Financial** - Taking care of our financial wellbeing, being in control over our financial future
- **Community** – Encompassing the major external and internal factors such as social health

Our approach to wellbeing, incorporates a number of initiatives including:

- **Mental Health First Aiders**: We now have 100 Mental Health First Aiders across the Company – one for every 38 employees, ahead of our target of one for every 50 employees.
- **Wellbeing Champions:** We have established a network of wellbeing champions across the business to help us engage colleagues.
- **Time To Talk:** Regular sessions where colleagues are invited to join online webinars focusing on a range of health and wellbeing issues, primarily focused on mental health.

- **Champion Health:** Our Champion Health portal gives colleagues a broad range of resources, advice and guidance across all areas of wellbeing from healthy recipes to fitness regimes, mental health support and health assessments. It is free to both employees and their families.
- **FinWell partnership:** We have launched a new partnership with FinWell, a financial wellness organisation to provide employees with help, support and advice about their personal finances.
- **Inside Out partnership:** Our close partnership with the Inside Out Leaderboard provides a tangible way of demonstrating leadership, commitment and action to the mental health agenda.
- **EAP Helpline**: Our Employee Assistance Programme (EAP) had a 6% uptake compared to the industry average of 1.39%. The service is also available for employees' families.

HOMESAFE – OUR FLAGSHIP HEALTH AND SAFETY PROGRAMME

HomeSafe has targeted three specific areas this year, building on the foundations delivered last year to drive continued improvements in all health and safety activities. This focus has seen the Company's Lost Time Injury Frequency Rate (LTIFR) almost halve in the year, and furthermore seen an 75% reduction in actual lost working days. Delivering an additional 450 productive days back into the business.

The three areas we focussed on:

1. Visible Safety Leadership
   - HomeSafe Live events
     1. 17 conferences across Devon, Cornwall, Bournemouth and Bristol. Led by the Senior Management Team from all departments.
     2. Over 2,300 employees attended fun engaging sessions, with real life experiences of the consequences of not 'Taking Ownership'.
     3. Leaders owning HomeSafe, celebrating success with the intention of encouraging others to walk towards good practice and behaviours.
     4. Leaders hosting Safety 'stand-downs' to discuss recent events and immediate lessons to be adopted.
     5. The use of external expert speakers delivering real life stories of the impact of incidents
     6. A '12 days of Christmas' where each day for 12 days one department owned a key HomeSafe message for the Company ranging from simple pictures and messages through to scripted and acted out videos to engage the audience.

2. Driving a culture of accountability throughout the organisation
   - With a focus on over 20 leading indicators, driving up performance against these areas and embedding these behaviours as 'the way we work'
   - Building on our 2.2.2 approach to incident reporting and investigating, ramping up the pace and quality to ensure individuals were supported immediately in the event of an incident, improvements identified and shared rapidly across the Company

3. Using analytics to target interventions on the key areas at the right time to drive down harm particularly in manual handling and slips, trips and falls.

These focus areas were supported through the core elements within the HomeSafe strategy, building our internal competence, elevating our Site Pride initiative across all areas, strengthening the health and safety team, achieving ISO45001 accreditation, and implementing a process safety framework.

Lost Time Injury Frequency Rate (LTIFR) continues to be the Company's primary measure of health and safety performance. Following reductions year on year for the last three years for the Company, this year we delivered a near 50% reduction in actual LTI numbers, with 15 Lost Time incidents in the year compared to 28 last year and an LTIFR of 0.31 compared to 0.63 last year.

While the number of incidents reduced, we also significantly reduced the severity and impact of these incidents, through a focus on rapid intervention, treatment and support to the individual involved, delivering an 75% reduction in the actual number of days lost due to injury. With this we delivered an extra 450 productive days back into the business through improved safety performance.

We continue to broaden the reach of HomeSafe to everyone working for or on our behalf, and this was in evidence at a joint event between our Bristol Water Operations team and Network Plus who provide water networks expertise within Bristol, bringing to life HomeSafe across the broader supply chain.

While we have delivered year on year improvements, we continue to recognise that HomeSafe is not a project to be completed. It continues to be the way we work and deliver all our performance commitments. Our roadmap to HomeSafe 2025 has provided the framework to deliver to improved health and safety performance across the Company.

Over the year we will evolve our strategy, plans and approach to look ahead to HomeSafe 2030, building on the strong successful elements of HomeSafe while aligning our strategy to the new Group values, ensuring we support our people to be the best version of themselves and that everyone goes HomeSafe every day.

DIVERSITY, EQUITY AND INCLUSION

As one of the largest employers in the Great South West, we have a responsibility to promote social mobility, address inequality and drive inclusivity across our region.

We continue to champion diversity and promote an inclusive workplace. We have published our Gender Pay Gap report for the last six years and are now pleased that this incorporates our Ethnicity Pay Gap report. These can both be found on our parent company's website: www.pennon-group.co.uk.

It is important to be open and transparent about the gender and ethnic diversity of our employees and this report is a key tool for us to do that, whilst also allowing us to share the measures we have taken and will be taking to continue to create a more diverse workforce across all roles and levels within the organisation.

We understand that fostering an inclusive workplace is imperative for both attracting and retaining talent within our organisation. As one of the largest employers in the region, we have a duty to contribute positively within our communities, providing a work environment that promotes social mobility, celebrates and drives diversity and inclusion and ensures an equitable and psychologically safe space for all our employees.

In the latest edition of the FTSE Women Leaders Report, our parent company, Pennon, have once again solidified our standing as a trailblazer for female representation, claiming the bronze position for best performers in Women on Boards within the entire FTSE 250. The report, independently conducted and backed by the Government, is a ringing endorsement of Pennon's relentless efforts to lead the charge in fostering equality and inclusivity, with Pennon one of the rare FTSE-listed entities where women on the Board outnumber their male counterparts.

We are pleased with the recent progress made but know there is more to do in increasing the diversity of our workforce during the coming year.

RECRUITMENT

We continue to develop our careers website to leverage our employer value proposition and the creative campaign that sits alongside this, #JustAddWater. We have forged new partnerships with third parties to enhance and drive our work in the recruitment space to support our ED&I agenda. In June 2023 we celebrated signing the Armed Forces Covenant and also signed up to be a Disability Confident Employer at 'Committed' status during the year as well.

We regularly review our approach to monitoring diversity and inclusion with a specific focus on job applications. We use a software gender decoder tool which allows us to check all our job adverts for masculinity to reduce the potential risk of alienating female applicants. Similarly, we ensure a large proportion of our images used in the adverts are of ethnically diverse employees, which encourages more diverse candidates to apply. We are pleased that we are seeing significant increases in the number of applications we are receiving from ethnically diverse applicants and females into what is still a male-dominated industry.

Last year, 30% of job applicants were female and similarly 30% were ethnically diverse. We offer additional support to our new employees on our graduate programme and the 10,000 Black Interns programme as we recognise many of them move to the region to start in these new positions.

EMPLOYEE LED INCLUSION

Our Employee Network Groups continue to play a significant role in raising awareness and driving change. Areas of focus for these groups include raising awareness around challenges that under-represented groups face, which has included educating employees on LGBTQ+ topics and experiences, including a session led by a transgender speaker, celebrating different cultures and customs through in-person events, sessions on racism and allyship, promoting understanding of neurodiversity, developing a webinar on sexism and misogyny and creating an ED&I awareness session, which is delivered to all new starters to the business.

Our two new network groups this year, brought about through employee feedback, are the Veterans Network and the Neurodiverse Network. All of our groups have members sat on the overall ED&I Steering Group to ensure collaboration across the whole ED&I agenda and drives communication between the groups.

We have also introduced Flexible Bank Holidays, as we recognise that half of the UK bank holidays are linked to the Christian calendar, but many of our employees do not follow the Christian faith. The scheme enables colleagues to swap traditional bank holidays based on their religious or cultural beliefs, or personal need.

PROGRESSION

One of our key challenges has been enabling a diverse workforce at all levels through internal progression. The REACH (Racial, Ethnic and Cultural Heritage) Network Group and Women's Network Group have both been key drivers in looking at how we can better support them with career progression across the organisation.

This year we launched our Women's Mentoring Programme, which supports women whether they are seeking professional guidance, building their network, or navigating their working environment and some of the challenges it entails. In January, we launched our Reciprocal Mentoring pilot, which paired eight members of the REACH Network with eight members of our Executive and Senior Leadership team, with the goal being for individuals to share their lived experiences and encourage actionable behaviours from those involved.

We have also partnered with the Inclusive Village to design a REACH Development Programme. The programme is designed to support the career ambitions of those who may experience career disadvantage or inequalities due to their racial identity, whilst also enabling South West Water to foster the realisation of our commitment to Change the Race Ratio. This programme will cover a range of career enabling topic identified by research as most pertinent in supporting racialised minorities in the workplace including; leveraging line manager and ally relationships, impact and influence, and developing a credible professional/personal brand.

We will continue to work with these groups in relation to career progression opportunities, to understand the challenges they face, and how as an organisation we can address these.

CBI CHANGE THE RACE RATIO INITIATIVE

Back in 2020, Pennon pledged its support to the CBI Change the Race Ratio initiative (of which South West Water adopted), a campaign to increase racial and ethnic participation in the senior leadership of companies, as a route to encouraging more diversity at all levels and was the first water company to do so. During the last year, our pledge and ongoing commitment continues to help shape our business activities and decisions.

10,000 BLACK INTERNS INITIATIVE

As part of the Pennon Group structure, we are pleased to be a proud supporter and sponsoring business of the 10,000 Black Interns initiative. Over the past two years, we have supported 10 placements and are set to support at least 15 more for this coming year. Following successful completion of their internships, most students returned to university to complete their degrees. We are pleased that so far, four of our interns have already secured permanent position on our Graduate Programme. This important scheme not only offers Black students an opportunity to understand our business but also to improve the levels of ethnic diversity across our industry.

DIVERSITY AWARENESS AND TRAINING

We have continued our programme of unconscious bias training and have rolled this out to the majority of our senior leadership and hiring managers during the year. We held 'lived experience' group sessions to understand what it is like to work at South West Water for employees from minority groups. The outputs have been shared with our Diversity Committee to understand these perspectives and consider appropriate actions when issues are raised.

OUR GENDER AND ETHNICITY PAY GAP

In recent years, the composition of South West Water has evolved with the acquisition of Bournemouth Water and more recently Bristol Water and the inclusion of these employees into the growing company. This is the second year we have included Bristol Water in the our results. South West Water mean gender pay gap has increased slightly in the last year from 5.36% to 6.72%, but sits lower than the national average of 14.3%. Our median gender pay gap has seen a decrease from over 11% to 9.1%, indicative of a shift in the representation of women, notable within the upper quartiles, where we have seen an uplift from 19.1% to 23.6% in female representation, which reflects our efforts to enhance female representation at leadership levels.

Since 2022, we have voluntarily produced and published our ethnicity pay gap, which stands at 11% a significant reduction from 17.7% last year. We know that there is still more for us to do in this area, including increasing the employee self-disclosure diversity rates across the Company and continuing to attract more ethnically diverse candidates at all levels across the Company.

Furthermore, by offering dedicated support to new employees through the graduate programme and supporting the 10,000 Black Interns Programme, these approaches have both helped to further attract ethnically diverse applicants. As many of these applicants are recruited and progress their careers, we anticipate them having a further positive impact on our ethnicity pay gap.

A full report breakdown and an update on our performance and plans, can be found on our website.

SOCIAL MOBILITY

We continue to be a proud signatory of the Social Mobility Pledge and have set further commitments across the Company during this year to strengthen our resolve to delivering for our customers and communities and supporting the drive to address social injustice. To this end, we have become a tier 1 funder of the registered charity Social Mobility Business Partnership and launched work experience clusters in Exeter and Bristol with Plymouth Truro and St Austell to follow later this year. During the FY23/24 year, we have doubled our commitment to apprenticeships and graduate recruitment and set new targets to support 1,000 apprenticeships and 200 graduates on structured programmes by 2030. We have set a new commitment and target to offer 5,000 work placements for young people by 2030, significantly growing our previous work in this area but, we believe this is vitally important in helping young people understand our company and the water industry and supporting them in their early careers.

SLAVE-FREE ALLIANCE MEMBERSHIP

Also, as part of the Pennon Group, we have maintained its membership of the Slave-Free Alliance, which is part of Hope for Justice, the global anti-slavery charity. Our membership demonstrates our commitment to the highest employment standards for both our direct employees and those within our supply chain. Our Modern Slavery Report can is published annually and can be found on Pennon’s website www.pennon-group.co.uk.

HUMAN RIGHTS

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

OPERATIONAL REVIEW

We are making progress in the areas that matter most, focusing on our four priorities and delivering customers, communities and the environment.

WATER QUALITY AND RESLILIENCE

INVESTING TO SECURE RESILIENCE, NOW AND INTO THE FUTURE

Across the Company we are trusted to provide a clean, safe and reliable water supply to c.3.5million people across Bristol, Bournemouth, Devon, Cornwall, the Isles of Scilly and parts of Dorset. The health of our environment is intricately linked to the state of our water supply, so as we look to ensure robust supplies into the future, we focus on protecting the environment from which we take raw water to be treated and put into supply.

BUILDING WATER RESOURCES

Delivering a resilient water service requires us to invest smartly in securing new sources of supply as well as reducing the demand placed on our infrastructure. Our twin-track approach has been to invest in new resources and accelerate plans for improvement, whilst seeking to tackle leakage and reduce customer demand.

Our programme to diversify the company's portfolio of water resources in Devon is now complete, with two thirds of the programme of work in Cornwall also complete. Wet weather through 2023/24 has benefited our storage position augmenting the investments that have contributed one-third of the gains to strategic storage in the region, with the early achievement of 100% storage for our strategic reservoirs ahead of 31st March 2024.

SUPPLY SCHEMES

Construction work at Blackpool Pit is now complete which brings our portfolio of repurposed quarries to four. Blackpool Pit, along with Stannon, Park and Hawks Tor, have all been used this year to support an improvement in water resources in Cornwall. In Devon, our winter pump storage work at Gatherley is also now operational, and along with the Lyd pumping scheme delivered last year, both new schemes have been used this year to support improvement in our water resources in Devon.

In addition to these, our desalination plant in South Cornwall is on track to be operational in 2024/25 and our Porth Rialton water abstraction and treatment scheme will be operational under its winter licence in 2024/25. With these projects, we are improving the long-term resilience of the region following a year-long drought in 2022/23.

We are on track to reach our target of a 45% increase in Cornwall water resources by 2025, having already achieved our targeted 30% increase in Devon water resources one year ahead of schedule.

In Bristol, supply levels remain in surplus but our long-term plans include investment in Cheddar 2 Reservoir which will support resources across the wider South West region.

WATER QUALITY

COMPLIANCE RISK INDEX (CRI)

The Compliance Risk Index score as reported by the Drinking Water Inspectorate (DWI) measures water quality compliance.

Our CRI score for South West Water of 3.02 is slightly higher than last year but is again likely to be better than the industry average. We continue to make progress through our 'Quality First' programme with investment at our Water Treatment Works and there were no failures in the treatment processes in 2023. Our performance is above target and has been impacted due to higher incidents on our networks, particularly at consumer taps following network burst events. We have implemented an enhanced mains flushing programme to mitigate this risk further.

In Bristol, our CRI performance remains challenging for the region, and performance for Bristol was a score of 7.05. Our investigations have identified the condition of the treated water tank and a valving arrangement as the likely causes for these failures. While we have implemented remedial actions, longer-term improvements are required within our future regulatory investment programmes.

Further enhanced maintenance and resilience improvements are being delivered across our Bristol water treatment works with specific sites targeted for improvement. Consistent with our action plan published for South West Water, we are rolling out our Quality First programme in Bristol, targeting key areas for improvement, which includes tank cleaning and mains flushing.

WATER QUALITY UPGRADES

As part of our business plan to 2025 we committed to building two state of the art treatments works in the Bournemouth area and work is progressing well at Alderney and Knapp Mill following planning permission being achieved at this site during the year. We are on track to achieve water into supply at Alderney by March 2025, and customers will then benefit from the enhanced ceramic membrane treatment. In addition, upgrades at four works in Devon and Cornwall are also progressing well with investments made to reduce manganese and install Granular Activated Carbon Treatment.

TASTE, SMELL AND COLOUR CONTACTS

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

South West Water contacts at 1.66 per 1,000 population, have increased slightly compared to last year, and are outside the performance commitment target for this year. This increase in contacts has followed a continued temporary suspension on maintenance flushing of the drinking water network during the periods of temporary use restrictions, following the drought in 2022, which in some areas lasted until September 2023.

Bristol has separate regulatory targets for taste and smell contacts, as well as separate targets for appearance contacts. 2023 saw improved performance in both of these metrics and there has been a substantial reduction in water quality contacts over this reporting period. The target for taste and smell was achieved reflecting the Company's focus in this area, with a systematic flushing programme which is helping to alleviate those tastes and smells that may develop in the mains water before it reaches the customer. Although the appearance metric was missed, this year saw the Company's best performance in this area to date and to further improve performance, we are increasing our flushing activities across a greater proportion of the network to be flushed.

REDUCING LEAKAGE AND SUPPLY INTERRUPTIONS

LEAKAGE

We recognise that the prevention of water being lost in leakage from our (and customers) pipes and assets is a key issue for all customers and is something we work continuously to reduce.

In South West Water we are focused on reducing leakage with a target of c.15% by 2025 (based on a three-year average). Leakage in 2023/24 has been impacted by two 'cold snaps' in November and January as well as a decline in the number of reported leaks (where the wetter weather has reduced the visibility water arising from leaks). This has placed greater focus on our detection activities which have increased, pressure management to continue to calm our network and using innovation. We have also focused on reducing losses from our trunk mains and continuing to support customers to identify and fix leaks within their supply pipes. Whilst this year is higher than 2022/23, the three year rolling average performance commitment has been met. We know that there is still more we need to do to find, fix and prevent leaks and we continue to focus on action plans to significantly reduce leakage in 2024/25 to meet this target.

Bristol Water has not performed well with regard to leakage. In order to make improvements going forward, we are focused on enhanced data and monitoring with c.7,000 acoustic monitors installed to support quicker and more accurate detection. In addition, a key mains replacement programme is 60% complete and will support further resilience of our networks. As a result of our activities leakage in the year has reduced, but remains elevated and with the impact of the cold weather (over the last two years) we have not met our performance commitment in this area.

MINIMISING CUSTOMER SUPPLY INTERRUPTIONS

We understand the inconvenience that supply interruptions can cause. The importance of 'always on' supplies, maintaining both public health and customer confidence is one of our key priorities. In both South West and Bristol, a relatively small number of events of scale have continued to impact our performance.

Three significant events in Devon and Cornwall occurred in June, although these were partially mitigated through re-valving and deployment of Alternative Water Supply tankers. For South West Water, we continue to develop and deliver against our action plans, including increased 24/7 alternative water supply availability, incident management improvements, training and further calm network assessments. After June, performance in the remainder of the year returned to normal levels, however larger events continue to disproportionately impact our overall performance, which was 9 minutes 20 seconds for the year.

Bristol has been primarily impacted by third-party damage in Hallen and a complex Christmas Day burst trunk main in Winterbourne – these two incidents accounted for 70% of supply interruptions in the Bristol area, with overall performance of 9 minutes 24 seconds.

Whilst we have not delivered against our performance commitment this year, we expect to still be above the industry average (based on 2022/23 comparative data).

MAINTAING DEMAND AND ENSURING EFFICIENCY

DEMAND REDUCTIONS

To reduce demand we are focused on minimising our own use, tackling leakage and reducing customer demand through water efficiency.

We have successfully reduced our own use by 11Ml/day over the last two years and we continue improve efficiency within our processes.

PER CAPITA CONSUMPTION (PCC)

This measure is to incentivise companies to conserve natural resources and to target and support customers in using less water. Like all companies we saw a significant change in usage as a result of the COVID pandemic where behaviours and consumption for household customers has permanently changed. Therefore, both South West Water and Bristol Water will not meet this performance commitment this year.

In South West Water we have continued our significant water efficiency programmes including:

- Launching our 'Water is Precious' campaign– as part of this we have provided around 500 water saving devices every day this financial year.
- Our North Devon smart metering programme is now 50% complete and on track for completion in 2025 – which will result in 76,000 meters deployed in this area.
- Following on from the 'Stop the Drop' campaign last year, we launched a tariff incentive so that customers in Cornwall could receive a £10 credit to their bill if they collectively reduced their water consumption by c.5% - which they achieved.
- Launched our progressive charging trials for 2024/25 to include standard seasonal tariffs (both households and businesses), rising block tariffs and peak period seasonal tariff.

Water efficiency initiatives in Bristol are also targeting customers to use less, through water saving devices, as well as donations to charities that promote and educate on water consumption.

WATER AVAILABILITY

Following one of the hottest and driest years on record in 2022 we introduced water restrictions in Cornwall and parts of Devon which were in place until September 2023. We have invested record amounts to deliver our drought plan and by the end of March 2024 total reservoir levels for South West Water stood at nearly 100%, ahead of our targeted levels.

Whilst the recent wetter winter has helped reservoir levels, our interventions and the hard work of customers to reduce their water usage has combined to recharge our reservoirs ahead of the summer months and peak demand for the region's water resources – with one third of capacity delivered by our interventions. On a longer term basis, many of the investments will deliver a sustained increase in capacity where we have seen most challenge and demand on our network, whether through the new reservoir Blackpool Pit on Bodmin Moor, a new treatment works at Porth Rialton or a new desalination works in Par. We are therefore confident that there will be no restrictions in the coming year.

Bristol's water resources remain robust and storage at the ends of March 2024 was c.100%, as it was in March 2023, despite the challenges of hot, dry conditions in 2022.

MAINTAINING ASSET HEALTH

MAINS REPAIRS

When our mains get damaged or fail, it is vitally important that these are repaired to ensure that we do not waste valuable water and that customers are kept in supply.

South West Water has had a focus on optimising the operation and control of our network by pressure management and other 'network calming' activities. This has included the delivery of training through our innovative network training centre. We also minimise the likelihood of mains bursts by replacing targeted sections or whole areas of poorly performing pipes.

For 2023/24, our performance has returned to target in both areas, despite an increased focus from our leakage programme, with performance of 134.6 in South West Water and 124.8 in Bristol per 1,000km of mains respectively.

UNPLANNED OUTAGES

Water treatment unplanned outage provides a means of assessing reliability of our water treatment works. It tracks the temporary loss of production capacity across all water treatment works, resulting from unplanned breakdowns and asset failure.

South West Water has once again met its target for unplanned outage with a figure of 1.15% compared to the industry target of 2.34%. This means we have achieved this target in each year of the current regulatory period. This is founded on effective investment and maintenance regimes to ensure that unplanned failures are minimised. This in turn minimises the risk of any production outages resulting in service impacts for our customers.

For Bristol, outages at Purton Treatment Works, which commenced in the prior year, carried on into the early part of 2023/24. However, following resolution of the immediate issues, performance for the year achieved target with performance of 2.58% unplanned outages. A multi-year programme is ongoing to reduce future risks through the replacement of relevant assets.

STORM OVERFLOWS AND POLLUTIONS

2023 has seen some of the most tumultuous weather on record – particularly in the second half-of the year. Across the South West Region, 2023 was the fifth wettest year on record, with a 34% increase in rainfall from 2022 and we experienced 50% more rainfall than the long-term average in the second half-of the year, peaking at 130% in July. We have also experienced ten named storms back to back in the latter months of the year, along with yellow weather warnings which has tested the resilience of our assets and operations. This exceptional weather continued into the early part of 2024 which has continued to place pressures on our wastewater infrastructure.

The impact of the extreme weather has varied across our operations, with the wetter weather supporting the recovery of our reservoir storage and water resources, but the increased rainfall and high groundwater levels has driven up the use of storm overflows which are used in wet weather as a 'release valve' on the network to avoid flooding to homes and businesses as well as increasing the number of pollution incidents in the year.

REDUCING FLOODING INCIDENTS

SEWER FLOODING

We understand how distressing sewer flooding can be and that how we react when these situations occur is a good indicator of the commitment of care to our customers.

In 2023/24, despite the wetter weather, we have again seen significant outperformance, with performance of 0.76 internal sewer flooding incidents per 10,000 connections against a target of 1.44. This is a slight increase in the metric from 2022/23, resulting from a small increase in the number of overloaded sewers following heavy rainfall. We have however outperformed this target in each of the four years of the regulatory period and are one of the best performers in the industry for this measure.

Despite the very high level of rainfall experienced in the winter the total number of external sewer flooding incidents has reduced by 13% compared to the prior year. Although we have missed the target for this metric (performance of 1,578 incidents with a target of 1,260), a clear focus on avoiding repeat flooding incidents with an increase of planned cleansing and routine jetting, is having a positive impact.

IMPROVING ASSET HEALTH

SEWER COLLAPSES & BLOCKAGES

Targets for both sewer collapses and sewer blockages have been met for 2023/24, with performance of 11.4 collapses per 1,000km of sewer and 6,448 blockage incidents respectively. We are proud to report that 2023/24 was our best-ever performance on blockages.

Proactive management of our network, including enhanced cleansing removing debris from sewers, an increase in the number of repairs as well as sewer overflow inspections being completed. In addition, a focus on improving compliance of commercial premises who dispose fat, oil and grease into our sewers, as well as other operational change initiatives, have all contributed to this achievement.

TARGETING IMPROVEMENTS IN THE ENVIRONMENTAL PERFORMANCE ASSESSMENT (EPA)

The EPA is the Environment Agency's assessment of environmental performance. The assessment covers a combination of measures, with an overall ranking out of four stars. Our provisional rating for the 2023 calendar year is again 2 stars, maintaining improvements from the previous year. However, following the extreme levels of rainfall and high number of storms over the winter of 2023/24, the full benefits of our Pollution Incident Reduction Plan (PIRP) have not yet been seen and we have a road map to achieve a 4 star EPA status in 2025.

POLLUTION INCIDENTS

Total wastewater pollution incidents (category 1-3) remains our most challenging area. 2023 saw a deterioration in performance following the winter weather in 2023/24, which was the fifth wettest on record with a significant increase in the number of storms and intense periods of rain. The rain also led to exceptionally high groundwater, which also provides challenging operating conditions and tends to result in less time to respond to issues that arise at our treatment works pumping stations, as the issues escalate more rapidly.

Despite the overall increase in pollution incidents, serious pollution incidents (category 1 – 2) have remained stable. We know there is much more to do and we continue to target a step change in performance.

Our key initiatives to deliver continued improvements in pollutions performance include acceleration of additional telemetry on our sewer network (including 12,000 sewer level monitors and deployment of AI technology), continuation of our ‘hotspot’ investment programme at problematic locations and completion of a proactive rising mains replacement programme. Investment in power resilience and increased operational activities such as sewer cleansing and pumping station MOTS are all targeted in 2024.

NUMERIC COMPLIANCE
Numeric permits place measurable conditions on the final effluent discharged to the environment and measure compliance with these conditions. Our performance of 96.2% was below the target for this year, following our best ever score of 99.4% in 2022/23.

We experienced some challenges at individual sites over the summer of 2023/24, however we took immediate action to contain issues with activities including reedbed surveys and remediation, enhanced targeted maintenance and enhanced monitoring and review of Critical Asset Plans.

We have enhanced our action plans across our treatment works, including regular reviews with the Environment Agency taking place. We are focused on delivering our 2024 target, with no wastewater failures in the first four months of the year.

CONTINUED QUALITY LEVELS AT OUR BATHING WATERS
South West Water has over 860 miles of coastline to protect, representing over one-third of the UK’s designated bathing waters. This is something we, and our customers, have always valued and prioritised.

In the 2023 bathing water season, 100% of bathing waters (where South West Water has assets that can impact on bathing waters) achieved the stringent quality standards for the third year in a row.

We were particularly pleased that the newly designated Plymouth Firestone Bay achieved excellent status. For the 2024 bathing water season, six further bathing waters in our region including four on the River Dart (Dittisham, Stoke Gabriel, Steamer Quay and Warfleet) will be included in the assessment.

TACKLING SPILLS FROM STORM OVERFLOWS
Despite the exceptional rainfall over the summer, we maintained 100% bathing water quality for the third consecutive year.

This extraordinary weather has triggered an increase in the use of storm overflows, operating to protect thousands of homes and businesses from flooding and higher spills have been recorded from new monitors (installed at the end of 2022) with 100% coverage of our overflows. This position has been seen across the industry and for South West Water we recorded an average of 43.4 spills, compared with 28.5 in 2022.

On a like for like basis (taking account of the first full year of monitoring and the impacts of exceptional rainfall and higher groundwater) the number of spills is lower reflecting the c.80 interventions delivered in 2023 and these actions will continue to support reductions into 2024. We have already ramped up our plans with c.60 interventions already delivered by the end of March 2024 – including 20 additional storm storage schemes.

We are seeing tangible benefits from our interventions which are focused on not only increasing storage but reducing the water entering our systems through groundwater infiltration and surface water separation. We continue to present our storm information through WaterFit Live launched in March 2023 to cover all our bathing beaches, we are in the final stages of rolling this out across our rivers which will give live updates on all our storm overflows.

Furthermore, in March 2024, we were one of the nine water companies in England that published a National Storm Overflows Plan setting out how the sector will meet or exceed all Government targets – this is the most expansive programme for overflows in the world, and South West Water has submitted an ambitious plan which, if approved, meets the targeted spill reduction a decade earlier than required in 2040.

NET ZERO
Lowering the carbon emissions from our operational activities and throughout our supply chain is the responsible thing to do and aligns with efforts being taken by businesses, institutions and customers across the region to tackle the climate crisis and increase our resilience to climate change.

Our Net Zero 2030 plan is well underway, and we are making good progress, reducing our carbon footprint by c.45%% to date against our 2020/21 baseline.

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 in UK environmental infrastructure.

This strategy will also benefit the Company by reducing our exposure to future volatility in wholesale power markets that we have experienced in recent years, and will provide commercial returns ahead of those earned from the regulated water business.

ENVIRONMENTAL GAINS
A healthy environment is important for our region, and in the face of climate change, ecological decline and greater recreational use of rivers and seas. Nature and the environment is a priority for us, as we look to work with nature to provide sustainable solutions for the challenges we face. Putting the journey to net zero and nature recovery at the heart of what we do, working with partners, means we can create climate resilient places and infrastructure.

CATCHMENT MANAGEMENT AND UPSTREAM THINKING
Since 2010, we have been working with local delivery partners, farmers and landowners to deliver our award-winning Upstream Thinking programme. Today we have well established relationships with key delivery partners across the region including Cornwall Wildlife Trust, Devon Wildlife Trust, Natural England, Farming and Wildlife Advisory Group, South West Lakes Trust and Westcountry Rivers Trust.

To date, this approach has improved the management of 127,000 hectares of land across 80% of our drinking water catchments, outperforming our target of 123,000 hectares by March 2025; this has been achieved through working with partners to deliver initiatives across the region including Exmoor, Dartmoor and Bodmin Moor. We have restored 1,550 hectares of peatland since 2020. Over 250,000 trees have been planted since 2020, meeting our 2025 target 1 year early.

The range of pollutants which the programme helps to remove from the water course includes farming-derived nutrients, pesticides, faecal coliforms, sediment, veterinary medicines and antibiotics. The benefits of this investment are reliable clean water supplies, better wastewater dilution and natural flood management.

NATURE RECOVERY
Our sites include reservoirs, moorlands, major operational sites, former clay pits, estuaries, farmland and forests, and small urban sites with pumping stations and pipework. Many of our sites are already well-established havens for wildlife, with some designated as Special Areas of Conservation (SAC) and County Wildlife Sites (CWS).

We own and manage 1,251 hectares of Sites of Special Scientific Interest (SSSIs), of which 88.5% is in favourable condition and all but 9.5 hectares of the remainder is classed as in recovery.

We have proven experience of habitat restoration, including land adjacent to two former industrial mining quarries in Cornwall, Park Pit and Stannon. South West Water bought Park Pit and the surrounding industrial land on Bodmin Moor in 2007. At the time, ecologists described the area around Park Pit as a “moonscape of waste sand and mica”. Fast forward to today, and the industrial wasteland has been transformed into a nature-rich heathland and reservoir.

We take our biodiversity responsibilities seriously – we have surveyed our land and ensured biodiversity enhancement plans to boost nature and to monitor and control the invasive non-native species are in place for all of our sites.

ADDRESSING AFFORDABILITY AND DELIVERING FOR CUSTOMERS
KEEPING BILLS AFFORDABLE
Managing affordability starts with ensuring we deliver quality services efficiently, keeping bills as low as possible and minimising any bills rises. So its only right that we continue to be at the forefront of the sector when it comes to cost efficiency.

In all the areas we serve, average bill increases for 2023/24 and 2024/25 were below the headline rates of inflation. Our current bill for South West Water is lower in real terms today than a decade ago, bolstered by initiatives such as WaterShare+ and our innovative tariffs and incentive schemes, which give customers lower bills for lower water usage. We are pleased that our latest water efficiency tariff across Cornwall has been successful, leading to a 5% reduction in water use and a rebate on customer bills.

ERADICATING WATER POVERTY
In 2019 we made a pledge to eradicate water poverty and ensure everyone has an affordable bill by 2025, a full five years ahead of the industry target. This was set for South West Water and Bournemouth Water, with a similar target independently set by Bristol Water, to achieve 0% in water poverty.

With households feeling the impacts of the cost-of-living crisis, we have extended our package of affordability measures, unlocking £100m of financial support for customers, and we are pleased that we are on track to achieve our industry leading commitments to eradicate water poverty by 2025. A commitment we have doubled down on in our Business Plan to 2030.

98% of South West Water and Bournemouth Water households have been independently assessed as having an affordable bill. This is up from 96.8% last year. 100% of Bristol Water customers receive an affordable bill.

Over 132,000 unique customers have benefited from one or more of our affordability initiatives across South West Water, Bournemouth Water and Bristol Water to date.

We are focused on lifting a further 10,000 customers out of water poverty in the next year as we continue to evolve our affordability toolkit. This includes our innovative data model allowing us to identify and auto enrol customers who are within the group who are often the most vulnerable and hardest to reach onto social tariffs. We are also continue to work with local councils and debt partners to identify customers who may be in financial difficulty and may need support.

SUPPORTING VULNERABLE CUSTOMERS

Our priority services programme is underpinned by the following pillars:

- Providing easy ways to register for our Priority Services Register, so those who may need support reading their bills or meters can find the right help.
- Data sharing with key utility partners so customers who need extra support are added to our Register.
- Ensuring customers who have needs that rely on a constant supply of water have the right help if an incident occurs interrupting that supply.

WATERSHARE

We have a unique structure, through our WaterShare+ scheme, which gives customers the chance to either own a share in our business or receive a reduction in their water bills.

To date, we have shared £38 million with customers through shares or bill reductions, and 1 in 14 households in the South West are now shareholders in our parent company, Pennon. We are looking to increase this to 1 in 10 by 2030 so that more customers have a stake in our business.

KEY PERFORMANCE INDICATORS

More information can be found in the Pennon Group annual report on pages 42 to 46.

NON-FINANCIAL METRICS

CLEAN, SAFE AND RELIABLE WATER

WATER QUALITY (CRI SCORE)
The Compliance Risk Index (CRI) is the Drinking Water Inspectorate's measure of water quality. In 2023/24 we continued with our 'Quality First' transformation programme. Performance in our SWB region (consisting of South West Water and Bournemouth Water but not Bristol Water, which is subject to separate cost and performance reporting to Ofwat) was impacted by tanks on one site. There were no failures from water treatment processes in 2023, and our performance remains upper quartile for the industry. Bristol Water was below average but is learning from the SWW approach and applying the 'Quality First' programme (rolled out with enhanced mains flushing, tank inspection and cleaning and staff survey and training) to improve Bristol Water's performance. Performance for 2023 was impacted by 3 events at our larger sites. The SWB score is 3.02 and the Bristol score is 7.05.

SUPPLY INTERRUPTIONS (DURATION PER PROPERTY PER YEAR)
Performance across the Group is often impacted by colder weather and third-party damage. At SWB, 35 incidents contribute c. 5 minutes to performance, 10 events contributed c. 2.5 minutes to performance and third-party damage contributed c. 30 seconds. At Bristol Water, performance has been primarily impacted by third-party damage in Hallen and the complex Winterbourne Christmas Day burst trunk main. The two incidents have dominated performance this year accounting for c.70% of our supply interruptions (6 mins 41 secs).

Our underlying operational performance indicates that the 2024/25 target level (at 5 minutes) is achievable.

TASTE, SMELL AND COLOUR (CONTACT PER 1,000 POPULATION)
We recognise that customers expect their drinking water to look and taste great and this is important in maintaining customers' trust in the quality of our supplies.

At SWB our performance had been consistently improving in line with our targets, however as a result of the drought conditions in summer 2022, we limited our flushing activities in areas until restrictions were lifted which has impacted performance in 2023/24. At Bristol Water there has been a substantial reduction in appearance contacts and taste and odour contacts over this reporting period.

LEAKAGE (3-YR AVERAGE – MEGALITRES PER DAY)
Reducing leaks is a critical component of ensuring a sustainable water supply.

Most companies saw an increase in annual leakage in 2022/23 reporting higher levels of bursts resulting from a hot, dry summer and the winter freeze-thaw. Whilst leakage has remained stable in South West Water and Bristol, in the year, the position in 2022/23 has an enduring impact on the regulatory three-year rolling performance.

UNPLANNED OUTAGES (%) AND MAINS REPAIRS (NUMBER OF REPAIRS PER 1,000KM)
Asset Health is essential for ensuring a robust supply of water to our customers. Mains repairs performance has improved despite an increase in repairs we have undertaken to reduce leakage and address bursts, ensuring that we have meet targets in SWB and Bristol Water. In SWB, our unplanned outages increased, but remains well within the regulatory target for the year. Bristol Water unplanned outage performance improved over 2022/23, but an unplanned event at one of our largest treatment works in Bristol meant the target was narrowly missed for 2023/24.

PROTECTING THE ENVIRONMENT – ROBUST WASTEWATER DELIVERY

POLLUTION INCIDENTS (NUMBER OF WASTEWATER INCIDENTS)
Category 1-3 pollutions is our most challenging area. The 2023 weather (fifth wettest on record and increased number of storms) and operating conditions (exceptionally high groundwater and scale of rainfall) has resulted in less time to respond to issues that arise at our 655 treatment works and c.1,200 pumping stations. This has meant the benefits of our Pollution Incidents Reduction Plan (PIRP) will not be seen until 2025.

Serious pollutions (category 1-2) have however remained stable this year. We know there is more to do and we continue to target a further step change in performance.

NUMERIC COMPLIANCE (%)
We measure the compliance of our discharges against our permits.

BIODIVERSITY (HECTARES)
We are continuing our pioneering catchment management approach. Catchment management protects and improves river quality and critical water abstraction sources to provide clean, safe drinking water without the need to provide additional infrastructure.

ENVIRONMENTAL PERFORMANCE ASSESSMENT
A combination of a basket of measures, the EPA is the Environment Agency's assessment of environmental performance. Our performance this year results in a provisional 2 star rating this year.

INTERNAL SEWER FLOODING (INCIDENTS PER 10,000 SEWER CONNECTIONS) AND EXTERNAL SEWER FLOODING (NUMBER OF INCIDENTS)
Sewer flooding is a key area that significantly impacts on customers. For 2023/24 we are maintaining our industry-leading internal sewer flooding performance and have delivered c.8% reduction in external flooding incidents, despite the prolonged periods of significant rainfall and high groundwater levels.

SEWER COLLAPSES (INCIDENTS PER 1,000KM) AND SEWER BLOCKAGES (NUMBER)
These measures reflect service impacts to our customers as well as being a lead indicator of asset health. Although there has been a slight increase in sewer collapses, both measures have outperformed the targets for 2023/24, and reflect the increased cleaning activity completed on our network.

DELIVERING FOR OUR CUSTOMERS

OVERALL SATISFACTION WITH PSR (%)
We provide the Priority Services Register (PSR) services for vulnerable customers across the Group and we measure customer satisfaction with these services each year. At SWB there are over 107,000 customers registered for PSR. This is an increase of 36% compared to the previous year. South West Water and Bristol Water have both outperformed our target (both companies had a target of achieving 7% customer registration by 2024/25).

CUSTOMER MEASURE OF EXPERIENCE (C-MeX)
C-MeX is Ofwat's measure for customer experience both for those customers who contact us as well as the perceptions of all our customers. For SWB, our C-MeX rankings have remained consistent year-on-year (ranking 13th) with results impacted by customer perception scores, whilst for Bristol performance has been consistently strong (ranking 3rd).

CUSTOMER AFFORDABILITY (%)
We are targeting zero water poverty by 2025 and we have a range of affordability schemes to address customer needs. South West Water and Bristol Water have a measure which assesses customer affordability which is improving year-on-year. For SWB we have achieved target in both: 'Percentage of Customers who find their Water Bill Affordable' and 'Number of Customers on one of our Support Tariffs' performance commitments for each year of the AMP so far.

DEVELOPER MEASURE OF EXPERIENCE (D-MeX)
D-MeX is Ofwat's measure of service experience for developers which directly compares us with our peers. South West water is 9th and Bristol Water is 3rd.

BATHING WATERS
South West Water has over 860 miles of coastline to protect, representing over one third of the UK's bathing waters. In 2023 there were 151 designated bathing waters in the region, including one new bathing water at Plymouth Firestone Bay. However, only 150 bathing waters were classified as Watcombe was not classified by the EA due to access issues and so was excluded from the 2023 assessment (Watcombe was classified as 'excellent' in 2019).

In 2023, 100% of our bathing beaches where South West Water assets would have an impact on the bathing beach met the high standards set for water quality for the third year in a row (one bathing water (Porthluney) was classed as poor but SWW do not have any assets impacting this bathing water).

AVERAGE SPILLS
Our Waterfit programme is focused on protecting rivers and seas. During 2023, the average number of spills has increased - the increase this year can be accounted for by the amount of named storms and weather warnings in 2023. But we will continue to deliver our plans to reduce to an average of 20 spills per overflow by 2025.

FINANCIAL METRICS
OPERATIONAL

PROFIT BEFORE TAX
Profit before tax is a key measure of the Company's financial performance after deducting all operating and finance costs. Underlying profit before tax is measured to exclude any distorting non-underlying items as explained on pages 232 to 233. Commentary on performance is set out on the Chief Financial Officer's report on pages 43 to 49.

RETURN ON REGULATED EQUITY (RORE) - WATERSHARE
Return on regulated equity (RORE) expresses the return the Company has managed to earn above and beyond expectations set by the regulator through financial and operational performance. RORE for South West Water is 7.6% and Bristol Water is 4.2%. Commentary on performance is set out on the Chief Financial Officer's report on pages 43 to 49.

RETURN ON CAPITAL EMPLOYED (ROCE)
ROCE provides a measure of the return being generated by the Company compared to the total equity and debt capital deployed to generate that return. Commentary on performance is set out on the Chief Financial Officer's report on pages 43 to 49.

CHIEF FINANCIAL OFFICER'S REVIEW

I am excited to have joined South West Water at this time in the company's development. As I look back on the fourth year of our 2020-2025 business plan we continued to outperform the regulatory cost of equity, maintained financial discipline by managing gearing, raised debt to sustain liquidity and made an early start on cost reduction for K8.

Delivery of our regulatory programmes, the reinvestment of RORE, has resulted in the largest capital expenditure programme in one year. The level of regulatory investment demonstrates our capacity and capability to deliver at investment rates set out in our PR24 submission.

As I look ahead into the fifth and final year of the K7 plan, we are working to ensure that we are in a strong position financially to support our 2025-30 business plan. We will: diversify our debt portfolio, supported by our debut credit ratings; continue to achieve outperformance on regulatory returns and deliver a step change in our cost base. We have already realised c.£9 million of total benefits in 2023/24 through our existing transformation programmes (including optimisation of sites to reduce power and chemical costs and enhancing contract management processes). We expect to continue and extend this programme, with targeted annualised savings of c.£55 million during K8.

The improving performance, following a loss before tax in H2 2023, is expected to continue to the end of K7. The start of K8 will be a point of re-set for the financial position of the Company, enabling a return to stronger income statement performance and recognition of the K7 true-ups to Regulated Capital Value (RCV). We continue to deliver regulatory outperformance and our investments have generated RCV growth of around 10% in the year, with overall RCV growth of c.65% since the start of K7. Despite the current low level of earnings per share, there is significant retained shareholder value in the regulated business.

Overall, our financial performance for 2023/24 is in line with our expectations. As we have said previously, the impact of high inflation on our cost base reduces our earnings, in particular due to power costs remaining high, and in part due to hedging our power at previous higher prices. The second half of 2023/24 experienced some of the highest levels of rainfall seen in recent times and this contributed to higher wastewater treatment costs. Despite this upward pressure on costs, we have managed to keep our regulated costs broadly flat year on year. Despite increased borrowing levels and rising base rates, our effective interest rate, in South West Water, has remained broadly constant at 5.3% (2022/23: 4.3%), with the inflationary impact on finance costs stabilising, in part through the £300 million RPI swaps that were put in place in 2022/23. Tariff increases have recovered previous inflationary cost increases.

STATUTORY FINANCIAL PERFORMANCE

Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. The Bristol Water brand continues as a trading name of South West Water. The financial performance of South West Water includes the full year performance of Bristol Water in 2023/24, compared to two months in the comparative year following the statutory transfer on 1st February 2023.

South West Water's statutory revenue for 2023/24 was £731.3 million compared with £566.4 million in 2022/23. The increase in revenue includes the additional 10 months of Bristol Water that are not included in the prior year comparison. Last year's revenue included non-underlying reductions of £21.2 million in respect of the second issuance under WaterShare+ (£13.6 million) and our 'Stop The Drop' demand reduction incentive (£7.6 million). Underlying revenue of £731.3 million for 2023/24 has increased by 24.5% compared with the prior period (2022/23: £587.6 million).

Underlying operating costs of 398.1 million increased by £67.2 million (2022/23: £330.9 million). The increase includes the additional 10 months of Bristol Water that are not included in the prior year comparison. Normal inflationary increases have been offset by early benefits from our transformation programme and continuing integration efficiencies. Energy unit prices, which were specifically impacted by high levels of inflation over the last two years are now stabilising. However, in order to de-risk the business from the volatility of the wholesale energy markets, some of the recent higher power prices were locked in through our hedging strategy. We expect the impact of those to decline over the coming year.

South West Water's underlying EBITDA increased by 30.6% to £335.2 million. During the year, the Company received dividends of £148.3 million. A dividend in specie of £143.0 million was received from Bristol Water Plc and a dividend of £5.3 million was received from Peninsula Properties (Exeter) Limited. The net assets of Pennon Properties (Exeter) Limited were written down to nil, accordingly the investment in that company was reduced to nil. The investment held in Bristol Water plc was reduced by the value of the dividend received.

Underlying operating profit has increased by 31.2% reflecting the additional 10 months of Bristol Water that are not included in the prior year comparison, improved EBITDA performance and an increased depreciation charge of £37.4 million compared to last year as our accelerated capital investment programme starts to impact the depreciation charge.

The net interest charge of £155.0 million is £44.0 million higher than prior year (2022/23 £111.0 million), reflecting an effective interest rate of 5.3% (2022/23 4.3%). The increase in net interest includes the additional 10 months of Bristol Water that are not included in the prior year comparison.

South West Water's capital expenditure was £582.9 million, an increase of £265.6 million (83.7%) on the prior year (2022/23 £317.3 million). The increase in capital expenditure includes the additional 10 months of Bristol Water that are not included in the prior year comparison. The final determination, Green Recovery, Defra accelerated delivery, and the RORE reinvestment were weighted towards the end of the K7.

MAJOR CATEGORIES OF CAPITAL EXPENDITURE (£M)

Enhancement spend has been pulled forward from year 5 to year 4 by c.£80 million due to our investment in water resources and network monitoring. This expenditure is delivering new water treatment works in Bournemouth, a desalination plant in Cornwall, additional reservoirs to improve resilience to drought, and enhanced network monitoring including acoustic loggers and sewer level monitors.

Base expenditure has increased by c.£80 million as a result of spend to mitigate the impact of the weather on our assets, and the expansion of our Quality First programme across the regions. The exceptional weather we have experienced over the year has resulted in spend to minimise pollutions and spills and to drive targeted reductions in leakage. We expect 50% (£40 million) of the increase to be recovered in our RCV in K8.

EXPECTED CREDIT LOSSES

We recognise the pressure the ongoing cost-of-living crisis puts on our customers so we are determined to continue to provide a broad range of affordability measures to support those in financial need. Across the business, the potential impact of significant increases in the cost of living on affordability has been considered in assessing our expected credit loss charges.

Cash collections across the Company have remained robust during the financial year. Expected credit loss charges for 2023/24 of £6.3 million for South West Water (0.9% of revenue) are in line with previous levels (2022/23: 1.0%).

NET FINANCE COSTS

Total net finance costs of £155.0 million compare to £111.0 million in 2022/23. The non-cash element of our finance charges, which accretes to the debt principal, was c.£56 million (2022/23 c.£70 million).

Overall, the efficient funding mix and hedging strategy has resulted in an effective interest rate of 5.3% (2022/23 4.3%) for South West Water. The Company continues to efficiently secure funding for South West Water 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 through issuing both fixed rate debt and effective interest rate hedging, with a further element being index-linked.

NON-UNDERLYING ITEMS

Non-underlying items for 2023/24 total a charge before tax of £15.6 million (2022/23 net charge of £31.6 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 of £15.6 million consists of:

- £13.8 million of costs in connection with the business transformation of South West Water following the merger of Bristol Water into South West Water.
- £1.8 million of further specifically identifiable costs in respect of mitigating measures and one-off expenditure to address the impacts of severe drought conditions following costs of £17.0 million incurred in 2022/23.

The non-underlying charges in 2023/24 give rise to a net tax credit of £3.9 million in relation to the above items.

RESPONSIBLE APPROACH TO TAX
The overall 2023/24 tax credit for the Company is £0.3 million (2022/23 credit of £8.7 million). On an underlying basis, the net tax charge for 2023/24 for the Company of £3.6 million (2022/23 credit of £1.7 million) consists of:

- Current tax credit of £0.7 million, reflecting an effective tax credit rate of 4.1% (2022/23 credit of £2.7 million, 12.9%). The reduction in rate is due to a smaller excess of capital allowances compared to depreciation charged, this is offset by capitalised interest which for tax purposes is deductible in the year incurred. Around 50% of the group's capital additions qualify for enhanced capital allowances. The prior year current tax credit is £nil.
- Deferred tax charge of £4.3 million (2022/23 charge of £1.0 million). This primarily reflects a current year deferred tax charge in relation to capital allowances in excess of depreciation charged across the Group, largely due to full expensing, and a charge relating to capitalised interest which for tax purposes is deductible in the year incurred. It also includes a prior year deferred tax credit of £0.7 million.

There is also a non-underlying deferred tax credit of £3.9 million in 2023/24 relating to the non-underlying items set out above. This relates to losses carried forward for utilisation in later years.

Full expensing deductions which originally applied for the three years from 1 April 2023 to 31 March 2026 together with 50% first year allowances on long life assets and integral features, have both been made permanent in the recent Autumn Statement. Given the Company's continued capital investment programme, these changes mean that the Company does not expect to generate taxable profits for the foreseeable future, and therefore does not expect to make any corporation tax payments during this time.

NET DEBT POSITION IS SUSTAINABLE
The Company's cash flow from operating activities for 2023/24 was £262.7 million (2022/23 £271.5 million). Cash collections have remained robust and we continue to monitor cash collections closely and are focused on providing a broad range of affordability measures to support those in need of support. The reduction in operating cashflow reflects the cyclical impact of the working capital cycle alongside the cash impact of our Watershare+ and Stop the Drop bill credits which were recognised in H2 2022/23.

Net interest payments were £102.3 million (2022/23 £138.6 million).

Capital expenditure has resulted in an increase in capital investment cash outflows of £255.1 million to £540.6 million (2022/23: £285.5 million).

The Company's net debt at 31 March 2023 was £3,369.3 million (31 March 2023 £3,091.3 million).

ROBUST LIQUIDITY AND FLEXIBLE FUNDING STRATEGY
As at 31st March 2024, the Company has £321 million of cash and committed facilities. This consists of cash and cash deposits of £26 million (including £26 million of restricted funds representing deposits with lessors against future lease obligations) and £295 million of undrawn committed facilities. A further £150 million has been raised since March 2024, providing the Company with in excess of c.£470 million of available liquidity, providing enough funding to support its obligations for at least the next 18 months.

Since 31st March 2023, the Company has secured c.£475 million of new debt, through its diverse portfolio of debt, consisting of:

- £325 million in private placements with an average maturity of 13 years
- £150 million of new term loans and leasing with an average maturity of 8 years

In addition, further pre-funding of £150 million has been secured.

The issuance of private placements signals the move to more benchmarksized transactions in both the private placement and public bond markets, as the capital expenditure and ongoing refinancing continues. Our most recent private placements were at least 4.5 times oversubscribed, showing continued support for the Company.

This will see South West Water obtain two strong investment grade credit ratings during 2024 and it plans to establish a Euro Medium Term Note (EMTN) programme to facilitate further public issuances and maintain our diverse financing portfolio.

We look to raise all new and renewed facilities under our Sustainable Financing Framework where possible with 82% achieved in 2023/24. The company took steps during the previous financial year to re-balance the proportion of index-linked debt to align with previously maintained levels for the longer-term.

Resulting from the changes above and drawing of new debt during the year, South West Water gross debt at 31st March 2024 was £3,395 million (31st March 2023 £3,137 million). The debt has a maturity of up to 33 years with a weighted average maturity of 14 years.

South West Water net debt at 31st March 2024 is a mix of fixed / swapped (£2,221 million, 66%), floating (£696 million, 21%) and index-linked borrowings (£452 million, 13%), which reflects our diverse debt portfolio and compares to an industry average of fixed / swapped 40%, floating 7% and index-linked 53%. New debt raised during this regulatory period has been fixed to align to iBoxx indices in line with Ofwat's approach to allowed cost of debt. Where appropriate, derivatives are used to fix the rate on floating rate debt.

Consistent with the industry peer group, the Company is also monitored on the basis of the ratio of its net borrowings to Regulated Capital Value (RCV). South West Water's net debt to RCV has increased to 65.0% which is higher than Ofwat's notional gearing target for the K7 (2020-25) regulatory period is set at 60.0%. This is due to increased capital expenditure and reduced operating cashflows.

When considering the South West Water sub-group, including the wholly owned subsidiaries of South West Water Finance plc and Bristol Water plc, the net borrowings are £3,294.7 million, providing effective South West Water group net debt to RCV ratio of 63.5%.

South West Water's cost of finance, with an effective interest rate in 2023/24 of 5.3%, continues to benefit from the diverse portfolio of debt.

STRONG INVESTMENT GRADE GEARING

As we progress through the remainder of K7, we expect the mix of our debt portfolio to evolve. We are currently considering the most effective debt structure to provide best value for our stakeholders whilst maintaining the flexibility to adjust to market challenges and to remain within our treasury policy of at least 60% fixed rate debt throughout the current regulatory period.

As the Company continues to grow through capital investment in our infrastructure so will our funding requirements. In the coming years, we expect the Company to manage its portfolio with larger, and more diverse debt instruments, taking advantage of the public ratings once established.

The Company plans to raise c.£500 million in new funding by March 2025 to complete the K7 business plan. We will continue to maintain a diverse portfolio of debt to support flexibility and growth opportunities. In the long-term, this investment will provide returns through K8 revenues and a higher RCV.

As we look to obtain strong investment grade credit ratings during the year, a target gearing level of below 72% will need to be maintained and South West Water remains well within the level.

RETAINING VALUE IN THE REGULATED BUSINESS

In the first four years of K7, South West Water has created c.£820 million of value from base returns, RORE outperformance and the growth in RCV. The South West Water Board has taken a prudent approach to its dividend payments in making distributions to Pennon Group and as result c.£250 million has been distributed in K7 to date. This results in over £500 million of retained value in South West Water, which the South West Water Board will consider as K7 closes.

INTERNAL BORROWING

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

Bristol Water was transferred to South West Water in February 2023 and all the debt is now managed on the South West Water standard covenant package as unsecured and unrated.

TAXATION STRATEGY

Transparency remains a critical component of our approach, recognising that openness and honesty with our customers is essential. Optimising our tax position benefits them, for example by keeping water bills down, but we do not enter into artificial tax arrangements, use tax havens or take an aggressive stance in the interpretation of tax legislation. As a long-term business with a long-term approach to financial management, there have been no changes to the Company's overall tax strategy this year compared to last.

We continue to hold the Fair Tax Mark. Launched in 2014, the Fair Tax Foundation's purpose is to encourage and recognise businesses through their Fair Tax Mark accreditation scheme. This is an independent accreditation scheme for businesses paying their fair share of corporation tax and reporting on their tax practices transparently. We have also inspired other water companies to apply for the accreditation, thereby improving the tax transparency of the sector in which we operate.

Under our tax strategy we:

- At all times consider the Company's corporate and social responsibilities in relation to its tax affairs
- Operate appropriate tax risk governance processes to ensure that the policies are applied throughout the Company
- Comply with our legal requirements, file all appropriate returns on time and make all tax payments by the due date
- Consider all taxes as part of ongoing decisions
- Do not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation
- Do not undertake transactions which are outside the Company's low risk appetite for tax or not in line with the Code of Conduct
- Engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real-time, such interpretations following both the letter and spirit of the laws
- Do not have any connections with tax havens unless it is necessary for the purposes of trading within those jurisdictions
- As a long-term business with a long-term approach to financial management, there have been no changes to the tax strategy which is reviewed and reaffirmed on an annual basis.

Further details are given in the Company's Tax Strategy document which is available on the Pennon Group website.

TAX CONTRIBUTION 2023/24 – BORNE/COLLECTED
The Company's total tax contribution (TTC) for 2023/24 amounted to £81.7 million (excluding £125.3 million of VAT receipts) (2022/23 £70.2 million excluding £129.7 million of VAT receipts.). TTC is a standardised measure of a company's total tax contribution, having been developed by PwC and the 100 Group (FTSE 100 Finance Directors). It is acknowledged as being a fair and comparable representation of total tax cost.

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

Employment taxes totalled £36.6 million (2022/23 £23.6 million) including employees' Pay As You Earn (PAYE) and total NICs. A net amount of £24.7 million (2022/23 £15.9 million) was collected on behalf of the authorities for employee payroll taxes.

Business rates of £29.4 million (2022/23 £30.3 million) were paid to local authorities. This is a direct cost to the Company and reduces profit before tax.

UK Corporation Tax receipts from HMRC in the year were £3.5 million (2022/23 £nil) in relation to over-payments made in prior years. There were no payments of UK Corporation Tax payments to HMRC in 2022/23 as the Company has generated tax losses in the year.

Payments to the Environment Agency and other regulatory bodies total £14.0 million (2022/23 £12.1 million). This reduces profit before tax.

Fuel excise duty of £1.2 million (2022/23 £0.9 million) related to transport costs. This reduces profit before tax.

VAT repayments of £125.3 million due (2022/23 £129.7 million) have been received to the Company from HMRC. VAT has no material impact on profit and is excluded from the TTC figure to avoid distortions in this.

CONTINGENCIES
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, the company is now included alongside five other companies which received enforcement notices in March 2022. The Company continues to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The Company has undertaken its own internal investigation and investment interventions have been undertaken at a small number of our sites. In addition, the Company 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 Summer 2024.

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 Company 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 Company 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 Company 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 Company recognises opportunities to enhance data quality to improve the estimation process and these have been shared 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 Company 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.

PENSIONS

At 31 March 2024, the surplus on retirement obligations of £10.8 million compares to a surplus of £17.5 million at 31 March 2023 on the principal pension scheme, Pennon Group Pension Scheme (PGPS).

The small reduction in the surplus in 2023/24 of £6.7 million reflects:

- £7.5 million net reduction in surplus of Group's principal pension scheme, Pennon Group Pension Scheme (PGPS), recognised in other comprehensive income, reflecting adverse experience losses on deferred revaluation and pension increases offset by favourable movements in gains in demographic assumptions.

The triennial valuation of PGPS as at 31st March 2022 was finalised in March 2023 and no deficit recovery contributions were required. The ongoing funding requirements for the Company to the scheme are limited to the continuing administration expenses.

DIVIDENDS AND RETAINED EARNINGS

The statutory profit attributable to ordinary shareholders of £2.5 million has been transferred to reserves.

The Company has established a dividend policy which includes the following components:

- a sustainable level of base dividend growth, determined by a number of factors including the shareholder's investment and the cost of capital
- a further level of growth funded by efficiency outperformance
- comparison with the assumptions made by Ofwat in setting prices for the regulatory period.

Dividend payments are designed to ensure that key financial ratios are not prejudiced, whilst also taking into account balance sheet considerations. With this in mind, the dividend policy also state that the total dividend payment will not exceed the retained underlying profit in any year, except as a result of a special dividend and balance sheet restructuring, or where there is a significant non-underlying non-cash impact (such as deferred tax).

Payments are designed to ensure that the ability of the Appointee to finance its Appointed Business is not impaired. Dividends of £nil were paid to the parent undertaking (2022/23: £12.3 million). South West Water have declared a dividend of £45.0 million. The dividend has been restricted with respect to underlying profit after tax in line with dividend policy, the Board reflected additionally on the appropriate level of the dividend to align with the business plan and in accordance with the balance sheet restructuring provisions that reflect the changes to the business that have taken place following the statutory licence transfer of the Bristol Water business into South West Water in February 2023. A dividend of £45.0 million was approved by the Board and a liability has been recognised as a transaction with owners during the year ended 31 March 2024. This is to be deferred and paid in 2024/25.

FINANCIAL OUTLOOK

Looking to 2024/25, we expect overall organic revenue growth with the combined impact of inflation on our 2024/25 tariffs (net of the year on year impact of regulatory adjustments and ODI penalties) and ongoing expected growth in our non-household retail business.

Overall, we expect total operating costs in South West Water to be broadly flat compared to 2023/24 levels. Total power costs in 2023/24 were £110 million (wholesale costs £73 million, non-commodity costs £37 million). Whilst wholesale power cost levels are falling, we anticipate a more modest improvement in our overall power costs as the impact of hedging over the last two years continues to unwind. These expected reductions coupled with other efficiencies from our transformation programmes will be largely offset by normal inflationary pressures on other input costs. In particular we continue to recognise the pressures of the cost of living on our colleagues and pay increases of c.4% have been agreed.

Further increases in depreciation are expected as a result of our capital investment programme.

Increased debt levels to support our capital investment profile are expected to result in an overall increase in net finance costs.

Overall capital expenditure is expected to reduce in 2024/25. In South West Water, following the peak in 2023/24, we expect overall capital expenditure of c.£930 million in the last two years of K7. However we will continue to assess the benefits of early start expenditure for K8.

We remain in a strong position from a liquidity perspective with additional facilities already raised in the early part of the year, and with further programmes planned, supported by our plan to have two strong public ratings by the end of the year.

The Company’s RCV is expected to increase in line with K7 business plan levels of investment in addition to additional and accelerated investment, regulatory true-ups ad inflationary impacts.

OUR RISK MANAGEMENT

The Company operates within a complex and evolving risk landscape which includes changing Government policy, multiple regulatory frameworks and increasing customer and wider societal expectations.

The long-term success of the Company is dependent on the effective management of risks and opportunities and remains a key focus for the Board and Executive. The Company's risk management framework considers risk from both a strategic (top down) and tactical (bottom up) perspective. This enables a common understanding of risks and opportunities and their interdependencies, allows risks and opportunities to be cascaded and escalated effectively and provides a multi-layered approach to the review and challenge of risk.

Principal and emerging risks are regularly reviewed by the Board throughout the year and are considered in the context of the Company's strategic priorities and the external environment within which the Company operates.

The consideration of these risks and the effectiveness of their management against the desired risk appetite is informed by, and reviewed against other data points including; key performance metrics, operational insights, the outcome of assurance activities and broader geopolitical and economic developments.

This is underpinned by an established risk management framework which forms part of our governance structure and is embedded into our processes, culture and ways of working ensuring that there is robust identification, review, challenge and assurance over the management of both our current and emerging risks and opportunities.

SOUTH WEST WATER'S RISK MANAGEMENT FRAMEWORK

		Key risk management responsibilities	Key assurance activities
OVERSIGHT	Board	• Sets the Company's strategic objectives • Establishes the Company's risk appetite • Determines the Company's principal risks • Ensures an effective internal control framework	• Quarterly reviews of the Company's principal risks against the determined risk appetite • Quarterly reviews of emerging risks and horizon scanning
	Audit Committee	• Reviews the effectiveness of the risk management framework and internal controls framework	• Perform regular deep dive reviews on principal risks • Ensures an appropriate level of assurance coverage over the Company's principal risks • Approves the risk-based Internal Audit Plan in respect of South West Water • Receives reports on the outcomes of key assurance activities
FIRST LINE OF DEFENCE	Operational Risk Management	• The identification, evaluation and monitoring of strategic and tactical risks • Maintaining robust internal controls to mitigate key risks • Monitoring compliance with internal control framework	• Ensure robust first line assurance across key business processes • Annual self-assessment and certification of compliance
SECOND LINE OF DEFENCE	Operational Risk and Assurance Steering Group	• Review of highest priority tactical risks within the Water related activities • Perform horizon scanning of emerging tactical risks • Share innovation and encourage collaboration in the management of common risk themes	• Ensuring the completion of actions to mitigate risks identified

		Key risk management responsibilities	Key assurance activities
		• Operate as a conduit for the escalation of risks	
	Executive Committee	• Ensuring the operation of the Company's risk management and internal control frameworks • Quarterly review of the Company's principal risks and mitigation strategies • Review of significant bottom-up tactical risks • Provides challenge to individual functional areas over the management of their risks • Horizon scanning to identify emerging risks and opportunities	
THIRD LINE OF DEFENCE	Pennon Group Internal Audit	• Provides independent, risk-based assurance on the effectiveness of the internal control framework • Coordination of independent assurance activities	• Quarterly reporting to Audit Committee and Executive on the effectiveness of internal controls and the outcomes of key assurance activities

In addition, the Company also received assurances from a variety of external assessments, including by our regulators, which compliments and further enhances the overall assurance framework.

OUR RISK ASSESSMENT METHODOLOGY

A consistent methodology is applied in the assessment of the Company's risks (including climate-related risks) and opportunities, which considers both the likelihood of the risk occurring and the potential impact.

Impact is assessed across the following financial and non-financial categories including: financial, safety, environmental, stakeholder and customer impact, reputation, sustainability, and quality. Likelihood is defined as likelihood over the next five years under four categories (probable, possible, unlikely or rare) with defined probability thresholds.

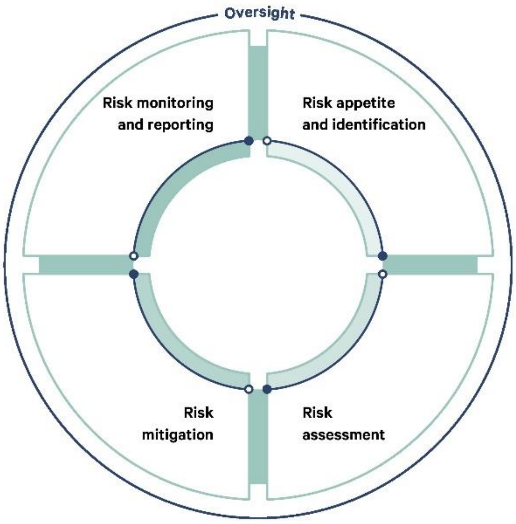
Risks are assessed on both a 'gross' (without the consideration of existing control measures) and 'net' (with consideration of existing control measures) basis enabling the effectiveness of control measures to be assessed and assured. The combined impact and likelihood determines the overall Red, Amber, Green (RAG) risk rating which is assessed against the relevant risk appetite to determine and prioritise further actions.

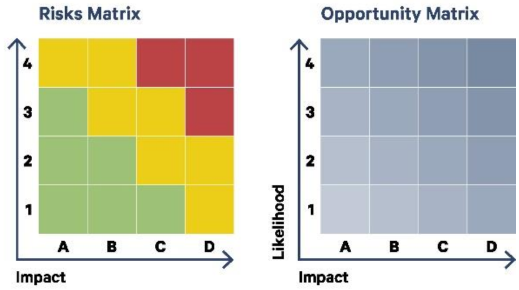
OUR RISK MANAGEMENT FRAMEWORK

A consistent methodology is applied when assessing the Company's risks and opportunities (including climate-related risks and opportunities), which considers both the likelihood of a risk occurring and its potential impact.

Risk impact is assessed across various financial and non-financial categories including: financial, safety, environmental, stakeholder and customer impact, reputation, sustainability, and quality. Likelihood is defined as the probability of a risk event occurring over the next five years under four categories (probable, possible, unlikely or rare) with defined probability thresholds.

Risks are assessed on both a 'gross' (without the consideration of existing control measures) and 'net' (with consideration of existing control measures) basis enabling the effectiveness of control measures to be assessed and assured. The combined impact and likelihood determines the overall Red, Amber, Green (RAG) risk rating which is assessed against the relevant risk appetite to determine and prioritise further action.





Key: Likelihood of risk occurring over 5 year period

1. Rare	2. Unlikely	3. Possible	4. Probable
Only in extreme circumstances	Less than even chance	Even chance	Above average

Key: Financial Impact (over 5 years)

A. Minor	B. Moderate	C. Major	D. Severe
<2% Profit After Tax	2-5% Profit After Tax	5-7.5% Profit After Tax	>7.5% Profit After Tax

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISK MANAGEMENT

Our purpose and values recognise the broader societal role that the Company plays within the regions and communities it serves. Consequently environmental, social and governance (ESG) considerations are at the heart of the Company's activities and how we operate as a responsible business. The identification, assessment and management of ESG risks and opportunities is integrated into the Company's overall risk management framework and methodology. The delivery of ESG metrics and targets, and the associated risks and opportunities, are monitored thorough the ESG framework by the ESG Committee. Further detail is provided on page 167.

As a water and wastewater company, the Company acknowledges the fundamental impact that climate change has on the Company's strategy and priorities and is considered to be pervasive across the Company's principal risk profile. The assessment of the individual principal risks, as detailed within the table below, has included the consideration of both physical and transitional climate change influences, where relevant, and the mitigating actions being taken.

Further detail on the specific physical and transitional climate change risks and opportunities relevant to the Company, along with mitigating actions being taken, are detailed further within TCFD on pages 78 to 116.

SOUTH WEST WATER TECHNICAL (NON- FINANCIAL) DATA

In addition to the risk management framework detailed above, recognising the importance of the regulatory ODI framework, South West Water engages independent, third-party auditors to audit the accuracy of the technical (non-financial) data reported within the various annual performance reports and regulatory publications and submission, including its performance commitments and environmental data.

CONTINUOUS IMPROVEMENTS TO RISK MANAGEMENT AND INTERNAL CONTROL

The Company is committed to continuously improving its ability to identify and respond to current and emerging risks. Examples of risk management improvements during the year include:

- The Company's confidential Speak Up process has been reviewed and further enhanced.
- A dedicated second line function has been established focused on environmental permit assurance across the Company's water and wastewater sites, providing an additional layer of assurance in this area.
- South West Water has successfully achieved external ISO45001 accreditation of its Occupational Health and Safety Management System.
- The formation of the Operational Risk and Assurance Steering Group has enhanced the bottom up process through the collective review and discussion of key tactical risks, enabling greater collaboration and innovation.

OFWAT'S PRINCIPLES - BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

Ofwat requires that holding companies manage their risks in such a way that the regulated company is protected from risk elsewhere in the Group. Pennon Group's principal risks and uncertainties include those Group-level risks which could materially impact on South West Water.

Pennon's risk management and internal control frameworks ensure that it does not take any action that would cause South West Water to breach its licence obligations. Further, the Group's governance and management structures mean that there is full understanding and consideration of South West Water's duties and obligations under its licence, as well as an appropriate level of information sharing and disclosure to give South West Water assurance that it is not exposed as a result of activities elsewhere within the Group.

Further details of Company-wide principal risks and application of the Company's risk management framework across the Company are provided in the Pennon Group plc annual report (pages 55 to 64).

HORIZON SCANNING

Emerging risks and opportunities are considered to be factors and events which could have a future impact on the achievement of the Company's strategic priorities but lack the required clarity or certainty in order to adequately assess their impact. Horizon scanning of emerging risks and opportunities is embedded within the risk and opportunity review process.

Emerging risks are reviewed by the Executive and Board as part of their regular assessment of the Company's risk profile. Notable emerging risks and opportunities are detailed within the table below:

Risk/opportunity	Comment	Risk category impact	Time horizon
Geopolitical Tensions	Increased escalation of conflict in the Middle East combined with the ongoing war in Ukraine could further impact the global economy, heighten energy resilience risks and disrupt key supply chains such as chemicals.	• Market and Economic Conditions	Short-Medium Term
Artificial intelligence and machine learning	There is a risk that automated intelligence and learning deployed within operational processes develops faster than Government regulations and standards.	• Operating performance	Long-term
Quality of water resources	Changes in regulatory requirements over the treatment of micro-plastics, micropollutants and 'forever chemicals' (e.g. PFAS) as a result of ongoing research may require significant changes in operational processes in the water treatment process	• Operating performance • Business systems and capital investment	Medium-Long term

Changes to the demographics within the areas that we serve	Increases in population migration to the South West climate change and an increasingly aging population could place further demand on our resources and assets.	• Operating performance	Long-term

RISK APPETITE

There are inherent risks that exist within the water sector and all risk cannot be completely eliminated in the delivery of the Company's activities. The Company therefore seeks to strike an appropriate balance between risk and reward which aligns not only with the Company's strategic priorities but also its purpose and values.

Recognising that it is not possible to apply a single risk appetite to all risks that the Company is exposed to, the Board has developed overarching risk appetite statements for each risk category which then informs the risk appetite statement for individual principal risks.

This allows the business to pursue value-enhancing opportunities, while maintaining an overall level of risk exposure that the Board considers to be appropriate.

The risk appetite statement for each risk category is detailed below:

Risk category	Risk appetite statement
Law, regulation and finance	The Board is committed to fully complying with, and being seen to be complying with, all relevant laws, regulations and obligations and has no appetite for non-compliance in this area. This includes, but is not limited to, environmental and health and safety laws and regulations. The Company also operates a low risk appetite in respect of our financing strategy, ensuring our long-term financing commitments are met. The Board acknowledges, however, that South West Water operates in a complex environment influenced by Government regulatory policy. Consequently, there is a greater risk appetite in these areas whilst seeking to mitigate any potential downside and leverage opportunities that may arise from Government policy and regulatory change.
Market and economic conditions	The Board recognises that our activities are exposed to changes in macroeconomic and external market conditions. The Company seeks to take well-judged and informed decisions to mitigate these risks where possible, but accepts that a level of residual risk may remain beyond the Board's control.
Operating performance	Whilst the Board recognises that unforeseen events do occur from time to time, the Board has no appetite for significant operational failure of our water and wastewater assets and seeks to reduce both the likelihood and impact through long-term planning and careful management of our operational assets. There is greater appetite for well-informed risk taking to develop further markets, subject to this not detrimentally impacting on the level of service expected of our regulators, customers and wider stakeholders.
Business systems and capital investment	The Board has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan.

	There is greater appetite for broader value accretive investments with risk weighted against the expected level of return on a case-by-case basis and subject to this not detrimentally impacting on the level of service expected of our regulators, customers and wider stakeholders within our core water business. South West Water seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Company's operations.

PRINCIPAL RISKS AND UNCERTAINTIES

During the year the Board have carried out a detailed review of the of the current and emerging risks in the context of the Company's strategic objectives and priorities as well as the external environment within which it operates. This has included:

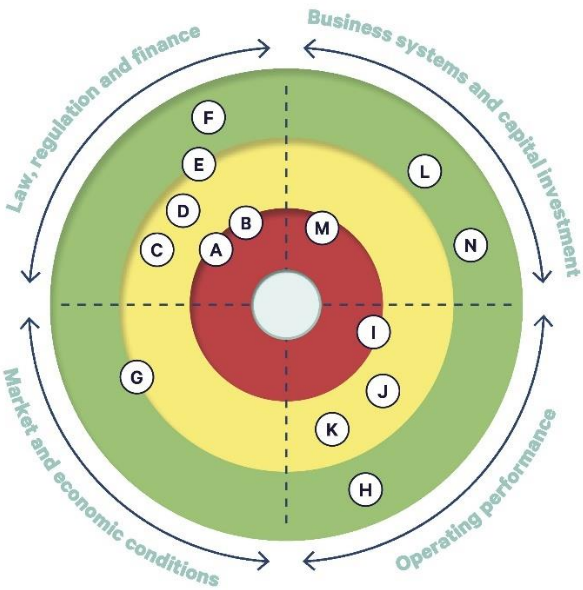
- Confirming that the Company's risk appetite statements remain appropriate
- Receiving and reviewing updates on the Company's principal risks, including movements in the risk exposure
- Undertaking horizon scanning of emerging risks and trends
- Performing deep dive reviews into key risk areas
- Through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

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

- The water resources and operational water treatment risks have been combined into a single drinking water principal risk, reflecting the interconnectivity of these individual elements.
- Delivery of the Company's net zero programme has been removed as a standalone principal risk and instead reflected within the delivery of the Company's broader environmental commitments and associated risks.

These principal risks have been considered in preparing the viability statement on page 66.

AN OVERVIEW OF THE PRINCIPAL RISK PROFILE



Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
Law, regulation and finance	**A**	**Storm Overflows** **Water Quality and Resilience** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Changes in Government policy	RED	⬇
	B	**Storm Overflows** **Water Quality and Resilience** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Changes in regulatory frameworks and requirements	RED	⬌
	C	**Storm Overflows** **Water Quality and Resilience** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Non-compliance with laws and regulations	AMBER	⬆
	D	**Storm Overflows** **Water Quality and Resilience** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	AMBER	⬆
	E	**Storm Overflows** **Water Quality and Resilience**	Non-compliance or occurrence of avoidable health & safety incident	AMBER	⬇
	F	**Net Zero and Environmental gains**	Failure to pay all pension obligations as they fall due and increased costs to the	GREEN	⬌

Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
			Company should the defined benefit pension scheme deficit increase		
Market and economic conditions	**G**	**Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Macro-economic risks impacting inflation, interest rates and power prices	AMBER	↓
Operating performance	**H**	**Water Quality and Resilience**	Failure to secure, treat and supply clean drinking water	GREEN	↔ *
	I	**Storm Overflows** **Net Zero and Environmental gains**	Failure to improve wastewater performance resulting in environmental commitments not being delivered	RED	↔
	J	**Addressing affordability and delivering for our customers**	Failure to provide excellent service or meet the needs and expectations of our customers and communities	AMBER	↔
	K	**Storm Overflows** **Water Quality and Resilience** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers**	Difficulty in recruiting and retaining staff with the skills required to deliver the Company's strategy	AMBER	↔
Business systems and capital investments	**L**	**Storm Overflows** **Water Quality and Resilience** **Net Zero and Environmental gains**	Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes in K8	GREEN	↔
	M	**Storm Overflows** **Water Quality and Resilience** **Addressing affordability and delivering for our customers**	Inadequate technological security results in a breach of the Company's assets, systems and data	RED	↑

*since the end of the year, as referenced in the CEO review, an outbreak of Cryptosporidium was identified in the Brixham area of Devon.

LAW REGULATION AND FINANCE

<table>
<tr><th>Strategic impact</th><th>Mitigation and commentary</th><th>Risk appetite</th></tr>
<tr><td colspan="3">Principal Risk A: Changes in Government policy</td></tr>
<tr><td colspan="2">2024 Net risk and direction:</td><td>2023 Net risk and direction:</td></tr>
<tr><td colspan="2">RED, DECREASING</td><td>RED, INCREASING</td></tr>
<tr><td>Storm Overflows

Water Quality and Resilience

Net Zero and Environmental gains

Addressing affordability and delivering for our customers

Climate change influence: Transitional

Nature change influence: Transitional

Changes in Government policy may fundamentally impact our ability to deliver the Company’s strategic priorities.</td><td>The remains a significant focus on the water sector across all political parties ahead of a General Election which is taking place in July 2024.

We actively engage and respond to policy consultations and the Company regularly engages with MPs and other political stakeholders, both directly and via Water UK. This includes highlighting the impact that our proposed capital investment of £2.8bn in the next regulatory period will have on our operational performance as well as our wider contribution to society and the economy.

Additionally, horizon scanning of emerging changes in Government policy, including climate change related policies, is regularly undertaken to monitor and assess the potential direct or indirect impact on the Company.</td><td>We recognise that Government Policy evolves which presents both risks and opportunities. The Company seeks to minimise the potential risk and maximise opportunities through regular engagement and robust scenario planning.</td></tr>
<tr><td colspan="3">Principal Risk B: Regulatory Reform</td></tr>
<tr><td colspan="2">2024 Net risk and direction:</td><td>2023 Net risk and direction:</td></tr>
<tr><td colspan="2">RED, STABLE</td><td>RED, STABLE</td></tr>
<tr><td>Storm Overflows

Water Quality and Resilience

Net Zero and Environmental gains

Addressing affordability and delivering for our customers

Climate change influence: Transitional

Nature change influence: Transitional

Changes to regulatory frameworks may impact on the deliverability and affordability of the Company’s priorities, which can impact value.</td><td>South West Water has an established and experienced regulatory function. A robust governance framework remains in place over the PR24 business plan.

Following the submission of South West Water’s business plan in October 2023, South West Water has been working proactively with Ofwat and other regulators as part of Ofwat’s standard review process.

A significant degree of uncertainty will remain until such time that Ofwat confirms their Draft Determination, particularly whether the levels of funding approved will be sufficient enable the significant levels of investment set out within the business plan.</td><td>We accept that regulatory frameworks evolve which creates both risks and opportunities. We seek to minimise the potential risks by targeting changes which are Net Present Value (NPV) neutral over the longer-term to protect customer affordability and stakeholder value.</td></tr>
</table>

LAW REGULATION AND FINANCE (CONTINUED)

Strategic impact	Mitigation and commentary	Risk appetite
Principal Risk C: Non-compliance with laws and regulations		
2024 Net risk and direction:	**2023 Net risk and direction:**	
AMBER, INCREASING	**AMBER, INCREASING**	
Storm Overflows **Water Quality and Resilience** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** **Physical** Nature change influence: **Transitional** **Physical** South West Water is required to comply with a range of laws and regulations. Non-compliance with one, or a number of these may result in financial penalties or a negative impact on our ability to operate effectively and reputational damage to the Company.	The Company operates within robust and mature regulatory frameworks, which includes second line compliance functions, ensuring compliance with permit and other requirements of Ofwat, Environment Agency and other relevant regulators. These frameworks are regularly reviewed to ensure the Company remains compliant with the increasingly complex legal and regulatory landscape. The control framework has been further enhanced during the year with the creation of a dedicated internal Environmental Permit Assurance Team. The Company also maintains a comprehensive internal framework, overseen by the Legal Compliance function, to ensure compliance with corporate laws applicable to public limited companies, reinforced through key policies approved by the Board and compliance training provided to staff. The Company operates a confidential whistleblowing process which has been comprehensively reviewed during the year. This is overseen by the Executive led Ethics Management Committee. There remains an increased appetite amongst regulators for pursuing enforcement action for perceived non-compliance with industry-wide investigations of wastewater treatment works permit compliance ongoing.	South West Water maintains the highest standards of compliance and has no appetite for legal or regulatory breaches.
Principal Risk D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments.		
2024 Net risk and direction:	**2023 Net risk and direction:**	
AMBER, INCREASING	**GREEN, INCREASING**	

Strategic impact	Mitigation and commentary	Risk appetite
Storm Overflows **Water Quality and Resilience** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** **Physical** Nature change influence: **Transitional** **Physical** Failure to maintain funding requirements could lead to additional financing costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.	The Company has well established treasury, funding and cash flow arrangements in place, underpinned by a Treasury Management Policy endorsed by the Board. The Company's financing commitments and cash flow, funding and covenant compliance is regularly reviewed by the Executive and the Board. Since March 2023, over £600 million has been secured through the Company's Sustainable Financing Framework. South West Water retains £321 million of cash and committed facilities as at 31st March 2024.	We operate a prudent approach to our financing strategy, maintaining an appropriate mix of cash and pre-funding facilities, to ensure our funding requirements are fully met.
Principal Risk E: Non-compliance or occurrence of an avoidable health & safety incident		
2024 Net risk and direction:	**2023 Net risk and direction:**	
AMBER, DECREASING	**AMBER, DECREASING**	
Storm Overflows **Water Quality and Resilience** Climate change influence: **Physical** Nature change influence: **Physical** A significant health and safety event could result in financial penalties, significant legal costs and damage to the Company's reputation.	The Company has continued to deliver and embed the 2025 HomeSafe strategy. Established health and safety training, procedures and reporting systems are complimented with site based investment, regular site visits by senior staff, initiatives such as Site Pride and HomeSafe Live as well a regular programme of wellbeing events. Health and safety performance is monitored by the Executive and the respective Board and Executive Health and Safety Committees During the year South West Water successfully achieved ISO45001 accreditation of its Occupational Health and Safety Management System and the Company achieved its best ever health and safety performance with 15 LTIs during the year – a reduction of almost 50% on the prior year.	The Company has no appetite for health and safety related incidents and we maintain the highest standards of compliance for our staff, contractors and other third parties.
Principal Risk F: Failure to pay all pension obligations as they fall due and increased costs to the Company should the deferred pension scheme deficit increase		
2024 Net risk and direction:	**2023 Net risk and direction:**	
GREEN, STABLE	**GREEN, STABLE**	
Net Zero and Environmental gains	The Company has in-house pensions expertise supplemented by external specialists, including professional advisors	The Company will ensure that all obligations are met in full but seeks to manage this without unnecessary

Strategic impact	Mitigation and commentary	Risk appetite
Climate change influence: **n/a** Nature change influence: **n/a** The Company could be called upon to increase funding to reduce the deficit, impacting our cost base.	who manage the scheme's investment strategy. The Pennon Group Pension Scheme is overseen by an independent Board of Trustees. As at 31st March 2024 the Company's pension schemes remain in a surplus of £10.8m. The triennial valuation of PGPS as at 31 March 2022 did not require any deficit recovery contributions.	increased costs to the Company.

MARKET AND ECONOMIC CONDITIONS

Strategic impact	Mitigation and commentary	Risk appetite
Principal Risk G: Macro-economic risks impacting on inflation, interest rates and power prices		
2024 Net risk and direction:	**2023 Net risk and direction:**	
AMBER, DECREASING	**AMBER, DECREASING**	
Net Zero and Environmental gains **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** Nature change influence: **Transitional** Significant changes in inflation, interest rates and power prices could increase the Company's near term cost base.	The macro-economic volatility has eased during the year with power prices and inflation softening. With ongoing global conflicts the potential remains for this position to change. The Company maintains a manageable debt maturity profile and diverse funding mix with c.13% index linked which is continuously monitored. Additionally, a significant proportion of the Company's power prices has been hedged for the next 12 months in line with defined levels. The Company's in-house procurement function drives value within strategic contracts and consumables through competitive sourcing and tendering processes. Long-term protection from the increasing inflationary environment is also provided through regulatory mechanisms with inflation linked revenues and RCV growth, along with regulatory true-ups.	The Company seeks to de-risk volatility by having set proportions of inflation linked debt, fixed interest, and power prices. These are implemented over time to avoid concentrated exposure to one particular cycle of the macro- economic environment. The macro-economic environment sets the financial background for performance and five yearly regulatory reviews provide a natural long-term mitigation.

OPERATING PERFORMANCE

Strategic impact	Mitigation and commentary	Risk appetite
Principal Risk H: Failure to secure, treat and supply clean drinking water		
2024 Net risk and direction:	**2023 Net risk and direction:**	
GREEN, STABLE	**n/a**	
Water Quality and Resilience	The Company continues to diversify its water resource capacity and the resilience of our network and assets, informed by key plans including Water Resources Management Plan and drought plans. As a result of this investment and higher rainfall no water restrictions are anticipated for 2024.	The Company operates a low tolerance for significant operational failure of its water treatment assets or quality of water produced and seeks to mitigate these risks where possible.

<table>
<tr><th>Strategic impact</th><th>Mitigation and commentary</th><th>Risk appetite</th></tr>
<tr><td>Climate change influence:
Transitional
Physical

Nature change influence:
Transitional
Physical

An inability to secure, produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Company’s reputation.</td><td>Furthermore, delivery of phase 1 of the desalination project is expected during 2024/25, enabling more time to develop the application for a larger desalination plant.

During the year we have extended our Quality First’ continuous improvement culture and training programme to our Bristol colleagues.

Asset health is managed through a well-stablished programme of routine planned and preventative maintenance works with asset and network performance managed by the 24/7 Control Centre.

Where such events do occur, these are managed through established incident management procedures and utilises the Company’s supply chain partners.</td><td></td></tr>
<tr><td colspan="3">Principal Risk I: Failure to improve wastewater performance resulting in environmental commitments not being delivered</td></tr>
<tr><td colspan="2">2024 Net risk and direction:</td><td>2023 Net risk and direction:</td></tr>
<tr><td colspan="2">RED, STABLE</td><td>RED, STABLE</td></tr>
<tr><td>Storm Overflows

Net Zero and Environmental gains

Climate change influence:
Transitional
Physical

Climate change influence:
Transitional
Physical

An inability to improve waste wastewater could resulting adverse environment impacts, financial penalties, regulatory enforcement and damage to the Company’s reputation.</td><td>Minimising the impact of our activities on the environment remains a strategic priority for the Board and Executive.

The Company continues to make progress in delivering environmental improvements through the WaterFit programme which combines enhanced processes, targeted capital investment and proactive asset maintenance.

Robust governance structures also ensure there is regular reporting on pollution, storm overflow and numeric compliance activities.

Despite this progress the significant increase in rainfall and named storms during the second half of the year have increased wastewater flows and impacted headline performance for pollutions and use of storm overflows.</td><td>The Company operates a low tolerance for significant operational failure of its wastewater processes and assets and maintains the highest level of environmental standards.</td></tr>
<tr><td colspan="3">Principal Risk J: Failure to provide excellent service or meet the needs and expectations of our customers and communities</td></tr>
<tr><td colspan="2">2024 Net risk and direction:</td><td>2023 Net risk and direction:</td></tr>
<tr><td colspan="2">AMBER, STABLE</td><td>n/a</td></tr>
</table>

Strategic impact	Mitigation and commentary	Risk appetite
Addressing affordability and delivering for our customers Climate change influence: **Transitional** **Physical** Nature change influence: **Transitional** **Physical** Failure to meet the needs of both customers and wider stakeholders may result in reputational damage to the Company and lower performance resulting in financial penalties impacting on stakeholder value.	The Company continues to enhance and invest in its customer services teams, expanding the channels by which it can interact with and support household and business customers. The Company offers a range of schemes and tariffs to support customers with affordability challenges. Additionally, from April 2024 the Smart Saver tariff trial offers customers water rates reflecting their level of consumption. During the year both South West and Bristol Water successfully achieved kitemark certification to the vulnerable customer ISO22458 standard. The Company also under-takes a range of initiatives to engage with the wider communities it serves including, community road-show events, Neighbourhood Fund and funding to support water retention and leakage reduction. Whilst Bristol Water's regulatory customer service metric was positive, further improvement is required for South West Water.	The Company continually seeks to engage with and improve satisfaction levels amongst customers and wider stakeholders.
Principal Risk K: Difficulty in recruiting and retaining staff with the skills to deliver the Company's strategy		
2024 Net risk and direction:	**2023 Net risk and direction:**	
AMBER, STABLE	**AMBER, INCREASING**	
Storm Overflows **Water Quality and Resilience** **Net Zero and Environmental gains** **Addressing affordability and delivering for our customers** Climate change influence: **Transitional** Nature change influence: **Transitional** Failure to maintain a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Company forward.	The demands for high quality skills and expertise across the Company remains high, which mirrors the national and regional skills demands for our industry. The Company's People strategy, aligned to the new Company Values, enables the Company to attract, retain and develop our employees as well as recognising the significant contribution that our people make om delivering for our customers and communities every day. The key areas of focus during the year have been on supporting our customers and colleagues during the cost-of-living crisis, reallocating resources to align with customer and business priorities and building capacity to manage a growing capital programme. We regularly engage with our employees, both individually and in groups across multiple communication methods, to really understand their issues, concerns and obtain feedback. We undertake employee pulse surveys throughout the year, conduct Big Chat's for all employees to hear from our Executive most weeks, have an Employee Engagement Forum attended by functional representatives, provide employee newsletters sharing topical updates and have an employee collaboration platform via Viva Engage. These are all in addition to the countless team meeting, breakfast meetings	We ensure the appropriate skills, knowledge and experience are in place, which combined with our Reward Strategy and robust succession plans provide adequate resilience to keep employee turnover at a minimum.

	and toolbox talks which take place every day across the company, to share updates and gather employee feedback. We have continued to develop a diverse and inclusive talent pipeline and have doubled our long-term commitments with enhanced recruitment targets for graduates and apprentices through to 2030 and continued prioritization of our diversity and inclusion agenda. The Company also continues to invest in leadership development with two leadership programmes rolled out across the business helping current and prospective senior leaders develop key skills and mindsets.	

BUSINESS SYSTEMS AND CAPTIAL INVESTMENT

Strategic impact	Mitigation and commentary	Risk appetite
Principal Risk L: Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes in AMP8		
2024 Net risk and direction:	**2023 Net risk and direction:**	
GREEN, STABLE	**AMBER, INCREASING**	
Storm Overflows **Water Quality and Resilience** **Net Zero and Environmental gains** Climate change influence: **Transitional** **Physical** Nature change influence: **Transitional** **Physical** The inability of our supply chain to support in the delivery of our operational and capital programmes may result in increased costs and delays, detrimentally impacting our ability to achieve our change and growth agenda.	Delivery of the investment included within South West Water's PR24 business plan will require a significant increase in the Company's capital programme. The integrated delivery model for AMP8 will enable greater flexibility and broadens the number of supply chain partners providing enhanced resilience for the Company. The framework procurement for professional services and Tier 1 contractors has been completed and is well progressed for Tier 2. The Company also regularly monitors the financial health of key partners and we work in partnership with our supply chain to identify and manage potential issues and challenges. Where action is required there are established plans and alternative arrangements which provide mitigation and early intervention.	The Board has a low appetite for risk associated with the delivery of key operational and capital programmes within our regulated business plan.
Principal Risk M: Inadequate technological security results in a breach of the Company's assets, systems and data		
2024 Net risk and direction:	**2023 Net risk and direction:**	
RED, INCREASING	**AMBER, INCREASING**	
Storm Overflows **Water Quality and Resilience**	External threats are increasing in complexity and sophistication with the National Cyber Security Centre (NCSC) highlighting the heightened risk to critical national	The Company seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on

Strategic impact	Mitigation and commentary	Risk appetite
Addressing affordability and delivering for our customers Climate change influence: **n/a** Nature change influence: **n/a** Failure of our technology security, due to inadequate internal processes or external cyber threats, could result in the business being unable to operate effectively and the corruption or loss of data. This could have a detrimental impact on our customers and result in financial penalties and reputational damage to South West Water.	infrastructure and an increased focus on the water sector. The Company maintains a dedicated Information Security team with a strong preventive and detective information security framework, aligned to guidance issued by the NCSC supported by regular training, communications and awareness to staff. South West Water continues to hold the ISO27001 accreditation. Enhanced technical controls introduced during the year across the Company's corporate and operational technology sector are informed by best practice and learnings from across sectors. Furthermore, the regulated water business continues to progress actions as part of the roadmap to meet the requirements of the Network and Information Systems Directive (NIS), with activities aligned to the priorities identified by the Drinking Water Inspectorate. The Company also maintains established disaster recovery plans which are subject to regular review and testing.	the Company's operations.

VIABILITY STATEMENT

The Directors of South West Water are responsible for ensuring the long-term viability of the company. The Directors need to ensure the resilience of the Company by identifying, managing, avoiding or mitigating risks which may impact viability.

The Board's consideration of longer-term viability of the company is an extension of the strategic business planning which is managed through regular long-term modelling and monitoring of key measures including gearing, debt covenant headroom and level of liquidity. The resilience of the business and these key viability measures are appropriately assessed by a number of mechanisms including a robust risk management assessment, sensitivity analysis and stress tests of financial performance.

The overall market context is a cornerstone of the viability assessment. South West Water is a long-term business characterised by multi-year investment programmes, with associated revenue streams with high levels of future visibility.

The viability assessment has been made with reference to the Company's current position and prospects, including consideration of the ongoing impacts of the Ukraine crisis, climate change, its longer-term strategy, the Board's risk appetite and the Company's principal risks and how these are managed, as detailed on pages 50 to 65 of the risk report.

PERIOD OF ASSESSMENT

The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Company's viability remains unchanged until the end of 2030, which recognises the longer-term visibility in the regulatory environment of the South West Water business to the end of the next price setting period in 2030. The changing nature of regulation and current scrutiny of the water industry means that assessing viability on a longer term basis than the six years to 2030 would introduce significant uncertainty, therefore the Board has focussed on the period to 2030 for its assessment of viability.

RISKS

The Board considers the preventative and risk management actions in place and the potential impact of the principal risks (as detailed on pages 50 to 65) against our ability to deliver the business plan. This assessment has considered the potential impact of these and other risks arising on the business model, future performance, solvency and liquidity over the period in question. The Company has a strong liquidity and funding position with £321 million of cash and committed facilities as at 31 March 2024 and net assets of £911.2 million.

The Company has a mixture of fixed, floating and index linked debt financing with a weighted average maturity of non-current debt, excluding leases, being 14 years. In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's viability. Over the course of the year the Board, either directly or through the activities of the Audit Committee, has considered a deep-dive review of the following principal risks to enable a thorough assessment of the impact of these risks on ongoing viability:

- Engineering and supply chain resilience
- Water quality
- Cyber security

STRESS TESTING

The Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 50 to 65, individual sensitivities (shown in the table below) have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Company's annual budget for FY 2024/25 and longer-term strategic business plan through to March 2029.

The impact of climate risks have been assessed in detail in as referenced in the Task Force on Climate-related Financial Disclosures (TCFD) section on page 78 to 116. The Company's strategic business plan includes the expected investment identified at this stage to meet climate changed adaptation. The stress testing scenarios applied during the viability assessment period do not include specific reference to climate change related risks alone as climate change has been considered as part of the Principal risks identified. Beyond the period of assessment additional impacts from climate change are considered in more detail within the TCFD section along with mitigating actions.

<table>
<tr><th>Principal risk</th><th>Viability sensitivities tested</th><th>Modelled impact</th></tr>
<tr><td>A: Changes in government policy</td><td>Changes in Government policy affecting the water industry, such as additional environmental legislation may impact operational performance or investment requirements. The estimated average adverse impact on the Company’s cash flows from a range of potential policy changes has been applied as a sensitivity.</td><td>£15m</td></tr>
<tr><td>B: Changes in regulatory frameworks and requirements</td><td>Potential changes in PR24 price review may impact allowed regulatory returns in South West Water. The estimated average adverse impact on the Company’s cash flows from a range of potential policy changes has been applied as a sensitivity.</td><td>£15m</td></tr>
<tr><td>C: Non-compliance with laws and regulations</td><td>The estimated impact of financial penalties and reputational damage from failure to comply with laws and regulations has been modelled as a sensitivity.</td><td>£15m</td></tr>
<tr><td>D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments</td><td>The impact of reduced availability of financing resulting in increased costs.</td><td>£10m</td></tr>
<tr><td>E: Non-compliance or occurrence of an avoidable health and safety event</td><td>The financial impact and cash outflows related to a major health and safety event has been applied as a sensitivity.</td><td>£15m</td></tr>
<tr><td>F: Failure to pay all pension obligations as they fall due and increased costs for the Company should the defined benefit pension scheme deficit increase</td><td>The financial impact on the Company’s gearing from additional funding being required to support the Company’s defined benefit pension schemes has been applied as an adverse scenario.</td><td>£10m</td></tr>
<tr><td>G: Macroeconomic near-term risks impacting on inflation, interest rates and power prices</td><td>The adverse impact of higher operating and finance costs from increasing power prices and general inflation increases over and above increases assumed in base financial plans (3% increase), including the impact on Totex underperformance on regulatory returns and impact on debt financing costs (3% increase). As well as a reduction in the collection of customer debt (3.5% reduction) from adverse economic conditions.</td><td>£65m</td></tr>
<tr><td>H: Failure secure, treat and supply clean drinking water</td><td rowspan="5">The adverse impact from non-delivery of regulatory performance targets which result in ODI penalties, other financial penalties and required additional investment reducing Company revenues and cash inflows have been applied as a sensitivity to the base plan.</td><td rowspan="5">£66m</td></tr>
<tr><td>I: Failure to improve wastewater performance resulting in environmental commitments not being delivered</td></tr>
<tr><td>J: Failure to provide excellent service to meet the needs and expectations of our customers and communities</td></tr>
<tr><td>K: Difficulty in recruiting and retaining staff with the skills required to deliver the Company’s strategy</td></tr>
<tr><td>L: Insufficient capacity and resilience of the supply chain to deliver the Company’s operational and capital programmes in K8</td></tr>
<tr><td>M: Inadequate technological security results in a breach of the Company’s assets, systems and data</td><td>The adverse financial impacts of a cyber attack resulting in operational disruption, potential loss of data, potential detrimental impacts on customers with potential for financial penalties have been included in the sensitivity analysis.</td><td>£15m</td></tr>
</table>

A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Company. The risks and modelled impacts are individually probability weighted to provide a stressed downside scenario. The combined weighted impact of the risks occurring is c.£68 million, this value is considered equivalent to an extreme one-off event that could occur within a year, the probability of such an event happening is deemed unlikely.

STRESS TESTING EVALUATION AND MITIGATIONS

Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the Company's viability over the six-year period. The assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. The financial impacts of the risks were probability weighted to obtain a value that was used in the stress testing. While mitigations were not required in any of the above individual or combined scenarios to ensure that the company was viable, additional mitigations could be deployed to reduce gearing and increase covenant headroom. These include:

- Reduction in discretionary operational expenditure
- Deferral of capital expenditure and / or cancellation of essential capital expenditure
- Reduction in the amount of dividend payable
- Raising additional funding

The Company has confidence in its ability to raise additional funding if required should it be required to ensure the Company maintains solvency.

In addition, a reverse engineered scenario that could possibly compromise the Company's viability over the six-year assessment period has been modelled. This scenario assumes all the Company's principal risks are incurred, in any given year across the viability period, with no probability weightings attached to provide the total modelled impact noted in the table above. This scenario would remove debt covenant headroom and interest covenant headroom. The Board considered the likelihood of this scenario on the Company's viability over the six-year viability period, as remote, concluding the Company could remain viable. Mitigations, as noted above, could also be deployed over the period if deemed necessary.

In making its assessment of the Company's viability, the Directors have taken account of the Company's strong capital solvency position, the Company's latest assessments of forward power and other commodity prices, latest inflation forecasts, its ability to raise new finance and a key potential mitigating action of restricting any non-contractual payments. In assessing the prospects of the Company, the Directors note that, as the Company operates in a regulated industry which potentially can be subject to non-market influences, such assessment is subject to uncertainty, the level of which depends on the proximity of the time horizon. Accordingly, the future outcomes cannot be guaranteed or predicted with certainty. As set out in the Audit Committee's report on pages 156 to 166, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of the stress testing performed.

VIABILITY ASSESSMENT CONCLUSION

The Board has assessed the Company's financial viability and confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a six-year period, the period considered to be appropriate by the Board in connection with the UK Corporate Governance Code.

OUR INTEGRATED APPROACH TO ESG

Our approach to ESG ensures everything we do supports our commitment to provide environmental stewardship and to support our customers and local communities. We remain focused on employee's welfare with health, safety and wellbeing being at the heart of everything we do, whilst providing strong opportunities for development. Our approach is built on the foundations of our robust governance framework, upholding our core values within the organisation and throughout our supply chain.

ESG CAPITALS

Creating value through our ESG approach. Everything we do links to a capital in some way – the development of our capitals framework is integral to better decision making for the future

Our Natural Capital – Environment	Our Social & Human Capital – Social	Our Manufactured, Intellectual & Financial Capital – Governance
• Freshwater • Land (including soils) • Species • Ecological communities • Coasts • Atmosphere • Waste	• Colleagues • Customers • Commitments	• Supply Chain • Responsible business • Stakeholders and partnerships • Finance

ESG performance and targets can be seen in the Pennon Group plc Annual report and accounts on page 68.

NET ZERO - OUR PROMISE TO THE PLANET

In 2021, we set our ambitious plans to reduce our operational carbon emissions and hit our Net Zero target by 2030. During 2023/24 we have committed to even more ambitious science-based targets. These targets go beyond reducing our operational emissions, and set out scope 1, 2 and 3 GHG emission reduction targets, targets to reduce emissions across our value chain, and to increase our use of renewable electricity.

	Pillar	Our three-pillar strategy remains unchanged	Progress against our three-pillar strategy
1	Sustainable living	• Reducing emissions through changes to operational practices, increasing energy efficiency, and switching to lower carbon fuel sources. • Meeting our commitments to reduce leaks and help customers to use less water – protecting the environment and saving carbon.	• In 2023/24 our wastewater back-up generators have been switched from using diesel fossil-fuel to using lower carbon HVO (Hydrotreated Vegetable Oil) made from waste oil. • We are continuing with our programme of pump efficiency testing, pump repair and replacement. We have installed two new pumps at our Roadford Dam site, one low lift pump at Restormel water treatment works in Cornwall as well as one at Longham water treatment works in our Bournemouth region. We have proactively developed a new plan to refurbish our activated sludge processes on our wastewater treatment works as well as plans to replace some of our largest blowers providing air to those processes. We have also conducted site-based energy audits on our Bristol Water sites as part of compliance with Phase 3 of the Government's Energy Savings Opportunities Scheme (ESOS) • We have embarked on a nitrous oxide (N2O) emissions monitoring trial at our Countess Wear (Exeter) wastewater treatment works, as well as a separate trial to measure fugitive emissions of methane (CH4) emissions at the same site. • Our transition to electric vehicles continues with over 50 electric vehicles now on our fleet of vans and cars. Whilst the most of our transport fleet is still petrol or diesel fuelled, we plan to gradually transition to a 100% electric vehicle fleet during the next decade.
2	Championing renewables	• Maximising self-generation from renewables at our sites across the South West – working with partnerships and utilising our expertise. • Where we cannot generate enough electricity to meet all our needs ourselves, 100% of what we purchase will be from renewable sources.	• South West Water continues to source 100% renewable electricity (since 2022). We will negotiate to switch Bristol Water to 100% renewable electricity at the appropriate contract renewable time. • Onsite renewables are a mix of CHP, hydro, solar and wind. SWW has achieved 9.1% and Bristol 1.1% on-site renewable energy generation. • We have completed a feasibility study for the installation of floating solar PV arrays at a number of our reservoirs and are

			progressing to the next stages at one of our large drinking water sites. • We have made a significant advance in sourcing off-site renewables has been through the third party owned Rexon Cross 500kW wind turbine which is now feeding renewable electricity into our Roadford Reservoir site through a private wire. The turbine has the potential to generate 1.5GWh of energy each year which is approximately 15% of the total energy used on the site.
3	Reversing carbon emissions	• Reversing carbon emissions from our core activities. • Working in partnership to ensure our core activities reverse carbon emissions through solutions such as peatland restoration. • Supporting the development of innovative solutions to develop low carbon footprint processes through research and development.	• Our catchment management programmes include peatland restoration, improving soil management, tree planting, creating wetlands and buffer strips and other nature-based solutions. These all lead to more carbon being stored in the landscape and less loss to the atmosphere. It's also good for water storage in the catchments and long-term resilience. • In 2023-24 we have planted 80,327 trees to exceed our annual target of 50,000 trees and restored 493 hectares of peatland towards a total of 1,558 hectares restored so far throughout AMP7. Once completed our peatland restoration programme planned for AMP7 is expected to sequester around 650,000 tCO2e over the next 50 years. Meanwhile the 253,000 trees now planted (AMP7 delivery) are expected to store an estimated 17,700 tCO2e during the next 30 years. • Looking forward, we have included a range of nature-based solutions in the PR24 Business Plan submission (2025-2030) to increase opportunities to lock up carbon through our activities. We continue to collaborate across the water industry to investigate other land and marine-based carbon sequestration opportunities, such as seagrass restoration and development of a soil carbon code.

We have also committed to near-term Science Based Targets (SBTs). Our targets were validated and approved by the Science Based Targets Initiative in May 2024 and we will now focus on delivering our targets.

Further details of how we are integrating climate into our business and readying for a low carbon future can be found in our TCFD report on pages 78 to 116.

NET ZERO CULTURE

We recognise that achieving our Net Zero goals will be a collaborative effort. We are working towards creating a working environment in which workers, customers, and suppliers are motivated to hasten our transition to Net Zero emissions. We have developed a robust communication and engagement plan, supported by an effective governance structure working with internal stakeholders at all levels to ensure carbon emissions and our Net Zero commitments are adequately considered in decision making. This is further corroborated by data, and our benefits realisation work, where we quantify and monitor the greenhouse gas consequences of our Net Zero initiatives. Our bespoke approach will ensure an enduring Net Zero culture.

RENEWABLE ENERGY

We remain committed to our target of 50% of energy generation from a mix of renewable energy sources including onsite Solar PV, floating Solar PV, grid connected Solar PV, hydroelectricity, wind power and making more use of our bioresources for generating energy. SWB have achieved 9.12% energy from renewable sources across the company in 2023/24. (BRL have achieved 1.13%)

This performance is despite below average solar radiation last year and an enhanced maintenance regime across all our assets. In addition, we have continued delivery of our new on-site solar schemes as well as connecting an existing wind turbine to our Roadford Reservoir water pumping station via a private wire arrangement. Overall, our SWB renewables capacity now totals 17.4MW including connected private wire assets. (BRL renewables capacity now totals 1.1MW)

PROCESS AND FUGITIVE EMISSIONS

Process and fugitive emissions, mainly in the form of methane (CH4) and nitrous oxide (N2O), arise from our wastewater treatment processes. Worldwide there is difficulty in measuring process emissions, this mean that it is difficult to establish a baseline and monitor changes in N2O emissions. Measuring and monitoring is the first step; without it, we cannot establish the efficacy of N2O reduction initiatives. We are piloting a N2O monitoring technology at one of our wastewater treatment sites, Countess Wear. This pioneering initiative, where the treatment facility has recently been cleaned, will benchmark ‘low’ N2O emissions under various scenarios, and allow us to assess seasonal variability in N2O emissions over the course of the year. We have also commenced with a separate trial to directly measure fugitive emissions of methane (CH4) at the same site. Findings from these trials will inform effective process emission reduction strategies in the future.

TRANSITION PLAN

Through our established strategies, plans and policies, we are preparing for a changing climate and lower carbon economy. Our annual TCFD response on page 78 to 116 sets out further details of this in accordance with the TCFD recommendations. This identifies one of our key transition risks as rising energy costs. Through our planned investment in renewable energy alongside our dynamic hedging strategy we are managing this risk. We are aware of the work of the newly established Transition Plan Taskforce (TPT) to develop a ‘gold standard’ framework for transition plans. We are considering the TPT’s guidance and will look to publish our Transition Plan in due course.

For further information, please see our Taskforce on Nature-related Financial Disclosures on page 78 to 116.

SUSTAINABILITY REPORTING

SASB DISCLOSURE

For the third year, our parent company, Pennon Group plc, has aligned its non-financial disclosures to the Sustainability Accounting Standards Board (SASB) reporting framework. SASB provides a set of industry specific standards (Water Utility and Services industry), which each contain topics which are material to our investors. These topics contain a number of metrics that Pennon has disclosed against. SASB metrics now include Bristol Water, however some metrics related to regulated figures which are currently reported separately within the South West Water and Bristol Water Annual Performance Reports (APR) respectively. The latest APR's were published in July 2023.

Metric	Code	Disclosure
Energy Management		
(1) Total energy consumed (2) percentage grid electricity (3) percentage renewable	IF-WU-130a.1	Pennon Annual Report page 71, SECR, Energy Usage The Company has taken advantage of the exemption offered under the Companies Act 2006 and has not reported details of Greenhouse gas emissions during the financial year. Details of South West Water's greenhouse gas emissions can be found in the Annual Performance Report (APR).
Distribution Network Efficiency		
Water main replacement rate	IF-WU-140a.1	Mains Repairs, (Number of repairs per 1,000km), page 35 SWW 136.6 BRL 126.5
Volume of non-revenue real water losses	IF-WU-140a.2	Leakage (3 year average) (ML/day) page 34 SWW 107.0 BRL 37.6
Effluent Quality Management		
Number of incidents of non-compliance associated with water effluent quality permits, standards, and regulations	IF-WU-140b.1	South West Water EPA data report, 5. Discharge permit compliance metric. Available at: https://www.gov.uk/government/publications/water-and-sewerage-companies-in-englandenvironmental-performance-report-2022/south-west-water-epa-data-report-2022
Discussion of strategies to manage effluents of emerging concern	IF-WU-140b.2	South West Water contribute to the Chemical Investigation Programme (CIP), please refer to CIP data portal – available at: https://ukwir.org/sign-up-and-access-the-chemical-investigations-programme-data-access-portal To see the findings from the latest CIP3 report, please refer to: CIP3 reports – available at: https://ukwir.org/cip3-information
Water Affordability & Access		
Average retail water rate for: (1) residential	IF-WU-240a.1	SWW: (1) avg.: £486/year (£50 Government contribution applies) (2), (3) Details of wholesale charges can be found at: https://www.southwestwater.co.uk/businesses/wholesale-services/tariffs

(2) commercial (3) industrial customers		BRL: (1) avg.: £185/year (clean water only) (2), (3) Details of wholesale charges can be found at: https://www.bristolwater.co.uk/hubfs/Wholesale%20Tariffs/BRL%20Wholesale%20Charges%20Schedule%2024-25.pdf
(1)Number of residential customer water disconnections for non-payment, (2) percentage reconnected within 30 days	IF-WU-240a.3	0, we do not disconnect customers for non-payment
Discussion of impact of external factors on customer affordability of water, including the economic conditions of the service territory	IF-WU-240a.4	We address affordability and vulnerability of customers within our service territory extensively within our business plan document available at: www.southwestwater.co.uk/siteassets/document-repository/business-plan-2020-2025/addressing-affordability-and-vulnerability.pdf
Drinking Water Quality		
Number of incidents of noncompliance associated with drinking water quality standards and regulations	IF-WU-250a.1	Drinking Water Quality is reported in our Clean, safe and reliable water scores (CRI Score): SWW: 3.02 BRL: 7.05 Also in our Taste, smell and colour contacts rates (contacts per 1,000 population): SWW: 1.66 BRL: 0.82 Clean, safe and reliable water, (CRI Score), page 33 Taste, smell and colour contacts, page 34
Discussion of strategies to manage drinking water contaminants of emerging concern	IF-WU-250a.2	For more information about our specific strategies such as the Upstream Thinking Project, please refer to: Upstream Thinking – available at https://www.southwestwater.co.uk/environment/working-in-the-environment/upstream-thinking/the-project/ For more information about Bristol Water's catchment sensitive farming partnership to improve water quality and enhance habitats see: www.bristolwater.co.uk/about-us/catchment-management
End-Use Efficiency		
Percentage of water utility revenues from rate structures that are designed to promote conservation and	IF-WU-420a.1	We do not apply different rate structures.

revenue resilience		
Customer water savings from efficiency measures	IF-WU-420.a	In addition to reducing our own water use by over 11ML/day over the past two years, we provide funding to support local organisations every year through our Water-Saving Community Fund which helps to provide water efficiency improvements such as education campaigns, water butts and rain gardens. Pennon Annual Report, Water Saving Community Fund, page 35, and more information available at: https://www.pennon-group.co.uk/sustainability
Water Supply Resilience		
Total water sourced from regions with High or Extremely High Baseline Water Stress, percentage purchased from a third party	IF-WU-440a.1	You can visit our South West Water Drought Plan (2022)- available at: https://www.southwestwater.co.uk/siteassets/document-repository/environment/sww-bwfinaldrought-plan-september-2022.pdf For further information of classifications, please refer to the EA's Water Stressed Areas Classification report available at: https://www.gov.uk/government/publications/water-stressedareas-2021-classification Under the EA classification Bristol Water do not source water from regions with high or extremely high-water stress
Volume of recycled water delivered to customers	IF-WU-440a.2	We do not currently deliver recycled water to customers, however South West Water Updated Draft Water Resources Management Plan 2024 (dWRMP24) highlights plans to do this in the future in locations such as Poole and Countess Wear. Read more here: https://www.southwestwater.co.uk/siteassets/documents/about-us/wrmp/revised-wrmp/sww-dwrmp24-appendix-7-sea-report-dec23-main-report.pdf
Discussion of strategies to manage risks associated with the quality and availability of water resources	IF-WU-440a.3	Our dWRMP24 highlights our Drinking Water Safety Plan, and Modelling & Scenario Analysis. Read more here: https://www.southwestwater.co.uk/siteassets/documents/about-us/wrmp/revised-wrmp/sww-dwrmp24-appendix-7-sea-report-dec23-main-report.pdf
Network Resiliency & Impacts of Climate Change		
Wastewater treatment capacity located in 100-year flood zones	IF-WU-450a.1	We have published our first Drainage and Wastewater Management Plan (DWMP), in accordance with new government regulations. Within this plan we have outlined which of our assets are at risk from coastal erosion and sea level rise, available at: https://www.southwestwater.co.uk/siteassets/documents/about-us/dwmp/our-plan/dwmp-our-plan.pdf
1) Number and (2) volume of sanitary sewer overflows (SSO), (3) percentage of volume recovered	IF-WU-450a.2	Please refer to our 2023 EDM Return – available at: https://www.southwestwater.co.uk/siteassets/documents/about-us/business-plans/2020-25/edm-return-south-west-water-storm-overflowannual-2023---ea-publish-version.xlsx
(1) Number of unplanned service disruptions, and (2) customers	IF-WU-450a.3	Unplanned outages (%) and Supply Interuptions (Duration per property per year): SWW: (1) 1.14 (2) 00:09:28

affected, each by duration category		BRL: (1) 2.58 (2) 00:09:24 Pennon Annual Report, page 34
Description of efforts to identify and manage risks and opportunities related to the impact of climate change on distribution and wastewater infrastructure	IF-WU-450a.4	South West Water WRMP, Section 5. Forecasting our supply requirements, chapter 4. Impacts of climate change on water supply. Please refer to: South West Water Draft Water Resource Management Plan (WRMP) 2024 .- available at https://www.southwestwater.co.uk/environment/water-resources/water-resources-management-plan/ Climate change Adaptation Report, 2021. Appendix A: Detailed risk management matrix - available at https://www.southwestwater.co.uk/siteassets/document-repository/environment/climate-change-adaption-2021.pdf Bristol Water Bristol Water's Draft Water Resource Management Plan (WRMP) 2024, Chapter 9. Climate Change - available at https://www.bristolwater.co.uk/about-us/our-plans/water-resources/ Please see our TCFD statement available on pages 78 to 116.
Activity Metric		
Number of: (1) residential, (2)commercial, and (3) industrial customer	IF-WU-000.A	Populations served: SWW c.1.8m BW c.500,000 BRW c.1.2m Isles of Scilly c.2,000
Total water sourced, percentage by source type	IF-WU-000.B	South West Water and Bristol Water APR Additional regulatory information section- Water resources asset and volumes data table, ESG Databook, section 1.5 Water
Total water delivered to: (1) residential (2) commercial (3) industrial (4) all other customers	IF-WU-000.C	South West Water and Bristol Water APR Additional regulatory information – Water network plus, Treated water distribution – assets and operations table
Average volume of wastewater treated per day, by: (1) sanitary sewer (2) stormwater	IF-WU-000.D	South West Water and Bristol Water APR Additional regulatory information -Wastewater network plus, Wastewater network+ – Sewer and volume data able and Sewage treatment works data table

(3) combined sewer		
Length of: (1) water mains (2) sewer pipe	IF-WU-000.E	(1) 29,000km of water pipes (2) 23,000km of sewers

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) AND TASK FORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD)

We are driven by our strategic focus of leading UK environmental infrastructure, delivering for the benefit of our customers, communities, and the environment.

We are committed to meeting the challenges arising as a result of climate change and the transition to Net Zero. Our TCFD disclosure sets out the key climate-related risks and opportunities being addressed by the Company.

TCFD RECOMMENDATIONS

Created by the Financial Stability Board (FSB), the TCFD published its recommendations in June 2017. This is our fifth year of TCFD reporting and the below shows our progress and compliance to the recommendations including the updated TCFD guidance (2021 Annex).

As part of our ongoing TCFD programme, we have continued to enhance our assessment of physical risks, transition risks, and climate-related opportunities.

TCFD RECOMMENDATIONS

The TNFD published their final framework for nature-related financial disclosures in September 2023. This is our third year of voluntarily reporting against the TNFD framework. This year we are taking the opportunity to integrate TNFD into our TCFD disclosures, recognising the substantial overlap and synergies for our business between action on climate change and the nature emergency. At the same time, we also recognize some trade-offs in meeting our goals around resilience, Net Zero, and nature.

We acknowledge there is further work to do on the recommended TNFD disclosures, and we are continuing to monitor the inclusion on nature-risks in the UK sustainability disclosure requirements.

DEVELOPMENTS IN 2023/24

2023 was another year of record-breaking weather with higher than average rainfall rates and frequent storms bringing extreme rainfall and winds. This has presented operational challenges to overcome and although we have ensured the safe and secure supply of water and wastewater services in the region, it further highlights the need for climate change resilience and preparedness. These events have provided us with significant insight into our resilience to these kinds of events (which we could see more frequently in the future), which are factored into our update of our physical climate risk assessment and our review of adaptive strategies.

In addition to our published Water Resources Management Plan (WRMP24) and Drainage & Wastewater Management Plan (DWMP), South West Water developed its £2.8 billion business plan proposal (2025-2030) for PR24, focusing on water quality and resilience, storm overflows and pollution, Ner Zero and environmental gains, and addressing customer affordability. Therefore, our TCFD disclosure reflects updated current and future actions to mitigate risks and realise opportunities. The updates to our risk assessments also consider new climate-related evidence and recent publications from the IPCC and CCC, further to recent publications from Ofwat (our economic regulator) on scenario analysis, adaptive planning, PR24 methodology, and updates in regulation and legislation, the latter of which gives us greater confidence in our transition risk impact reporting in the short term.

The Company is focused on delivering for our stakeholders. As a result, we are continuing to embed climate change resilience and sustainability into decision making within our business, as well as managing the near-term inflationary pressures including power prices. We will also continue to manage change to our investments to explore new technology, materials, and nature-based solutions, within the current global constraints on capacity and supply chains to deliver both affordability and fairness for our customers.

<table>
<tr><th>2023/24 progress</th><th>2024 and beyond</th></tr>
<tr><td colspan="2">Governance
The organisation’s governance around climate-related and nature-related risks and opportunities</td></tr>
<tr><td>• We are continuing to enhance our governance framework, including increased recognition of the role that each Board Committee and several executive committees play in managing climate-related risk and opportunities
• We continue to incorporate carbon values into our investment decision-making, and we continue to incentivise our Executives to deliver climate and environmental goals.</td><td>• We will continue to further embed climate resilience and consider enhancements to our governance around nature-related risks and opportunities.
• We will continue to further embed the assessment and identification of climate-related risks and nature-related risks within our investment appraisal processes</td></tr>
<tr><td colspan="2">Strategy
The actual and potential impacts of climate-related and nature-related risks and opportunities on our business, strategy, and financial planning</td></tr>
<tr><td>• We have reviewed and enhanced our assessments of physical and transitional climate risks and opportunities. We have re-assessed the materiality of key risks with stakeholders across the Company and enhanced the actions we are taking to manage the most pressing risks.
• We have considered climate change in South West Water’s strategic planning for Water Resources (WRMP24) and our PR24 Business Plan.</td><td>• We will continue to integrate our climate risks within our existing risk management systems and risk registers across the Company. Risk owners will continue to drive and monitor action to manage risks and pursue opportunities.
• We will consolidate our assessment of nature-related risks and opportunities to identify our most material risks.
• We will continue to review our policies and strategic decision-making across the Company in order to enhance considerations of climate and nature risks and opportunities.</td></tr>
<tr><td colspan="2">Risk Management
The processes used by the organisation to identify, assess, and manage climate-related and nature-related risks and opportunities</td></tr>
<tr><td>• We have reviewed our principal risks and enhanced our recognition of how climate change and Net Zero impact and influence our principal risks.</td><td>• We will continue to review and update our management of climate and nature risks and our decision-making frameworks to ensure risks are clearly identified and assessed through the investment processes and operational decision-making.</td></tr>
<tr><td colspan="2">Metrics and Targets
The metrics and targets used to assess and manage the relevant climate-related and nature-related risks and opportunities</td></tr>
<tr><td>• We have enhanced our metrics linked to key climate risks and opportunities, and our investments in climate action. We are tracking progress against our ESG targets and our Net Zero commitments and renewable energy generation.
• We are undertaking analysis to quantify key risks, such as major assets at risk of coastal flooding.</td><td>• We are continuing to explore options to develop quantitative metrics for our key climate risks and opportunities, and exploring our ability to report on our capital expenditure related to climate action.</td></tr>
</table>

CLIMATE-RELATED AND NATURE-RELATED GOVERNANCE

Disclose the organisation’s governance around climate-related risks and opportunities.

BOARD OVERSIGHT

The Company has a strong governance structure in place to oversee the effective operation of our business and to manage all risks - including climate-related and nature-related risks and opportunities. Overall ownership and responsibility for risks, opportunities, and mitigation actions is held by the Board and CEO. Various Board Committees and executive sub-committees play a key role in overseeing climate-related and nature-related risks within their domain.

The Company recognises that climate change and the transition to Net Zero impacts and influences several of the Company’s principal risks (see our Principal Risks report on page 55). Principal risks are reviewed as part of our audit governance processes. During the regulatory period, climate change planning is assessed to ensure the business remains resilient to changes to its capital programme.

SOUTH WEST WATER BOARD

The South West Water Board provides oversight to the management of the climate-related and nature-related risks and opportunities, through the ESG Committee. The Board has overall responsibility for the Company’s risk management policies and processes, and all principal risks are reviewed by the Board on a regular basis. The Board considers climate-related and nature-related risks and opportunities throughout its duties - including when considering the Company’s strategy and objectives, monitoring business and operational performance, business planning and annual budget setting, reviewing major capital expenditures and existing investments, and in considering acquisitions/divestitures. We are continuing to enhance the awareness and capacity of our Board and senior executives relating to climate risks and opportunities. For more information see our Corporate Governance report pages 121 to 202.

BOARD COMMITTEES

All Board Committees play a role in managing our climate-related risks and opportunities, and several play a role in managing our nature risks and opportunities, and we are continuing to raise awareness of these issues across Board Committees. Matters are escalated to the Board as appropriate. Board Committees report their actions and decisions to the Board, ensuring robust governance - including for matters influenced by climate change, nature recovery and the transition to Net Zero. The responsibility for climate-related and nature-related risks and opportunities is cascaded through the business in order to meet our targets and objectives. Governance of nature-related risks and opportunities will be enhanced in the next AMP period when our performance commitments will include biodiversity.

Audit Committee **Attendance**: Meets 4 times annually. Attended by the Chair and other Non-Executive Directors. **Role relating to climate risks and opportunities:** The Committee monitors the Company’s financial reporting, including how the impacts of climate risks are accounted for in financial statements. The Committee also reviews key risks and opportunities (including climate-related risks), and challenges and tests the Company’s internal control processes including risk management and internal audit. Further information on page 156.	**ESG Committee** **Attendance**: Meets 4 times annually. Attended by the Board, CEO, CFO and other Company Executives. **Role relating to climate and nature risks and opportunities:** Provides the platform for discussion of the Company’s ESG agenda and related climate and nature risks and opportunities, as well as setting and reviewing key metrics relating to our ‘6 capitals’ assessments, and reviewing performance against ESG targets and goals. The Sustainable Financing reporting and monitoring is reported to the Committee for onward submission to the Board. Further information on page 167.
Nomination Committee **Attendance:** Meets 4 times annually. Attended by the Chair and other Non-Executive Directors. **Role relating to climate risks and opportunities:** Considers competency related to climate risks and	**Remuneration Committee** **Attendance**: Meets 4 times annually. Attended by the Chair and other Non-Executive Directors. **Role relating to climate risks and opportunities:** Considers the Company’s objectives and

opportunities when reviewing the structure, size, and composition of the Board and senior executives in the Company. Further information on page 150.	responsibilities, and advises the Board on the framework of executive remuneration for the Company and for the wider workforce, including mechanisms to incentivise achievement of the Company's objectives related to climate change, Net Zero, and sustainability goals. Further information on page 172.
Health and Safety Committee **Attendance**: Meets 3 times annually. Attended by the Chair, CEO, CFO, and other Non-Executive Directors. **Role relating to climate risks and opportunities:** Supports the Executive Board on matters of risk across all areas of health and safety, resilience, and process safety - including areas impacted by climate-related risks, particularly related to extreme weather events. Also reviews the effectiveness of the Company's procedures for health and safety reporting and performance. Further information on page 170.	**PR24 Committee** **Attendance:** Meets during the Board cycle as we have developed the PR24 Business plan. Attended by the Chair, other Non-Executive Directors, CEO, CFO and other Company Executives. **Role relating to climate and nature risks and opportunities:** Considers climate change, nature recovery and Net Zero as part of business planning and the Company's PR24 strategy.

MANAGEMENT'S ROLE

Executive managers play a key role in identifying, assessing, and managing climate-related risks and opportunities, and Executive managers sit on relevant Executive committees. The responsibility for climate-related and nature-related risks is clearly owned, managed, and assessed by a number the Company's management teams across our business including our management responsible for water resources, wastewater, regulation, procurement, engineering, natural resources/biodiversity and finance. Risk is identified and categorised in different parts of our business prior to being formally passed onto senior management responsible for those business functions. Each business function and department maintains a risk register, and management escalates risks to the Executive Committees as appropriate. We are continuing to raise awareness and the capacity of teams and executive management to identify, assess, and manage climate and nature risks and opportunities.

The Executive Directors' remuneration policy is set to incentivise the achievement of key performance objectives. This includes ESG objectives and performance including targets relating to climate resilience, carbon reduction, water quality, environmental performance, the working environment for our employees, and diversity.

EXECUTIVE BOARD[1]

Attendance: CEO, CFO, COO, GCCS, CPO, CCDO, Director of Regulation Strategy and Asset Management, Chief Engineering Director, Director of Drought and Resilience

Role relating to climate and nature risks and opportunities: The Committee monitors, approves and reviews business objectives and plans, and provides challenge and feedback to investment decisions. Throughout these processes climate-related and nature-related risks and opportunities are considered and actions to manage risks are embedded in business planning and investment decision-making. Below are some of the key committees which consider climate-related risks and opportunities within their remit:

- South West Bournemouth Bristol Executive Board (SWBB) - oversees and informs Board Committees on operational performance and risks across the regulated water businesses, including the impacts of

[1] CEO = Chief Executive Officer, CFO = Chief Financial Officer, GCCS = General Counsel & Company Secretary, COO = Chief Operating Officer, CPO = Chief People Officer, CCDO = Chief Customer and Digital Officer

climate- elated and nature-related risks to operations, and the actions being taken to manage operational risks.
- Net Zero Executive Committee - monitors, reviews, and provides support for the implementation of the Net Zero Strategy, including considering risks and opportunities relevant to delivery of the strategy

STRATEGY

We are recommended by TCFD to disclose the actual and potential impacts of climate-related and nature-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

CLIMATE RELATED RISKS AND OPPORTUNITIES

Our most material physical and transitional climate-related risks and opportunities are presented on the following pages. These have been identified by considering the climate scenarios described on pages 104 to 109. The risks have been assessed using the South West Water 4x4 risk assessment matrix which puts the highest risks in the red category under the RAG rating. Further information on our risk assessment methodology can be found on page 50. We have identified impacts over short (0-10 years), medium (10-30 years) and long term (30-100 years) horizons (the rationale behind these time horizons is presented on page 104).

Due to the nature of the business, the opportunities are not only assessed on financial merits, with some opportunities not increasing revenues but are opportunities to save costs and/or carbon, which supports our ability to provide the best outcomes for our customers and stakeholders.

We then present our findings from scenario analysis, exploring the potential range of impacts and our strategic responses under plausible contrasting climate scenarios (see pages 104 to 109).

PHYSICAL RISKS

	Key impacts identified on our operations and customers	Examples of our actions to mitigate risks and realise opportunities	Primary financial and reputational impacts to our business
Key physical climate risks Increasing frequency and intensity of droughts - risks to water supply, wastewater networks, and services. **Relevant time horizon** Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon This year's risk rating:	• Sustained drought can lead to supply shortfalls with a heightened risk for recovering water storage if there are consecutive drought years. • Risk compounded by high temperature events that increase daily and peak demand for garden watering, crop irrigation, and tourism exceeding the capacity to redistribute water • Drought events lead to loss of supply and de-pressurisation of pipelines, greater incidence of pipe failure and contamination. • More extreme wetting and drying cycles cause soil movement, more pipe movement/ subsidence and bursts/ increased leakage. • Lower river flows as a result of drought events reduce yields. Could lead to reductions in our future abstraction allowances and increased need to	**Current actions:** • Collaborative water resource management planning – West Country Water Resources and Water Resources South East. • Drought planning including more extreme events. Stochastic and multi-year drought analysis to test how water supply systems perform in extreme prolonged droughts. • Prioritisation of support for vulnerable customers during droughts. • Demand management and water efficiency, including Per Capita Consumption (PCC) reductions and leakage reduction strategy. • Smart saver tariff trial • Cheddar 2 reservoir in Bristol and water re-use plant in Poole • Water grid to ensure all strategic reservoirs are connected and improve resilience	**Impacts from mitigating the risk:** We could incur increased expenditure (Opex and Capex) to increase capacity for water supply infrastructure, and to manage drought conditions and water demand. Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon. **Impacts of the unmitigated risk:** Service disruptions could negatively impact our reputation and reduce ODI rewards/ increase

Current risk rating = Medium / decreasing Risk score in 2050 without further action = High / stable Last year's risk rating: Current risk rating = Medium / increasing Risk score in 2050 without further action = High / increasing	release more water to rivers/the environment (see also 'climate-related regulation in the Water sector' transition risk). • Lower groundwater levels reduce borehole yields. Intake, borehole pump and reservoir draw-off levels may not match reduced levels. • Water companies are legally expected to protect, restore and enhance the environment this includes ensuring sustainable abstraction practices to leave enough water for the environment. This becomes more challenging during droughts. • Saline intrusion due to lowering groundwater compounded by sea level rise (see 'Rising sea levels' risk). • Decreased intake raw water quality (see 'Increasing average temperatures and heatwaves' risk). • Impacts on wastewater networks due to low flows from surface water. • Low water levels lead to increased incidents of invasive non-native species (INNS) as they are distressed and seek new habitats.	• Leakbot trial to reduce leakage levels • Smart pond trial to provide a local storage solution • Investigation of regional water transfers. • Potential Abstraction Incentive Mechanism (AIM) schemes. • Enhancements to distribution system to remove bottlenecks/ support us to meet peak demand. • Desalination scheme in development to enhance our drought management in both the Isles of Scilly and Cornwall • Repurposing quarries to provide new storage. **Planned or future actions:** • West Country Water Resources Regional Plan 2029 and Water Resources Management Plan 2029 • water treatment improvements and wastewater reuse • Potential for additional desalination schemes • Ability to convert Mayflower WTW to water re-use plant when, and if required in the future • Mainstream smart ponds	ODI penalties (affecting our revenue). We could face additional expenditure (Opex and Capex) to recover from service disruptions, reduce leakage, and manage water demand. Some of our assets could deteriorate and face impairment due to physical impacts.
Key physical climate risks Gradual and significant increasing average temperatures and heatwaves - risks to water quality and water treatment **Relevant time horizon** Short, medium and long term, with increasing	• Decreased water quality (odour, discolouration, dissolved organics, Cryptosporidium) requiring additional resources and cost to remove pathogens from drinking water or ensure water quality meets regulatory standards at WTWs. • Increased microbe propagation and survivability affecting treatment processes. • Higher septicity levels in received wastewater. • Algal blooms, triggered by catchment runoff, are exacerbated by higher temperatures.	**Current actions:** • Upstream Thinking catchment management tackling raw water quality to increase resource availability in 80% of our drinking water catchments. • Investment in six treatment works including granular activated carbon at certain Water Treatment Works (WTWs). • Robust health and safety practices and management. • Farm water efficiency and resilience project – 1,000 pond nature-based solutions.	**Impacts from mitigating the risk:** We could incur increased expenditure (Capex and Opex) for water and wastewater treatment and odour management, and to increase capacity for water supply infrastructure. Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon.

likelihood and magnitude of risk over each horizon This year's risk rating: Current risk rating = medium / decreasing Risk score in 2050 without further action = high / stable Last year's risk rating: Current risk rating = medium / increasing Risk score in 2050 without further action = medium / increasing	• Higher peak demand for water compounded by reduced runoff yields due to higher temperatures increasing evaporation (see 'Increasing frequency and intensity of droughts' risk). • Decreased water quality during heatwaves compounded by overheating of equipment/assets. • Cascading impacts to interdependent networks (e.g. power supply) from overheating, leading to service disruption. • Increased prevalence of INNS.	• Biodiversity management and INNS programmes. • Installation of cooling systems for equipment/assets. **Planned or future actions**: • Upgrade to granular activated carbon treatment at further WTWs.	**Impacts of the unmitigated risk:** Service disruptions and lower-quality service provision could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue). We could incur increased expenditure (Capex and Opex) to recover our services or use alternative water supplies. Some of our assets could deteriorate and face impairment due to physical impacts.
Key physical climate risks Increasing frequency of heavy rainfall and floods - risks to assets & services, water quality, and the environment **Relevant time horizon** Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon This year's risk rating:	• Impacts from intense rainfall overwhelming the surface water drainage system and from prolonged rainfall leading to groundwater flooding • Flooding of assets and treatment works, loss of access to assets, and greater sediment levels in raw water which disrupt services and potentially impact the environment. • Cascading impacts to interdependent networks (e.g. power supply) from flooding, leading to service disruption. • Increased groundwater leading to increased infiltration into assets. • Increased volumes of storm water exceed pump capacity leading to service failures. • Exceedance of storm tank design and asset flooding/damage with interruption to service. • Increased frequency and duration of storm	**Current actions:** • Drainage & Wastewater Management Plan (DWMP) which includes working closely with other flood risk management organisations to develop shared solutions • Asset flood risk assessments undertaken every five years. • Contingency planning in flood risk hotspots e.g. River Otter, including prioritisation of support for vulnerable customers. • Sites have temporary deployable flood protection. • Investment in PR19 to improve flood defences at four WTWs up to 1-in-1,000-year events. • Catchment management through Upstream and Downstream Thinking. • Continued investment in our WaterFit Plans -	**Impacts from mitigating the risk:** We could incur additional expenditure (Opex and Capex) to improve operational resilience and flood defences, and to enhance our Upstream and Downstream Thinking programmes. Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon. **Impacts of the unmitigated risk:** Service disruptions and combined storm overflows could

Current risk rating = medium / increasing Risk score in 2050 without further action = medium / increasing Last year's risk rating: Current risk rating = medium / increasing Risk score in 2050 without further action = medium / increasing	overflows, with potential impacts to water bodies - including potential closure of beaches. • Increased river flows and risk of bank erosion exposing wastewater pipes increasing the risk of collapse. • Catchment erosion in moorland or peatland areas, with nutrients leaching that increase algal growth in waterbodies and reservoirs. • Dilution of, and rapid variations in, influent flows – longer retention of water in storm tanks leads to increased septicity and operational problems. • Increased flood incidence impacts water quality for some boreholes, may result in temporary inaccessibility or contamination. Increased turbidity of water sources. • Increased river flows and riverbank erosion. Risk to riverside pipework and assets.	reducing storm overflow releases and improving river and coastal water quality, creating and restoring habitat, and looking to inspire local champions to improve water quality through schools and communities. • Partnership flood schemes e.g. Countess Wear Wastewater Treatment Works (WWTW)(Exeter). • Catchment Systems Thinking Co-operative (CaSTCo) project with the Centre for Resilience in Environment, Water and Waste (CREWW). Considers how nature based solutions can help reduce surface water inputs to the combined sewer network. • Natural catchment management plan pilot study. **Planned or future actions**: • Continue to work closely with other flood risk management organisations on our shared responsibility for surface water flooding and drainage. • Further sewer separation schemes in areas at risk. • Surface water drainage plans and investment in key areas. • Expand our Upstream Thinking initiative. • Real-time monitoring and control e.g. at all Combined Sewer Overflows (CSO). Improved data recording has led to more transparency of this risk. • Promote improved understanding that the number of CSOs does not directly equate to environmental or human health impact. • Continue to improve incident management	negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue). We could incur additional expenditure (Opex and Capex) to recover our services and repair damaged assets. Some of our assets could deteriorate and face impairment due to physical impacts.

		• Assess storm overflow solutions using the 'Green First' principle prioritising the consideration of nature-based solutions. Pilot study to develop a natural capital plan.	
Key physical climate risks Rising sea levels and coastal erosion - risks to assets and services **Relevant time horizon** Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon This year's risk rating: Current risk rating = Medium / stable Risk score in 2050 without further action = high / stable Last year's risk rating: Current risk rating = Medium / stable Risk score in 2050 without further action = high / increasing	• Direct asset damage from flooding, storm damage and/or coastal erosion. • Cascading impacts to interdependent networks (e.g. power supply) due to damage from coastal flooding, storm damage and/or coastal erosion. • Rising sea levels increase the extent of the saline intrusion zone. Tidal limits move upstream, causing increased salinity at river intakes. This can cause accelerated asset deterioration and reduced process performance efficacy. • Increased health and safety implications e.g. hydrogen sulphide gas from wastewater treatment works. • Saltwater intrusion of groundwater sources causing source to become unusable (compounded by lowering groundwater levels – see our 'Increasing frequency and intensity of droughts risk). • Coastal estuarine storm overflow discharges become tide-locked hindering free discharge • Increased environmental ambition by other stakeholders to replace lost coastal habitat and manage coastal erosion, impacting our assets and services (in some cases requiring us to carry out actions which may not be funded through the regulatory system).	**Current actions:** • Asset flood risk assessments undertaken every five years. Recent risk assessment incorporates the lasts UK Climate Projections. Informs the development of Shoreline Management Plans to working collaboratively with other land holders on shared solutions. • Managing risk to sites through existing Operational Response and Recovery Plans. • Drainage and Wastewater Management Plan (DWMP) • Prioritisation of support for vulnerable customers. • Improved flood resilience of all assets in the coastal floodplain. • Partnership flood schemes e.g. Countess Wear WWTW (Exeter). • Protection of sites from saline intrusion/incursion (Otter Basin). • Continuing work with stakeholders involved in managing coastal erosion. **Planned or future actions:** • Protection of further sites from saline intrusion/incursion. • Desalination programme to replace 'at risk' sources such as Isle of Scilly boreholes • Ongoing work with other Risk Management authorities to inform the development of the	**Impacts from mitigating the risk:** We could incur additional expenditure (Opex and Capex) for protecting our sites and assets from coastal flooding and saline intrusion. Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon. **Impacts of the unmitigated risk:** Service disruptions could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue). We could face additional expenditure (Opex and Capex) for using alternative water supply if sites/sources become unusable. Some of our assets could deteriorate and face impairment due to physical impacts.

		relevant Shoreline Management Plans	
Key physical climate risks Increasing frequency of extreme weather events and storms – acute risks to assets and services **Relevant time horizon** Short, medium and long term, with increasing likelihood and magnitude of risk over each horizon This year's risk rating: Current risk rating = Medium / decreasing Risk score in 2050 without further action – medium / stable Last year's risk rating: Current risk rating = Medium / increasing Risk score in 2050 without further action – medium / increasing	• Power supply failure due to high winds, heavy rainfall/flooding, lightning at key network and treatment sites and resultant cascading impacts to interdependent networks, including water supply delivery and wastewater management. • Cold snaps and freeze/thaw events leading to pipe bursts/ increased leakage • Reduced ability for our services and assets to recover under consecutive storms • Surges in customer water-use during heatwave events leads to operational challenges to treat and distribute water at pace even when there is enough water in sources (also see 'Increasing frequency and intensity of droughts' risk). • Damage to our assets due to extreme weather and/or heatwaves e.g. overheating of electrical equipment • Decreased water quality during heatwaves	**Current actions:** • Cold weather plan, including prioritisation of support for vulnerable customers. • Investment in centralised control room and alternative water supply teams. • Appointment of a new incident management ream • Improved staff incident training • Working with the other water companies to develop and Business Continuity and Visualisation Tool that will support operational decisions and reduce customer impacts, including to the most vulnerable people • Backup power at plants to manage risks of energy supply interruption. • Programme of generator roll-out • Recovery plans for 100 WWTWs. • Working with other stakeholders (e.g. energy providers) to enhance resilience. • Mutual aid agreements to manage competing responses for aid during emergency events. • Strategic water grid to enhance resilience of supply. • Diversified energy supply with our own generation of renewable energy provides additional energy resilience **Planned or future actions**: • Extend real-time monitoring and control. • Extend recovery plans at more WWTWs. • Invest in mobile Granular Activated Carbon units • Further investment in generating renewable	**Impacts from mitigating the risk** We could incur additional expenditure (Opex and Capex) for maintenance and upgrades to assets to enhance resilience to storms. Some of these costs could be recoverable through the regulatory system. Increased energy and material use could impact our operational and embodied carbon. **Impacts of the unmitigated risk** Service disruptions could negatively impact our reputation and reduce ODI rewards/increase ODI penalties (affecting our revenue). We could face additional expenditure (Opex and Capex) to restore services and repair assets. Some of our assets could deteriorate and face impairment due to physical impacts.

		energy and back-up power. • Use of drones during drought and high temperature events to identify leaks. • Public value assessments in decision-making (balancing trade-offs of different agendas, and contradictions in the regulatory framework). • Seeking opportunities for additional funding, making the investment case based on core water company activities. • Future climate adaptation planning and transition planning.	

CLIMATE TRANSITION RISKS

	Key impacts identified on our operations and customers	Examples of our actions to mitigate risks and realise opportunities	Primary financial and reputational impacts to our business
Type as defined by TCFD Policy, Regulation and Legal Risks **Relevant time horizon of risk** Short and medium term Potential for this risk to decrease over time as regulation evolves to remove contradictions and misalignment, and as leadership on climate action becomes commonplace	**Risk of challenges balancing trade-offs in regulation in the Water sector between agendas of Net Zero, climate resilience, environmental enhancement, and other objectives, posing the risk of increasing costs and carbon:** Potential undesired climate outcomes due to trade-offs in regulatory priorities. Challenges with balancing objectives to improve environmental outcomes while reducing carbon emissions at the same time as rapid changes in climate-related policies and regulations are occurring in the Water sector. A holistic and balanced approach to delivering our goals for Net Zero, providing a resilient water supply and protecting and enhancing the environment, could be at risk if one agenda imposes more stringent regulation, thus presenting a misalignment in the pace with which preferably holistic actions	**Balancing trade-offs from actions to address different agendas in policy and regulation:** Current actions: • Horizon scanning to identify emerging/changing regulation. • Stakeholder engagement/public relations management. • Net Zero programme. • Engaging with regulators to explain the climate change impacts of new regulation. • Working with others in the sector to clarify carbon accounting approaches. • Widely engaged with around 200,000 customers and stakeholders over the past 2 years in developing PR24 business plan. These engagement activities will continue across the region. • Working with our WaterShare+ Customer Advisory Panel gives us an opportunity to continuously engage our customers and	**Impacts from mitigating the risk:** We could incur increased expenditure (Capex and Opex) due to changes to regulation, for example costs related to installation and operation of new process equipment to meet enhance regulations. Some of these costs could be recoverable through the regulatory system. Increased energy and

across Government and the economy. Current Risk Rating = medium / stable Last year's risk Rating = medium / increasing	can be delivered relative to actions that benefit a single more stringent agenda. In some cases, new/enhanced policies and regulations pose a risk due to increasing costs to South West Water or increasing our carbon footprint, in other cases the absence of policies and regulation pose a risk due to potential that costs incurred by South West Water may not be recovered through the regulatory system. Some examples include: • More stringent environmental regulation being imposed in response to the climate adaptation and nature positive agenda, including the pace with which requirements are being imposed • Reduced abstraction allowances and increased compensation flows into our rivers being imposed (see our 'drought' physical risk) • Increased environmental ambition by other stakeholders to replace lost coastal habitat and manage coastal erosion (see our 'rising sea levels' physical risk). • Changes to carbon accounting methodologies and scope boundaries, including changes to location-based GHG accounting methodology instead of market-based accounting (e.g. disincentivising power purchase agreements (PPAs) for renewable energy). • Use of modular desalination to ensure drought resilience at pace, however requires increased energy consumption • Enhanced requirements which increase South West Water's energy and carbon footprint e.g. phosphorus removal, UV disinfection, reducing combined sewer overflows in cases where the scale and pace required disadvantages nature-based solutions. • Regulation in contradiction to achieve overall Net Zero goals, and regulatory system	share our work on sustainability and resilience. • Adaptive planning approach within dWRMP24, including high, moderate, and low environmental ambition. • Considering options which South West Water can take outside of the regulatory framework (e.g. offsite investment in renewable energy). • Ofwat innovation fund being explored to provide additional investment to support South West Water's ambitious objectives • Establishment of the Centre for Resilience in Environment, Water and Waste (CREWW) to collaborate with academia and tackle challenges facing water sector Future actions: • Pursuing opportunities through our Upstream Thinking programme which includes nature-based solutions where these are acceptable under the regulation. • Investment in innovation/ research and development, and investment in enhancements to resilience to key climate risks. • Considering applying an internal carbon price to consider full costs and benefits of decisions. • Public value assessments in decision-making (balancing trade-offs of different agendas, and contradictions in the regulatory framework). • Seeking opportunities for additional funding, making the investment case based on core water company activities. • Future climate adaptation planning and transition planning.	material use to meet increased regulatory requirements has potential to increase our carbon footprint through operational and embodied carbon. **Impacts of the unmitigated risk:** If we fail to balance regulatory requirements, we could face reduced ODI rewards/ increased ODI penalties (affecting our revenue). Public perception of how we balance trade-offs could result in negative impacts on our reputation (see our 'Negative public and stakeholder' reputation risk). Some of our assets could incur obsolescence and impairment If they are driving high carbon emissions or poor environmental outcomes.

	providing limited incentives for wider Net Zero action outside of the regulated water business.		
Type as defined by TCFD Policy, Regulation and Legal Risks **Relevant time horizon of risk** Short and medium term In the short term the risk is more focused on funding to achieve Net Zero, over the medium and long term the risk will increasingly focus on funding to enable adaptation to climate change. Current Risk Rating = medium / stable Last year's Risk Rating = medium / stable	**Regulatory funding risk for achieving South West Water's goals for operational Net Zero by 2030 and adapting to climate change:** Risk that the investment required to transition to operational Net Zero by 2030, and investment to proactively adapt to climate change in the time period targeted by South West Water, is not allowed under the regulatory framework.	**Managing regulatory funding risk:** **Current actions:** • Business planning and integration of carbon and multi-capitals into decision making framework. • Engagement with regulators and customers and stakeholders. • Public campaigns/awareness of investment need for climate action including TCFD programme. • Exploring options to ensure a return on investment for some climate-related actions. • Demonstrating/communicating that Net Zero 2030 for the water sector is a helpful milestone on the way to Government's goal for Net Zero 2050. • Exploring options which South West Water can take outside of the regulated water businesses (e.g. offsite investment in renewable energy, enhancing revenue through water transfers and water resource schemes for other companies). • Horizon scanning for opportunities to achieve Net Zero under available regulatory finding mechanisms **Future actions:** • Explore options for third-party funding or partnerships for climate action. • Potential for South West Water to review climate change objectives if they are not supported by regulators and Government • Bioresources investment plan (pending funding).	**Impacts from mitigating the risk:** We could incur increased expenditure (Capex and Opex) to take actions outside of the regulated water business, and to enhance engagement with regulators and stakeholders. There is potential for us to increase our revenue through some actions. See our 'Products and Services' climate opportunity. **Impacts of the unmitigated risk**: If we cannot proactively invest in carbon reduction and climate resilience we could face reduced ODI rewards/ increased ODI penalties (affecting our revenue). Increased costs to our customers in the long-term would negatively impact our reputation (see our 'Negative public and

			stakeholder' and 'Customer affordability' reputation risks). Some of our assets could deteriorate and face impairment due to physical impacts from climate change. We may be limited in our ability to reduce our carbon emissions due to funding constraints.
Type as defined by TCFD Technology Risks **Relevant time horizon of risk** Short and medium term In the short term the risk is primarily driven by limited supply and readiness of technology and resources (due to past underinvestment in skills development across the UK and beyond), over the medium term the risk will be increasingly driven by high demand for technology and resources.	**Capacity and readiness of technology and resources to achieve Net Zero before other sectors and the wider UK:** Risks that skills, technology, resources, and infrastructure are not ready and available to enable South West Water's transition to Net Zero operational carbon by 2030, resulting in delays and in some cases resulting in South West Water paying high costs to access resources. Some examples include: • Availability and capacity of South West Water's workforce and supply chain to procure and design low-carbon solutions (which is compounded by wider risks, such as geopolitical events and macro-economic conditions such as high inflation). • Availability and capacity of technology and infrastructure, particularly in the Great South West of England, to enable development Net Zero programme activities. • High demand for resources and technologies from others causing delays and increasing costs for South West Water (e.g. demand for expertise, batteries, electric vehicles). • Unsuccessful investment in new technologies/ approaches, or technology which is then superseded,	**Managing capacity constraints:** **Current actions:** • Continual enhancement of capacity within South West Water (e.g. training, recruiting key skills). • Collaboration with supply chain partners (e.g. consultants, technology providers, contractors). • Collaboration with stakeholders (e.g. academia, environmental groups in the Great South West). • Collaboration with other water companies and across the sector to develop standard approaches and enhance capacity. • Nature-based solutions capacity enhanced through South West Water's Green First Framework and Biodiversity strategy. **Future actions:** • Prioritising actions/solutions which are low-regret/ flexible e.g. nature-based solutions • Piloting options/technology before scaling. **Managing supply chain and infrastructure limitations:** **Current actions:**	**Impacts from mitigating the risk:** We could incur increased expenditure (Opex) to build capacity across our company and supply chain, and increased costs to access skills and technology to meet our targeted timeline. Some of these costs could be recoverable through the regulatory system. **Impacts of the unmitigated risk:** We could incur increased expenditure (Capex and Opex) due to delays with implementing solutions to reduce

Current Risk Rating = medium / stable Last year's Risk Rating = medium / increasing	including risks around recovering costs through the regulatory system. • Innovation required to reduce process emissions is of larger scale than originally understood, amplifying the risk of potential unsuccessful R&D Investments, and the risk of taking investment decisions which in future turn out to be suboptimal / high-regret. • Readiness of some nature-based solutions for implementation and some uncertainty in performance of nature-based solutions.	• Horizon scanning to identify emerging limitations and risks. • Engagement with key suppliers and partners and enhancing collaboration with partners and stakeholders. • Engaging with infrastructure providers, regulators, and Government to encourage investment to enable network capacity. • Enhancing capacity within South West Water to reduce reliance on suppliers. • Purchasing renewable electricity. **Future actions:** • Procurement strategies for key technologies/expertise. • Enhancing supply chain resilience (e.g. diversification of suppliers). • Exploring options which are less reliant on network capacity (e.g. onsite battery storage). **Managing costs to transition:** **Current actions:** • Seek to fund investment through the regulatory process (business planning and price reviews). • Investment in innovation to reduce costs of low-carbon technology. **Future actions:** • Increasing efficiency to reduce costs (see our 'resource efficiency' transition opportunity). • Recovering some costs from retired assets (e.g. selling used equipment) • Explore partnership opportunities (e.g. PPAs). **Managing research and development investment:** **Current action:** • R&D programme with gated investment (e.g. piloting before scaling up).	operational carbon emissions, and due to high demand for resources. Unsuccessful investment in new technologies could also result in increased expenditure. We could incur penalties and/or negative impacts to our reputation if delays in technology and resources mean we do not meet our targets and/or Net Zero programme (see our 'Negative public and stakeholder reputation' risk). We may be limited in our ability to reduce our carbon emissions.

		• Horizon scanning to identify emerging technology and risks. • Procurement strategies to reduce costs (e.g. competitive tendering, joint ventures). • Learning from others in the water sector in UK and international. • Engagement with regulators and community to test acceptability of strategies and schemes and seek to build support for innovation culture and understanding across regulators and government. **Future action:** • Prioritising solutions that are low-regret, particularly nature-based solutions through piloting technology before scaling.	
Type as defined by TCFD Market Risks **Relevant time horizon of risk** Short and medium term In the short term the risk is primarily driven by limited supply of renewable energy and low-carbon materials (due to past under investment in infrastructure and materials across the UK and beyond), over the medium term the risk will be increasingly driven by high demand for renewable energy and low-	**Increased costs of energy and materials due to the transition to Net Zero, impacts of climate change, and wider factors:** Increases in costs of energy sources and input materials - influenced by the Net Zero transition and/or impacts of climate change and compounded by geopolitical events and macro-economic conditions (e.g. such as high inflation). Some examples include: • Record high price for electricity, particularly 100% renewable electricity/REGOs, which may remain in high demand/ limited supply. • Price of liquid fuels and gas increasing due to transition to Net Zero and geopolitical events. • Price of chemicals and construction materials (e.g. cement, steel) increasing as energy prices increase and in some cases as carbon reduction measures increase across supply chains (adding costs to production of materials in the short/medium term). • Price of some technologies for generating renewable electricity has increased due to high demand/limited supply.	**Managing cost of energy:** **Current actions:** • Generation of renewable energy by South West Water, including exploring additional options and power purchase agreements (PPAs). • Championing upscaling of renewables across our regions. • Acquisition of renewable energy generation projects, supporting energy resilience and helping to stabilise South Wet Water's energy costs. • Increasing efficiency to reduce energy demand (e.g. enhance energy efficiency, reduce leakage - see our 'resource efficiency' opportunity). • Electricity price hedging. **Future actions:** • Fuel switching (e.g. eliminating fossil fuels for alternatives, at lower cost where possible). • Changing operational practices to reduce energy use/ energy expenditure (e.g. taking advantage of off-peak electricity pricing). • Exploring options which require less energy (e.g. nature-based solutions). • Action taken by Government and wider actors to increase energy security and supply of low-carbon energy.	**Impacts from mitigating the risk**: We could incur increased expenditure (Capex and Opex) due to investment in generating renewable energy or using alternative/low-carbon materials. Some of these costs could be recoverable through the regulatory system, and in some cases there will be a return on investment (see our 'energy source' and 'markets' climate opportunities). **Impacts of the unmitigated risk:**

carbon materials. Current Risk Rating = Medium / decreasing Last year's Risk Rating = Medium / decreasing		**Managing cost of input materials:** **Current actions:** • Procurement strategies to reduce cost (e.g. competitive pricing). • Whole life carbon tools allow more complete understanding of costs of high-carbon materials • Enhanced supply chain resilience by diversifying and expanding suppliers, helping to increase competitiveness and to reduce cost. **Future actions:** • Increasing efficiency to reduce material use and light-weighting/reducing material consumption. • Investing in innovation to use different chemicals and materials (e.g. use of excavated materials and waste recycling).	We could incur increased expenditure (Capex and Opex) due to increased cost of energy/REGOs and materials. We may be limited in our ability to reduce our carbon emissions.
Type as defined by TCFD Reputational Risks **Relevant time horizon of risk** Short and medium term In the short term customers and stakeholders are primarily concerned about impacts on water quality and aquatic environments. Over time it is likely that customers and stakeholders will have higher	**Negative public and stakeholder relations due to South West Water failing to be a seen as a leader in environmental sustainability:** Negative perception from the public/stakeholders/regulators, possibly linked to a major climate-related incident/event/failure. Some examples include: • Public concern about climate-induced pollution events and sewer overflows (e.g. after storms linked to climate change). • Customers and stakeholders concerned about the environmental impact of abstraction and wastewater discharge in response to the climate adaptation agenda. • Asymmetry of information which customers notice, for example less focus on our action to reduce carbon and more focus on activities which may be seen as high energy, such as desalination (even though desalination would be powered by renewable	**Managing public and stakeholder relations:** **Current actions:** • Risk management practices. ISO14001 Environmental Management System • Investment to reduce key risks, including our WaterFit programme. • Net Zero programme. • Environmental programmes (e.g. Water Industry National Environment Programme – WINEP) and Biodiversity strategy • Customer and stakeholder engagement/public relations (e.g. PR24 engagement with out customers to discuss and address concerns and priorities). • Community outreach and educational programmes. • Engagement and pilots to test and build customer acceptability for schemes. • '6 capitals' considered in decision making. • Continuous engagement with research partnerships like CREWW too strengthen	**Impacts from mitigating the risk:** We could potentially incur increased expenditure (Opex) to manage stakeholder relations and public perception to mitigate reputational impacts. **Impacts of the unmitigated risk:** Public perception of our environmental actions and performance could result in negative impacts

concern for carbon emissions and other sustainability objectives. Current Risk Rating = High / stable Last year's Risk Rating = Medium / increasing	energy). Greater media coverage of negative impacts more than positive actions compounds this risk. • Shifts in stakeholder/customer expectations related to carbon and climate which are difficult for Water companies to manage. • Stakeholder and customer dissatisfaction if South West Water fails to meet Net Zero commitments.	stakeholder involvement through our innovation programmes • Involvement of stakeholders in out Nature Recovery Programmes (e.g. farmers and landowners) **Future actions:** • Consider applying an internal carbon price to consider full costs and benefits of decisions. • Consider new ways to enhance engagement with customers and communities and increase engagement and raise profile of positive actions (e.g. tree planting). • Launching a WaterFit Advisory Panel to engage stakeholders and help with net zero and pollution issues. • Expanding the Watershare Plus Scheme to one in every 10 households and 'walk together' with our stakeholders/customers. • Continue with our 'Promise to the Planet' to become Net Zero by 2030 by decarbonising our operations and reducing emissions of Nitrous Oxide and repurposing methane. • Considering enhancements to South West Water's sustainability policies and practices.	on our reputation (see also our 'Challenges balancing trade-offs' policy transition risk).
Type as defined by TCFD Reputational Risks **Relevant time horizon of risk** Short and medium term The need for additional investment to meet the Net Zero and climate adaptation challenges will	**Customer affordability and fairness concerns for achieving Net Zero and adapting to climate change:** Affordability for customers and questions around fairness become very challenging, even with Government contribution to water and wastewater bills (this is compounded by cost-of-living pressures). This risk includes: • Large investment needs related to climate change, which could result in dissatisfaction from customers and stakeholders. • Questions relating to fairness for paying for climate adaptation, for example high costs/impacts being imposed on residents in Cornwall and Devon due to greater exposure to coastal change, whereas	Managing customer affordability: **Current actions:** • Secured Government contribution to customers' bills. • Customer and stakeholder engagement/public relations (including engaging with regulators and Government about sharing costs etc.), including community outreach and educational programmes to help explain need for investment in climate action. • Seeking return on investment for actions taken to manage climate change. • Arrangements with/requirements on suppliers to cover some costs (e.g. building and vehicle leases). • Procurement strategies to reduce costs (e.g. competitive tendering, joint ventures etc.)	**Impacts from mitigating the risk:** We could potentially incur increased expenditure (Opex) to manage public perception of our investments to mitigate reputational impacts (e.g. raising profile of our opportunities).

likely continue to impact across the medium term, particularly if global climate action is slow and the physical impacts are greater. Current Risk Rating = Low / stable Last year's Risk Rating = Medium / increasing	other water companies may not have as high costs/impacts. • Multiple agendas and misalignment from different Government departments and regulators requiring increased investment from water companies.	• Support programmes and social tariffs for customers struggling to pay bills. • Exploring actions to reduce costs across the business • Becoming more efficient to reduce costs and impacts on customer bills. • Exploring innovative tariffs to ensure fair bills • WaterShare+ engagement scheme to encourage customers to be involved in the company's decisions • A limit to out bill increases until 2025 • On course to meet our Board's pledge of zero customers in water poverty by 2025 • £200m of affordability support included in PR24 business plan • PR24 Business Plan puts forward one of the lowest bill increases in the water sector • Smart saver tariff initiative will be trialled for two years with a selection of customers in the Barnstable area – 90% of those taking part are expected to see a reduction in their bills. **Future actions:** • Innovation programme seeking to reduce costs. • Recovering some costs from retired assets (e.g. selling off). • Seeking third-party sources for investment (e.g. climate action grants/funds, partnership funding). • Considering flexibility in climate commitments to reduce cost pressures on customers. • Rollout of smart meters across Bristol, Bournemouth, Roadford and Colliford by 2040 and continuous support of customers through other water efficiency initiatives that help in affordability. • Encourage and ensure that more customers have a stake in the company through WaterShare+ scheme. • Improvements in digital and self-services for easy interaction with our customers.	**Impacts of the unmitigated risk**: Public perception of our investments and expenditure could result in negative impacts on our reputation if our decisions and investments do not align with customer priorities (see also our 'Challenges balancing trade-offs' policy transition risk). We could incur penalties if we failed to support customers in need / vulnerable customers suffering from high bills.

CLIMATE RELATED OPPORTUNTIES

	Key impacts identified on our operations and customers	Examples of our actions to mitigate risks and realise opportunities	Primary financial and reputational impacts to our business
Type as defined by TCFD Resilience **Relevant time horizon of risk** Short, medium, and long term Enhancing resilience to climate change and extreme weather events is of high relevance today, with increasing likelihood and magnitude of risk over each horizon. Current opportunity rating = increasing Last year's opportunity rating = increasing	**Enhancing resilience across South West Water's operations, asset base, and supply chain to avoid costs and enhance value:** Opportunity to invest in enhancing resilience across South West Water's business and supply chain, in some cases saving costs (e.g. avoided damage to assets, avoided losses in revenue, avoided penalties on ODIs and GSS) and enhancing company reputation and value. Some examples include: • Enhancing South West Water's resilience by investing in climate change adaptation (e.g. investing in drought and flood prevention measures to avoid customer disruption/ penalties/ compensation payments and avoid asset damage) • Enhancing supply chain resilience by investing in buffers/storage for critical resources, diversifying suppliers, replacing suppliers who have high climate risks, thereby reducing potential risks and costs associated with supply chain disruption and delays.	**Enhancing South West Water's resilience:** **Current actions:** • Investment in diversifying water sources, including desalination and repurposing ex-quarries and mines • Pursuing new reservoir capacity through regulatory frameworks. • Company resilience planning. • Climate risk assessments and climate adaptation planning. • Engaging stakeholders and regulators and customers. • Investments in response and recovery to operational disruption. • Ongoing upgrade and modernisation of our infrastructure (e.g. water treatment works, water reservoirs). **Future actions:** • Actions to adapt to climate change (e.g. enhancing drought resilience) and to mitigate climate risks. • Tackling storm overflows at our bathing beaches and across our regions • Investing in desalination plant in Cornwall by 2025, and wastewater treatment in Isles of Scilly • Incorporate nature-based solutions to reduce drainage and storm overflows • Expand sludge treatment processes to protect our rivers • Our financial plan is solid in order to meet these capital	**Impacts from mitigating the risk**: Potential to reduce and avoid costs (Opex) and enhance our reputation by preventing disruptions to our services. We could also incur reduced penalties/ increased rewards for performance on ODIs (e.g. supply interruptions, leakage, and water quality), therefore increasing our revenue. However, this requires significant investment (Opex and Capex), including strengthening our infrastructure and enhancing our adaptive capacity. Some of these costs could be recoverable through the regulatory system. We will need to manage the carbon footprint associated with schemes related to climate resilience.

		investments to enhance resilience **Enhancing supply chain resilience:** **Current actions:** • Enhancing capacity within South West Water to reduce reliance on suppliers (e.g. generating renewable energy - see our 'energy source' opportunity). • Existing storage and buffers for resources (e.g. chemical storage, parts storage). • New commercial framework expanded supply chain diversity across Tier 1,2 and 3 suppliers. **Future actions:** • Actions to enhance supply chain resilience (e.g. diversifying suppliers/ location of suppliers) - see also our actions for managing supply chain under our 'technology' risks. • Procurement strategies (e.g. requirements on suppliers to meet ESG criteria/ low climate risks). • Investments in response and recovery to supply chain disruption. • Continuous engagements and collaboration with our supply chain and discuss on priorities such as Nature First principle.	
Type as defined by TCFD Energy Source **Relevant time horizon of risk** Short and medium term	**Reducing carbon and enhancing energy resilience by using and generating renewable energy:** Opportunities to lower carbon emissions by using renewable energy and opportunities to invest in renewable energy generation which can lower our carbon emissions, enhance our energy resilience (e.g. less	**Using renewable energy:** **Current actions:** • Procurement strategy for renewable energy to minimise the impact of increasing costs of energy. • Supply contract for 100% renewable energy by 2023 for South West Water (currently does	We could incur increased expenditure (Capex and Opex) due to investment in generating renewable energy, however this has potential to reduce our carbon footprint. Some of these costs could be recoverable

This opportunity is of high relevance to meet our 2030 Net Zero target, with continued relevance into the medium and long term due to increasing market risks to energy pricing and resilience of energy supply as physical risks increase in magnitude and likelihood over each horizon. Current opportunity rating = Increasing Last year's opportunity rating = Increasing	reliance on energy suppliers), and enhance our revenue through sale of renewable energy. Some examples include: • South West Water's commitment to purchase 100% renewable electricity from 2022 onwards. • South West Water's commitment to reach up to 50% renewable energy self-generation by 2025 • Generating renewable energy on South West Water's sites and through partnerships (e.g. PPAs) such as through generating energy from wastewater and sludge, and generating electricity through solar and wind. • Switching fuels to lower-carbon sources, such as switching diesel to renewable electricity and HVO as a transition fuel.	not apply to Bristol Water operations). • Generation of renewable energy by South West Water, Including exploring additional options and power purchase agreements (PPAs). • Net Zero programme. • Prioritising investment to deliver highest carbon reduction and seeking return on investment (ROI) where possible. • Investment in generating renewable energy. Future actions: • Trialling low-carbon fuels. • Innovation programme (e.g. exploring options to generate and recover energy from sewers). • Use of energy recovered from bioresources to power our operations • Engagement with potential partners for PPAs. • Establishing the commercial and legal arrangements to co-fund renewable energy investments.	through the regulatory system). Investment in renewables could reduce expenditure (Opex) In the long term if electricity prices continue to rise (see our 'market' transition risk and 'market' opportunity). We could enhance our revenue through selling renewable energy. We will need to manage the carbon footprint associated with generating renewable energy.
Type as defined by TCFD Markets **Relevant time horizon of risk** Short and medium term In the short term the opportunity is more focused on financing to achieve Net Zero and current physical risks; over the medium and long term the opportunity will increasingly focus	**Generating value and reducing our financing costs through sustainable financing:** Opportunity to reduce our cost of finance (and avoid cost increases) through access to sustainable financing and generation of green financial assets. Our Sustainable Finance Framework is part of our strategy for taking action on climate change, and our approach is evolving as policy and markets change and information becomes available. We are exploring the implications for our business, including regulatory developments such as the EU Taxonomy/UK Green Taxonomy.	**Sustainable finance:** **Current actions:** • Sustainable financing framework. • TCFD and TNFD programme. • Investigating requirements to access sustainable finance markets. • Procurement and finance strategies. • ESG initiatives. **Future actions:** • Establishing commercial and legal arrangements for buying and selling green financial assets/credits. • Future disclosure/ESG initiatives (e.g. EU/UK	Through sustainable financing, we have potential to reduce our expenditure by avoiding cost increases related to financing/ cost of capital. We also have potential to enhance our reputation and mitigate reputational risks (see our 'reputation' transition risks).

on environmental targets and climate change resilience to long term challenges. Current opportunity rating = increasing Last year's opportunity rating = increasing		taxonomy, Taskforce on Nature-related Financial Disclosures, ISSB, Transition Plans/TPT). • Exploring opportunities to attract third-party funding. Our low gearing ratio will enhance our ability to raise funding for our business plan.	
Type as defined by TCFD Resource Efficiency **Relevant time horizon of risk** Short and medium term In the short and medium term, investment in resource efficiency is central to many of our options and decisions in our business plan and WRMP's best value plan. This will enhance our resilience, our ability to meet our environmental and our Net Zero targets and enhance our revenue over the medium and long term. Current opportunity rating = Increasing	**Saving water, energy, materials, and carbon by enhancing efficiency, using low-carbon and nature-based solutions, and reducing emissions across South West Water's supply chain:** Opportunities to invest in enhancing efficiency and reduce wastage of water, energy, and materials, opportunities to use low-carbon construction, approaches, and nature-based solutions, and opportunity to work with suppliers to reduce their carbon footprints and enhance their sustainability. Some examples include: • South West Water's leakage reduction programme, water efficiency programme, smart metering, rainwater harvesting, grey water, incentivising customers to use less hot and cold water. • Enhancing efficiency of process equipment (reducing energy use and chemical use), energy-saving measures for buildings and transport. • Substituting construction materials for low-carbon alternatives, local sourcing of materials, enhancing efficiency of material use in construction.	**Enhancing water efficiency:** **Current action:** • Demand management and water efficiency programme (within South West Water's own operations and across customer networks), including Per Capita Consumption (PCC) reductions and leakage reduction strategy and customer incentive schemes like Cornwall's Stop the Drop in reservoir levels • Continuing installation of AMI Smart metering that provide data on water usage directly to customers. • Customer education/outreach. • Continuing to support our community fund which support water saving projects like the Heathfield Allotment Trust • Incorporation of carbon values into capital planning and decision making • Farm water efficiency and resilience project – 1,000 pond nature-based solutions. • Continue to use data from our customers' smart meters and make sure we address water leaks • Continuing to offer free fixing of leaks around	Potential to reduce our carbon footprint and our Opex in some cases where there are cost savings from resource efficiency. However this requires significant investment (Opex and Capex), including additional monitoring, metering, and capital projects. Some of these costs could be recoverable through the regulatory system. We will need to manage the carbon footprint associated with actions to realise resource efficiency opportunities.

Last year's opportunity rating = Increasing	• Using technology to avoid high-carbon interventions, such as using Real Time Control in sewers to increase operational capacity instead of constructing bigger sewers (see also our 'technology' risk). • Constructing wetlands for wastewater treatment and sustainable drainage systems (SuDS) to reduce capital and operational carbon. • Removing carbon from the atmosphere through investing in marine carbon opportunities, restoring peatlands, tree planting, and soil and grassland activities. • Working with suppliers to reduce their carbon footprints and enhance their sustainability, and opportunity to access new suppliers with high ESG credentials.	our customers' houses if they meet set criteria **Future actions:** • Rainwater harvesting • Incentivising customers to use less water. • Extend real-time monitoring and control. • Help our customers affordability levels through water efficiency schemes/devices/home visits, metered tariffs and helping with debt. **Enhancing process, building, and transport efficiency:** **Current actions:** • Actions to enhance process efficiency. • Energy efficiency programme for South West Water's buildings. • Requirements in leases for efficient buildings. • Changes to operational practices to reduce need for travel (e.g. remote monitoring and control). • Procurement/leasing of efficient vehicles. **Future actions:** • Investments in innovation to enhance efficiency. • Changes to operational practices to enhance efficiency (e.g. real time monitoring and control). • Partnerships with suppliers/ outsourcing specific operations. • Employee carpooling. • Light-weighting vehicles. **Using low-carbon solutions:** **Current actions:** • Implementing capital carbon accounting.	

		• Implementing carbon values in capital planning and decision making **Future actions:** • Net Zero programme (embodied carbon initiatives) • Engagement with supply chain to promote/ensure low-carbon solutions are prioritised • Procurement strategies (e.g. requirements on suppliers). • Innovation programme (e.g. exploring alternative materials and approaches). • Collaborations with supply chain (e.g. optioneering to reduce embodied carbon). • Learning from other companies in UK and internationally. **Using nature-based solutions:** **Current actions:** • Embedding natural capital into decision making. • Investing in innovation and piloting. • Practicing catchment management to improve our land **Future actions:** • Establishing partnerships with stakeholders (e.g. landowners; see our Upstream Thinking catchment management programme). • Collaborations with supply chain (e.g. optioneering considering nature-based solutions). • Learning from other companies in UK and internationally. • Use our Green First principle to make sure	

		that nature-based solutions are prioritised • Launch our Nature Recovery Fund to help support nature recovery programmes in our region **Reducing supply chain carbon:** **Current actions:** • Engaging with suppliers. **Future actions:** • Procurement strategies (e.g. requirements on suppliers to meet ESG criteria/ low climate risks, reduce emissions), • Learning from other companies in UK and internationally • Diversifying supply chain to lower emissions/risks, • Sourcing locally where possible • Life cycle assessment requirements for suppliers.	
Type as defined by TCFD Products and Services **Relevant time horizon of risk** Short, medium term and long term Opportunity in the short, medium and long term to enhance South West Waters revenue through delivery of Strategic Water Resource and	**Enhancing revenue through providing resilient water solutions, bioresources, and expertise to other water companies:** Opportunities to invest in water resources schemes linked to climate change, bioresources opportunities which align with the transition to Net Zero, and other opportunities to enhance our revenues. Some examples include: • Delivering strategic resource options (SROs) and resilient water solutions for other water companies e.g. modular desalination technology. • Opportunities to sell expertise and technologies for water efficiency and leakage reduction.	**Delivering water resource schemes and bioresources opportunities:** **Current actions:** • Preparatory work on three Strategic Water Resource schemes. • Engagement with other water companies, engagement with regulators and stakeholders. • Business plan includes opportunity related to pyrolysis for bioresources • Establishing commercial and legal arrangements for SROs	Potential to increase our revenue through delivering SROs and selling bioresources and our expertise to peer companies. However, this requires significant investment (Opex and Capex) to enable these opportunities. Some of these costs could be recoverable through the regulatory system. We will need to manage the carbon footprint associated with our DRO and bioresource schemes.

bioresources schemes. Current opportunity rating = Increasing Last year's opportunity rating Not included last year	• Opportunities to sell bioresources (e.g. biogas, nutrients, sludge etc.) • Opportunities to provide/sell expertise in bioresources to other companies	• Continued roll-out of new technology in our region **Future actions:** • Engagement with customers to build support (e.g. social license). • Innovation and R&D in collaboration with CREWW.	

SHORT-, MEDIUM- AND LONG-TERM HORIZONS

In determining our strategy, we have processes in place for identifying, assessing, and responding to climate-related risks and opportunities. In shaping the strategy, we consider short-, medium-, and long-term horizons.

Short-term – 1 to 10 years

Over this horizon we define key targets (operational, financial, sustainability) and we consider changing regulatory frameworks and emerging Government policies. We develop business plans every 5 years, defining our actions and investments over this period. Operational risks are planned and budgeted for over this time frame and planning begins during this period for the next regulatory period. Our operational Net Zero 2030 commitment falls within this time horizon, as well as the price review in 2029 (PR29). Transition risks and opportunities are likely to have the largest impacts to our business across this period, with physical risks projected to increase over time.

Medium-term – 10 to 30 years

Water and wastewater treatment assets have a typical life of up to 30 years and will therefore be reviewed relative over this horizon. Our WRMP and DWMP strategic plans consider requirements across this period. Major projects and operational plans will be renewed and managed over this time frame to ensure projects meet the correct regulatory period plans. Our 2045 total Net Zero target falls within this horizon, as well as the UK's 2050 Net Zero target, which will continue to present emerging policy and market changes. Transition risks and physical risks will both impact our business across this period to varying levels depending on global GHG emissions and the Net Zero pathway taken by the UK and globally.

Long-term – 30 to 100 years

Typically for longer-term strategic direction, risk, and resilience planning. Investment requirements for our long-life assets are considered such as mains pipes and reservoirs. Over this time period the planet is currently projected to warm by over 3°C, however there is much uncertainty related to the effectiveness of global climate change mitigation. Physical climate risks are likely to have the largest impacts to our business over this time horizon.

CLIMATE SCENARIO ANALYSIS

Scenarios

In alignment with the TCFD guidance, we have assessed the risks and opportunities associated with climate change and the transition to a Net Zero climate-resilient economy. We have used plausible contrasting scenarios to explore the potential range of impacts in the future and in turn the possible range in our strategic responses required to mitigate risks and build adaptive capacity in an uncertain future. Our physical risk scenarios are informed by the IPCC's Representative Concentration Pathways (RCPs) from the IPCC's 5th assessment (2014), including a high and a low emissions scenario, which are also used as the basis for planning by Ofwat as part of our PR24 methodology.

The IPCC's 6th Assessment report was released in 2023, and in it the IPCC has adopted new climate scenarios know as Shared Socioeconomic Scenarios (SSPs). However, Pennon has continued to use the RCP scenarios due to these being mandated by Ofwat's PR24 methodology. Our transition scenarios are informed by high and low levels of socio-economic drivers surrounding policy ambition, the speed at which policy is implemented, and the pace of technological advancement. This year we have updated our transition risk assessment to adopt transition scenarios developed by the Network for Greening the Financial System (NGFS). These transition scenarios have become widely adopted in the UK and supersede the previous bespoke transition scenarios we used in the previous years. The two Network for Greening the Financial System (NGFS) transition scenarios we used are: (1) Orderly transition, aligned to the NGFS Net Zero 2050 and (2) Hot house world aligned to the NGFS Current Policies. Also, important to note that the NGFS Net Zero 2050 aligns fairly closely with the IEA Net Zero 2050 scenario. We have selected these contrasting scenarios as they span a range of possible futures, and present different challenges and opportunities for our business.

The NGFS Disorderly Transition Scenario has also been considered, but our view is that negative impacts for our company are more significant under the NGFS Current Policies Scenario, so it is this one that has been the focus of our scenario analysis to provide a stress test of our resilience.

We will continue to re-visit our scenario analysis in future, including considering the merit in selecting additional scenarios.

Our scenarios can be defined as follows:

Physical risk scenarios

- **RCP2.6[11]: Lower Physical Impacts** - an approximate 2°C warming scenario by the year 2100 – corresponding to a low emissions 'optimistic' scenario.
- **RCP8.5[1]: High Physical Impacts** - an approximate 4°C warming scenario by the year 2100 – corresponding to a high emissions 'business-as-usual' scenario, which is appropriate to use when considering high risks.

Climate Transition risk scenarios

- **1.5 degree scenario NGFS Net Zero 2050** - a scenario which sees the UK as a global leader with strong policies and actions to mitigate climate, aligned with the Paris Agreement.
- **3-degree scenario: NGFS Current Policies** - a scenario which sees the UK make incremental progress to mitigate climate change, but assumes no major policy changes and results in missing the aims of the Paris Agreement.

Key assumptions
For our scenario analysis, the following assumptions for all scenarios were made:

- Scenarios focus on the UK policy and regulatory context and are semi-independent of global action and temperature pathways.
- It is assumed that the current high energy prices remain high throughout this decade.
- The Government's ambition around environmental protection and conservation remains high, regardless of the pace of transition.
- No significant change to South West Water's business activities.
- Population in our region increases by 0.4 million by 2050, overall water demand remains unchanged from today (due to leakage reduction and water efficiency measures), and overall volume of wastewater treated remains unchanged from today (due to actions taken to reduce surface water flows to sewers).

PHYSICAL CLIMATE RISKS – SCENARIO ANALYSIS

Approach taken
The Company undertook qualitative scenario analysis in 2021 considering the financial implications of physical climate risks for South West Water under two climate scenarios based on the IPCC's Representative Concentration Pathway (RCP) scenarios. Potential material financial impacts were considered over the 10-year horizon to 2030, aligning with the Company's regulatory financial viability testing. Material impacts on our business and strategy were considered over the time horizon to 2050 – aligning with a medium-term view of climate change impacts before uncertainty increases beyond 2050. We have extended our analysis to cover Bristol Water region within this disclosure. This year we have revised our scenario analysis based on changes over the past year, using the same physical climate scenarios as the previous years.

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[1] The IPCC's Representative Concentration Pathways from the IPCC's 5th assessment (2014)

Impacts
This section discusses impacts under each physical risks scenario of RCP2.6 and RCP8.5.

- **Climate resilience will require increased expenditure and investment.** The most significant financial impacts for the Company are on our expenditures (Opex and Capex), to mitigate against future climate risks by increasing capacity for water supply infrastructure; managing drought conditions and water demand; improving water and wastewater treatment and odour management; improving operational resilience to flooding, saline intrusion and storms; and enhancing our Upstream and Downstream Thinking programmes. These financial impacts would be significantly greater under the higher emissions scenario over the long-term horizon as they will require higher levels of adaptive capacity, although adaptive planning will seek to minimise this impact by identifying low-regret options under both high and low emissions scenarios to inform investment decisions. These costs could be recoverable through the regulatory system.
- **Investments in our natural capital will be central to climate adaptation**. Within the water industry, healthy and functioning ecosystems are critical for resilient operations. Therefore, the risks to South West Water's infrastructure are affected by risks to the natural environment. Accordingly, increased expenditures (Opex and Capex) include heavy investment in our natural capital schemes, catchment management, partnerships, and research and development in this area, as well as implementing our comprehensive Biodiversity Strategy and Environment Plan 2050.
- **Climate impacts will affect our ability to meet performance commitments and objectives**. The Company could also be impacted financially by Outcome Delivery Incentive (ODIs) penalties and rewards due to potential failure to achieve performance commitments as part of the regulatory framework, further resulting in negative impacts to our reputation. This impact is more likely under the higher emissions scenario over the long-term horizon due to higher projected magnitude of climate impacts and frequency of extreme weather events.
- **Investment required is high, but the cost of inaction is much higher**. The risk assessment clearly shows long-term significant risks if the impacts of climate change are not mitigated. South West Water operates over c.£7 billion of water and waste water assets, all of which will be affected by climate change in some way. The unmitigated risk would result in additional expenditure (Opex and Capex) to recover from service interruptions and repair or replace deteriorated assets. The unmitigated risk would result in more frequent and greater ODI penalties. Although some of this will be at our Company's expense, wider flood protection investments will be required by others to protect wide-ranging coastal assets.
- **Impacts are worse with every bit of additional warming.** We would experience these impacts for extreme events over all time horizons, however these impacts would increase over each horizon as extreme weather events increase in frequency and magnitude and are compounded by higher average temperatures and drier summer conditions. This trend is more pronounced for the higher emissions scenario, particularly over the long-term horizon, where temperature increases are projected to accelerate.

Our strategic response
Our strategy for managing physical climate risks and financial impacts is underpinned by the following principles in order to maintain and improve our Company's performance to the year 2050:

- Adapt to climate change
- Enhance resilience
- Innovate
- Become more efficient
- Collaborate
- Balance investment

This will require significant action and investment by our Company, as well as action by our supply chain partners and wider actors (e.g. Government agencies, local authorities, and major land owners in SW England).

Longer-term investment, as outlined in our strategic plans, will be needed to manage future risks to acceptable/tolerable levels. The long-term risk is significant and will require additional investment to mitigate their effect. To achieve this, regulatory and Government support within their policy frameworks will be needed.

The combined characteristics of low population density, high coastline to land area ratio and tourism-based seasonal flux on water demand, present a unique set of challenges. Through the years, by innovating, investing, and adapting, we have achieved industry-leading results in many areas of the business. The extensive programme of environmental improvement with Upstream and Downstream Thinking catchment management has resulted in some of the finest bathing waters in Europe. This has been instrumental for us to tackle these challenges and meet the expectations of our customers. Having seen record visitors to our region following the COVID-19 pandemic, it is expected further investment will be required to continue building on the progress made by Pennon Group to protect the environment and our bathing waters.

Our strategic responses within our WRMP24 and DWMP23 for delivering reliable, efficient, and high-quality drinking water and wastewater services is driven by best-value adaptive planning, as per Ofwat's final methodology for PR24. This means that, using the same physical scenarios analysed here (RCP2.6 and RCP8.5), our WRMP24 has developed adaptive investment programmes which: 1) fulfil immediate and most probable future needs; 2) respond to external pressures in the future with alternative investment options that are triggered under specific conditions; 3) identify low- and least-regret investments that enable future options or return benefits under the broadest range of potential futures. Subsequently, our strategies for mitigating climate risks and building adaptive capacity are similar under the high and low emissions scenario in the short and medium term, however, additional options will be required under the RCP8.5 scenario, or options may need to be implemented earlier than the RCP2.6 scenario over the long term. As part of our adaptive planning approach, we have pre-defined trigger points and decision points to implement strategies of the appropriate pathway sufficiently early, so that we can have a pro-active and more resilient response to climate change - including more opportunity to implement nature-based solutions - rather than more costly reactive approaches which may have higher operational and embodied carbon.

IMPACTS ON FINANCIAL PLANNING
Compared to today, overall our revenue is unlikely to be impacted significantly as we operate in a regulated environment funded through Price Reviews. However, there is a higher risk of reduced regulatory rewards and increased penalties (ODIs) due to climate change. Our operating costs are likely to increase compared to today, and additional capital investment will be required. The value of our assets and our cost of capital would remain relatively unchanged compared to today if we continue to enhance our resilience.

We continue to integrate the outcomes from climate scenario analysis to inform our business strategy and financial planning.

CLIMATE TRANSITION RISKS – SCENARIO ANALYSIS

Approach taken
The Company undertook qualitative scenario analysis in 2022 considering the financial implications of transition climate risks and opportunities for South West Water (including Bristol Water) under the two transition scenarios described earlier. The assessment considered impacts to the year 2030; this time horizon was selected as it aligns with our operational Net Zero target and there is much uncertainty beyond this time with regards to changes to policy, technology, markets, and public opinion.

This year we have revised our scenario analysis based on changes over the past year, and considering the two new transition scenarios developed by the NGFS described earlier.

Impacts – NGFS Current Policies scenario
This scenario provides a challenging context for meeting our 2030 operational Net Zero target. In this scenario we have identified the following main impacts for our business:

- **The cost to our business of achieving our 2030 Net Zero target rises, and there is less ability to recover costs through the regulatory pricing system.** This is compounded by the readiness and higher costs for access to low-carbon technologies and related skills (due to the UK's underinvestment in this scenario), and increased costs related to both our own renewable energy generation, and the purchasing of green electricity from external suppliers (where demand is likely to outstrip supply). The current UK policies might not be sufficient to deliver the necessary carbon emission reductions. As such this could impact our business transition through increased higher costs from the reliance on carbon intensive energy and internal combustion engine vehicles.
- **Meeting our 2030 target requires greater use of carbon offsets.** The enabling environment for decarbonisation is weaker and costs are higher, which leads to slower progress in emissions reductions

across our business. As a result, the residual emissions that need to be offset rise, which adds to our costs.

- **Environmental targets require additional energy use.** New guidance on targets for both nutrients and storm overflows will require a significant increase in energy use and associated capital and operational carbon. While nature-based solutions will form part of the solution, there will be significant reliance on engineered solutions due to potential inflexibility in regulation and deadlines to improve outcomes. The increased energy and carbon use compounds impacts above.
- **Reputational risks are significant and require careful management.** Some of our customers and stakeholders may have differing priorities and preferences for actions to meet our 2030 target, for example regarding the increased use of carbon offsets. Some may be highly sensitive to affordability, and increasingly scrutinise our investment choices.
- **Opportunities are lower than the Net Zero 2050 Transition scenario.** Opportunities for our business remain, however, they are in general more limited, and with lower return than in the Net Zero 2050 scenario. Increasing efficiency of energy and resource use, and pursuing low-carbon energy alternatives are the primary opportunities and can help to offset some of the additional energy and carbon costs. There is also an opportunity to clearly identify and communicate the synergies between environmental objectives and the transition to a Net Zero business in order to increase support from customers, stakeholders, and regulators.

IMPACTS ON FINANCIAL PLANNING
Compared to today, overall our revenue is unlikely to be impacted significantly in this scenario, but also our non-water revenue is less able to grow. Our costs to achieve operational Net Zero may increase relative to our current plans, however, early investment in decarbonising the business to meet the 2030 target remains more cost-effective in the long term (post 2030), and reduces the risk to our Company and our customers from measures such as carbon pricing, as well safeguarding our reputation on environment and climate change. The value of our assets and our cost of capital would remain relatively unchanged compared to today.

Impacts – NFGS Net Zero 2050 Scenario
This scenario is more favourable to our business and to the UK's Net Zero goals, as it creates a more supportive enabling environment to achieve our 2030 operational Net Zero target, however this may present challenges balancing trade-offs between the agendas of Net Zero, climate resilience, environmental protection, customer affordability, and other objectives. In this scenario we have identified the following main impacts for our business:

- **Cost to our business of achieving our 2030 Net Zero target is lower than the NGFS Current Policies Transition scenario**. There is much greater regulatory support in order to support the step change in investment required, with an increase in costs which can be recovered through customers' bills. The maturity of technology and associated business models progresses rapidly, and helps to drive down costs across many areas, including in renewables, resource efficiency, and demand-side measures. Greater R&D programmes with gated investment and piloting will minimise technology investment risks compared to the Slow Transition scenario, where strategies could be more reactive than proactive.
- **Access to the skills and resources needed is costly.** There is very high demand for low-carbon technologies, skills, and expertise across the economy in this scenario, which significantly outpaces supply (partly due to the UK's past underinvestment and the time required to develop supply chains). This adds to our costs associated with decarbonisation, and risks delaying key projects.
- **Environmental targets require additional energy use.** This impact is the same as the Current Policies Transitions scenario, however the regulatory environment may be more favourable for nature-based solutions (NBS) which can also sequester carbon, as there may be more stringent carbon management requirements, and carbon markets would also be stronger and provide more incentives for NBS.
- **Enhanced support to low-income customers may be needed**. Fairness in the distribution of the costs of the UK's transition to Net Zero is a key concern among stakeholders. Increased support to some customers may be required, and our investments will need to be carefully planned and phased to ensure they are efficient and avoid sudden price impacts.
- **Opportunities are higher than the Current Policies scenario.** The more favourable enabling environment means that our opportunities are enhanced in this scenario, and they are easier to realise. There are particular opportunities to further invest and innovate on energy and resource efficiency, and to attract further investment through sustainable finance opportunities.

IMPACTS ON FINANCIAL PLANNING
Compared to today, overall our revenue is unlikely to be impacted significantly in this scenario, but our non-water revenue has greater potential to grow. Our costs to achieve Net Zero may remain largely unchanged compared to today. The value of our assets may increase as we decarbonise and enhance our natural capital, and our cost of capital may decrease compared to today.

OUR STRATEGIC RESPONSE
Although there are important differences in the impacts between the different transition scenarios, there are a number of common elements which will require us to implement a common strategic response. The relative importance of each, and specific elements within the response, will vary across the two scenarios, but we have identified six key focus areas which will enhance resilience to transition risks, and better position the Company to take advantage of opportunities:

- **Investing in efficiency.** Under both scenarios there are major carbon savings that can be achieved by increasing efficiency, both in energy use (for example more efficient pumping), reducing water losses, and through the use of smart technology to enable more efficient water supply and transmission systems. Some of these opportunities will also reduce costs. We are currently investing in programmes to further reduce energy use and carbon across our operations. This will allow us to more rapidly progress to operational Net Zero and reduce the cost of the transition.
- **Enhancing our energy resilience**. We will continue to invest in generating our own renewable energy to reduce our exposure to energy prices and to enhance our options for energy supply, which is favourable under both scenarios.
- **Enhancing our access to Green Economy resources.** Across both scenarios there will be a shortage of skills and resources across key areas of the Green Economy that we will need to support our transition. To manage this we will diversify our supply chain of low- carbon suppliers, and invest in a programme of internal capacity-building to ensure access to the skills needed. We will also work with partners across the industry and engage with peers, regulators, and Government to enable rapid investment in the skills and capacity needed to support Net Zero.
- **Engage and influence environmental targets and trade-offs.** New ambitious targets on nutrients and storm overflows will require increased energy use and new infrastructure, and subsequently higher operational and capital carbon. There is a trade-off between action to meet these targets and action on decarbonisation, with implications for the balance between nature-based, and engineering solutions. We will engage in ongoing consultations on environmental targets and strategies for meeting them, and seek clear guidance on managing different trade-offs. We will advocate for policies which enable flexibility and time to scale up nature-based solutions so we can maximise co-benefits for our customers and the environment.
- **Enhance our stakeholder and customer engagement.** There are significant reputational risks associated with both scenarios, although the balance of concerns will vary. We will develop plans for enhanced programmes of engagement and communication with our customers and stakeholders, in particular focusing on explaining the costs and benefits of the investments we are making, potential trade-offs and synergies between Net Zero and other environmental targets, and affordability.
- **Pursue opportunities to deliver more value for customers and stakeholders.** We will continue to pursue opportunities to reduce costs and enhance sustainability. This includes reducing our financing costs through our sustainable finance framework, investing in our environmental programme which includes restoring ecosystems to capture carbon, and working with partners and suppliers to enhance our resilience and reduce emissions across our supply chain. We will also continue to explore opportunities to enhance our revenue through water resource options, selling renewable energy, and markets for bioresources and natural capital.

We continue to integrate the outcomes from climate scenario analysis to inform our business strategy and financial planning.

STATEMENT OF RESILIENCE
There are clear impacts on our business under different climate scenarios, in particular:

- higher costs in the short term to meet our operational Net Zero target by 2030 under the Current Policies Transition scenario.
- higher costs in the short, medium, and long term under the RCP8.5 Higher Physical Impacts scenario.

Several of the strategic responses outlined above are already included in our strategic plans and business plan, and we have confidence that our Company has a range of strategic options to manage the impacts, can take advantage of opportunities, and remain resilient under the different climate scenarios considered. Further analysis, including quantitative analysis is planned going forward to enhance South West Water's confidence related to resilience.

There will be the requirement to invest more to improve our resilience to climate change and deliver Net Zero. Assets are likely to require additional protection, and planning for new assets will require a greater level of embedded climate resilience. Significant action and investment will be required by our Company, as well as action by our supply chain partners and wider actors (e.g., Government, local authorities, major landowners/users, other providers of infrastructure and services).

NATURE RELATED FINANCIAL RISKS AND OPPORTUNITIES – STRATEGY

Our business planning and financial planning are underpinned by a series of environmental strategies, plans and commitments that interlink up to 2050. Key examples include:

- Growing Nature to 2035: our strategy for nature recovery, sets out the key activities that we will take to support nature recovery and biodiversity on our land, in our everyday operations and beyond. There are three principles in the strategy: 1) Protect the best – take action to protect the valuable biodiversity that we have on our landholdings, 2) Restore and enhance the rest – take action across our landholdings and assets to enhance biodiversity in the everyday management of our sites, and 3) Beyond our landholdings – work in partnership with others across the region, taking a catchment approach to deliver biodiversity enhancement and nature recovery. These principles align with the LEAP process advocated by the TNFD, by taking a site approach (locate), formulating plans to monitor those sites via undertaking biodiversity baselines and natural capital assessments (evaluate), and creating management plans (assess) with actions to work across the estate with own staff (e.g. Nature Safe) and external partners, to improve the biodiversity condition. The outputs of these plans will enable South West Water to prepare to respond to and report on, material nature-related issues. Our biodiversity strategy aligns fully with our PR24 Business Plan.
- Our 'Green First' Framework, published May 2023, sets out our approach to utilise NBS and natural flood management wherever possible and practicable to do so. As such, our planning assumptions are based on achieving 50% reduction in surface water flow entering sewers, through nature-based solutions and a minimum removal of 10% of impermeable surfaces.
- The launch of WaterFit in 2022 is our plan for healthy rivers and seas as part of c.£100 million of investment to 2025 focused on the protection of our 860 miles of coastline and rivers in the South West. This includes an additional c.£45 million reinvestment of out-performance.
- Our catchment management initiative, Upstream Thinking, applies natural solutions to reduce agricultural impact on biodiversity and water quality. It does so whilst supporting farmers and the rural economy, by providing long-term resilience to climate change, by: Installing waterside fencing, building ponds, improving farm tracks, increasing slurry storage and planting trees and buffer strips to catch and filter water.
- In early 2024, our Board approved a pilot programme of bespoke, evidence based "Natural Catchment Management Plans" (NCMPs) at selected catchments in Devon and Cornwall ready for June 2024. These are intended to create a blueprint to be rolled out for all bathing water catchments from 2025 onwards, primarily in relation to bathing water quality issues. These can be used to create a "story map" of water management issues and opportunities in each catchment for engaging local stakeholders and partners in identifying actions for local collaboration.
- In preparation for the next Asset Management Period AMP8, our Tier 1 suppliers are being tested for their ability to deliver NBS for wastewater and drinking water. Our ESG team is investigating the social aspects and carbon emissions of South West Water's supply chain and hopes to expand this to consider nature-related dependencies, risks, and opportunities in the near future.

GOING FORWARD:

- From April 2025 onwards, we are establishing an independent Environmental Advisory Panel comprised of environmental experts which, amongst other functions, will advise on risks and opportunities and monitor progress on our Biodiversity Performance Commitment. We are currently developing the Terms of Reference for this Panel.
- The new Biodiversity Performance Commitment requires all water companies to set out their plans for delivering measurable biodiversity enhancement units measured using the Defra Natural England

- biodiversity metric. These will be achieved as a result of the actions that we will deliver under our nature plans and strategies across the areas we serve.
- We are creating a 'Nature Safe Framework' to support our employees and contractors across operational sites to understand and protect nature – in alignment with our Biodiversity Strategy. We are in the scoping phase and envisage this framework to be analogous to our 'Home Safe Framework' related to employee health and safety.
- Over the next year we will continue to develop our approach to embedding nature-risk and opportunity management across our business.

RISK MANAGEMENT

Disclose how the organisation identifies, assesses, and manages climate-related risks.

The Company's risk management framework is explained in detail on pages 50 to 65, including the methodology for assessing risks.

The Company is continuing to integrate climate-related and nature-related risk management within the Company's overall risk management process, and climate-related risks and opportunities are assessed using the same methodology as other business risks. In the past few years we have undertaken specific work to identify and assess climate-related risks and opportunities, and we are moving towards this risk identification and assessment being integrated within business functions. We have the processes in place to enable this integration, and a key area we are continuing to work on is raising awareness and competency so that the key people across our business functions can effectively identify climate-related and nature-related risks, like they do with other risks (in many cases, climate risks are an amplifier or additional driver to risks we have already identified, rather than presenting novel risks). This year and last year we convened workshops with senior management from across business functions to re-visit and re-assess climate-related risks and actions, and management will take forward the responsibility to integrate climate-risks into risk registers owned by each business function.

Furthering our progress, the Company has identified several principal risks which are impacted or influenced by physical and transitional climate and nature risks and opportunities, and as such we are increasingly cognisant that climate and nature risk management is integral to the performance and resilience of our business and strategy. The link between climate-related and nature-related risks and opportunities on our principal risks is summarised in the table below.

We recognise the evolving landscape of climate-related risk which is reflected in the changing regulatory frameworks, customer expectations and Government policies that are inherent to our operating context. This is particularly true for climate and Net Zero where new policies and technologies are rapidly emerging, and markets are rapidly changing.

For the climate-related risks that have been identified, a desired 'target' net risk level is documented within the Company's risk framework. This target risk level or tolerance level reflects the acceptable level of risk by the Company and also stands as a target and equitable measure for alleviatory measures to approach the risk going forward. We seek to minimise risks on operational activities within the regulatory environment. Climate-related risks are approached with a minimal level of appetite, and this is subject to Board approval where all appetite levels are established.

Environmental compliance requirements are high so our risk appetite for environmental impacts is low. Where there is no risk to regulatory compliance, we are willing to take more risks to innovate e.g. NBS.

The appropriate action then follows from the level of difference between the net risk and the desired risk appetite. Actions to manage risks cover four response types:

- Tolerate: where decisions are taken to tolerate a risk, subject to ongoing monitoring. An example is climate-related risks where uncertainty is high and therefore we might decide to monitor risks until such time as it may be necessary to take further action.
- Treat: where actions are taken to manage and reduce risks, such as implementing operational measures in our drought plan or capital investments to enhance our resilience to droughts.
- Transfer: used where possible to transfer risks to other organisations - such as through insurance or through contracting out responsibilities. We recognise it is not possible to fully transfer risks, rather this

approach helps to reduce our exposure. For example, reducing our exposure to the impacts of flooding through flood insurance.

- Terminate: where decisions are taken to stop activities so that we are not exposed to particular risks. For example, we may decide not to undertake a capital project if risks cannot be effectively mitigated - for example due to high costs for energy, materials, and specialist resources related to Net Zero or climate adaptation.

Actions to mitigate risks are allocated to action owners and progress is monitored through the risk review process.

CLIMATE-RELATED AND NATURE RELATED RISKS IMPACT AND INFLUENCE OUR PRINCIPAL RISKS

Below we outline our principal risks which are impacted or influenced by climate- and nature-related risks and opportunities, including where our response to these principal risks needs to consider nature recovery, climate change, and Net Zero. The climate and nature emergency are amplifying our principal risks.

Principal risks	Risk description	Physical Risks	Transition Risks
Law, regulation and finance	Changes in Government policy		X
	Regulatory Frameworks		X
	Non-compliance with laws and regulations	X	X
	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	X	X
	Non-compliance or occurrence of avoidable health & safety incident	X	X
	Failure to pay all pension obligations as they fall due and increased costs to the Company should the defined benefit pension scheme deficit increase		
Market and economic conditions	Macro-economic risks impacting inflation, interest rates and power prices		X
Operating performance	Failure to deliver the Company's 2030 Net Zero Commitment to respond to the impact of climate change		X
	Availability of sufficient water resources to meet current and future demand	X	X
	Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water	X	X
	Failure of operational wastewater treatment assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts. Including pollutions	X	X
	Non-delivery of customer service and environmental commitments	X	X
	Insufficient skills and resources to meet the current and future business needs and deliver the Company's strategic priorities		X
Business systems and capital investments	Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes	X	X
	Inadequate technological security results in a breach of the Company's assets, systems and data		

We recognise how climate-related risks are impacting our principal risks and/or how our response to these risks needs to consider climate resilience and Net Zero.

METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

We are continuing to enhance the metrics we use to quantify key climate risks and to monitor progress towards managing risks and achieving our targeted objectives. We have adopted the TCFD guidance relating to metrics and targets, and our progress is shown in the table below.

We continue to disclose comprehensive data relating to our GHG emissions and energy consumption which can be found in the Pennon Group annual report (SECR report on pages 71 to 73). We report on all Scope 3 categories which are relevant and material to our business (ESG databook). SASB reporting can be found on pages 73 to 77.

The Company is committed to improving its sustainability and climate change related disclosures and will continue to enhance this over the coming years.

	Description of the metric	Metric for FY22/23[1]	Metric for FY23/24[1]	Related Targets
GHG emissions	Scope 1, 2, and 3 GHG emissions (in tCO_2e).	290,831	268,265	Operational Net Zero by 2030 (SWW & BRL), Total Net Zero by 2045 (SWW). Commitment to set Science-Based targets (SBT) for near-term and long-term emissions. Reduce operational emissions by 70% by 2025 (Scope 2 market-based) (tCO_2e).
	GHG Reduction from the baseline year 2021 (Scope 2 market-based) (tCO_2e).	65.7%	71.3%	
	Carbon intensity of our water services in tonnes of CO_2e per megalitre of water supplied to customers.	59.7 (SWW) 358.5 (BRL)	38.8 (SWW) 358.5 (BRL)	
	Carbon intensity of our business in tonnes of CO_2e per £100k of our revenue based on Scope 1 and 2 GHG emissions.	7.3	6.0	
Climate and/or nature-related Transition risks Selected metrics for some material risks	Risk of increased energy costs: Proportion of our operational expenditure on electricity (%).	c.28%	c.21%	Purchase 100% renewable electricity by 2022 (SWW). Generate up to 50% of the energy we use through our own renewable energy generation by 2030. (SWW).
	Transition risks in our supply chain: proportion of our key and strategic suppliers who have evidenced they are working towards a Net Zero target.	21% (SWW)	51%	100% of our key and strategic suppliers will have established an ESG policy or equivalent by 2025. (SWW). We are considering setting a target to encourage our suppliers to play their part in delivering Net Zero. We are ensuring that out Tier 1 suppliers have the experience required to deliver nature-based solutions.
	Risk of customer affordability in achieving Net Zero and adapting to climate	96.9% (SWW)	98.1% (SWW)	Zero water poverty by 2030 (SWW and BRL).

	change: our customer affordability measure.	100% (BRL)	100% (BRL)	Maintain zero customers in water poverty by 2050 Maintain 100% customer and community satisfaction with our services (SWW) Over 100,000 customers supported via social tariffs by 2030 (SWW) We are planning to improve our WaterShare+ scheme uptake to 1 in every 10 households by 2020 (SWW).
Climate and/or nature-related Physical risks Selected metrics for some material risks	Proportion (%) of customers currently at risk of severe restrictions in a 1-in-200-year drought.	62.7%	7.6%	Our 2050 target is to achieve 0% of customers at risk of severe restrictions in a 1-in-500-year drought, aligning with Government planning guidance.
	Proportion (%) of customers at risk of sewer flooding in 2050 in a 1-in-50-year storm	7.11%	9.77%	Our long-term target is to reduce this to zero, assuming funding is provided to achieve this through the regulatory system.
	Number of major sites/assets at high risk of coastal flooding and erosion..	In progress[2]	36	Our long-term target is to achieve 0 of our key sites/assets at high risk, assuming funding is provided to achieve this through the regulatory system
	Annual average number of storm overflow spills from each storm overflow (number per year).	28	43	Reduce spills to an average of 20 per year from each storm overflow by 2025. Zero harm to rivers and seas by 2030.
	Water withdrawal from surface water from rivers, lakes and natural ponds (%)	92 (SWW) 86 (BRL)	92.4* (SWW) -* (BRL)	25-year plan to improve the environment by removing harmful abstractions *subject to assurance, verified calculations will

				be available through the ESG databook.
	Bathing water quality standard compliance (measured by Environment Agency based on harmful bacteria in our seas)	100% (SWW)	100% (SWW)	
Climate and/or nature related opportunities Selected metric for a material opportunity	Enhancing our energy resilience and reducing our carbon emissions with renewable energy: Amount of renewable energy we've generated in 2023. (kWh).	31,084.05	34,480.00	Generate more renewable energy every year to 2030. Commitment to 50% renewable energy self-generation by 2025 (SWW).
	Proportion of our energy use which came from energy we generated ourselves (%)[3]	6.89%	7.5%	Generate up to 50% of the energy we use through our own renewable energy generation by 2030.
	Enhancing our resource efficiency to reduce GHG emissions and save water: Leakage (3-year average – Megalitres Per Day).	133.0 (SWW and BW) 37.0 (BRL)	107.0 (SWW and BW) 37.6 (BRL)	Reduce leakage by 2030 against the baseline 2024/2025
	Enhancing our resource efficiency to reduce GHG emissions and save water: Reduction in Per capita consumption (PCC) in litres per day per person	152.6 (SWW and BW) 148.7 (BRL)	147.1 (SWW and BW) 144.7 (BRL)	Commitment to an 8% reduction in per capita consumption by 2030 from the 2024/2025 baseline. (SWW and BW).
	Reducing our financing costs through sustainable finance: proportion of new finance under our sustainable finance framework during the year.	100%	82%	>75% of new finance to be through sustainable financing framework.
	Biodiversity enhancement (ha) (cumulative)	111,515	126,733	80% of the catchments we work in have been improved through activities such as peatland restoration and tree planting. We've set a target to deliver at least 10% biodiversity net gain.
	Trees planted (AMP7 delivery)	220,187	253,134	Exceeded target to plant 250,000 trees by 2025.

Capital deployment Selected metrics for material capital investments	Additional investment (£) in enhancing resilience and environmental performance announced within the year on top of our ongoing business plan investment.[4]	£120m	£145m	Our £1.5 billion 2020/25 environmental investment programme is our largest to date. This reflects the delivery of additional and accelerated investments including Green Recovery, WaterFit, our Save Every Drop water resilience investment and Ofwat's recently announced Accelerated Infrastructure Delivery.
Remuneration	Portion of the majority of our management and employees' incentive schemes linked to ESG outcomes, including climate change.	20%	20%	
Internal carbon value	Value of carbon used in business cases and investment planning for PR24 (£/tCO2e)	£252/tCO2e Sensitivity testing: Low: £126/tCO2e High: £378/tCO2e	£252/tCO2e Sensitivity testing: Low: £126/tCO2e High: £378/tCO2e	

1. Some metrics relate only to South West Water (SWW) or Bristol Water (BRL). In future we will be aiming to report combined metrics for the water businesses.
2. We are currently undertaking analysis to investigate and quantify this risk.
3. Does not include energy used in transport.
4. Investment includes repurposing ex-quarries and mines, introducing de-salination units to enhance water capacity, and WaterFit and Green Recovery initiatives.

In our Climate Adaptation Report provided to Defra in 2021 it shows intolerable levels of physical climate risks if left unmitigated. In addition, at least 17 of the top 20 physical climate risks (>60 risks identified) would exceed this threshold by 2080 without further adaptation. This signals the need for further investment in climate resilience in future planning rounds.

Our Net Zero carbon commitments will provide a step change to how we run our business and look to manage the risks of climate change, an update on our progress during the last year is found on pages 70 to 72. The metrics and targets associated with this help to show the investment in the area and the planned future investment to meet this goal.

Further detail on our progress with nature and environmental initiatives is provided in the Pennon Group annual report on page 78.

All projects being put forward to the planning committee have a focus on both their carbon impacts and the ESG impacts which are used to manage the decision-making process.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

	Climate and environment	People
Description	Our ambition is to become Net Zero by 2030. To achieve this, our Net Zero strategy is built around three key pillars - Sustainable Living, Championing renewables, Reversing Carbon Emissions. To deliver on our carbon ambition, and reduce our climate-related risks, we continue to innovate and look for ways to decarbonise our operations, working with partners and supply chain.	Our people are at the heart of our Company. We continue to foster a culture built on our purpose and one that reflects our values, trusted, responsible, collaborative, progressive. We operate a safety-first mindset to working across the business with our HomeSafe health and safety approach which is embedded in the day to day working culture of our business. We encourage continuous learning and development, providing opportunities for all employees. We are building a diverse and inclusive workforce.
Read more	• Approach to ESG – page 69 • Our Task Force on Climate-related Financial Disclosures – pages 78 to 116 • Net Zero – page 70	• How we deliver section – pages 22 to 32
Related policies	• Biodiversity policy • Water management policy • Environmental policy	• Health, safety and security policy • Code of Conduct • Workplace policy • Diversity, respect and inclusion policy • Board diversity policy
Due diligence processes	• Governance framework in place led by the Board and its Committees • External assurance • External ESG benchmarking	• Annual all colleague Great Place to Work survey • Health and Safety Steering Group overseeing targets, performance monitoring and interventions • Employee representative groups, including RISE and Trade Unions relations • Change the Race Ratio
Policy outcomes	• Minimising our impact on the environment • Meeting our regulatory commitments • Net Zero 2030 ambition	• Reduced workspace accidents and improved employee wellness • Board diversity target achievements • Sustainability target • Code of Conduct compliance
Principal risks	• Failure to secure, treat and supply clean drinking water • Failure to improve wastewater performance, resulting in environmental commitments not being delivered • Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes in AMP8.	• Non-compliance or occurrence of an avoidable health and safety incident • Difficulty in recruiting and retaining staff with the skills required to deliver thew Company's strategy

Non-financial KPIs	• % energy usage from renewable energy generation • % reduction in GHG emissions (scope 2 market-based emissions only) • Tree planting	• LTI number • GPTW accreditation • % REACH recruitment • % female employees • 5% club achievement

	Social matters	Human rights	Anti-corruption
Description	We work closely with our customers, communities and partners on the things that matter most to them and have regular engagement with them. Supporting our customers is a priority. Not only providing safe, clean drinking water, but supporting them financially when it matters most. We aim to keep our bills low and since 2020 have provided financial support totalling over £100 million in turn providing 98% of South West Water and Bristol Water customers with independently assessed affordable bills in 2023/24. Our approach to community relations and investment enables strong and clear governance, making positive community investments which create value, and benefits both the community and the business. Our Neighbourhood Fund is about supporting our local community. We're funding projects that support the wellbeing of people, the environment and communities in the South West. Since its launch, we have given out £100,000 to 56 charities and community groups helping 22,000 people across the South West. In Bristol, our community lottery provides the opportunity for charities and community groups to win £500 each month to fund schemes which benefit the community. We have also this year become tier one funders of the registered charity, the Social Mobility Business Partnership which facilitates the provision of over 3,000 days of work experience and lifetime career coaching to individuals from low income backgrounds across the UK. We are leading on bringing this experience to students across the South West in Exeter, Plymouth, Bristol, Truro and St Austell.	We are committed to having open and fair dialogue with all our stakeholders on human rights issues. We have a zero-tolerance approach to modern slavery. Our policies help prevent and address any human rights impacts on our business activities and relationships. We ensure all of our partners and suppliers comply with our policies, which include our Code of Conduct and Anti-Modern Slavery and Human Rights Policy. Our Modern Slavery Statement identifies the activities we conduct annually and our Suppliers Code of Conduct further aligns our supply chain to the standards we expect of ourselves and others.	One of our guiding principles is to act fairly and responsibly in everything that we do. We are committed to promoting and maintain the highest level of ethical standards in relation to how we do business. We have a zero-tolerance approach to bribery and corruption and have effective systems in place to counter them. Anyone that works with or for the Company must comply with our new consolidated anti-financial crime policy and are encouraged to report any breaches to Group Legal Compliance or through the South West Water whistleblowing reporting Speak Up portal which is provided by a third party to enable completely anonymous reporting of concerns.

Read more	• How we listen – page 9 • S172(1) – pages 145 to 147	• Modern Slavery Statement – foot of homepage at www.pennon-group.co.uk	• Code of Conduct – page 164 • Anti-financial crime – page 164
Related policies	• Community relations and investment policy	• Anti-Modern Slavery and Human Rights	• Whistleblowing Policy • New consolidated Anti-financial crime policy • Conflicts of Interest • Gifts and Hospitality Policy • Regulatory and Compliance policy
Due diligence processes	• Community engagement plan in place led by the Regulatory and Customer teams	• Modern Slavery Statement www.pennon-group.co.uk	• Ethics Management Committee • Speak Up portal • Gifts, Hospitality and Conflicts of Interest procedures • Company-wide anti-financial crime mandatory training • Supplier due diligence process
Policy outcomes	• Having a positive impact on our local communities through our business activities and investments • Foster an environment that encourages employee engagement with communities and provides opportunities for volunteering and establishing community partnerships	• An open dialogue with our stakeholders on human rights issues	• Seeking to prevent detect and report financial crime, including instances of bribery and corruption • Maintaining and ethical approach to business and adhering to our code of conduct
Principal risks	• Failure to provide an excellent service or meet the needs and expectations of our customers and communities	• Non-compliance with laws and regulations	• Non-compliance with laws and regulations
Non-financial KPIs	• £ community investment • C-MeX • % priority services register – customer satisfaction	• % Supplier engagement with our Sustainable Procurement Framework	• Number of cases reported through Speak Up portal • % of suppliers who support our Code of Conduct

APPROVAL OF THE STRATEGIC REPORT

Our Strategic Report consisting of pages 1 to 119 has been reviewed and approved by the Board.

Steve Buck
Chief Financial Controller
14 June 2024

GOVERNANCE AND REMUNERATION

GOVERNANCE

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OUR GOVERNANCE AT A GLANCE

HIGHLIGHTS

BOARD CHANGES

- On 10th July 2023, John Halsall was appointed as Executive Director and Chief Operating Officer of South West Water
- On 1st September 2023, Neil Cooper stepped down as Senior Independent Director and Chair of the Audit Committee and was succeeded by Iain Evans, as the new Senior Independent Director.
- Loraine Woodhouse was appointed Chair of the Audit Committee with effect from 1st September 2023.
- On 31st December 2023, Paul Boote stepped down as Executive Director and as Chief Financial Officer
- On 1st January 2024, Steve Buck was appointed as Executive Director and Chief Financial Officer of South West Water. Read more on Steve's experience in his biography on page 127.

GOVERNANCE UPDATES

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018 AND OTHER REQUIREMENTS

South West Water firmly believes that good corporate governance is essential to enable us to deliver our purpose for all of our stakeholders and remains a top priority for the Board.

South West Water aims to comply with the UK Corporate Governance Code (the 'UK Code') as fully as possible, within the context of being a subsidiary of a listed company, Pennon Group plc, which itself fully complies with the UK Code, except for the provisions which are outlined in the Pennon Group annual report on page 112. The UK Code is published on the Financial Reporting Council (FRC) website, www.frc.org.uk.

The Company complied fully with the provisions and spirit of the UK Code during the year, subject to the exceptions as described below. Most of the exceptions relate to the Group structure, where certain responsibilities rest with Pennon Group plc (South West Water's parent company) which is fully compliant with the UK Code.

Provision 25 of the UK Code state that the Audit Committee should make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor. Provision 25 also states that the Audit Committee should develop and implement policy on the engagement of the external auditor to supply non-audit services. As the auditor is appointed on a Group basis, the appointment, re-appointment and removal of South West Water's external auditor is (and has been throughout the year) a matter for the Pennon Group Audit Committee, as is the auditor's remuneration, terms of engagement and non-audit services.

Provision 26 of the UK Code states that a separate section of the annual report should describe the work of the Committee in discharging its responsibilities, in particular an assessment of the effectiveness of the external audit process. Due to the Group structure, the overall assessment as to whether the external audit function is effective (and has been throughout the year) the responsibility of the Pennon Group Audit Committee, which carries out its assessment in conjunction with the South West Water Audit Committee.

Provision 33 of the UK Code states that the Remuneration Committee should have delegated responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Chair, Executive Directors and senior management. However, the remuneration of the Chair, who is also the Chair of Pennon Group plc and the Pennon Group Chief Executive Officer, who is also a member of the Pennon Group plc Board is the responsibility of the Pennon Group Remuneration Committee.

In addition, South West Water has complied with Ofwat's revised 'Board leadership, transparency and governance' principles. Further details on our compliance with these principles will be provided in our Annual Performance Report and Regulatory Reporting.

TO READ MORE ON HOW WE HAVE APPLIED THE CODE

Board Leadership and company purpose Board of Directors – pages 127 to 130 Purpose, values, strategy and culture – page 132 Resource and Control Framework – page 134 Stakeholder engagement – pages 143 to 144 Workforce policies and practices – page 139	**Composition, Succession and Evaluation** Appointments to the Board – pages 148 to 149 Board skills, experience and knowledge – page 124 Board evaluation – pages 153 to 155
Division of Responsibilities Role of the Chair - pages 135 Division of responsibilities – pages 135 to 136 Role of the Non-Executive Directors – page 136 Board policies, processes, information, time and resource – pages 137 to 140	**Audit, Risk and Internal Control** Independence and effectiveness of internal and external auditors – page 160 Fair, balanced and understandable assessment – page 162 Risk and internal control – pages 163 to 164
Remuneration Alignment to purpose, values and long term success – page 175 Remuneration policy – page 176 Independent judgement and discretion – page 172	

KEY FOCUS AREAS FOR THE BOARD IN 2023/24

- Customer affordability
- Delivery of capital projects
- PR24 Business Plan
- Culture and Values
- Green recovery investment programme
- Driving environmental gains
- Storm overflows and eliminating pollutions
- Water quality and resilience

MEETING ATTENDANCE DURING THE YEAR AND BOARD SKILLS MATRIX

Position	Chair	Non-Executive Directors						Executive Directors			
Member	Gill Rider	Iain Evans	Claire Ighodaro	Jon Butterworth	Loraine Woodhouse	Dorothy Burwell	Neil Cooper[1]	Susan Davy	Steve Buck[2]	Paul Boote[3]	John Halsall[4]
Attendance	6/6	6/6	6/6	6/6	6/6	6/6	2/6	6/6	2/6	4/6	5/6
Skills											
Independence	X	X	X	X	X	X	X				
Water sector	X	X						X	X	X	X
Regulation	X	X	X	X	X	X	X	X	X	X	X
Finance and Accounting			X		X		X	X	X	X	
Strategy	X	X	X	X	X	X	X	X	X	X	X
Transformation	X	X	X	X	X	X	X	X	X	X	X
Health, safety and wellbeing				X				X	X	X	X
ESG including climate change	X	X	X	X	X	X	X	X	X	X	X
Enterprise Risk Management	X	X	X	X	X	X	X	X	X	X	X
Data, technology and digital				X		X	X	X			
People	X			X	X	X	X	X	X	X	X
Governance	X	X	X	X	X	X	X	X	X	X	X
Remuneration	X		X					X	X	X	

1.Resigned 1st September 2023

2.Appointed 1st January 2024

3. Resigned 31st December 2023 10 July 2023

4. Appointed 10th July 2023

OUR CHAIR'S INTRODUCTION TO GOVERNANCE

I am very pleased to introduce, on behalf of the Board, the South West Water Corporate Governance Report for 2024, which sets out our governance practices and processes and how we applied the principles of the UK Corporate Governance Code 2018 (the Code) throughout the year. The report covers our key focus areas and achievements during 2023/24 and explains how the Board continues to operate effectively and efficiently and support the Company's strategy.

REVIEW OF THE YEAR

We continue to operate to the highest standards of corporate governance. Strong governance remains central to the successful management of the Company, providing the framework we need to deliver our strategy, fulfil our purpose, create value for all our stakeholders and continuously develop our business.

The table on page 123 will help you to navigate our reporting and evaluate our performance against the Principles of the Code. As we explain below, we also have processes and procedures in place to safeguard the independence of decision-making by the Board of South West Water.

In October 2023, the Board approved the Company's PR24 plans to double its investment to £2.8 billion from 2025-30 across four key areas - water quality and resilience; tackling storm overflows and pollutions; delivering for customers and addressing affordability; reaching net zero and enhancing environmental gains. More information on the Board's activities can be found on pages 141 to 144 and information on our PR24 framework can be found on pages 20 to 21.

CHANGES TO THE BOARD

There were a number of changes to the Board during the year. The Board welcomed John Halsall to the Board as an executive Director of South West Water on 10th July 2023, having joined the Company as Chief Operating Officer in January 2023.

As previously announced, Neil Cooper stepped down from the Board in September 2023 as Senior Independent Director and we were very pleased to appoint Iain Evans as his successor. Iain has served on the Board since 2018 and brings a wealth of experience in the water business and is well equipped for this new role. On behalf of the Board, I would like to thank Neil for his wise counsel, experience and all his work over the years and we wish him all the best for the future.

Following Neil's departure, a review of the composition of each Board Committee was conducted and we were pleased to appoint Loraine Woodhouse as Chair of the Audit Committee in September 2023. Further details can be found on page 156.

In December 2023, Paul Boote, stepped down from his role as Group Chief Financial Officer as part of a planned relocation away from the South West. I would like to thank Paul for his contribution and support to South West Water over the past 13 years and we wish him and his family the best for their future.

We were delighted to welcome Steve Buck who was appointed to the Board as Group Chief Financial Officer on 1st January 2024. Steve brings significant water sector expertise, alongside broad regulated utilities sector knowledge and listed experience to the Board. Steve's and Iain's biographies can be found on pages 127 to 128.

PROMOTING DIVERSITY

Diversity and inclusion (D&I) continued to be a top priority for the Board and the Company during the year. Our Board composition is substantially ahead of the diversity targets suggested by the Parker Review and the FTSE Women Leaders Review and our parent company, Pennon, is one of the rare FTSE-listed entities where women on the Board outnumber their male counterparts. During the year, we were incredibly proud that Pennon achieved third position for best performers in Women on Boards within the entire FTSE 250.

Our commitment to diversity is also reflected right across the business; our widespread commitment and focused drive to recruit talent from all backgrounds has the heartfelt support of our strong and diverse leadership team. More information on our D&I initiatives can be found on page 30 and in the Nomination Report on page 150.

ENGAGING WITH OUR STAKEHOLDERS

Engaging with all our stakeholders has never been more essential, particularly in view of the national and global issues we are facing. All companies in the water sector face much scrutiny around their environmental impacts, so it is vital that we listen to and respond to our stakeholders' views. We make sure to carefully consider all decisions and their likely impacts on our stakeholders.

Engagement with customers is of particular interest to the Board and as part of the PR24 process, we were delighted that Lord Matthew Taylor, Chair of the WaterShare+ panel, and Peaches Golding OBE, Chair of the Bristol Water Challenge Group, regularly attended Board meetings to provide feedback from their discussions with our customers as part of their work with the WaterShare+ panel. Further information on the important work of the WaterShare+ panel can be found here 9.

We continue to foster an open and transparent feedback culture within the business. All colleagues have the opportunity to share feedback with the Executive team and Board in several ways, including the Big Chat initiative, our Great Place to Work survey and our new Employee Forum RISE.

You can read more on how we engage with our stakeholders in our Section 172(1) statement on pages 145 to 147.

CULTURE

As a Board we pay particular attention to our Company's culture, ensuring it is fully aligned with our shared purpose, values, and strategy. We continue to monitor these essential properties and receive regular reports from management on the work being done to ensure continuous improvement. During the year, the Board were delighted to see the development of the Company's new values which reflect the views of our wider stakeholders and culture. More information on how the new values will be embedded across the Company can be found on page 25.

ROLE OF THE BOARD AND ITS EFFECTIVENESS

It is my view that the Board continues to be highly effective with a good understanding of the Company's opportunities and the threats facing the business. The results of this year's Board and Committee performance evaluations support this view; see pages 153 to 155 for further detail. We keep all identified threats to the future success of the business under constant review. Please see our risk report on pages 50 to 65 for a description of the risks we identify and review.

BOARD INDEPENDENCE - SOUTH WEST WATER, BRISTOL WATER AND PENNON

In accordance with Ofwat's principles on board leadership, transparency and governance, the Company maintains separate and independent boards for South West Water and our parent Company, Pennon.

Our system of governance remains appropriate and effective, whilst continuing to support the delivery of our strategy.

Our Board and Committee framework also allows us to remain efficient in our decision-making process. The South West Water Board convenes on the same day as each Pennon Board meeting and considers all key relevant issues. This arrangement allows full operational oversight and governance by the Boards over water interests in the Company, while the Pennon Board continues to focus on strategic forward-looking matters for the Group as a whole.

LOOKING AHEAD

As part of the Board's focus for 2024/25, we will continue our focus on delivering against our environmental commitments, and ensuring we are well placed to meet the vital ambitions of the PR24 framework. And, as we look to our governance arrangements, we will continue with our ongoing and orderly succession planning strategy. There is much to do, and we have the talent and governance in place to achieve our ambitions.

As I reported in last year's Annual Report, I will be standing down as Chair, and from the Board, at the conclusion of our parent company's AGM on 24th July 2024. We are conducting a formal, rigorous and independently conducted process, in the line with the Code, we will be announcing the new Chair shortly.

I would like to take this opportunity to thank my Board colleagues, the management team and our wider workforce for their outstanding work over the year just gone.

The Board will continue to focus on delivering against our strategic priorities in the year ahead, ensuring the wellbeing of our workforce as we build on the work of the last year in creating a successful and sustainable business.

THE BOARD AND EXECUTIVE TEAM

WORKING RESPOSIBLY TOGETHER

Gill Rider CB, Ph.D., CCIPD Chair
Appointment to the Board Gill was appointed to the South West Water Board on 1st April 2016, having been appointed to the Pennon Group plc board on 1st September 2012. She became Chair of South West Water on 31st July 2020 and is also Chair of Pennon Group plc. She is also Chair of the Nomination Committee and a member of the Audit, Remuneration and Health and Safety and Environmental, Social and Governance Committees.
Skills and experience Gill has a wealth of experience in leadership, governance and remuneration across a broad range of sectors including professional services, education, not for profit and government. Formerly, Gill was Head of the Civil Service Capability Group at the Cabinet Office, reporting to the Cabinet Secretary. Prior to that, Gill held a number of senior positions with Accenture LLP culminating in the post of Chief Leadership Officer for the global firm. Gill is president of the Chartered Institute of Personnel and Development (CIPD) and chair of the Council of the University of Southampton, up until May 2024 she was non-executive director and chair of the remuneration committee of Intertek Group plc.
Current external appointments President of the Marine Biological Association.

Susan Davy BSc Hons, ACA Chief Executive Officer of South West Water
Appointment to the Board Susan was appointed to the Board as Group Chief Executive Officer on 31st July 2020. Having previously served as Chief Financial Officer since 2015. She is a member of the Environmental, Social and Governance Committee, Health and Safety Committee and Chair of the SWBB Executive Board and Pennon Executive Board.
Skills and experience Susan's knowledge of the industry, coupled with her financial, operational and regulatory expertise, has underpinned the development of Pennon's strategy which has included the value creating acquisition of Bournemouth Water, Bristol Water, Sutton and East Surrey Water, as well as the successful Viridor disposal process, all of which she has led. In her 27+ years' experience in the listed utility sector, Susan has also held a number of other senior roles in the water sector, including at Kelda Group plc. Susan's FTSE experience, alongside significant corporate, operational and financing expertise brings a diversity of experience to Pennon.
Current external appointments. Non-Executive Director and Audit Chair of Restore Plc, a Director of the Institute of Water, a member of the Water UK Board, member of the Energy and Utilities Skills Partnership Council, and was previously a member of the A4S (Accounting for Sustainability) CFO leadership network.

Steve Buck Chief Financial Officer of South West Water
Appointment to the Board Steve was appointed to the Board as Chief Financial Officer on 1st January 2024, following his appointment as a Board member of Pennon Group on 27th November 2023. He is a member of the Environmental, Social and Governance Committee, Health and Safety Committee, SWBB Executive Board and Pennon Executive Board.
Skills and experience Steve is a Chartered Management Accountant and has spent almost two decades working across the globe in different roles within the utility sector – including his most recent role as Chief Financial Officer for Anglian Water Group, where he worked for four years. Steve has led finance and transformation functions, focusing on delivering for both shareholders and millions of customers in complex and challenging environments.
Current external appointments None

John Halsall
Chief Operating Officer of South West Water

Appointment to the Board John joined South West Water in January 2023 was appointed to the Board on 10 July 2023.
He is a member of the SWBB Executive Board.

Skills and experience
Before joining the Company, John was Regional Managing Director (Southern) for Network Rail for 14 years. Prior to that, he spent 17 years at Thames Water in various senior operational roles including Director of Water Services and Director of Operations.

Current external appointments None

Iain Evans CBE
Senior Independent Non-Executive Director

Appointment to the Board Iain was appointed to the Board on 31st July 2020, having served on the Pennon Board since 1st September 2018. He became Senior Independent Director on 1st September 2023.
He is Chair of the Environmental, Social and Governance Committee and a member of the Audit, Nomination, Remuneration and Health and Safety Committees.

Skills and experience Iain has 40 years of extensive global experience in advising companies and governments on issues of complex corporate strategy. In 1983, he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms with a global footprint active in a wide range of industries.
Iain was appointed as a non-executive director of Welsh Water plc in 1989 and served on the board for nearly ten years, including five years as chair.

Current external appointments Iain is a Non-Executive Director of Bologna Topco Limited and HSM Advisory Limited and continues to act as an independent corporate strategy consultant.

Claire Ighodaro CBE
Independent Non-Executive Director

Appointment to the Board Claire was appointed to the Board on 31st July 2020 having served on the Pennon Board since 1st September 2019. She is Chair of the Remuneration Committee and is also a member of the Audit, Nomination and Health and Safety Committees.

Skills and experience Claire has held a number of senior roles and directorships with UK and international organisations and has extensive board experience, serving on Audit, Remuneration and Governance committees.
She is a past president of the CIMA (Chartered Institute of Management Accountants) and was the first female to lead this organisation. Claire has spent most of her executive career with BT plc. She has also held non-executive directorships across a diverse portfolio including Governance Committee Chair of Bank of America's Merrill Lynch International, Audit Committee Chair of Lloyd's of London, Flood Re, The Open University and various UK public bodies including UK Trade & Investment and the British Council. Claire was also Non-executive Chair of the Board and Governance Committee at Axa XL – UK Entities until December 2022.

Current external appointments Chair of the Audit Board of KPMG LLP.

Jon Butterworth Independent Non-Executive Director
Appointment to the Board Jon was appointed to the Board on 28th September 2017. He chairs the Health and Safety Committee and is a member of the Audit, Remuneration, Nomination and Environmental, Social and Governance Committees.
Skills and experience Jon has a distinguished track record and an immense depth of experience and knowledge within the utility sector, having begun his career over 40 years ago as an apprentice at British Gas. Jon was previously Managing Director of National Grid Ventures, driving growth across a range of commercial ventures outside the regulated energy sector in the UK and the US. He has also been the Managing Director of Northwest Gas, Global Environment and Sustainability Manager of Transco, National Operations Director of National Grid, Group safety, Resilience and Environmental Director of National Grid plc and formerly CEO of National Grid Ventures. Jon is an ex-Chair of the CORGI Board, an Ex-Ambassador of the HM Young Offenders Programme and a trustee of the National Gas Museum Trust.
Current external appointments Chief Executive Officer at National Gas. Jon is also President of the Pipeline Industries Guild and a director of E. Tapp & Co Limited, Shopfittings Manchester Limited and TMA Property Limited.

Loraine Woodhouse Independent Non-Executive Director
Appointment to the Board Loraine was appointed to the Board as Independent Non-Executive Director on 1st December 2022. She is Chair of the Audit Committee and a member of the Nomination and Remuneration Committees.
Skills and experience Loraine is an experienced finance executive, with her experience focused in the retail and consumer sector, and more recently in real estate and infrastructure through her roles with Intu Properties plc and British Land Company plc. Loraine was the Chief Financial Officer of Halfords Group plc until June 2022, before which, she spent five years in executive and senior finance roles within the John Lewis Partnership, including Waitrose. Prior to that, Loraine was Chief Financial Officer of Hobbs, Finance Director of Capital Shopping Centres Limited (subsequently Intu Properties plc) and Finance Director of Costa Coffee Limited.
Current external appointments Non-Executive Director of The Restaurant Group plc and a member of their Audit, Remuneration and Nomination Committees, Non-Executive Director and Chair of the Audit Committee at British Land plc.

Dorothy Burwell Independent Non-Executive Director
Appointment to the Board Dorothy was appointed to the Board as Independent Non-Executive Director on 1st December 2022. She is a member of the Environmental, Social and Governance, Nomination and Remuneration Committees.
Skills and experience Dorothy has over 20 years of experience in Banking and Communications, specialising in natural resources and advising clients around issues on sustainability, strategy, and corporate communications. She is well known for driving substantive diversity and inclusion agendas. Between 2002 and 2006, Dorothy held analyst and senior roles at Goldman Sachs in the Investment Banking Division in both London and New York as well as in the firmwide Strategy group, where she focused on proprietary mergers and acquisitions and new business development. Dorothy graduated from the Florida Agricultural and Mechanical University, USA with a Bachelor and Master of Business Administration, Finance and Management.
Current external appointments Partner and Global Partnership Board member of FGS Global, non-executive director at Post Holdings, Inc.

Andrew Garard Group General Counsel and Company Secretary
Appointment to the Board Andrew was appointed to the Board as Group General Counsel and Company Secretary on 1st December 2022.
Skills and experience Andrew is a very experienced General Counsel having joined from Meggitt plc, where he was Group General Counsel and Director of Corporate Affairs, and member of the Group Executive responsible for legal, commercial, trade compliance, government relations, ethics and contract management. Previously, he was Group General Counsel and Company Secretary at ITV plc where he was a member of the Executive Board and led a global team responsible for legal and business affairs, secretariat, compliance, insurance, health & safety, rights management and corporate responsibility. Prior to this he was Group General Counsel at Cable & wireless plc and Head of Legal at Reuters Group plc.
Current external appointments Non-Executive Director at Zinc Media Group plc where he is Chair of the Remuneration Committee

THE SOUTH WEST WATER EXECUTIVE TEAM

- **Susan Davy** – Chief Executive Officer of South West Water – see biography on page 127
- **Steve Buck** – Chief Financial Officer of South West Water – see biography on page 127
- **Andrew Garard** – Group General Counsel and Company Secretary – see biography on page 130
- **John Halsall** – Chief Operating Officer of South West Water – see biography on page 128
- **Adele Barker** – Chief People Officer - Adele joined the Group in 2017 and was appointed Chief People Officer in 2020. Adele's role is to lead and execute the Group's people strategy, Health and Safety strategy and lead on Corporate Affairs.
  Her background includes senior executive roles and HR leadership across Utilities, banking and retail, including British Gas, Orange and Marks & Spencer.
- **Laura Flowerdew** – Chief Customer and Digital Officer of South West Water – Laura joined the Company in September 2022, post the acquisition of Bristol Water. Laura's role within SWW is to lead on the customer experience delivery and IT services for the Group. Her background includes senior finance executive roles across Utilities, including Bristol Water and Bristol Energy.
- **Richard Price** – Chief Engineering Officer of South West Water **–** Richard joined the Company in September 2022, post the acquisition of Bristol Water. Richard's role within SWW is to lead safe, efficient and innovative engineering and construction. His background includes senior executive roles across the water industry, including Bristol Water and Thames Water.
- **David Harris** – Drought and Resilience Director of South West Water – David joined the Company in November 2022. David's role within SWW is to lead on drought planning activities as well as longer-term resilience. His background includes senior executive roles in regulated water and infrastructure businesses in Australia, including Water NSW.
- **Louise Rowe** – Compliance and ESG Director – Louise is a chartered account and has been with South West Water for almost 15 years holding a range of managerial roles with Finance prior to her appointment as Finance Director. On 12 September 2022, Louise took on the role of Compliance and ESG Director. She is a member of several Executive sub Committees including ESG Executive Committee and Compliance Committee. Prior to joining South West Water, Louise qualified with KPMG following completion of her Physics degree.

MONITORING PURPOSE AND CULTURE

PURPOSE, VALUES AND CULTURE

Our purpose, ***Bringing water to life – supporting the lives of people and the places they love for generations to come*** underpinned by our values that we live by – be you, be rock solid and be the future.

As a purpose-led business, committed to the effective stewardship of the environment, we are shaped by our values and culture. We know that it's not only what we do, but how we do it that is really important for our customers, colleagues, communities and the environment - that's why we're focused on living our values, every day.

During the year, we launched a new set of values which properly reflect who the Company is today and represent our people at their best. The new values were developed after intensive involvement and listening sessions with the Executive Board, the larger leadership group, colleague organisations such as the employee forum, and comprehensive colleague listening groups.

To ensure a successful launch and embedding of the new values, as well as to accelerate our cultural transformation, the strategy includes the development of a behavioural framework and training in workshop format for leaders and e-learning for all colleagues. More information on how the values will be immersed in the organisation can be found on page 25.

For 2024, the Reward Framework was refreshed reflecting changes to the Company composition, our commitment to supporting our colleagues' wellbeing and wider societal change.

HOW THE BOARD MONITORS CULTURE

The Board plays a vital role in monitoring and assessing the culture of the Company and its alignment with the Company's purpose, values and strategy. During the year, the Board considered a number of areas that helped them to assess the development of the Company's culture.

Area assessed	How the Board monitors the culture
Employee engagement	Great Place to work survey - The Board reviews the results and feedback from the periodic employee engagement survey and monitors how the areas of employees' focus are being addressed. RISE panel - Through the feedback and reports from the biannual meeting with the CEO and the people panel, RISE, the Board monitors wellbeing and topics that are of importance to employees. Big Chat - The executive team engages with all employees on all business topics and ensures that their views and opinion are shared with the Board
Workforce policies and practices	The Board formally reviews the Company's workforce policies and practices to ensure these remain consistent with the Company's Purpose and Values and support the Company's long-term sustainable success. Gender and ethnicity pay gap - The Board monitors the culture on gender and ethnicity pay through review, assessment, and approval of the Gender and ethnicity pay gap report. Diversity and inclusion - The Nomination Committee monitors diversity and inclusion through regular updates and the Board fosters the Company 's culture on diversity and inclusion through the review and approval of the Company Diversity, Respect and Inclusion policy. General pay conditions - The Board ensures that reward and pay arrangements supports a culture that is transparent, fair, and consistent to ensure that employees' trust is maintained and that talent is attracted and retained.

Whistleblowing	Speak Up - Employees raise concerns anonymously without fear of reprisal, with any significant concerns, following formal investigation are shared with the Audit Committee through the Ethics Management Committee and ultimately the Board.
Health and Safety	Homesafe - This is monitored through regular updates on safety initiatives adopted for the achievement of the Company's 2025 strategic plan to be health and safety leaders in the water sector. Lost time injuries - Further updates on efforts to reduce injuries of our staff across all sites are assessed at the Health and Safety Committee and an almost 50% reduction in actual lost time injury rate has been recorded 2023/2024 compared to last year.
Remuneration	The Remuneration Committee is regularly provided with feedback from customer engagement which helps the Committee and the Board to monitor the culture on wider workforce pay, executive and CEO remuneration. The Committee reviews and approves the wider workforce Company Reward Framework, relevant polices and ensures that incentives and rewards aligns with culture. CEO pay ratio - The Board ensures that the CEO pay ratio is fair, balancing stakeholder expectations while rewarding leadership success.

BOARD LEADERSHIP AND COMPANY PURPOSE

GOVERNANCE STRUCTURE AND FRAMEWORK

South West Water Limited - Board of Directors

An independent, separate Board from the Pennon Group plc Board, responsible for decisions relating to the business and strategy of South West Water Limited.

The business of the board with its associated Committees covers a full range of corporate issues including strategy, performance, delivery, compliance and governance. The role of the Board is to promote the long-term success of the Company, generating value for its customers, employees and the communities in which it serves, by providing effective leadership and direction to the business.

The Board makes decisions in relation to the Company's business in accordance with its schedule of matters reserved to the Board, which can be found here:www.southwestwater.co.uk/siteassets/documents/about-us/governance/schedule-of-matters-reserved-to-the-board.pdf

The Board Committees

The terms of reference for each Committee are agreed by Board and can be found at https://www.southwestwater.co.uk/about-us/governance/board-governance/.

Audit Committee

Ensure the quality and integrity of the Company's reporting, assessing the application of accounting policies and judgements, and evaluating whether the presentation of the Company's activities is fair, balanced and understandable.

Review and challenge the effectiveness of the internal control environment and risk management processes.

Read more on pages 156.

Nomination Committee

Regular review of the structure, size and composition (including the skills, knowledge, independence, diversity and experience) required of the Board, compared to its current position and the skills and expertise needed in the future.

Read more on pages 150.

Remuneration Committee

Ensure remuneration is aligned strategy and reflects the values of South West Water. Advises the Board on the framework of executive remuneration and remuneration for the wider workforce.

Read more on pages 172.

ESG Committee

Ensure robust scrutiny of key aspects of environmental, social and governance (ESG) performance and to oversee performance against our ESG strategy and strategic sustainability objectives.

Read more on pages 167.

Health and Safety Committee

Provide a 'review and challenge' function to support the Board and the Executive on all matters connected to health and safety including the deployment of the health and safety strategy, resilience and process safety.

Read more on pages 170.

PR24 Committee

Plan, prepare for, oversee and drive the PR24 Business Plan, sets and approves strategy for PR24, and appoint and oversee relevant executive committees and activities to ensure the delivery of the plan in line with the overall strategy.

SWBB Executive Board (SWBB)

Responsible for defining and driving the priorities that will achieve delivery of the Group's strategy and ensuring, to the extent of the authority delegated by the Board, the proper and prudent management of the Company's resources to create and maximise shareholder value while protecting the interests of the wider stakeholder group. Chaired by the Chief Executive Officer, SWBB meets monthly to receive reports from the management committees, operational Executive and business review meetings, to review and refine recommendations to be presented to the Board.

DIVISION OF RESPONSIBILITIES

There is a clear separation of responsibilities between the Chair and the Chief Executive Officer, divided between managing the Board and the business, while maintaining a close working relationship.

All the Directors are equally accountable for the proper stewardship of the Company's affairs and also have specific roles, which include those set out below:

Position	Director	Role
Chair	Gill Rider	• Leading the Board and promoting a strong culture of openness and debate to facilitate constructive Board relations and effective contribution from all Non-Executive Directors • Promoting the highest standards of integrity and probity and ensuring the Board holds itself to standard of good and effective governance. • Managing Board composition, performance and succession planning, ensuring the Board continues to have the skill set and training it requires. • Setting the agenda and ensuring the timely dissemination of information to the Board, to ensure all relevant information is provided in a timely manner before constructive discussion and decision making. • Representing the high standards and values of the Company and ensuring the views of all stakeholders are understood and considered. • Facilitating an open relationship with the Chief Executive Officer by providing advice, support and guidance.
Chief Executive Officer	Susan Davy	• Managing the Group and providing executive leadership • Developing, proposing and implementing Company strategy, as agreed by the Board and in line with the strategic framework • Leading the operation of the Group in accordance with the decisions of the Board • Coordinating with the Chair on important and strategic issues of the group and providing input to the Board's agenda • Contributing to succession planning and implementing the organisational structure • Leading on acquisitions, disposals, and business development • Developing and managing relations with all stakeholders
Senior Independent Director	Iain Evans	• Assisting the Chair with stakeholder communications and being available as an additional point of contact for stakeholders • Being available to other Non-Executive Directors if they have any concerns that are not satisfactorily resolved by the Chair • Ensuring an annual performance evaluation of the Chair, with the support of the other Non-Executive Directors and ensuring effective succession planning for the Board
Chief Financial Officer	Steve Buck	• Managing the Company's financial affairs and supporting the Group Chief Executive in providing executive leadership and developing strategy • Reporting accurate and detailed financial information to the Board on performance and developments across the business • Managing and balancing relationships with areas of the Company, such as finance and treasury, as well as external

Position	Director	Role
		stakeholders such as customers.
Chief Operating Officer	John Halsall	• Supporting the Group Chief Executive Officer in providing executive leadership and developing strategy • Oversee and drive operational excellence in the Company's performance across its water and wastewater services • Reporting accurate and detailed operational information to the Board on performance and developments across the business. • Managing and balancing relationships with areas of the Company, such as operations (drinking water, wastewater), engineering and asset management, as well as external stakeholders such as customers.
Non-Executive Directors	Claire Ighodaro Jon Butterworth Dorothy Burwell Loraine Woodhouse	• Critically reviewing the strategies, operational performance and financial reporting for the Company • Evaluating proposals from management and constructively challenging its recommendations • Contributing to corporate accountability and good governance through being active members of the Committees of the Board • Play a key role in succession planning of the Board and the annual Board and Committees evaluations
Company Secretary	Andrew Garard	• Supports the Board in ensuring all policies, processes, information, and resources are in order to ensure the Board can operate effectively and efficiently. • Advises and keeps the Board updated on any changes to Listing and Transparency Rules and best corporate governance practices. • Facilitates a comprehensive induction for newly appointed directors, that is tailored to the Company's industry and strategy. • Co-ordinates the annual Board and Committees evaluations in conjunction with the Chair. • Provides advice and services to all Directors, as needed.

AN EFFECTIVE BOARD

MANAGING SOUTH WEST WATER

The South West Water Board continues to operate as a separate independent Board – albeit with Board members also serving on the Board of Pennon Group plc – in accordance with its schedule of matters reserved (see below) to ensure compliance with Ofwat's principles on Board leadership, transparency and governance.

The focus on UK water means the interests of the non-regulated and regulated businesses are more closely aligned and provide for more effective leadership and governance. The Company has a rigorous conflicts of interest process which safeguards the South West Water Boards' ability to set and have accountability for all aspects of the regulated business' strategy thereby ensuring and strengthening South West Water's regulatory ringfence.

While certain matters may be delegated to the Board Committees and to the Executive Directors, as appropriate, the matters reserved for the Board include:

- The approval of the Annual Report and Financial Statements
- All acquisitions and disposals
- Major items of capital expenditure
- Authority levels for other expenditure
- Risk management process and monitoring of risks
- Approval of the strategic plan and annual operating budgets
- Company policies, procedures and delegations
- Appointments to the Board and its Committees

The Pennon Group Board also endorses certain decisions taken by the South West Water Board's, including major capital projects and investments, long-term objectives and commercial strategy, the five-year regulatory plan, annual budgets and certain decisions relating to financing. This approach remains compatible with Ofwat's principles on board leadership, transparency and governance because such decisions are ultimately reviewed and approved by the South West Water Board. Approval of South West Water's dividend policy and the declaration of dividends to be paid by South West Water to Pennon also remain reserved for the South West Water Board.

AN EFFECTIVE BOARD

The South West Water Board, in discharging its duties, has a clear strategy for growth and ensures that its aims and objectives align with the Company's purpose and values which have been carefully considered. The Board maintains the highest standards of governance alongside taking decisions to ensure the long-term sustainability of the Company.

Thanks to the diverse skillset, independence of thinking and experience of the directors, decisions reached by the Board are fair, focussed and balanced and they demonstrate that constructive debate has occurred. All possible outcomes for the mutual benefit of our shareholders, customers, employees, and the communities we serve, are at the heart of the Board decision making process.

The governance framework for the Board is clearly documented in the Company's Articles of Association, Division of Responsibilities, Schedule of Matters Reserved to the Board and Terms of Reference for each Committee, which are all available on our website.

The culture of the Board is one of openness and constructive dialogue with the senior management team. Regular and effective flow of information between the non-executive directors and senior management, both in and out of the Boardroom, ensures that there is good understanding of the Company's business. Further information on the effectiveness of the Board is detailed in the 2024 Board performance review on page 155. As detailed on pages 135 to 136, there is a clear division of responsibilities between roles of the Chair and Chief Executive Officer; however, to ensure that their responsibilities are discharged effectively, there is consistent communication on all areas of the business between them.

The Board held six scheduled meetings during the year. Directors' attendance at scheduled Board meetings held during the year is set out on page 124. Additional unscheduled Board meetings were held when circumstances required the Board to meet at short notice. The Board also approved a number of matters during the year by written resolution.

Agendas for each scheduled Board and Committee meeting are prepared in advance and are aligned with the annual Board and Committee programmes. For each scheduled Board meeting there are a number of standing items such as the monthly performance reports from the Chief Executive Officer and Chief Financial Officer, operational reports, deep dives, and legal and governance updates. All matters are given due consideration by the Board and are reviewed at the appropriate point in the regulatory and financial cycles. Flexibility is retained in the programmes to include additional items requested by the Board, Committees, or senior management. The key activities of the Board can be found on pages 141 to 144 and the key activities of the Committees during the year can be found in the Committee Reports.

Directors are provided with papers at least five business days in advance of each Board or Committee meeting and meeting packs are provided on a secure Board portal.

The Chair has calls with each of the Non-Executive Directors in advance of each scheduled Board meeting to discuss the papers and the business of the meeting. If a Director is unable to attend a meeting because of exceptional circumstances, they will continue to receive all the material for the meeting and have an opportunity to have a briefing discussion with the Chair in advance. Feedback is provided to the Directors unable to attend on the decisions taken at the meeting.

Non-Executive Directors communicate directly with senior management between Board and Committee meetings, where required. Members of the Executive Board also present at the annual strategy Board meeting and at other times during the year on their areas of responsibility, along with members of their teams.

During the year, the Chair had weekly catch ups with the Chief Executive Officer and regular catch ups with the Group General Counsel and Company Secretary and Chief Financial Officer.

Meetings of the Non-Executive Directors, without the presence of the Executive Directors, are scheduled in the Board's annual programme. During the year, Non-Executive Directors met without the Executive Directors after every Board meeting. These meetings provide the Non-Executive Directors with the opportunity to share experiences and discuss wider business topics, fostering debate in Board and Committee meetings and strengthening working relationships.

SCHEDULE OF MATTERS RESERVED TO THE BOARD

The Board maintains oversight of the areas material to the delivery of the Company's strategy and purpose, and acts as the main governing body for the purpose of oversight for the Company. The Board undertakes an annual review of the Matters Reserved to the Board, with the latest review taking place in November 2023.

COMMITTEES

In accordance with the Code, the Board delegates certain responsibilities to its core committees, which monitor various subject matters in depth and gain greater understanding in detail. The Committees' responsibilities and mode of operation are guided by their respective terms of references which have been agreed by the Board and summarised on the Committee Report pages. In addition, each committee considers its calendar of business at every meeting to ensure responsibilities continually remain clear. Each Committee Chair provides an update on matters discussed at each Board meeting, reporting on decisions taken and where appropriate provides a recommendation to the Board on matters requiring its approval. The reports from each committee of the Board can be found on pages 150 to 195.

During the year, the PR24 Committee, chaired by Iain Evans held six scheduled meetings. The Committee set and recommended the strategy for PR24 to the Board and oversaw the relevant executive committees and activities to ensure the delivery of the PR24 Business Plan in line with the overall Company strategy. The Committee last met in October 2023, following the submission of the PR24 Business Plan. Following regular updates to Board, further meetings are due to commence when Ofwat issues the PR24 Draft Determinations in June 2024. Further meetings will be set up in 2024 when Ofwat issues the PR24 Draft Determinations. More information can be found on pages 20 to 21.

STRATEGY

The Board recognises its responsibility to create and oversee the framework for the delivery of the Company's strategic model, ensuring that the strategy and purpose continually deliver for our stakeholders. As well as key strategic items on the Board agenda at every meeting, the Board held two full strategy days with the executive team during the year, in September 2023 and March 2024, to consider short, medium, and long term financial and operational strategic goals for the Company and the operational readiness to achieve key strategic outcomes.

At the meetings the Board received presentations from senior management on the strategies for the business, particularly on financial outlook and opportunities for growth. The Board received a presentation on our renewables development, and held a deep dive with senior managers on insights into our customer priorities and operational progress on our wastewater network through the lens of WaterFit Live.

SWBB EXECUTIVE BOARD

The SWBB Executive Board meet on a monthly basis and are responsible for executing the Company's strategy and the day-to-day management of the Company's operations. SWBB Executive Board is led by the Chief Executive Officer and the biographies of the Executive Board can be found on page 131. There is a framework of delegated authority approved by the Board, within which individual responsibilities of senior management of the Company are identified and can be monitored.

WORKFORCE ENGAGEMENT

The Board has decided, at this time, not to adopt any of the three specific employee engagement methods referred to in the UK Code. Instead, our chosen method is to adopt a more enhanced approach which includes the conduct of a periodic 'Great Place to Work' engagement survey (including related management feedback sessions) and continuous employee feedback through our own in-house forums. These comprise our RISE people panel, a forum for employee engagement, and the 'Big Chat', hosted on a monthly basis by the Executive team. These forums not only give employees access to important up-to-date information on key business events; they also provide the opportunity to hear from the Directors, give feedback and ask questions. The Board believes South West Water's chosen approach is an effective way of communicating with employees and gathering essential feedback from across the business. This empowers the Board to consider the interests of all employees in its discussions and decision-making. There is further information on employee engagement on pages 24 to 32.

STAKEHOLDER ENGAGEMENT

In delivering our strategy and ensuring sustainable, long-term success of the Company, the Board places utmost importance on the interest of our stakeholders in its decision-making process. Further details on how the Board has fulfilled its duties under section 172(1) of the Companies Act 2006, to consider all stakeholders in its discussions and decisions and that each decision reached is in line with the company's purpose and culture, is set out on pages 145 to 147 and an explanation as to how we engaged with our different stakeholders during the year can be found on pages 9 to 14.

WORKFORCE POLICIES AND PRACTICES

CONFLICTS OF INTEREST

In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. This Board considers that this has operated effectively during the year.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have, or may have, a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the existing duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company. A register of Directors' conflicts is maintained and reviewed at each Board meeting. Authorised conflicts disclosed on the register currently involve cross-directorships with Pennon Water Services Limited and the trustee board of the Group's defined benefit pension scheme.

WHISTLEBLOWING

The Pennon Board maintains overall responsibility for the Company's Whistleblowing Policy (the Policy). The Policy provides a clear procedure for employees and suppliers to report concerns, through the Speak Up service, either to their line manager or through a third-party whistleblowing hotline. The Policy is well communicated to employees across the Company. All whistleblowing cases are investigated by the Ethics Management Committee. The Pennon Board, through its Audit Committee, receives yearly whistleblowing updates which set out any whistleblowing issues raised during the period and interim updates on any significant matters. The updates provided are anonymous and summarise the result of any investigation. The Pennon Board is satisfied that the Policy and the work of the Ethics Management Committee remain effective.

KEY ACTIVITIES OF THE BOARD

In 2023/24, the Board considered a wide range of matters and the key activities that were carried out by the Board during the year, together with an indication of the stakeholders affected and whose interests the Board considered in its discussions and decision-making are set out below.

- **Inform** – the agenda for each meeting is discussed and agreed in advance with the Chair in conjunction with the CEO and Group General Counsel and Company Secretary, along with the matters arising from the previous meeting. Senior leaders and management prepare written reports for the Board meetings, based on the annual calendar of business, as well as deep-dive presentations on key areas of the business, to inform and make recommendations for the Board's consideration. In addition, regular performance reports are shared with the Board to ensure they are continuously informed.
- **Recommend and consider** – Recommendations and deep-dives from senior leaders, as well as external advisors to facilitate decision-making and accounting for stakeholder impact are presented to the Board for consideration.
- **Approve and action** – The Board will consider matters and agree and approve actions to take forward.

Area	Activity	Outcome	Stakeholders affected
Strategic	**PR24 Business Plan** Approved our PR24 business plan	Investments will benefit our customers, the environment and community. See more on page 20.	**Customers** **People** **Suppliers** **Policy makers** **Regulators** **Environment** **Communities**
	Delivery of capital projects Reviewed and approved the delivery of capital projects in line with the framework model for capital delivery	Successfully deliver capital projects for the benefit of all stakeholders and foster long-term relationship with our suppliers. See more on page 12.	**Suppliers** **Customers** **Communities**
Operational	**ODI improvements** Monitored our ODI improvements to meet regulatory requirements, ongoing regulatory/ innovation initiatives were monitored via ESG and H &S reports and adapted plans where needed.	Successful regulatory outcomes, safe customer and employee experience, enhancing day to day operations. See more on pages 33 to 39.	**Customers** **People** **Regulators** **Environment**
	Storm overflows and Pollutions Reviewed and assessed measures tackling storms overflows at bathing waters and reducing spill rates across our sites and within our communities.	Delivery against our objective to ensure continuous supply of safe and clean water to our customers. See more on pages 36 to 37.	**Customers** **Environment**
	Water quality and resilience Approved the projects to upgrade treatments works and expanded capacity of our reservoir across the regions.	Successfully maintaining bathing water quality all year round. Reduction in pollution levels to industry leading low levels. See more on page 33 to 36.	**Customers** **Regulators** **Environment**
Financial	**2022/23 Annual Report and Accounts** Reviewed and authorised the 2022/23 Annual Report and Accounts	Delivery against objectives to return capital where appropriate.	

Environmental	**Net Zero strategy plan, Green Recovery investment programmes** Implementation and alignment of plans with our strategic priorities by engaging in the following, to name a few: • Investments in bathing waters to reducing releases from storm overflows. • Two desalination plants being built in Cornwall to secure long term water security in the region.	To accelerate our net Zero plans and the delivery to achieve more sustainable future for all. See more on pages 70 to 72.	**Customers** **People** **Suppliers** **Regulators** **Environment**
Social	**Supporting customers on low income** Monitored customer service levels and plans to deliver improved diversity mix and adapting where needed.	Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny. See more on pages 38 to 39.	**Customers**
	Investment in job opportunities and apprenticeships for local communities Reviewed and approved investments towards the benefit of the communities	Create job opportunities and improving career of our people and retaining talent. See more on page 20.	**Customers** **Communities**
	Culture and values Reviewed and approved new values that best align to our vision.	Boost and accelerate our cultural transformation within the Company and develops and excellence behavioural framework for our people. See more on page 25.	**People**
Risk	**Mitigation of key risks** Ongoing focus on key risks, with deep dives at Audit Committee meetings.	Continued alignment of plans to ensure appropriate risk mitigation. See more on pages 55 to 65.	**Customers** **People** **Suppliers** **Regulators** **Environment** **Communities**
	Deep dive on cyber security risk Reviewed our information security systems and assessed mitigating measures to avoid cyber attacks	Continued protection of sensitive data of our customers and our people and ensure business preparedness to tackle this risk. See more on pages 64 to 65.	**Customers** **People**
Compliance, Governance, Legal and Regulatory	Regular updates on Corporate Governance and key legal developments during the year	Continued alignment of plans to ensure appropriate compliance/ best practice governance. See more on page 137.	**Customers** **People** **Suppliers** **Policy makers** **Regulators** **Environment** **Communities**

HOW THE BOARD ENGAGES WITH STAKEHOLDERS

The Board understands the role the Company has to play in creating a more sustainable South West and UK as a whole. We are committed to carrying out our business in a responsible way and to continuously improving how we provide all our services for the benefit of all our stakeholders.

Our section 172(1) statement describes in more detail how the Board considers the interests of all our stakeholders when carrying out its duties. This statement is on pages 145 to 147; you should read it alongside the ‘How we Listen’ section on pages 9 to 16 to understand why we engage with our stakeholders, how we engage, the key challenges we face and how we are responding.

We actively engage with all our stakeholders, including our customers, our communities, our people and our suppliers. We are acutely aware that many of our stakeholders are struggling with the uncertainty challenges posed by the cost-of-living crisis, the political landscape and wider economic environment.

We are committed to maintaining appropriate and regular dialogue to ensure our strategy and our performance objectives always reflect our stakeholders’ expectations and needs. Our continuous engagement allows stakeholders to give feedback on matters they consider of importance to them and raise any issues which they would like to be addressed.

ENGAGING WITH OUR CUSTOMERS AND COMMUNITIES
The WaterShare+ scheme was developed in direct response to feedback from our customers who said they would like to share in the success of the Company, alongside giving them a greater say in our business. The first WaterShare+ scheme was launched in 2020 and returned £20m to customers as a reduction of £20 on their bill. Eligible customer had the option of choosing a minimum of £20 in Pennon shares. In November 2022, the second Watrshare+ scheme was launched and returned c.£20m to customers of South West Water (including Bournemouth Water) and for the first time, customers of Bristol Water. Eligible customers could choose between £13 reduction on their bill or to opt for a shareholding in the Pennon Group. As a result of this second issuance, we have extended customer ownership and 1 in 14 customers of South West Water are now also a shareholder via this scheme.

The WaterShare+ customer meetings are an opportunity for our customers to provide direct feedback to our independent WaterShare+ Advisory Panel, who, in turn, provide direct feedback to our Board.

During the year, as part of our PR24 Business Plan discussion, the Chair and Deputy Chair of the WaterShare+ Advisory panel, Lord Matthew Taylor and Peaches Golding OBE, respectively, attended three PR24 Committee meetings to provide feedback following their discussions with customers. In turn the chair of the PR24 Committee attended one of the WaterShare+ public meetings that was focused on PR24.The dialogue at these meetings ensured that the interests of our customers remain a top priority, and that the delivery of the PR24 Business Plan had the utmost focus on the benefit to our customers and our communities.

The Group Chief Executive Officer’s monthly report, which is presented to the Board and discussed at every meeting, includes updates on customer engagement sessions conducted as part of the PR24 Business Plan process, through “Your Water, Your Say” sessions which were held in May and November 2023.

Customer engagement on the WaterFit programme through the “Your Beach, Your Say, Our Investment” interaction sessions with local communities and stakeholder groups and responses received from our interactive map “WaterFit Live” ensures that valuable feedback is provided to the Board, which assisted in ensuring that significant investments are made in order to protect our rivers, seas and wider environment.

ENGAGING WITH OUR PEOPLE
The Board receive regular updates on our people from the Group Chief Executive Officer and Group Chief People Officer at its meetings. The Great Place to Work survey and feedback from RISE panel provided to the Board ensure that the decisions made consider employee interests and include what is of priority to our people. Further details on the engagement with our people can be found on page 11.

ENGAGING WITH OUR REGULATORS AND POLICY MAKERS
The Board receive regular updates on our regulators and policy makers. The Board through the Chair, Chief

Executive Officer and Chief Financial Officer, proactively engage with our regulators, particularly Ofwat, the Environmental Agency, and Government, both at a local level and national level, including sharing platforms with local MPs at constituency meetings, and face to face discussions with Defra throughout the year.

Feedback was reported to the Board on MP session held at Westminster in October 2023 where members of the Executive team engaged with Members of Parliament on the progress being made across our business priority areas and presented our PR24 business plan to 2030. Likewise, the Chief Executive Officer holds regular 1-2-1 meetings with regional MPs in Westminster to discuss strategic and overarching issues around performance and our plans for investment.

ENGAGING WITH ENVIRONMENTAL ORGANISATIONS
The Board regularly receive updates at meetings through the Chief Executive Officer on our engagement with environmental organisations particularly Defra, DWI and Water UK. The CEO and Executive Team hosted site visits from the Defra Water Minister, the Shadow Water Minister and the Chair of the Environment Agency facilitating discussion on the strategic issues of particular importance in the South West.

Through our 'Quality First' transformation programme in the South West region and continued engagement we have seen positive improvements in the relationship with the DWI. The Chief Inspector of Drinking Water Inspectorate attended the South West Water Board Meeting held in November 2023 where valuable insights on the strategic approach for delivering drinking water quality was discussed. In addition, South West Water Board welcomed the EA's Area Director for Devon and Cornwall and Isle of Scilly and the Director of Operations for South West to its meeting in November 2023, where areas of strategy, performance and engagement were discussed.

The CEO gave updates to the Board on engagements and collaborations with Water UK, and its Board, ensuring that the water industry's position on increased investments to improve the sector for the benefit of our stakeholders, remains government focus. The CEO also attends, on occasion, the Let's Talk Water environmental stakeholder forum which is a key channel for sharing progress on our environmental programme and gathering feedback on our PR24 business plan.

To foster our commitment to environmental outcomes to our stakeholders, the Board, as part of the PR24 business plan, approved the establishment of an Environmental Advisory Panel, who will engage with the Board and provide independent feedback on our environmental performance and activities.

ENGAGING WITH OUR SUPPLIERS
The Board receives updates at Board meetings on our engagement with suppliers which is conducted through formal Request for Purpose processes and periodic supplier review meetings to ensure that our suppliers deliver outcomes that benefit all our stakeholders.

The Board is regularly informed and involved through the stages of tender processes which are undertaken to ensure that suitable and experienced suppliers are contracted to deliver our capital projects.

During the year, the Board received updates from the Group Chief Executive Officer on our engagement with the Cabinet Office on the drafting of the Procurement Act 2023 which is geared towards making procurement simpler, quicker and more transparent given the criticality of supply chain in future delivery of our business.

The Executive are actively engaging the wider industry supply chain directly and indirectly through organisations such as British Water, Future Water and the Civil Engineering Contractors Association to both understand and influence emerging trends and mobilise the best suppliers and innovation for the benefit of the Company. Updates are regularly provided to the Board.

SECTION 172(1) STATEMENT

All of the Board's decisions are considered against the importance of acting in a sustainable, ethical and collaborative way, understanding the views of our different stakeholders and weighing their competing interests, whilst being mindful of regulatory obligations.

Our Board leads and sets the tone by carefully noting the priorities of our stakeholders during its discussions and when it makes decisions. We also know the importance of continually assessing the long-term impacts of our decisions, not only at Board level, but across the Company, this is embedded as part of our culture. This helps us live our purpose and our values, as a responsible, trusted and sustainable business acting in a way which benefits all our stakeholders as much as possible. Properly understanding the impact of what we are doing has become part of how we operate, and it permeates in everything we do at South West Water.

Each Director has a duty under section 172 of the Companies Act 2006 (s.172), to act in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of members and stakeholders as a whole, and in doing so, must have regard to a range of broader issues. Therefore, when the Board makes a decision, we always take full account of the following:

s.172 duties	Read more	Page
The long-term consequences of our decisions	Strategic report Our business model Principal risks Sustainability reporting Our integrated approach to ESG Viability statement Key activities of the Board	1 to 119 22 50 73 69 66 141
The interests of our employees	Strategic report Investing in our people How we listen Diversity, equity and Inclusion Whistleblowing policy and speak up Purpose, values and culture Our values	1 to 119 24 9 30 165 132 25
The importance of having excellent business relationships with suppliers, customers and anyone else who we impact	Our operational review How we listen How the Board engages with stakeholders	33 9 143
The impacts our operations have on our communities and our environment	Our approach to ESG and Net Zero TCFD and TFND disclosures ESG Committee Report	69 78 167
Ensuring we maintain our reputation for the highest standards of business conduct	Non-Financial Information Statement Purpose, values and culture Modern Slavery Anti-financial crime framework Whistleblowing policy and speak up	117 132 32 164 165
The need to act fairly between our stakeholders	Stakeholder Engagement	143

HOW THE BOARD FULFILS ITS S.172 DUTY

To be able to fulfil their s.172 duty when making decisions, the Board is supported in carefully considering all the relevant factors to ensure the long-term success of the Company.

- **Board information** – all Board papers contain a s.172 information section to enable the Board to consider stakeholder interests as part of their discussions and decision-making. Our Board directly and indirectly engages with our stakeholders. Read more on pages 143 to 144.
- **Board strategic Discussion** – s.172 factors are considered in the Board's discussions on strategy, including how they underpin the Company's long-term success. The Company's culture helps ensure there is proper consideration of the impact of Board decisions on our stakeholders and the Board considers the quality of information it has received and seeks assurance where appropriate.
- **Board decision** – outcomes of the Board decision are assessed and further engagement with stakeholders is undertaken, where appropriate. As a result of the Board's engagement, the necessary actions are taken.

KEY STRATGIC DECISIONS CONSIDERED BY THE BOARD

Below are some of the key strategic issues considered and decisions made by the Board during the year and an explanation of how the Board considered the matters in Section 172(1) (a) – (f) when taking those decisions and how they link to our strategy are set out in the table below.

Key decision	Outcome	Board discussion and s.172 considerations	Link to strategy
The 2024 'Price Review' Business Plan	In October 2023, the Board approved our PR24 business plan which sets out what we intend to deliver for our customers and the environment from period 2025-2030	As part of their considerations, the Board discussed the 2.8 billion investment plan, which involved engaging 250,000 of our stakeholders over a three-year period. The PR24 business plan affects every one of our stakeholders. **Our People** The Board considered that the impact of PR24 Business plan on the workforce. Around 2,000 jobs will be created, providing local people with rewarding careers in their home region, either directly employed by South West Water or within the wider supply chain. **Our Customers** The Board considered the relationship between the cost of scheme and its impact on bills, ensuring that that these remain affordable for customers particularly in the cost of living crisis. In addition, the impact of the four priorities within the plan would boost water resources for customers across the region. **Our Environment** The Board considered the impact of the plan on the environment, ensuring that investments create a sustainable future and accelerate net zero and environmental gains through creation of climate- independent water sources and restoration schemes to boost natural habitats and nurture healthier rivers and seas. **Our Regulators** As part of their discussions, the Board considered our regulators. The Board considers that the plan meets Ofwat's quality and ambition assessments and is aligned with Ofwat's objectives of PR24. Further details on the PR24 Business Plan can be found on pages 20 to 21.	**Water Quality and Resilience** **Storm overflows and Pollutions** **Net Zero and Environmental Gains** **Addressing Affordability and Delivering for our Customers**

Key decision	Outcome	Board discussion and s.172 considerations	Link to strategy
Water Resources Management Plan 2024	In March 2024, the Board approved the submission to Defra, the final plan for water resources management which sets out new targets on leakage reduction, PCC reduction and distribution input.	**Our Customers** The Board considered the impact of the demand and supply of water to customers, ensuring our water resources are resilient and maximised appropriately to guarantee constant water supply. **Our Environment** The plan would see a reduction in the impact in climate change through restoration activities that preserve and nurturing the environment. **Our Regulators** The Board considers that the plan meets quality and ambition assessments and is aligned with Defra, Ofwat and the EA's regulatory objectives for water resources management.	**Water Quality and Resilience** **Storm overflows and Pollutions** **Net Zero and Environmental Gains** **Addressing Affordability and Delivering for our Customers**
Desalination	The Board approved the Desalination Project and purchase of sites required for the project.	**Our Customers** The Board considered the benefits for customers, and agreed that it would provide independent of climate, a source of water to counter future surface water resource deficiencies. **Our Regulators** The Board carefully considered that the regulatory approval process required for the project, ensuring that continuous engagement with regulators for the project was maintained. **Our Environment** The Board considered impact on the desalination process on the environment, ensuring the process is sustainable with less impact of the marine life and the ecosystem.	**Water Quality and Resilience** **Storm overflows and Pollutions** **Net Zero and Environmental Gains** **Addressing Affordability and Delivering for our Customers**

COMPOSITION, SUCCESSION AND EVALUATION

TRAINING AND DEVELOPMENT

In fulfilment of the Directors' duties the Board has been supported by the advice and services of the Company Secretary and other functions of the business. An established procedure whereby Directors can seek independent professional advice at the Company's expense to fulfil their duties is in place. The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors and the Committees and between senior management and non-executive directors.

The training needs of Directors are reviewed as part of the Board's performance review process each year. Training may include attendance at external courses organised by professional advisors and internal presentations from senior management.

During the year, updates were provided to the Board and Committees via the Group General Counsel and Company Secretary and/or the Company's external advisors. These included updates on mandatory reporting and recent legal or governance changes. Specifically, the Board received updates on the Company's preparations for meeting the enhanced requirements set out within the 2024 UK Corporate Governance Code, particularly in respect of Audit, Risk and Internal Control.

BOARD INDUCTIONS

On their date of appointment to the Board, all new Directors receive a comprehensive and tailored induction programme coordinated by the Group General Counsel and Company Secretary.

BOARD COMPOSITION, INDEPENDENCE AND EXPERIENCE

As at the date of this report, our Board comprises the Chair, five Non- Executive Directors, three Executive Directors and the Group General Counsel and Company Secretary. As at 31st March 2024, female representation on the Board was at 50 %, exceeding the Board's target of 33%.

All of the Non-Executive Directors are considered by the Board to be independent. Given her length of service, Gill Rider will be retiring as Chair at the end of our parent company's AGM on 24th July 2024. For continuity of the existing strategic leadership of the Board, a robust and effective long term succession plan as noted in 2022 and 2023 Annual Reports have been undertaken.

All Directors are subject to re-election each year. All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 128 to 129 demonstrate collectively a broad range of business, financial and other relevant experience.

Loraine Woodhouse is Chair of the Audit Committee and in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1, has recent and relevant financial experience and competence in accounting and auditing (as set out in her biography on page 129). The Board is satisfied that the Audit Committee has financial literacy and competence relevant to the sector in which the Company operates.

TIME COMMITMENT

All Non-Executive Directors are required to devote sufficient time to meet their Board responsibilities and demonstrate commitment to their role. During the year, the Nomination Committee considered the time commitment of all the Non-Executive Directors and was satisfied that the required time dedicated by each of them remains appropriate.

EXTERNAL APPOINTMENTS

All Directors are required to consult with the Chair and obtain Board approval before taking on any additional appointments. Executive Directors are not permitted to take on more than one non-executive directorship of a FTSE 100 company or other significant appointment. As part of the selection process for any new Board candidates, any significant external time commitments are considered before an appointment is agreed.

Susan Davy continued as a non-executive director of Restore plc throughout 2023/24 and was appointed as Chair of Water UK, the membership body representing the UK water industry in September 2023. The Board is of the opinion that the experience gained from external appointments provides additional and different business experience and a fresh insight into the role of an Executive Director.

Further information on the other business commitments of the Chair and South West Water's Non-Executive Directors is on pages 127 to 130.

BOARD PERFORMANCE REVIEW

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. Having carried out an externally facilitated evaluation in 2023, this year the evaluation was carried out by means of an internally facilitated online questionnaire, prepared by the General Counsel and Company Secretary and in consultation with the Chair, Further information on the outcomes from the 2023 Board performance review and the recommendations from the 2024 review can be fund on pages 153 to 155.

STEVE BUCK'S INDUCTION PROGRAMME

Following Steve's appointment to the Board in November 2023, he received a tailored induction programme, which included a formal introduction with key stakeholders in the business, along with briefing sessions from senior management on topics ranging from the Company's approach to its operational activities and regulatory, governance, finance, health and safety and key risks and opportunities faced by South West Water. Steve's induction also included a number of site visits across the region including a drinking water treatment site, a sewage treatment site and a reservoir catchment project. He had the opportunity to meet local teams and ask questions about the business. Steve was also given access to the Board portal which includes key Board and Committee documents and Company information.

THE NOMINATION COMMITTEE REPORT

THERE HAS NEVER BEEN A MORE IMPORTANT TIME FOR A RESPONBILE BUSINESS TO ENSURE OUTSTANDING LEADERSHIP AND STEWARDSHIP AND TO PROMOTE DIVERSITY.

Membership	**Role**	**Attendance**
Gill Rider	Chair	4/4
Neil Cooper[1]	Non-Executive Director	1/4
Iain Evans	Non-Executive Director	4/4
Jon Butterworth	Non-Executive Director	4/4
Claire Ighodaro	Non-Executive Director	4/4
Loraine Woodhouse	Non-Executive Director	4/4
Dorothy Burwell	Non-Executive Director	4/4

1. resigned 1 September 2023

ROLE OF THE NOMINATION COMMITTEE

- Regularly review the structure, size and composition (including skills, knowledge, independence, diversity and experience) required of the Board.
- Consider succession planning for the Board and Senior Management overseeing the development of a diverse pipeline.
- Identify and nominate candidates to fill Board vacancies.
- Assist the annual Board evaluation process to assess performance and effectiveness of the Board and its Committees.
- Evaluate the balance of skills, knowledge, independence, diversity and experience on the Board.
- Review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued success of the Company.
- Review the Company's policy on diversity, respect and inclusion, including gender, and the progress against objectives
- Review membership of the Board Committees

THE COMMITTEE'S FOCUS FOR 2023/24

- Ensuring that the Board has the appropriate mix of skills, experience and diversity and overseeing the effectiveness of the Board's succession plan, including the appointment of the Senior Independent Director, new Group Chief Financial Officer and the search for a new Group Chair.
- Ongoing review, development and evolution of the Executive leadership team and succession planning.
- Conducting the annual review of Board effectiveness and Board composition.
- The annual review and approval of the Company policy on Diversity, Respect and Inclusion and the Company's progress on diversity in line with the Parker review, including the outcome of the FTSE Women Leaders Review and the Company's position on Gender Pay and Ethnicity Pay.
- Reviewing the terms of reference for the Committee to ensure they remain appropriate.

This year, the Committee has overseen a number of changes to the Board. The Board welcomed John Halsall to the Board as an executive Director of South West Water on 10th July 2023, following Ofwat approval. He joined the Company as Chief Operating Officer in February 2023. As previously announced, in September 2023, Neil Copper stepped down from the Board and Iain Evans was appointed Senior Independent Director as his successor. In addition, we were pleased to welcome Steve Buck to the Board as our new Chief Financial Officer, following Paul Boote's decision to leave the Company as part of a planned relocation away from the South West. The appointment of Steve is in line with our succession planning with relevant skills and diversity of perspective as Steve brings previous knowledge of the water sector.

As noted in last year's Committee Report, a key focus for the Committee in 2023/24 would be seeking a successor for the Group Chair. The Inzito Partnership were appointed as independent consultants and have worked alongside the Committee in the rigorous selection process, including meetings with appropriate stakeholders as well as the interview process with Board members.

The Committee held four scheduled meetings during the year, and held a number of ad hoc meetings, in person and by Teams call, to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the Committee meetings, although other regular invitees to Committee meetings during the year included the Group Chief Executive Officer, the Group Chief People Officer and the General Counsel and Company Secretary. Committee members are also excluded from participating when their own positions are under discussion.

BOARD DIVERSITY

At South West Water we believe that a diverse and inclusive culture is a strategic imperative, treating it in the same way as we do each strategic priority - setting the tone from the top, holding leaders accountable and delivering against a clear action plan. The Committee maintains its strong interest in the Company's progress in championing diversity, whether gender, ethnicity, or social mobility, and regularly reviews the demographics of the workforce as well as the leadership and was pleased to see our parent company, Pennon, shortlisted in the Balance in Business awards 2024. The awards showcase the FTSE 350 companies which have the best gender balance at executive level, as well as those leading the way through innovation to level the playing field in the workplace.

We believe having a diverse mix of minds has helped to deliver a step change in our culture, as a more caring and considerate business, that places significant focus on well-being.

As at 31st March 2024, the female representation on the Board stood at 50%. In the 2024 edition of the FTSE Women Leaders Report, our parent company, Pennon emerges as a leader, proudly showcasing its commitment to diversity. The report, independently conducted and backed by the Government, is a ringing endorsement of the Company's relentless efforts to lead the charge in fostering equality and inclusivity.

Despite progress across the FTSE, our parent company, Pennon, is still one of only a few businesses in the UK to have both a female Chief Executive Officer and Chair. Given this, we have continued our membership of the 30% Club, and Gill Rider and Susan Davy are both ambassadors of 25 x 25, the initiative to improve female representation in senior executive roles.

The Company is an advocate of Sir John Parker's review for ethnic board diversity, meeting the external targets required of a responsible and inclusive business ahead of the required dates. This year, in line with our commitment to the Change the Race Ratio campaign, we have voluntarily published our ethnicity pay gap of 11.05% mean. The Committee will continue to monitor pay gaps. Building our representation across the Company is a focus, given the area we serve has lower representation than the national average where ethnic representation is 6.9%. Our company ethnic diversity has increased slightly in the year to just over 3%.

BOARD DIVERSITY, RESPECT AND INCLUSION POLICY

The Board requires the Committee to review and monitor compliance with the Board's diversity policy and report on the targets, achievement against those targets and overall compliance in the Annual Report each year. The policy was reviewed in March 2024.

The Board's diversity and inclusion policy confirms that the Board is committed to:

- The search for Board candidates being conducted, and appointments made, on merit, against objective criteria whilst promoting the widest forms of diversity, including gender, social and ethnicity. In this context, the Board with endeavour to achieve and maintain:
    - A minimum of 33% female representation on the Board
    - Maintain one Board member as a minimum who is racially or ethnically diverse
    - A minimum of 33% female representation on the Company's senior management team
- Satisfying itself that plans are in place for orderly succession of appointments of appointments to the Board and to senior management

- maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board.

The approach is to Company-wide diversity is detailed on page 30 and is also fully applicable to our Remuneration, Audit and Nomination Committees, and as each Committee is comprised of members of the Board, the Board's Diversity, Respect and Inclusion policy detailed above, similarly applies. We exceed the policy.

Colleagues are asked to provide personal information for the purposes of monitoring equality and for statutory reporting purposes, including Gender Pay Gap. This is collected during the recruitment and onboarding process and colleagues are asked to periodically review and update as necessary. Information is stored on the Company's HR management system, including the data used to populate the table below. Employees are encouraged to provide information on a voluntary basis.

DIVERSITY DISCLOSURE TABLE

The Committee is pleased to report with the FCA's new diversity disclosure requirements, as set out in the table below. At South West Water 'executive management' is defined as on page 131. The figures in the table are stated as at 31st March 2024 and have been calculated based on diversity data provided upon employment.

THE ETHNIC REPRESANTATION OF OUR BOARD AND LEADERSHIP

	Number of Board Members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
White, British or other White (incl. minority white groups)	8	80	5	9	100
Mixed / multiple Ethnic Groups	-	-	-	-	-
Asian / Asian British	-	-	-	-	-
Black / African / Caribbean / Black British	2	20	-	-	-
Other ethnic group including Arab	-	-	-	-	-
Not specified / prefer not to disclose	-	-	-	-	-

THE GENDER REPRESANTATION OF OUR BOARD AND LEADERSHIP

	Number of Board Members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)	Number in executive management	% of executive management
Men	**5**	**50**	**3**	**5**	56
Women	5	50	2	4	44
Other categories	-	-	-	-	-
Not specified / prefer not to disclose	-	-	-	-	-

TALENT MANAGEMENT AND SUCCESSION PLANNING

The Committee, supported by the Chief People Officer, also regularly reviews both the executive and non-executive leadership as part of its standing agenda, reviewing both short and long term skills requirements, opportunities for positive support to minority groups, and early identification of high potential. In line with our commitment to Change the Race Ratio, we have set stretching targets to develop diversity in our leadership levels, below Executive Committee level and the Committee will continue to review progress on this important goal. As part of the regular reports received by the Committee, rates of participation analysed by many characteristics are provided, noting however that this is also subject to employees' willingness to disclose certain characteristics or sensitive information.

APPOINTMENT OF OUR NEW CHAIR

As announced in the 2023 Annual Report, Gill Rider will be stepping down from her role as Chair of the Board at the conclusion of Pennon Group's 2024 AGM on 24th July 2024.

An update on the appointment of the new Chair will be disclosed on the Regulatory Information Service and the Chair appointment process will be included in the Annual Report and Financial Statements 2025.

BOARD PERFORMANCE REVIEW

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

2023 BOARD PERFORMANCE REVIEW

Last year's external performance review was facilitated by Equity Culture, with the following conclusions:

- Directors continued to demonstrate a high degree of effectiveness and collaboration.
- The Board had a forward-thinking mindset.
- The Board had a good understanding of opportunities for growth and risks facing the business.

The 2023 performance review identified several recommendations and actions points for the Board to consider, which were identified in the Annual Report and Accounts 2023. In November 2023, the Board received an update on the outcomes of each action, which are set out below:

	Area of assessment	Action	Outcome
Board	Board meetings, papers and presentation	• Review the structure of Board papers	• A new Board and Committee paper template was introduced during the year. All papers reviewed by the Company Secretarial team.
	Board oversight	• Continue to ensure appropriate processes for monitoring, reporting and addressing pollution incidents.	• The Board receive operational updates at every meeting and the Audit Committee review on an annual basis the effectiveness of the internal control framework to ensure the appropriate process for monitoring and reporting are in place.
	Company strategy and Governance	• Key themes are developing strategic lines of communication to drive climate delivery and growth.	• The Board held two strategy days during the year in September 2023 and March 2024. See page 139 for more information.
	Communications strategy	• Ensure the Company has the appropriate capacity to meet its challenges	• Key themes are developing strategic lines of communication to drive climate delivery and growth
	Succession and talent planning	• The bench strength of the Executive needs to be kept under review	• Ensure the Company has the appropriate capacity to meets its challenges
	Strategy	• The focus should remain on ensuring that the Company has the human resources to deliver its ambitions	• The bench strength of the Executive needs to be kept under review
	Risk	• Top level risks should be regularly reviewed	• The focus should remain on ensuring that the Company has the human resources to deliver its ambitions
Audit Committee	Committee operation and effectiveness	• Continue with existing processes.	• The Audit Committee continued to focus on its existing operations and key priority areas during the year. See page 156 for more information on the Committee's activities.
ESG Committee	Committee operation and effectiveness	• Ensure sufficient flexibility to further improve Net Zero activities and outcomes. • Continue the vital focus on environmental issues and CSOs.	• During the year the Committee approved the creation of an environmental advisory panel to provide independent advice and help challenge our environmental activities and to demonstrate our commitment to focusing on environmental outcomes. See page 167 for more information on the Committee's activities.

	Area of assessment	Action	Outcome
		• Continue to review and assess processes in this area.	
Remuneration Committee	Committee operation and effectiveness	• To continue to evolve the framework as required, and build on existing processes.	• The Reward strategy and framework was updated during the year to reflect the Company's composition, latest strategy and business plans, changing employee expectations and our new Company values. See page 172 for more information.
Nomination Committee	Committee operation and effectiveness	• Continue with existing processes, focused on succession.	• The Committee received updates on succession planning during the year. See page 150 for more information on the Committee's activities
Health and Safety Committee	Committee operation and effectiveness	• A developing Committee that should continue its deep dive into H&S performance and incidents.	• During the year, the Committee reviewed deep dives of High Potential Incidents, with a particular focus on lessons learned, getting to the root cause and encouraging a learning mindset. See page 170 for more information.

2024 BOARD PERFORMANCE REVIEW

This year the evaluation was carried out in March 2024 via an online questionnaire created internally by the Group General Counsel and Company Secretary and in consultation with the Chair.

The questionnaire focused on the ongoing effectiveness of the Board during the year in setting the Company's strategy, satisfying itself that South West Water's culture and values were operating well, ensuring that the Board has a clear understanding of the view of its stakeholders, ensuring the Board takes the lead in promoting a strong health and safety culture throughout the Company, and ensuring the Board has an appropriate level of focus on risk appetite and the internal control framework and ensuring that the processes are in place to identify risk.

The outcomes of the review concluded that:

- The Board continued to operate effectively and there was a culture of openness and debate through the effective contribution of all directors.
- The Board continued to provide appropriate leadership of the Company and that there are effective strategies, processes and plans in place.
- The Board Committees are well run and have sufficient independent membership to ensure that they can make high quality decisions that address the diverse customer and stakeholder needs of the Company.

The 2024 Board and Committee performance reviews identified several recommendations and actions points for the Board to consider, which were presented to the Board for discussion at its meeting in May 2024.

An update on the outcomes of the actions/recommendations of the 2024 Board and Committee performance reviews will be reported in the Annual Report and Financial Statements 2025.

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE IS FOCUSSED ON ENSURING SOUND FINANCIAL AND RISK MANAGEMENT TO SUPPORT THE COMPANY'S STRATEGY

Membership	Position	Attendance
Loraine Woodhouse	Chair	5/5
Claire Ighodaro	Non-Executive Director	5/5
Iain Evans[1]	Non-Executive Director	3/5
Neil Cooper[2]	Chair	2/5

1. Iain Evans joined the Audit Committee during the financial year and attended all meetings since joining the Committee.
2. Neil Cooper stepped down as Chair and a member of the Committee on 1 September 2023

ROLE OF THE AUDIT COMMITTEE

- Ensure the quality and integrity of the Company's financial and regulatory reporting
- Monitor and review the effectiveness of the internal control environment
- Challenge the scope and adequacy of the Company's risk management processes
- Review the Company policies on Risk Management, Treasury, Tax and Delegated Authorities schedule

THE COMMITTEE'S FOCUS FOR 2023/24

- Ensure the 2024 Annual Report and Financial Statements are fair, balanced and understandable
- In depth review of the key financial reporting judgements
- Risk "deep-dives" in key focus areas
- External audit tender
- Ensuring readiness for UK Corporate Governance Code changes

This report is intended to provide an insight into the work of the Audit Committee ('the Committee') together with details of how the Committee has discharged its responsibilities throughout the year and overseen the process of assurance over the integrity of the 2024 Annual Report and Financial Statements ('the 2024 Annual Report').

As in previous years, we have focused on the following key priorities areas:

- Ensuring the quality and integrity of the Company's financial reporting through the assessment of the application of accounting policies given underlying standards, challenging management through the review of the use of accounting judgements made in preparing financial reporting and the Committee's assessment of whether the financial reporting of the Company is presented in a fair, balanced and understandable manner
- Ensuring the 2024 Annual Report is aligned with the requirements and guidance from regulators, and that all matters reported on and disclosed meet the needs of our various stakeholders.
- Monitoring and reviewing the ongoing effectiveness of the Company's risk management and internal control environment, including the effectiveness and independence of the internal audit function

The Committee uses its collective expertise, with input from the External Auditor, to provide a robust challenge to the approach and judgements made by management in the treatment of financial matters and their resulting disclosures within the financial statements. One of our key roles is to advise the Board that we are satisfied that the 2024 Annual Report is fair, balanced and understandable and that it provides the information necessary for stakeholders to assess the Company's position, trends in performance, business model and strategy. In doing so, we ensure that management's disclosures reflect the supporting detail, or challenge them to explain and justify their explanation and, if necessary, re-present the information. As part of fulfilling these commitments, we carefully consider the key financial reporting judgements of the management as set out on page 159. Significant matters considered by the Committee both during the year and in relation to the year-end financial statements are laid out in this report. The External Auditor supports this process in the course of the statutory audit.

The Committee was pleased to advise the Board that the 2024 Annual Report met these criteria. Details of our review process can be found on page 160.

The Committee discharges its responsibilities throughout the year in accordance with a schedule of business reflecting the annual external reporting cycle of the Company, allowing for appropriate consideration at the right point. This scheduling also allows for consideration on an ad-hoc basis of events as they have arisen.

The Committee formally considers the effectiveness of the Company's risk management and internal control systems. This is achieved through updates on the operation of risk management processes during the year and the outcomes of key assurance activities, including from the Company's independent internal audit function. Additionally, the Audit Committee undertake risk deep dives focused on aspects of the Company's principal risks.

During 2023/24, the Audit Committee have performed risk deep dives on the following areas:

- Engineering supply chain resilience
- Water quality
- Cyber Security

More detail on our risk management processes, principal risks and their associated mitigations can be found on pages 50 to 65.

The Audit Committee has also been actively engaged and received regular updates during the year on the Group's preparations for meeting the enhanced requirements set out within the 2024 UK Corporate Governance Code, in particular those aspects in respect of Audit, Risk and Internal Control. Good progress has been made with the initial phase focused on financial reporting related processes and controls. The scope of these preparations during 2024/25 will expand to broader operational, compliance and reporting elements.

The Committee has considered the requirements for the Financial Reporting Council's" Audit *Committees and the External Audit: Minimum Standard*", published in May 2023, and ensured that it complied with this standard in conducting the tender for audit services and its ongoing oversight of the external audit process, as set out in this report.

Alongside this focus on our risk processes, we formally review the output of the Company's financial resilience and health assessments, for a 12-month 'look-forward' period through our assessment of the Company's going concern status and over a period to 2030 to assess the Company's continuing viability. This viability assessment has considered a range of financial projections arising from the current challenging and complex external environment with ongoing uncertainties in relation to economic growth, inflation prospects and the impact of the PR24 pricing review for our water business. These are modelled through internal scenarios around the deployment of cash reserves.

South West Water, including the operating commitments of Bristol Water, has continued to use a longer assessment period to 2030, since we have a greater visibility of future cash flows, being a regulated business. Our viability statement is reported on pages 66 to 68.

Throughout the year, the Company has remained focused on delivering a resilient performance in UK water, despite a difficult period of cost inflation and scrutiny of the water industry as a whole. We are focused on delivering sustainable results for all stakeholders.

SOUTH WEST WATER AUDIT COMMITTEE COMPOSITION

All members of the Committee are Independent Non-Executive Directors of the Board. In accordance with the UK Code, the Board is satisfied that Loraine Woodhouse and Claire Ighodaro, all of whom served on the Committee during the year under review have recent and relevant financial experience and also have competence in accounting or auditing.

Only members of the Committee have the right to attend Committee meetings. Other regular attendees at meetings, at the invitation of the Committee, include the Chair of the Board, the Group Chief Executive, the Group Chief Financial Officer, the Group General Counsel and Company Secretary, Director of Risk and Assurance, Group Financial Controller and the External Auditor.

The Committee regularly holds private discussions with the External Auditor without management present. Further, the Committee Chair regularly communicates with the Group Chief Financial Officer, the External Auditor and with Committee members outside the meetings to better understand any issues or areas for concern.

MATTERS OF SIGNIFICANCE IN 2023/24

Financial reporting	• Reviewed and discussed reports from management on the financial statements, considered managements significant accounting judgements and policies being applied, and assess the findings of the statutory audit in respect of the integrity of the financial reporting of full and half year results. • Reviewed the internal assessment of Going Concern and longer-term viability on behalf of the Board • Reviewed in detail the 2024 Annual Report and advised the Board that the presentation of the 2024 Annual Report is fair, balanced and understandable in accordance with reporting requirements, including the consideration of climate risk in the preparation of the financial statements, and recommended the Board give approval for publication
External auditor	• Oversaw the 2023/24 statutory audit, including the key audit risks and level of materiality applied by the External Auditors • Assessed the effectiveness of the External Auditor during the year • Agreed the statutory audit fee for the year ending 31 March 2024 • Reviewed and approved the non-audit services and related fees provided by the External Auditors for 2023/24 • Conducted a competitive tender process for the role of the statutory auditor Note, in line with the structure of the Group, certain activities such as recommending reappointment of the External Auditor and assessment of effectiveness of the External Auditor are performed by the Pennon Group Audit Committee. The responsibilities of the Pennon Group Audit Committee are described in the Pennon Group annual report (pages 136 to 143).
Internal Controls and Risk management	• Reviewed the effectiveness of the Company's risk management framework and its integration into Board and Committee Reporting • Reviewed the Risk Appetite statement prior to making a recommendation to the Board • Monitored fraud reporting and incidents of whistleblowing, including a review of the Company's whistleblowing processes and procedures and reporting to the Board on this • Reviewed the Company risk register and considered appropriate areas of focus and prioritisation for the internal audit work programme for the financial year • Carried out deep dives at Committee meetings on principal risk areas.
Governance	• Considered and approved Company accounting policies, including the impact of new accounting standards, used in the preparation of the financial statements including any required alignments of Bristol Water's accounting policies • Reviewed and considered internal financial policies • Confirmed compliance with the UK Code • Held regular meetings with the external auditor and the Group Director of Risk and Assurance without members of management being present.

Regarding monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2024 are set out in the following table, together with details of how each matter was addressed by the Committee.

At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant matters arising in respect of financial reporting during the year, together with the areas of particular audit focus, as reported on in the independent auditor's report on pages 203 to 213. In addition to the significant matters set out in the table below, the Committee considered presentational disclosure matters including the use on non-underlying performance metrics disclosures, and ensuring a fair presentation of statutory and non statutory performance and financial measures.

During the year, the Committee's areas of focus included:

Area of focus	How the matter was addressed by the Committee
Revenue recognition	Given the nature of the Company's revenue, the key areas of income statement judgement for South West Water and Bristol Water continue to be in respect of revenue recognition relating to income from water services. While the Committee relied on operational business processes for assessment of water into supply, in the previous financial year it challenged the robustness and timeliness of the methodology used, resulting in management streamlining the calculation approach. The improvements that were implemented in FY2023 continue to provide a more efficient approach to the calculations required and the Committee continues to scrutinise the track record of accuracy by comparing actual outturns with accruals at previous year ends to form a judgement about the quality of decision making. The Committee also closely considered the work in respect of these areas at year end by the external auditor as well as reviewing disclosures around revenue recognition accounting policies.
Bad and doubtful debts	Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly against historical standards and compared to the track records of other companies in the sector. The Committee was particularly mindful of the ongoing impacts of affordability on the assessment of expected credit losses in determining the bad debt provision, noting the significant increases in inflation arising from macro-economic developments. At the year end, the external auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for expected credit losses was reasonable.
Going concern basis for the preparation of the financial statements and viability statement	A report from the Group Chief Finance Officer on the financial performance of both the Pennon Group and South West Water, including forward-looking estimates of covenant compliance and funding levels under different scenarios, is provided to the Board on a periodic basis. Rolling five-year strategy projections and the resultant headroom relative to borrowings are also regularly reviewed by the Board, including scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Group Chief Finance Officer prepares for consideration by the Committee a report focusing on the Company's liquidity over the 12-month period from the date of signing of either the annual report or half-year results. The Committee also reviewed a report from the Group Chief Finance Officer on the Company's financial viability over an appropriate period, which the Board considers to be up to 2030, in connection with the UK Corporate Governance Code and Ofwat's requirement for a viability statement to be given by the Board. Similarly, this report also considered the viability of the Company the potential manifestation of other adverse events modelled from the Company's principal risks and resultant sensitivity scenarios. South West Water (now incorporating the operating licence of Bristol Water) uses an assessment period to 2030, noting a greater visibility of future cash flows, being a regulated water business. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Company to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on pages 66 to 68.

EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to monitor carefully the effectiveness of our external auditor as well as their independence, while recognising there is a need to use our external auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The External Auditor produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditor in delivering the timely audit of the Company's Annual Report and which was shared with, and discussed by, the Committee in advance.

The effectiveness review of the external auditor is undertaken as part of the Committee's annual performance evaluation which also examines the relationship and communications between the Committee and the external auditor. Further details of the performance evaluation are provided below. No issues were raised during that review. The Committee concluded that the auditor was effective during the year and that the relationship and communications were open and constructive.

The Committee Chair has also met privately, with the external auditor to discuss key matters.

AUDITOR INDEPENDENCE

The Committee regards independence of the External Auditor as absolutely crucial in safeguarding the integrity of the audit process and takes responsibility for ensuring the three-way relationship between the Committee, the External Auditor and management remains appropriate.

The External Auditor reported on their independence during the year and again since the year end, confirming to the Committee that, based on their assessment, they were independent of the Company.

PROVISION OF NON-AUDIT SERVICES

The Committee continues to have a robust policy for the engagement of the external auditor's firm for non-audit work. The Committee receives a regular report covering the auditor's fees including details of non-audit fees incurred.

Recurrent fees typically relate to agreed procedures in relation to annual regulatory reporting obligations to Ofwat; work which is most efficiently and effectively performed by the statutory auditor. The policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee chair to approve all non-audit work performed by the statutory auditor. The policy uses the average of the last three years' audit fees disclosed in the accounts reflecting that certain non-audit fees for services that are required to be performed by the auditors are excluded from the assessment.

The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditor's firm to carry out such work, and only grants approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be safeguarded. If another accounting firm could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the External Auditor.

The level of non-audit fees payable to the external auditor for the past year is 13.1% of the three-year average audit fee, which is within the Company's 70% non-audit fee limit.

The Group Chief Financial Officer regularly reports to the Committee on the extent of services provided to the Company by the External Auditor and the level of fees paid. The fees paid to the External Auditor's firm for non-audit services and for audit services are set out in note 8 to the financial statements on pages 233 and 234.

STATUTORY AUDIT TENDER PROCESS AND STATEMENT OF COMPLIANCE WITH CMA ORDER

Pennon Group plc undertook a competitive audit tender process in 2014, which included the statutory audit engagement for South West Water. The Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Pennon Group last undertook a formal comprehensive audit tender process for statutory audit services in 2014. The current External Auditor, Ernst & Young LLP (EY), was appointed following a comprehensive audit tender process and approval by shareholders at the Company's 2014 AGM. EY commenced their appointment as auditor and presented their first report to shareholders for the year ended 31st March 2015. The lead audit partner must change every five years. Christabel Cowling, who has considerable audit experience of other FTSE 100 utility companies, has held the role since 2019. This year-end audit has been EY's tenth consecutive year in office as statutory auditor.

As announced in our annual report and accounts for FY2023, the Committee has run a full tender for the Company's external audit services during the year ending March 2024, before the next rotation becomes due. This allows for any potential new audit firm to take up the role for the year ending March 2025 and, if required, affords appropriate time for a smooth transition of responsibilities.

SUMMARY OF THE STATUTORY AUDIT TENDER PROCESS

The Committee's primary objective throughout the tender process, and in making its recommendation to the Board, was to review the audit approach and ensure best practice in the delivery of the Company's audit. Maximising value to the company and its stakeholders in terms of: audit quality; reliability of assurance; the identification of potential improvements to business and accounting processes and the reporting thereof.

In conducting the tender and making an appointment ahead of 1st April 2024 for the audit for the year ending 31st March 2025, sufficient time was made available for a firm to cease to provide non-audit services, as set out in the FRC's Revised Ethical Standard (2019) prior to commencing their tenure and to allow a new auditor to shadow the incumbent during the audit for the year ending 31st March 2024, if applicable. In addition, the tender process had confirmed that all participants did not provide any services for which a 'cooling in' period may apply.

A working group of the Chair of the Audit Committee, the CFO and the Group Financial Controller was established to direct the overall tender process whilst the Audit Committee approved all key decisions as required. The Audit Committee as a whole was kept fully appraised of the progress of the tender by the Chair of the Committee. The Group Financial Controller was responsible for leading on the logistics of the tender process. Ahead of the request for proposal (RFP) being issued, four 'challenger' firms confirmed that they did not wish to participate in the tender and a third 'Big 4' firm was conflicted from participating. Industry sector expertise was an important factor in the selection of the firms invited to tender, given the regulatory complexities of the business. All three of the firms that participated demonstrated considerable experience of the utility sector and/or water sector and the industry experience of the key members of the audit teams demonstrated the same.

A selection panel was established consisting of: the Chair of the Audit Committee; all members of the Committee; the Chair; the CEO, the CFO and the Group Financial Controller, thereby ensuring a wide range of views were taken into account and a considerable amount of financial expertise supported the Committee in the decision-making process.

Each firm's proposal consisted of a written tender document and face-to-face presentations. Their responses were evaluated by the selection panel against the following criteria, as set out in the RFP:

- Audit approach and overall audit quality assurance;
- Quality, experience of the lead partner, team and firm and their ability and track record of challenging management and delivering audit quality;
- Approach to achieving a smooth audit transition, if relevant;
- Service delivery, including value add from the audit;
- Culture and reputation of the audit firm; and
- Performance during the proposal process.

Proposals were assessed on these criteria with pricing being a secondary point of evaluation after the initial assessment.

OUTCOME OF STATUTORY AUDIT TENDER PROCESS
Following the selection panel process, the Audit Committee met to review and discuss the bidders' proposals, how these proposals met the assessment criteria, and a paper summarising the assessment was prepared, following which the committee made its recommendation that PricewaterhouseCoopers LLP (PwC) was its preferred candidate. The recommendation was approved by the Board on 21 February 2024. The Board accepted the Committee's recommendation that PwC would be appointed as statutory auditor for the year ending 31 March 2025, subject to shareholder approval at our parent company's Annual General Meeting in July 2024. There are no contractual obligations that restrict the Committee's choice of auditor; the recommendation is free from third-party influence and no auditor liability agreement has been entered into.

PwC were identified as the preferred candidate due to: the strength, experience and breadth of its team in relation to the industry, regulation and technology capabilities; PwC's thorough consideration of the audit scope and approach and how innovation will be deployed to enhance audit approach and quality; PwC's clear commitment to the transition process with advanced levels of planning in how the process would be managed to ensure audit quality; the proposed audit engagement partner and the entire team demonstrated a genuine enthusiasm for driving further audit quality; and demonstrated their capabilities to deploy technology to address key audit risk areas. As noted above, in reaching the assessment, the Committee considered the ranking of the firms before and after the consideration of pricing. In both scenarios PwC proved to be preferred candidate. Colin Bates will be appointed as PwC's audit engagement partner for the year ending 31 March 2025, having shadowed EY during the 2023/24 audit process.

INTERNAL AUDIT
The internal audit activities of the Company are a key part of the internal control and risk management framework. There is a long-standing and effective centralised internal audit service at Pennon Group plc which makes a significant contribution to the ability of the Committee to deliver its responsibilities and has continued to operate effectively.

The internal audit charter was updated during the year to reflect the requirements of the new Global Internal Audit Standards. The Company Internal Audit Plan is set on a rolling six month basis and was approved in March 2023 and September 2023, following a thorough review to ensure it provided adequate coverage over the Company's key risks for the year ahead and was sufficiently flexible to respond to emerging risks. In developing the plan, account is taken of the principal risks, the activities to be undertaken by the External Auditor, and the Company's annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Company.

The Group Director of Risk and Assurance reported regularly through the year to the Committee on audit reviews undertaken and their findings of internal audit activity. There were regular discussions, correspondence and private meetings between the Director of Risk and Assurance and the Committee Chair. The Committee continues to monitor the performance of the internal audit function as part of its annual assessment of the effectiveness of the function. As required by IIA standards, the next cyclical external review of the internal audit function will take place before the end of 2026/27 (the last having been undertaken in 2021/22).

FAIR, BALANCED AND UNDERSTANDABLE ASSESSMENT
To enable the Committee to advise the Board in making its statement that it considered that the Company's annual report is fair, balanced and understandable (FBU) on page 201, the Committee has applied a detailed FBU review framework that takes account of the Company's well-documented verification process undertaken in conjunction with the preparation of the 2024 annual report. This is in addition to the formal process carried out by the external auditor to enable the preparation of the independent auditor's report, which is set out on pages 203 to 213.

In preparing and finalising the 2024 Annual report, the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the Pennon Executive. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the annual report & accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

LOOKING FORWARD

During the forthcoming year, the Committee will remain focused on the key areas of responsibility delegated to it by the Board, ensuring that standards of good governance are maintained and that appropriate assurance is obtained across all areas of the business Particular focus on the Company's principal risks, control environment and approach to financial reporting, noting the volatility in the global economy. Developments in reporting responsibilities, including those recommended by the Task Force on Climate-related Financial Disclosure (TCFD), the consideration of climate risk in preparation of the financial statements and potential changes in the governance environment will be considered throughout the year.

INTEGRATED ASSURANCE FRAMEWORK

Throughout the year South West Water had in place an effective integrated assurance framework which identifies and monitors all types of assurance to enable a full evaluation of the conclusions drawn by all auditors, inspectors and reviewers from both internal and external providers.

The framework utilises a risk-based approach to ensure an appropriate balance of varied providers of assurance dependent on the assessed risk and complexity of assurance requirements.

(i) Group independent internal audit

South West Water utilises the Pennon Group's independent Internal Audit function, to provide effective risk-based coverage over the internal control environment. The Audit Committee's interactions and engagement into internal audit, including input into the annual plan is summarised above.

(ii) Annual assurance (financial and technical audit)

Alongside the statutory external auditor, South West Water also engages a technical auditor to provide assurance over key areas of regulatory performance reporting. This assurance considers our reported performance against key regulatory outputs and measures.

(iii) Quality assurance and ISO Internal Reviews

The South West Water Audit Committee also considers the resources for carrying out internal audits and reviews in key Company specific areas and endorses and acts on findings from these reviews carried out within the Company. There is a programme of internal audits coordinated by the Risk and Compliance Department as part of the Company's ISO certifications.

South West Water has the following accreditations/certifications:

- ISO 9001: 2015 (quality management)
- ISO 14001: 2015 (environmental management)
- ISO 27001: 2013 (information security)
- ISO 17025: 2005 (laboratories and sampling)
- ISO 45001: 2018 (occupational health and safety)
- ISO 50001: 2011 (energy management)
- ISO 55001: 2014 (asset management)
- BS ISO 22458: 2022 (customer vulnerability)

These specific areas are also subject to periodic external reviews (such as ISO external reviews).

SOUTH WEST WATER'S 2023/24 BOARD ASSURANCE STATEMENT

In July 2024, South West Water will publish its annual performance report which will detail assurance work which has been performed in areas which it has identified following consultation as significant areas for assurance, which includes annual reporting. This report will be available as part of South West Water's annual reporting publications– available at www.southwestwater.co.uk/report2024.

AUDIT, RISK AND INTERNAL CONTROL

RISK MANAGEMENT AND THE COMPANY'S SYSTEM OF INTERNAL CONTROL

The Board is responsible for maintaining the Company's system of internal control to safeguard the Company's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Company has been in place throughout the year and up to the date of the approval of this Annual Report and Accounts and is regularly reviewed by the Board in March 2024.

The Company's system of internal control is consistent with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (FRC Internal Control Guidance).

The Board confirms that it applies procedures in accordance with the UK Code and the FRC Internal Control Guidance which brings together elements of best practice for risk management and internal control by companies. The Board's risk framework described on pages 50 to 65 of the strategic report provides for the identification of key risks, including ESG risks, in relation to the achievement of the business objectives of the Company, monitoring of such risks and ongoing and annual evaluation of the overall process. Details of the key risks affecting the Company are set out in the strategic report on pages 1 to 119.

Key Performance Indicators are in place to enable the Board to measure the Company's ESG performance, including agreed regulatory performance commitments in respect of ODIs, and a number of these are linked to remuneration incentives (see pages 187 to 188). A full breakdown of performance during the year against these KPIs is provided in South West Water's Annual Performance Report, which will be published in July (see www.southwestwater.co.uk/report2024).

As part of the review of the effectiveness of the system of risk management and internal control under the Company risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Company procedures. This took place on March 2024.

The Company's processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout the Company and that the Company is in a position to react appropriately to new risks as they arise. New and emerging risks are identified in further detail in the risk management section on pages 50 to 65.

CODE OF CONDUCT AND POLICIES

South West Water has adopted the Pennon Group's Code of Conduct. The Code of Conduct and related policies set out the Company's commitment to promoting and maintaining the highest level of ethical standards. Areas covered in the Code of Conduct include our impact on the environment and our communities, our workplace and our business conduct.

The Code of Conduct sets out the values and principles by which we operate and provides a framework for ethical business practices. It is further supported by a number of policies that guide our workforce and suppliers, so that we may identify and deal with suspected wrongdoing, fraud or malpractice, maintain the highest standards of compliance, and to apply consistently high standards of ethics. We aim to maintain a culture that fosters the reporting of any concerns and trust that we will act on them.

ANTI-FINANCIAL CRIME FRAMEWORK

The anti-bribery and corruption, anti-tax avoidance, anti-money laundering policies were reviewed and consolidated (together with new guidance to reflect the provisions of the Economic Crime and Corporate Transparency Act 2023) into a new Board approved anti-financial crime policy in March 2024. The new policy includes guidance on South West Water's zero tolerance approach to acts of bribery, fraud, money laundering and tax evasion.

The Policy outlines the requirements of Company to comply with relevant legislative, ethical standards and best practice on preventing financial crime, and provides information and guidance to those working for and on Company's behalf on how to spot 'red flags' that could indicate a risk of financial crime. The policy is in the process of being rolled out comprehensively into all parts of the Company, through the Company's learning management platform to track review and record understanding; this process is complimented by online training for new joiners on the individual areas of financial crime and annual refresher training for all employees on the Code of Conduct (which incorporates anti-financial crime guidance) arranged by the Legal Compliance team. The Company ensures compliance with the policy in line with our risk-based approach by conducting ad hoc checks on completion of the mandatory training set out above, providing specific training to areas of potential higher risk (e.g. Procurement and Commercial & Estates), and carrying out detailed investigations into allegations of potential wrongdoing (whistle blows) received from employees, customers and suppliers.

The potential consequences on colleagues and the Company itself are clearly set out in the policy as are the processes for raising concerns. Any breaches or failure to adhere to the Group's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Company. All employees are required to report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Group's confidential whistleblowing service Speak Up.

The Legal Compliance team (in conjunction with the Internal Audit function and Group Tax team) created a revised financial crime risk assessment framework in April 2024 to incorporate the requirements of the Economic Crime and Corporate Transparency Act 2023. The framework includes an annual:

- combined business-wide bribery and fraud risk assessment process led by the Legal Compliance team;
- tax evasion risk assessment led by the Group Tax team; and
- review of the money laundering suspicious activity report process led by the Head of Legal Compliance in conjunction with the Group Treasury team.

The framework is complimented by the annual review of corporate policies (led by the Legal Compliance team) relating to financial crime prevention. These are presented to the Board for approval at their September meeting. These include:

- Code of Conduct (including introductory message stressing the importance of compliance from Group CEO)
- Gifts and Hospitality
- Anti-Financial Crime Policy; and
- Whistleblowing Policy and investigation process.

Allegations of financial crime are reported to the Audit Committee together with investigation outcomes and details of any action taken, which are disclosed to our external auditors. There were no confirmed cases of bribery, corruption, fraud, or business ethics violations during the year.

TRAINING AND COMMUNICATIONS
Our comprehensive programme of training and internal communications continues with targeted messaging and interactive training sessions. This programme addresses the business's key compliance risk areas and has been designed to increase resilience, heighten awareness and promote a culture of doing the right thing. From 2024, colleagues will be required to complete a refresher compliance training (focussed on the Code of Conduct which sign posts to all Company policies) on a yearly basis to ensure that continuous knowledge and understanding of our policies are maintained.

WHISTLEBLOWING POLICY – SPEAK UP
The Speak Up service encourages employees to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how any such concerns should be raised and ensures that employees are able to do so without fear of reprisals. The Company's whistleblowing policy, investigator training programme and investigation process were reviewed and approved in March 2024. The whistleblowing policy now reflects the Ofwat best practice recommendations published in November 2023 and specifically includes and encourages reporting of:

- Endangering someone's health and safety
- Anything that is against the law
- Stealing or fraud
- Corrupt or dishonest activity
- Damage to the environment
- Covering up wrongdoing
- Abuse of authority
- Intentionally misreporting to a regulatory body
- Bullying, harassment and/or victimisation
- Tax evasion or the facilitation of tax evasion

The Speak Up service comprises telephone and web-based reporting channels operated for South West Water by independent provider NAVEX Global.

Following receipt of a report, the allegation will be triaged to assess. If the issue is a personal grievance or has a wider public interest element, an investigation started promptly if in the public interest to do so. The investigation process is overseen by the Ethics Management Committee and will be undertaken fairly, impartially and thoroughly by appropriately trained investigators with strict confidentiality being maintained at all stages of the investigation. After each investigation, a confidential review is undertaken by the Head of Legal Compliance to identify any lessons learnt or organisational improvements or training requirements. Other improvements identified are always acted upon, while ensuring the paramount requirement of operating a whistleblowing process that protects the identity of individuals and the independence and integrity of the process. Our whistleblowing process is designed to support our staff, reflect shared responsibility, promote a positive culture, provide unique insights and is central to our system of checks and balances.

THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT

THE ESG COMMITTEE SUPPORTS THE COMPANY'S ONGOING COMMITMENT TO ENVIRONMENTAL STEWARDSHIP.

Membership	Role	Attendance
Iain Evans	Chair	4/4
Gill Rider	Non-Executive Director	4/4
Jon Butterworth	Non-Executive Director	4/4
Dorothy Burwell	Non-Executive Director	4/4
Susan Davy	Chief Executive Officer	4/4
Paul Boote[1]	Chief Finance Officer	3/4

1. Paul ceased to be a member of the Committee following his resignation on 31 December 2023.

ROLE OF THE ESG COMMITTEE

- Review the policies, management, initiatives and performance of the Company with respect to the environment, workplace policies, group governance and corporate policies relating to responsible and ethical business practice, the role of the Company in society and customer service and engagement
- Review the overarching environmental performance of the business, ensuring a focus on key areas of improvement
- Review the actions of the Company to determine the suitability of the workplace environmental policies and practices of key suppliers and contractors
- Review the extent and effectiveness of the Company's external reporting of sustainability performance and its participation in relevant external benchmarking indices
- Regularly report to the Board
- Advise the Audit Committee of any material non-financial risks

THE KEY SUCCESS OF THE COMMITTEE'S FOCUS FOR 2023/24

- Reviewed the external 2023 ESG Assessment scores and approved the work being undertaken to improve these
- Successfully achieved majority of 2023/24 ESG targets
- Successful progress made against majority of environmental KPIs, including WNEP delivery, biodiversity and achieving 100% EDMs installations
- Approved the creation of the environmental advisory panel
- Successfully achieved the framework for migration to new capital delivery for PR24
- Carried out deep dive reviews on supply chain processes for the Company
- Continued delivery of the TCFD and TNFD recommendations including detailed appraisal of transition risks and opportunities and scenario analysis.

Our approach to ESG ensures that everything we do supports our commitment to provide environmental stewardship and to support our customers and local communities. A broad range of ESG topics were considered by the Committee during the year while fulfilling its duties in accordance with its terms of reference, which were also refreshed and approved during the year. The Committee closely monitored its wide range of ESG measures, targets and environmental KPIs alongside compliance and assurance activities, which showed strong performance throughout the year. A strategic leadership approach to areas of improvement, particularly in our energy usage in renewable energy generation, pollution and spills incidents was demonstrated, with remediation activities underway to ensure performances are stronger for 2024/25. Our strong progress on existing regulatory commitments and plans on our ESG targets, through to 2025, have been further identified in "Our Integrated Approach to ESG" on page 69 and the key focus areas for the Committee in 2024/2025 are noted in the "Focus areas for 2024/25" below.

The Committee engaged in a deep dive on how we measure ESG performance through our supply chain processes and ensured that sustainable principles and practices are inherent in the Company's activities. Following this session, the Committee endorsed that, as part of its ESG improvement programme, supplier ESG measures be assessed against stakeholder, regulatory and investor requirements to ensure alignment with our sustainability ambitions.

The Committee approved the creation of an environmental advisory panel in September 2023, as part of the PR24 submission. The independent panel will provide expert and independent advice, help challenge our environmental activities, and demonstrates our commitment to focusing on environmental outcomes, which are of great importance to our stakeholders.

In line with our TCFD requirements, we have disclosed climate-related financial information on pages 78 to 116. These disclosures evidence our strategy to reduce emissions within our operations and through our supply chain to achieve Net Zero by 2030. The Committee had oversight of our climate related governance, ensuring that climate change management was integrated into our principal risks.

This Annual Report provides an integrated assessment to show how a responsible approach to sustainability helps us to balance the immediate and longer-term needs of society with the delivery of sustained commercial success.

ESG PERFORMANCE

The ESG Committee continues to assess performance against a range of challenging targets for the Company, set as part of the business planning process. The Committee reviewed and approved 2025 targets noting that the metrics, ODIs, Operational Service assessments and ESG targets continue to align with the strategic themes identified in the Committee's materiality assessment. ESG targets were rebased and reformulated to align with executive remuneration targets. The Committee agreed that these targets for 2024/25 should be published in the Pennon Group Annual Report on page 68.

In addition, the ESG Committee provides oversight of performance against sustainability targets that are core to the successful delivery of our five year business plan. This is consistent with Ofwat's requirement for independent governance of the regulated business.

As at 31st March 2024, Pennon Group achieved 15 of our 16 targets and are currently on track to meet our 2025 targets. Whilst there are continued to invest in solar generation, energy usage has continued to be higher than the baseline (driven by increased pumping and treatment to respond to the extreme wet weather this year). This has resulted in generation as a proportion of total usage being lower than targeted for the year.

ENHANCED REPORTING AND ASSURANCE

With a growing focus on ESG reporting, we are increasing our 2024 reporting suite and providing enhanced disclosure through our SASB disclosure which can be found on pages 73 to 77 and our ESG databook which is available to view at www.pennon-group.co.uk/sustainability.

With a growing focus on ESG reporting, South West Water's ESG reporting is integrated throughout the strategic report and specifically in the following sections:

Section	Page
Chair’s letter	4
Business model	22
Strategy Overview	4
Key performance indicators	40
Environmental performance	23
Social performance	24
Governance performance	122
Stakeholder overview	143
Our people strategy	24
Our operations	33

The sustainability performance of South West Water and Bristol Water have been subject to an independent audit of regulatory data conducted by Jacobs. Jacobs are engaged to independently audit South West Water and Bristol Water’s technical (non-financial) data relating to our Outcome Delivery Incentives published in its Annual Performance Report (APR), this includes all regulatory targets, including a suite of environmental performance indicators. This year, Turner and Townsend have conducted an independent audit of other non-financial also included in the APR. This includes all South West Water regulatory targets, including the suite of environmental performance indicators. Jacobs provide a report on this audit within the South West Water APR. Similarly, Turner and Townsend conduct an independent audit of Bristol Water’s technical (non-financial) data also published in the combined APR.

BENCHMARKING

It’s important to us to ensure we are regularly benchmarked against the expected industry standards. This ensures we are continuing to provide up to date disclosure for our stakeholders. Certain leading indices assess companies on their disclosures relating to stringent environmental, social and governance criteria, and their position to capitalise on the benefits of responsible business practice. The Pennon Group (including South West Water) is a constituent within the FTSE4Good Index, Sustainalytics, CDP Climate Change, S&P Global CSA, and a number of other leading external ESG assessments. FTSE4Good and similar leading indices are designed to facilitate investment in companies that meet globally recognised corporate responsibility standards.

FOCUS AREAS FOR 2024/25

- Embed the results of our extensive materiality assessment which would be completed in 2024 to set our future environmental targets
- Review of our ESG assessments in line with incoming legislation – UK Sustainability Disclosure Standards (UK SDS).
- Engage in diverse deep dive sessions across the Environmental, Social and Governance areas
- Further integration of ESG across the Company, including supply chain measures
- Expansion of community impact evaluation and reporting
- Review performance on how the company is fulfilling its purpose and its external ESG benchmarking
- Undertake matters of Committee governance such as its rolling calendar of agenda items, annual Committee evaluation and examination of Committee’s terms of reference

HEALTH AND SAFETY COMMITTEE REPORT

THE HEALTH AND SAFETY COMMITTEE PROMOTES A CULTURE OF SAFETY WITHIN THE COMPANY.

Membership	Role	Attendance
Jon Butterworth	Chair	2/2
Iain Evans	Non-Executive Director	2/2
Dorothy Burwell	Non-Executive Director	2/2
Susan Davy	Group Chief Executive Officer	2/2
Paul Boote[1]	Group Chief Financial Officer	1/2

1. Paul Boote stepped down from the Board on 31 December 2023

ROLE OF THE HEALTH & SAFETY COMMITTEE

- Review and challenge to support the Board and Executive on all matters connected to Health and Safety
- Review the extent and effectiveness of the Company's reporting of health and safety performance and compare to external benchmarks
- Regularly report to the Board
- Advise the audit committee of any material non-financial risks

THE COMMITTEE'S FOCUS FOR 2023/24

During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Half yearly comprehensive reviews of the Company's Health and Safety performance
- A review of the tactical interventions to deliver improvements in year improvements in incident reduction
- A review of the HomeSafe 2025 strategy and plans to increase robustness in Process Safety
- A review and challenge of potential near-miss events to ensure themes are identified and pragmatic solutions implemented
- Visiting operational sites to engage with front-line colleagues and the wider Health and Safety teams

The key to ensuring we keep employees safe and well in the workplace, is through empowering everyone to take responsibility for the health, safety and wellbeing of each other and for themselves. Simply put, it's about culture, leadership and accountability. This underpins the HomeSafe strategy and has been a welcome focus over the last 12 months.

Our dedicated Board Committee focused purely on H&S ensures the Board continue to support our HomeSafe strategy and the Company's vision to ensure that everyone goes home safe every day. We continue to strive to be a leader of Health and Safety by 2025 in our sector, and leadership from the top is critical. The Board now has dedicated time to discuss and review performance, offer support, encourage learning and meet leaders and employees from across the business.

Reviewing the Company's health and safety performance, effectiveness of health and safety policies and procedures, including the continued roll-out of the HomeSafe strategy, has been core, with significant improvements already noted. The Committee was able to support with the HomeSafe Live event this year. The event, which changed formats from previous years, was brought to life with engaging workshops delivered over six days at six different venues within the South West. The interactive workshops had core health and wellbeing messages featured throughout and allowed employees to engage directly with senior leadership.

Importantly, the Committee reviews deep dives of High Potential Incidents with a particular focus on lessons learned, getting to the root cause, encouraging a learning mindset. These reviews highlight the improvements in culture, leadership and accountability through open and honest investigations seeking to learn, improve and deliver pragmatic solutions.

Building on the first H&S conference, the Company held two more conferences through the year building on the themes of Taking Ownership. These events were led by the Senior Leaders across the Company demonstrating personal commitment and leadership in health and safety. Over 2,300 colleagues attended, taking time to focus solely on their role in supporting our HomeSafe ambitions. Along with other elements within the HomeSafe plan, these events have supported a tangible increase in overall ownership of HomeSafe and have undoubtedly contributed to the step change reduction in incidents this year.

REPORTING

In addition to the regular board report by the Group Chief Executive Officer, detailed performance is reviewed six monthly, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health and working environment.

Leaders have taken accountability and driven significant improvements in the lead areas. This has supported the step change reduction in outcome metrics, with the Lost Time Injury Frequency Rate (LTIFR) reducing through the year by almost 50%.

The HomeSafe strategy continues to drive improvements and is regularly reviewed to ensure it drives us towards our 2025 aims and beyond.

The Committee will continue to review and challenge plans and performance to support our HomeSafe ambitions, with a detailed roadmap to 2025 built on six key pillars.

HOMESAFE STRATEGY

The Company's flagship health and safety programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities and impacts. HomeSafe is built on the six strategic pillars; Managing Risk, Sharing & Learning, Working Together, Protecting Health, Enabling Leaders and Being Resilient. Read more on pages 29 to 30.

REMUNERATION COMMITTEE REPORT

THE ROLE OF THE REMUNERATION COMMITTEE IS TO SET AND IMPLEMENT EXECUTIVE PAY IN A FAIR AND SOCIALLY RESPONSIBLE MANNER.

Membership	Role	Attendance
Claire Ighodaro	Chair	6/6
Iain Evans	Non-Executive Director	6/6
Loraine Woodhouse	Non-Executive Director	6/6
Dorothy Burwell	Non-Executive Director	6/6

ROLE OF THE REMUNERATION COMMITTEE

- Ensure remuneration is aligned with the Company's strategy and reflects the values of the Company.
- Set and, in every third year, review the remuneration policy to ensure it remains appropriate, considering stakeholder views and best practice, supports attraction, retention and motivation of Executive Directors.
- Advise the Board on the framework of executive remuneration for the Company.
- Setting the remuneration for the Chair, the Executive Directors and senior executives of the Company and reviewing the remuneration arrangements of the wider workforce.
- Approve the design and determine targets for any performance-related pay schemes.
- Determine the appropriate outturn of any incentive arrangements.

THE COMMITTEE'S FOCUS FOR 2023/24

- Consider the remuneration and terms of engagement of the Executive Directors, senior executives and Chair of the Company and the remuneration of the wider workforce.
- Determine targets that remain stretching, relevant to the Company's strategy and values and reflect best practice and wider stakeholders' views.
- Consider incentive arrangements for 2025-30 reflecting Ofwat guidance and expectations for K8 Undertake the review of the remuneration policy, taking into consideration the Company's strategic goals, stakeholders views, regulatory commitments and evolving best practice.

The Committee's approach to Executive remuneration has always been underpinned by doing what is right for our customers, stakeholders, and the communities in which we operate and the environment. Our values and integrity are reflected in the decisions we make, and in focusing incentives on what matters most as a socially responsible business and providing transparency on outcomes. Whether you are a customer or the regulator, we all have a shared interest in ensuring water companies are performance driven, sustainable, financially resilient, mindful of our impact on the environment and able to make the substantial capital investment required in infrastructure to ensure the long-term viability of the sector. We continue to believe that the sector needs to be able to attract the high-quality talent required to lead large, complex organisations, by incentivising and rewarding management teams fairly for the outcomes achieved.

We are mindful of the views of the public and the regulator. Over the course of the year, I have engaged with Ofwat and sought feedback on our approach as well as contributing to wider sector considerations as to how executive remuneration can evolve to ensure that all stakeholders can see transparency and clarity in decisions on performance related pay.

Our ambitious business plan for the regulatory period 2025-30 was submitted to Ofwat on 2nd October 2023, detailing our largest ever investment of £2.8 billion in the region. The plan creates 2,000 jobs providing valuable careers, supporting customers and communities across the South West and the wider supply chain. Our customers, many of whom are also shareholders through our unique WaterShare+ scheme, engaged in the development of our plans, giving feedback and confirming what matters most to them now and for the future. The economic backdrop remains challenging and has impacted on our customers and colleagues.

Whilst there have been challenges, there has also been significant action in our delivery plan. Our progress on building water resources, means we are on track to break the drought cycle with additional reservoir capacity which will see increased supply of 45% in Cornwall and 30% in Devon by 2025. For the third consecutive year we are reporting 100% bathing water quality and have released WaterFit Live, keeping customers informed with real-time bathing water information. River water quality is equally important and water quality monitors have now been in place for 18 months with storm overflow improvements.

High inflationary impacts and energy costs remain challenging. Climate-related issues have also continued to dominate the landscape, but the Comapany continue to adapt to these pressures positively. With this challenging backdrop, we are mindful of the need to build and maintain trust on the sensitive topic of executive pay, by clearly demonstrating our commitment to socially responsible business.

WIDER WORKFORCE REMUNERATION

We are committed to ensuring remuneration for our front-line colleagues is competitive, understanding that this is the right priority when the financial landscape is challenging. We are proud that we have been an accredited Living Wage Foundation payer since 2021, and in practice we had aligned our pay rates to these recommended levels for some time prior to accreditation. Our strong 2023 pay settlement ensured we remained in this position across the Company despite both Living Wage Foundation rates and National Minimum Wage rates increasing substantially.

The 2024 pay award reflects our most progressive pay award to date, continuing to focus on front line roles with an increase valued at 4.6% inclusive of 1 day additional holiday for the majority of colleagues. Those on salaries above £50,000 will receive an increase valued at 4.4% inclusive of holiday. We are proud that our employees will earn a minimum of £12.50 per hour, which not only aligns with, but exceeds the real living wage by almost £1,000 annually, underscoring our dedication to being an employer of choice.

During 2023/24 we updated our Group Reward Principles to reflect the broader strategy, evolving composition of the Group and recent acquisition activity which has expanded our workforce across multiple locations. Key areas of focus included the addition of new Group Values, strengthening wellbeing and incorporation of greater employee flexibility either in work patterns or in choices of lifestyle benefits. We also took time to reflect on our annual bonus for colleagues, ensuring clear line of sight between their objectives and the Group strategy, our customers and their communities. Our annual bonus plans allow our colleagues to share in the Group's success. We also offer highly competitive retirement benefits to our employees, which include additional life assurance protection.

Our HMRC-approved share schemes continue to be popular with c.50% of colleagues participating in either the ShareSave or Share Incentive Plan. We have once again provided expanded disclosure on our approach for the wider workforce, and this is set out on pages 179 to 184.

INCENTIVE OUTCOMES

Following guidance provided by Ofwat, we have taken steps to ensure that performance-related pay outcomes for the executive directors are funded at the Group level and will therefore not be funded by customers. As well as considering formulaic results against targets, the Committee also review outcomes in-the-round, utilising our holistic performance assessment framework to ensure that outcomes are considered from a number of perspectives. The portion of the annual bonus linked to outcomes for our customers, communities, and the environment is 70% consistent with regulator guidance with the balance based on a target linked to financial resilience. Further changes to the detailed assessment were made to capture feedback provided by Ofwat. The Committee carefully considered the formulaic outcome of the annual bonus of 36.2% of maximum and debated this at length. After applying the Committee's discretion framework in respect of South West Water's environmental and pollution performance, it was decided to reduce the formulaic outturn to 29.4%. Furthermore, in recognition of the current external environment, the Committee determined that no bonus would be paid to Executive Directors in respect of the year. This was consistent with management's recommendation for a zero bonus outturn. Further details of incentive outcomes are set out in the main body of the report.

BOARD CHANGES

As previously announced, Paul Boote stepped down as CFO and from the Board on 31st December 2023, as part of a planned relocation away from the South West. Paul's departure terms are consistent with the shareholder approved Remuneration Policy. Further detail is set on out in the Pennon Group Annual report on page 163. The Board were delighted to appoint Steve Buck as Group Chief Financial Officer. Steve joined the Group and was appointed to the South West Water Board, assuming the role of CFO effective 1st January 2024. Steve is a proven CFO with considerable experience in the regulated utilities and energy sector, and a demonstrable track record for driving performance.

IMPLEMENTATION FOR 2024/25

For 2024/25 the Executive Directors of South West Water and of Pennon Group have been awarded salary increases of 4%. This is below the average increase awarded to the wider workforce, where increases ranged from 4% to 4.2%, with increases at the upper end of this range focused on our lowest earners. With an additional day of holiday, overall value ranges from 4.4% to 4.6%.

In light of evolving Ofwat guidance the Committee is currently undertaking a review of targets for variable incentives. Consistent with the approach taken in prior years, the annual bonus will seek to include metrics that suitably capture long-term financial resilience as well as metrics which are directly linked to matters of importance for our customers, communities and the environment. Annual objectives are deemed to be commercially sensitive, and consistent with prior years full details of the metrics and targets will be disclosed in next year's Directors' Remuneration Report.

In 2023 the LTIP awards were adjusted to respond to both Ofwat guidance and the feedback from our stakeholders. While the current intention is to maintain a broadly similar structure for the 2024 awards, the detail is yet to be finalised as the Committee is keen to ensure that the targets suitably reflect the objectives for the next regulatory cycle and evolving Ofwat guidance. Once finalised, we intend to publish the targets on the Company's website.

Performance-related pay outcomes for the executive directors will be funded at Group level and will not be funded by customers. The Remuneration Committee remains committed to implementing a measured and responsible approach to executive pay, whilst also recognising the challenging roles of our Executive Directors. As a Committee, we are acutely aware of our responsibility to do the right thing and this has been reflected in decisions made.

DIRECTORS’ REMUNERATION REPORT

REMUNERATION ALIGNED TO DELIVERY FOR OUR CUSTOMERS
Significant portion of executive remuneration is linked to performance:

- Incentive linked to underlying performance
- Performance pay – appropriately aligned with customer interests with bonus and LTIs having a substantial link to stretching performance delivery for customers
- Focus on customer and operational metrics assessed by Ofwat, our customer, communities, and wider stakeholders
- Incentives designed to motivate delivery of sustainable performance
- Safeguard mechanisms in place to ensure outcomes reflect underlying performance.

At a glance

What is the structure of executive pay?

Year 1	Year 2	Year 3	Year 4	Year 5
Base salary				
Benefits				
Retirement benefits				
Bonus: 50% in cash	50% deferred into shares for three years			
LTIP: subject to three-year performance period			Subject to a two-year holding period	
Shareholding guideline: Executive Directors are expected to build up a shareholding equivalent to 200% of salary				

What safeguards are in place?

Robust performance conditions
Variable pay linked to a rounded assessment of performance against stretching targets

Review framework
Holistic review of performance to consider if formulaic incentive outcomes are fair and appropriate

Deferral and holding periods
Bonus (50%) and LTIP awards are deferred for a further period to provide long-term alignment

Malus and clawback
Provisions in place for variable pay to safeguard against payments for failure

How does executive pay link to our strategy?

Performance measures	Customer measures	Responsible Business	Environment & Pollutions	Water Quality & Resilience	Financial Resilience
Strategic pillars	(1,2,3,4)	(1,2,4)	(1,2,3,4)	(1,3)	(1,2,3,4)
2023/24 bonus	✓	✓	✓	✓	
2023 LTIP	✓		✓		✓

Our strategic pillars: (1) Water Supply & Resilience **(2)** Storm Overflows & Pollution **(3)** Environmental Gain & Net Zero **(4)** Addressing Affordability & Delivering for Customers

ANNUAL REPORT ON REMUNERATION

John Halsall, Chief Operating Officer, joined the Board of South West Water Ltd on 10th July 2023, however details of his remuneration for the full year have been disclosed for full transparency. John Halsall is remunerated in line with the Remuneration policy approved under PR19 and Ofwat guidance.

Susan Davy, Chief Executive Officer is an Executive Director of Pennon Plc and South West Water Ltd. Steve Buck who joined the Pennon Board on 27th November 2023, succeeded Paul Boote as Chief Financial Officer of Pennon Plc and South West Water Ltd. Steve joined the South West Water Board on 1st January 2024. Their remuneration is set by the Pennon Group Remuneration Committee and in accordance with the Pennon Group remuneration policy, approved by shareholders on 22nd July 2023 in line with the normal three-year review process. The policy was approved with 93.6% shareholder support and is detailed in the Pennon Group Annual Report 2023.

Full details of the implementation for 2024/25 can be read in the Pennon Group Annual Report 2024 on pages 151 to 170, as well as the departure arrangements for Paul Boote and the joining arrangements for Steve Buck on pages 162 to 163.

The apportionment of fixed pay included in this report for FY2024 is 70% for South West Water, covering South West Water, Bournemouth Water and Bristol Water. Incentives are not included in this apportionment with Pennon Group funding any incentive payments with no cost to customers.

SUMMARY OF THE SOUTH WEST WATER DIRECTORS' REMUNERATION POLICY AND IMPLEMENTATION IN 2023/24

The current South West Water Directors' remuneration policy was set in 2023. The full policy is contained in the 2023 South West Water Annual Performance Report on the Company's website at South West Water Annual Report and Financial Statements 2023. A summary of the policy is set out below alongside detail on how it will be implemented during 2024/25.

For the Executive Directors of Pennon Plc, the policy can be found in full in the Pennon Group Annual Report and Accounts 2023 and a summary of the policy and implementation for 2024/25 in the Pennon Group Annual Report and Accounts 2024.

Element	Operation	Implementation in 2024/25
Base Salary		
Set at a competitive level to attract and retain high calibre people to meet the Company's strategic objectives in an increasingly complex business environment.	Salaries are generally reviewed annually, and any changes are normally effective from 1 April each year. In normal circumstances, salary increases will not be materially different to general employee pay increases.	The Group Chief Executive Officer was awarded an increase of 4%, effective from 1 April 2024. The same increase was awarded to the Pennon Group Executive Directors and their salaries are shown below reflecting the values cross-charged to South West Water for 2024/25: Chief Operating Officer – £380,744 Group Chief Executive Officer – £357,903 Group Chief Financial Officer - £342,160
Benefits		
Benefits provided are consistent with the market and level of seniority to aid retention of key skills to assist in meeting strategic objectives.	Benefits currently include the provision of a Company vehicle, fuel, health insurance, income protection and life assurance. Other benefits may be provided if the Committee considers it appropriate.	Benefits remain unchanged for 2024.

Pension-related benefits		
Provides funding for retirement and aids retention of key skills to assist in meeting the Company's strategic objectives.	The maximum annual pension contribution or cash allowance is in line with the contribution available to the wider population.	The South West Water Chief Operating Officer and the Pennon Group Executive Directors receive retirement benefit of 10% of salary, which is aligned with the maximum rate available to the wider workforce.
Annual bonus		
Incentivises the achievement of key performance objectives aligned to the strategy of the Company.	The maximum bonus potential is 80% of salary for the SWW Executive Directors. A portion of any bonus is deferred into shares in the Company which are normally released after three years. Normally 50% is deferred. Malus and clawback provisions apply. The policy for the annual bonus for the Group Executive Directors can be found in the Pennon Group Annual Report and Accounts 2024.	The South West Water Chief Operating Officer has a maximum opportunity of 80% of salary. In light of evolving Ofwat guidance the Committee is currently undertaking a review of the annual bonus. Consistent with the approach taken in prior years, the annual bonus will seek to include metrics that suitably capture long-term financial resilience as well as metrics which are directly linked to matters of importance for our customers, communities and the environment. Annual objectives are deemed to be commercially sensitive, and consistent with prior years full details of the metrics and targets will be disclosed in next year's Directors' Remuneration Report.
Long-Term Incentive Plan (LTIP)		
Provides alignment to the achievement of the Company's strategic objectives and the delivery of sustainable long-term value.	Annual grant of conditional shares (or equivalent). Share awards vest subject to the achievement of specific performance conditions measured over no less than three years. In addition, a two-year holding period will apply in respect of any shares which vest at the end of the three-year performance period following. The Committee review not only the performance measures, but a holistic review of Company performance when opining on the vesting level. This underpin allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying operational and economic performance of the Company. Malus and clawback provisions apply. The policy for the Long-Term Incentive Plan for the Group Executive Directors can be found in	Maximum award of 75% for South West Water Chief Operation Officer. While the current intention is to maintain a broadly similar structure to 2023 awards for the 2024 awards, the detail is yet to be finalised as the Committee is keen to ensure that the targets suitably reflect the objectives for the next regulatory cycle and evolving Ofwat guidance. Once finalised, we intend to publish the targets on the Company's website.

	the Pennon Group Annual Report and Accounts 2024.	
Discretion In line with the 2018 Corporate Governance Code, the Remuneration Committee has ensured that it will maintain the ability to override the formulaic outcomes for future awards under the annual bonus and LTIP where the outcomes are not considered by the Committee to be appropriate (e.g. unreflective of underlying performance). The Committee will disclose the use of any such discretion.		
Shareholding requirements		
Create alignment between executives and shareholder and promote long-term stewardship	During the course of their tenure, Executive Directors are expected to build up a shareholding equivalent to a percentage of salary.	Shareholding guideline of 100% of salary for the Chief Operating Officer and 200% of salary for the Group Executive Directors.
All-employees share plans		
Align the interests of all employees with Company share performance.	Executive Directors may participate in HMRC approved all-employee plans on the same basis as employees. The maximum is as prescribed under the relevant HMRC legislation governing the plans.	No changes.
Non-Executive Director fee policy		
Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Company's strategy.	Non-Executive Directors normally receive a basic fee and an additional fee for any specific Board responsibility such as chair of a Committee or occupying the role of Senior Independent Director. Expenses incurred in the performance of non- executive duties for the Company may be reimbursed or paid for directly by the Company (including any tax due on the expenses). The Chair's benefits include the provision of a driver and vehicle, when appropriate for the efficient carrying out of her duties. The Non-Executive Directors' fees are set by Pennon Group plc and 70% of these fees are recharged to South West Water through Group recharges. The fee structure and policy for the Non-Executive Directors can be found in the Pennon Group Annual Report.	A 4% uplift to the fee policy was implemented for 2024/25 as shown below: Chair fee £174,619 Basic Non-Executive fee £46,992 **Additional fees** Senior Independent Director £7,763 Chair of Audit Committee £11,641 Chair of Remuneration Committee £10,098 Chair of ESG Committee £10,098 Chair of Health and Safety Committee £3,882

REMUNERATION APPROACH FOR WIDER EMPLOYEES

The Remuneration Committee considers oversight of remuneration for the wider workforce as a key element of its remit and considers this when making decisions regarding remuneration for the Executive Directors. The Committee reviews a report on employee remuneration twice a year, either through a pay dashboard, which contains information on elements of financial and nonfinancial reward, the wider labour market, demographics and pay statistics across the organisation or through a subject specific paper. This detail provides important context to ensure that a consistent approach is adopted across the Group workforce including the Executive Directors. Developments in the financial and non-financial elements of the employee proposition are reviewed regularly, as well as share scheme participation and emerging reward trends. The Committee reflects on the position of our gender and ethnicity pay. Feedback to the Committee from employees is through RISE - our employee engagement forum through the Executive Directors on matters concerning remuneration arrangements.

Reward strategy

Our well-established People Strategy across the Group is centred around talented people doing great things for customers and each other and creating the best place to work. The Reward strategy and framework which was established in 2019 has been reviewed and updated during 2023/24. The updated framework reflects our changed Group composition, our latest business strategy and plans and changing employee expectations. The new Company values (see page 25) are incorporated. The framework will continue to set our approach for future developments in the reward landscape for colleagues. Pennon's Group Reward Strategy continues to have three aims:

Aim 1	Ensure reward decisions will support: • Our business strategy for delivering to customers and communities, and promoting long-term sustainable growth • Our People strategy and values • Our alignment to stakeholder expectations
Aim 2	Ensure the reward package offered to employees is: • Designed and delivered fairly • Set up to enable the business to attract and retain the talent that it needs to be successful • Supports employee engagement and motivation • Allows employees to hare in Company success
Aim 3	Clearly communicate to relevant stakeholders our employee reward and recognition principles and framework

REWARD FRAMEWORK
Our reward framework supports our people strategy.

RECOGNITION PRINCIPLES AND FRAMEWORK

Rewarding our colleagues Salary increases for wider workforce As in 2023, we have focused our pay spend on those colleagues who have needed most support during the cost-of-living crisis. The 2024 pay award continues to focus on front line roles with an increase valued at 4.6% inclusive of 1 day additional holiday for the majority of colleagues. Those on salaries above £50,000 receive an increase valued at 4.4% inclusive of holiday. We are proud that our employees will earn a minimum of £12.50 per hour, which not only aligns with, but exceeds the real living wage by almost £1,000 annually, underscoring our dedication to being an employer of choice. For colleagues covered by collective pay bargaining, the award remains subject to ballot.

During the year, we have completed a pilot of new working patterns in our drinking water function. This has been designed with our colleagues and union representatives to enable teams to benefit from a greater level of guaranteed pay whilst providing the business with more pro-active resource availability and less dependence on call out arrangements which can be disruptive to family life. We will continue to evaluate work patterns for the mutual benefit of customers, colleagues and operational needs during 2024.

Wider workforce bonus arrangements
All colleagues across the Group are eligible to participate in variable pay schemes. Senior bonus arrangements follow the model applied to the Executive Directors for their annual bonus incentive. For the wider workforce, bonus arrangements were reviewed in 2023/24 with a new scheme taking effect from 1st January 2024. The new scheme has been constructed to reflect stretching targets which support delivery of our Business Plan for 2025-2030, focusing on water quality and resilience, storm overflows and pollution, our net zero agenda and customer service and affordability. The scheme maintains a measure for our imperative of all colleagues going HomeSafe each and every day.

Financial wellbeing and wider benefits
We offer a comprehensive range of benefits which have been extended over the past two years to include the roll out of a financial well-being and education partner for colleagues and their families. This includes an ill-health

income protection policy which has provided support to a number of colleagues in 2023/24. We continue to operate a range of discounts, green initiatives and services to enhance our employee proposition.

Saving for the future

We know that our colleagues value our responsible approach to pension contributions. We are pleased that despite the cost-of-living crisis, 95% of colleagues continue to participate in the defined contribution schemes. Our ShareSave scheme was again launched in 2023, continuing to support our belief that employees should have a stake and say in the business. The ShareSave sits alongside our evergreen Share Incentive Plan providing employees with monthly share purchase from pre-tax salary. The 2023 ShareSave scheme received strong support from our colleagues. We have seen strong growth in participation in the SIP this year of c.30%.

Living Wage Foundation

We continue to pay above the Living Wage Foundation rates for all roles excluding those colleagues who are on our apprenticeship arrangements. Our accreditation as a Living Wage Foundation employer has been maintained since 2021. We continue to focus our pay spend on lower paid roles and are proud that for 2024, our employees will earn a minimum of £12.50 per hour, which not only aligns with, but exceeds the real living wage by almost £1,000 annually, underscoring our dedication to being an employer of choice.

Wider workforce remuneration dashboard

In accordance with the 2018 UK Corporate Governance Code, the Committee reviews the level of information provided on pay matters in the wider organisation. The Wider Workforce Remuneration Dashboard provides the Remuneration Committee with an overview of the approach to pay across the Group, supplemented with topic specific papers:

- Helps support the Committee in reviewing workforce remuneration and related policies which continually evolves to provide greater insight.
- Provides an overview of pay arrangements across the business and key statistics on pay in different areas of the business.
- Updates on progress on our Reward Strategy implementation.
- Has oversight of the wider remuneration landscape to provide external context and industry specifics to inform on our benefits.
- Provides information on workforce demographics, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas.

The Committee intends to keep the content of the dashboard under review to ensure it remains suitable.

Highlights	
Base Pay	The Company's overarching principles for basic pay are as follows: • Base pay should reflect the level of skills, responsibilities and accountabilities of the job, plus the market and region in which the business area operates. • We should maintain a market competitive edge to attract and retain talent. Market benchmarking against recognised surveys is conducted regularly. • We should maintain our status as an accredited Real Living Wage Employer, guaranteeing base pay at or above the Living Wage Foundation rates. • We should review pay annually with any resulting award being subject to affordability and business performance. • We should ensure all roles are mapped to a pay band and publish the broad pay bands by work level on the Company's intranet annually from 2024. • We should engage with RISE, the WaterShare Customer Panel and Recognised Trade Unions on pay decisions. • We should undertake equal pay and gender/ethnicity pay analysis from time to time to ensure we comply with current equality legislation and provide equal total reward opportunities for roles of equal value.
Variable pay	South West Water operates variable pay schemes, including annual bonus arrangements and all employees and temporary workers are eligible to participate.

	Throughout bonus schemes, there is strong correlation in the targets, to align the whole organisation on goals linked to customer, communities and the environment. The maximum bonus levels are based on seniority and level of responsibility. At leadership level a portion of the bonus is deferred into shares for three years. Long-term incentive share awards are available to senior executives and Executive Directors, consistent with market practice. Our front-line teams receive overtime, call-out and standby payments, ensuring that when workloads are high, employees are fairly compensated. We remain mindful of the need to balance working hours, customer demand and available resource against the health, safety, wellbeing of our colleagues and following a successful pilot earlier in the year, our overarching principles on variable pay are as follows: • Provide every colleague with the opportunity to earn an element of variable reward using appropriate mechanisms for different colleague populations, as agreed by each business area. • Have clear communication on rationale, purpose, performance measures, pay-out calculation and other rules for the variable pay schemes, to ensure colleagues fully understand their total reward opportunities. • Ensure the performance measures included in the balanced scorecard are aligned to our business strategy, values and take into consideration the views of customers, regulators and other key stakeholders. • Encourage colleagues to have share ownership through variable pay. • Remuneration Committee or relevant Executive Committee can apply appropriate discretion to bonus outturn, considering the 'how' as well as the 'what'.
Saving for the future	We offer highly competitive retirement benefits to our employees, which include additional life assurance protection. Membership of the Group pension scheme remains high with c.95% participation rate in our Defined Contribution (DC) scheme. As part of our Saving for the Future, all employees can participate in our HM Revenue and Customs-approved Sharesave and Share Incentive Plan, with a strong emphasis on employee buy-in and ownership. Not only do our share schemes provide a mechanism for sharing in the long-term success of the Group but mean that colleagues and customers have a say and stake in the business. Our overarching principles on Saving for the future are as follows: • Provide every colleague with the opportunity to build up share ownership. • Clearly communicate and promote the existing share schemes to ensure maximum participation. • Ongoing exploration of HRMC approved tax advantaged share scheme opportunities for broader offerings. • Provide every colleague with the access to our Defined Contribution pension scheme with the choice of employee/employer contribution levels. • Provide company matching in our Defined Contribution pension scheme to further support our colleagues saving for retirement. • Provide access to a fully interactive pension administrative platform and drop in sessions to ensure employees understand the offering and implications to make informed decisions. • Comply with the government required pension enrolment requirements.
Benefits	We operate a range of benefits of which the majority are available to all colleagues. These are selected for their ability to enable colleagues to get the best value from their salary such as discounts, to ensure a work life balance which supports both family life and outside interests through generous holiday entitlements or those designed to bring financial security such as income

	protection or life assurance. A range of advisory services are available to support colleagues on occasions where additional support is needed, including financial support, health and wellbeing, legal advice and a range of employee led support groups. From time to time, there may be necessary exceptions that apply to our core benefits, reflecting TUPE transfers or preserved contractual benefits. The principles for our benefits are as follows: • Operate a set of core Group-wide benefits for all colleagues, and a wide range of other additional offerings to enable colleagues select the most appropriate benefits tailored to their needs. • Ongoing evaluation of the effectiveness of the benefits offering, ensuring we take full advantage of our Group-wide purchasing power with benefits providers, and we are aligned with our Fair Tax Strategy and HRMC guidelines. • Actively engage with employees to understand their needs to continue shaping our benefits proposition. • Adopt technology to enable easy access to our benefits from home or work. • Continue to focus on developing our wellbeing and flexible working provisions, and explore additional benefits provision opportunities to support our broader ESG agenda (e.g. green voluntary benefits, volunteering days etc.).

Gender and Ethnicity pay reporting

We recognise our duty to contribute positively to society by cultivating an environment that promotes social mobility, prioritises diversity and inclusion, and ensures equitable treatment for all employees. Our aspiration is to become the Employer of Choice across our region, where trust is paramount, and every individual is valued for their contributions. Transparency lies at the heart of our commitment to diversity and inclusion. Reporting serves as a vital instrument in our journey towards openness, allowing us to candidly assess the gender and ethnic diversity within our workforce. Moreover, it enables us to share the proactive measures we have implemented and will continue to pursue to enhance diversity across all levels and roles within our organisation. We understand that fostering an inclusive workplace is imperative not only for attracting talent but also for retaining our valued colleagues and because it is the right thing to do.

In line with our Change the Race Ratio commitments, we voluntarily publish our Ethnicity Pay Gap data. The results reflect our journey in building representation of ethnic minority groups and gender diversity, noting that the South West, where a large proportion of our business is based, has a lower diversity mix than other parts of the UK. Our ethnicity pay gaps is 11.05% for South West Water as at the snapshot date 6th April 2023, an improvement of 6.67% compared to the prior year. Across the Company we have been working hard to attract a greater number of ethnically diverse candidates to apply for job vacancies, and we offer dedicated support to new employees through our graduate programme and support the 10,000 Black Interns Programme. We will continue to work to progress our diversity actions to build greater representation.

The mean gender pay gap for South West Water was 6.72% on the snapshot date of 6th April 2023 a slight increase from 5.36% in the 2022 report. This data set now incorporates Bristol Water, which had previously reported a gap of 15.9% and does reflect continuing progress. There has been a notable rise in female representation in more senior roles within South West Water with female representation in the upper quartile now at 23.6%, improving 19.1% for South West Water and 15.9% for Bristol Water. The median gender pay gap which compares the remuneration of the 50 percentile female and male colleague, also shows significant progress at 9.1%. We continue to see a negative mean bonus pay gap of -34.53%. This is attributed to the increased female representation in the upper quartile where higher bonus levels can be earned.

During the year we have been recognised for our progression in gender equality by external bodies. Our placement in the FTSE Women Leaders Review 2024 was third for female Board representation in the FTSE 250 and 21st overall for female participation at combined Executive Committee and leadership level.

We are committed to deliver on our ambitions to build diversity and inclusion across the Company and the water industry.

Colleague engagement

RISE, our people forum has now been in place for 2 years, providing two-way dialogue for all colleagues across the Group. The forum is regularly attended by senior leadership including the Chief Operations Officer, South West Water Director of People and Culture, the Group Chief Executive Officer and other members of the senior leadership. RISE is now embedded as an established group provoking healthy debate and discussion on areas that matter to employees. Engagement survey results and action planning are a discussion area for this Company and representation remains strong with a RISE member for every 30 employees. This group continues to be a key source of dialogue and employee views for shaping future reward developments. The Committee is kept informed of themes and feedback from RISE discussions.

HomeSafe

Making sure our colleagues and contractors get HomeSafe every day is fundamentally more important than remuneration. However, how we measure our performance, reward colleagues living by our values and the culture we create, has a direct influence on the health and safety of each other and we will continue to support this important initiative through our wider workforce remuneration principals and Executive Remuneration policy.

SINGLE TOTAL FIGURE OF REMUNERATION TABLES (AUDITED INFORMATION)

	John Halsall[1] (£000)		Susan Davy[2] (£000)		Steve Buck[2]		Paul Boote[2]	
	2023/24	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24	2022/23
Base salary	366	-	344	253	82	-	168	164
Benefits[3] (including Sharesave)	30	-	14	11	3	-	5	8
Pension-related benefits[4]	37	-	34	24	8	-	17	16
Total fixed pay	433	-	392	288	93	-	190	188
Annual bonus (cash and deferred shares)[5,6]	Nil	-	Nil	Nil	Nil	-	Nil	Nil
Long-Term Incentive Plan[5]	n/a	-	Nil	Nil	n/a	-	Nil	Nil
Total variable pay	Nil	-	Nil	Nil	Nil	-	Nil	Nil
Total remuneration	433	-	392	288	93	-	190	188
Total variable Remuneration Forgone[7]	88	–	237	201	75	-	115	–

(1) John Halsall was appointed to the South West Water Board as Chief Operating Officer effective 10 July 2023. The remuneration shown above relates to the full year. John Halsall received a bonus in respect of 2022/23 of £43,556. £36,512 was the amount forfeited from prior employment which was honoured as part of the joining arrangements and the balance was earned in John's role during 2022/23 and prior to his appointment to the Board in July 2023. This was not awarded until confirmation of the bonus amount was received from his previous employer, with the cash portion settled in December 2023 and the share portion in November 2023. Of the total amount, 50% was settled in Pennon Group shares, with a deferral of 3 years and 50% awarded in cash. This is not included in the single figure table as it does not relate to his services a Director of South West Water Ltd.

(2) Susan Davy was appointed as Chief Executive Officer of Pennon Group plc and South West Water as of 31 July 2020. Steve Buck was appointed as Chief Financial Officer of Pennon Group plc on 27 November 2023 and South West Water from 1 January 2024 succeeding Paul Boote who served as Chief Financial Officer of Pennon Group plc from 8 July 2020 and South West Water from 1 September 2022 until he stepped down from his Board appointments on 31 December 2023. The fixed pay figures shown in the table are those re-chargeable to South West Water through Group re-charges (70% of fixed remuneration). Reflecting the nature of their Group position all subsidiaries receive a cross-charge for fixed remuneration. The 2023/24 cross-charge value is higher than 2022/23. The 2023/24 cross-charge value incorporates a full year for Bristol Water Ltd, whilst the figure shown for 2022/23 reflects a recharge of 50% of fixed remuneration until 31 January 2023 and then 70% for the remainder of the financial year, following the statutory transfer of Bristol Water Plc to South West Water. All variable incentives are fully funded by Pennon Group. The full single total figure of remuneration table is shown on page 158 of the Pennon Group plc Annual Report and Accounts 2024 as well as Steve's joining arrangements and Paul's departure arrangements on page 162 and 163. These arrangements are funded by Pennon Group.

(3) Benefits comprise a car allowance, fuel allowance and medical insurance and for John Halsall temporary accommodation support for four months of 2023/24, agreed as part of his joining arrangements.

(4) Retirement benefits for the Chief Operating Officer are shown on page 189 of this report, with details for the Group Executive Directors shown on page 162 of the Pennon Group Plc Annual Report and Accounts 2024.

(5) As detailed in the 2023 report, the Chief Executive Officer chose to forgo her annual bonus and the vesting LTIP for 2022/23. An equivalent value was diverted to a future issuance under the Group's WaterShare+ scheme.

(6) For 2023/24, in recognition of the current external environment, the Committee determined that no bonus would be

paid to Executive Directors (of both Pennon Group and South West Water Ltd) in respect of the year. This was consistent with managements recommendation for a zero bonus outturn. Further details of the annual bonus and LTIP awarded to the Pennon Group Executive Directors are shown on page 166 of the Pennon Group plc Annual Report and Accounts. Neither John Halsall or Steve Buck were participants of the 2021 LTIP.

(7) For 2023/24, the values shown represent the annual bonus value which may have been received, prior to the decisions to pay a zero bonus. For 2022/23 Susan Davy opted to forgo all incentives and the value shown has been re-stated to reflect the actual share price of 661p on the date of vesting for the forgone LTIP.

Notes to the single figure table

No annual bonus was paid to the Executive Directors of South West Water or Pennon Group in respect of 2023/24. Incentive arrangements for the Executive Directors, when paid, are funded by the Pennon Group and are not re-charged to South West Water customers. John Halsall is not entitled to an award under the vesting 2021 LTIP.

ANNUAL BONUS OUTTURN FOR 2023/24

No bonus is payable to the Executive Directors of Pennon Group in respect of 2023/24.

Full details of the remuneration relating to Executive Directors who are also Pennon Executive Directors can be found in the Pennon Annual Report and Accounts on pages 148-170. The Pennon Executive Directors' annual bonus for the 2023/24 financial year and the long-term share awards (LTIP) granted in 2021 subject to three-year performance to 31 March 2024, were each based on scorecards intended to capture a rounded assessment of overall performance. The Group Executive Directors are currently remunerated for delivery of the Group strategy, including Pennon Water Services, Water2Business, Pennon Power and the respective licensed water businesses, which will now include SES Water, in one plan. The measures for 2023/24 were adjusted as detailed above in response to Ofwat guidance.

South West Water

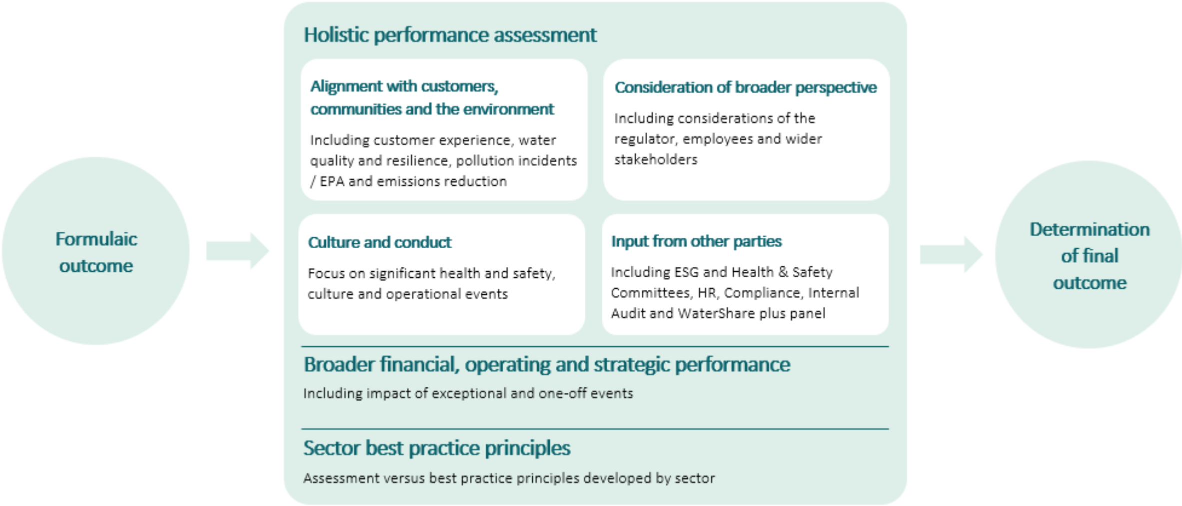
No bonus is payable to the Executive Directors of Pennon Group in respect of 2023/24.

Consistent with prior years, the South West Water bonus in which the Chief Operating Officer participates, is based on a rounded assessment of performance. In line with regulatory guidance, 70% of the bonus is linked to delivery of stretching objectives for our customers, communities and the environment. The bonus includes a profit measure which ensures that the Company maintains a focus on financial resilience, enabling us to invest in the future and deliver robust and sustainable performance for all of our stakeholders.

Variable incentives are not recharged to the individual water companies, but are instead funded at a Group level. During the year and over recent months, Ofwat has provided substantial feedback regarding the operation of bonus schemes across the sector. In particular Ofwat stressed the need for inclusion of metrics directly related to environmental performance and water quality in the annual bonus. Whilst these measures were included in the 2023 LTIP award, they were not in the original bonus targets set for 2023/24. In direct response to Ofwat feedback, the scorecard linked to customers, communities and the environment for 2023/24 was adapted by the Committee to include additional metrics which were considered to be of particular importance to Ofwat and our customers. Although the inclusion of these additional metrics required a review of the weighting for individual measures, the overall weighting on metrics relating to customers, communities and the environment remains unchanged at 70%.

The revised scorecard explicitly captures performance under a wide range of factors, reflecting the multiple areas which are important to our stakeholders. It is vital that the business continues to perform across these areas of focus. Further detail of the underlying targets is set out on page 187 to 188. The overall formulaic outcome was 36.2% of maximum.

Consistent with prior years the Committee also undertook a holistic assessment of performance in order to determine whether the formulaic outturn remains appropriate in the context of broader performance. This review considers performance from a number of different perspectives. For 2023/24 performance the Committee also considered the outcome against best practice principles recently developed in collaboration with sector peers. The framework used in this assessment is summarised below.



The Committee carefully considered the formulaic outcome of the South West Water annual bonus of 36.2% of maximum and debated this at length. After applying the Committee's discretion framework in respect of South West Water's environmental and pollution performance, it was decided to reduce the formulaic outturn to 29.4%. Furthermore, in recognition of the current external environment, the Committee determined that no bonus would be paid to the South West Water Executive Directors in respect of the year. This was consistent with managements recommendation for a zero bonus outturn.

SUMMARY OF BONUS OUTCOME

Measure	Weighting	Targets	Achievement	Outcome
Financial resilience				
Underlying PBT	30%	Threshold – £29.6m Maximum – £31.71m	Outcome (£19.2m) impacted by inflation impact on debt instruments	0%
Customer and environment				
Basket of SWW / BW environmental and customer metrics	28%	Various – *see below for further details*		11.2%
EPA	7%	Towards 4*	Below hurdle (2*) – nil payout	0%
Pollutions Cat 1-2	5%	Amber and above	Within range – Amber – nil payout	0%
Pollutions Cat 1-3	5%	64	Below hurdle – nil payout	0%
Water Resource & Resilience	3%	Water resource storage to achieve 90%	Ahead of schedule	3%
Enabling Biodiversity (catchment management)	3%	Progress of K7 target 13,000	Above target	3%
Bathing Water Quality	4%	98% - 100%	100%	4%

Responsible business				
Social and governance	15%	Sustainalytics - 80% Fair Tax - maintain Sustainable Financing - 75% Health and Safety - 20 LTIs GHG emissions - 68% reduction Renewables generation - 8%	Sustainalytics – 82.5% Fair Tax – maintain Sustainable Debt – 82% Health & Safety – 15 LTIs GHG emissions – above target Renewables generation – within range	15%
			Formulaic outturn	36.2%
			Total after application of discretion	*29.4%*
			Amount payable	**0%**

South West Water and Bristol Water Industry Metrics

Measure	Target - South West Water	Achievement - South West Water	Target - Bristol Water	Achievement - Bristol Water
C-Mex	Median	Below target	Median	Above target
PSR - Reach	3 measures	Above target	3 measures	Above target
Leakage (3 year)	109.3	Above target	33	Below target
PCC	138.7	Within range	141.3	Within range
Supply interruptions	5m 0s	Below target	5m 0s	Below target
CRI	2	Below target	1.5	Below target
Mains Repairs	136.6	Above target	132.7	Above target
Unplanned outage	2.34	Above target	2.34	Within range
Internal Flooding	1.44	Above target	-	-
Cat 1 - 3 Pollutions	22.4	Below hurdle	-	-
Sewer collapses	14.76	Above target	-	-
Numerical compliance	Maintain high performance	Within range	-	-

LONG-TERM INCENTIVE OUTTURN FOR 2023/24

The Long-Term Incentive Plan arrangements and vesting outcome for the Executive Directors of Pennon and South West Water are detailed in the Pennon Group Annual Report and Accounts on page 161. The awards in the single figure table relate to the awards granted on 1 July 2021, which are due to vest on 1 July 2024. The performance measures applicable to these awards reflect the nature of their Group roles and are based on Sustainable Dividends (33%), RORE (33%) and Customer Experience (33%). The vesting level for the awards is 60.2%. The cost of this is not cross charged to South West Water customers and is met in full by Pennon.

The Chief Operating Officer is not a participant of the 2021 LTIP.

RETIREMENT BENEFITS AND ENTITLEMENTS (AUDITED INFORMATION)

Details of the retirement benefits for the Executive Directors are shown on page 162 of the Pennon Group Annual Report and Accounts 2023. Both receive a maximum of 10% of salary, in line with the level available for the wider workforce.

Details of the South West Water Chief Operating Officer's pension entitlements and pension related benefits during the year are as follows. Effective 1 August 2021, the maximum pension contribution made by the Company to newly appointed Directors is 10% of salary:

	Contributions to defined contribution arrangements (£000)	Cash allowances in lieu of pension (£000)	Total value for the year	Normal retirement age and date (for pension purposes)
John Halsall(1)	17	20	36	65 (29 April 2031)

(1) John Halsall received an overall pension benefit from the Company equivalent to 10% of his salary for the year. For 2023/24 this comprised an employer's contribution of £17,084 and a cash sum of £19,525. He is a member of Pennon Group's defined contribution pension arrangements and is entitled to access the retirement fund in the Master Trust from age 55.

NON-EXECUTIVE DIRECTORS' REMUNERATION

SINGLE FIGURE OF REMUNERATION (AUDITED)

	2023/24			2022/23		
	Fees(1) (£000)	Taxable benefits (£000)	Total Fees (£000)	Taxable benefits (£000)	Fees(1) (£000)	Total Fees (£000)
Gill Rider	**168**	-	**168**	123	-	123
Iain Evans[2]	**59**	-	**59**	40	-	40
Claire Ighodaro	**55**	-	**55**	40	-	40
Jon Butterworth	**49**	-	**49**	36	-	36
Loraine Woodhouse[3]	**52**	-	**52**	12	-	12
Dorothy Burwell	**45**	-	**45**	11	-	11
Neil Cooper[4]	**27**	-	**27**	47	-	47

(1) 70% of fees are recharged through Pennon Group plc. The 2023/24 cross-charge value incorporates a full year for Bristol Water, the figure shown for 2022/23 reflects a recharge of 50% of fixed remuneration until 31 January 2023 and then 70% for the remainder of the financial year, following the statutory transfer of Bristol Water Plc to South West Water.
(2) Iain Evans was appointed as Senior Independent Director 1 September 2023.
(3) Loraine Woodhouse was appointed as Chair of Audit Committee effective 1 September 2023.
(4) Neil Cooper stepped down as Senior Independent Director and Chair of Audit Committee 31 August 2023.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown below:

Executive Directors	Date of Appointment	Notice Period
Susan Davy(1)	31 July 2020	12 months
Steve Buck(2)	1 January 2024	12 months
Paul Boote(3)	8 July 2020	12 months
John Halsall(4)	10 July 2023	6 months
Non-Executive Directors	**Date of Appointment**	**Expiry date of Appointment**
Gill Rider(5)	1 April 2016	31 August 2024
Iain Evans	31 July 2020	31 August 2024
Claire Ighodaro	31 July 2020	31 August 2025
Jon Butterworth	28 September 2017	31 July 2026
Loraine Woodhouse	1 December 2022	30 November 2025
Dorothy Burwell	1 December 2022	30 November 2025
Neil Cooper(6)	1 April 2016	31 August 2023

(1) Susan Davy held a previous service contract dated 1 February 2015 in respect of her appointment as Chief Financial Officer, Pennon
(2) Steve Buck was appointed to the Board of South West Water Ltd on 1 January 2024, following his appointment as Chief Financial Officer, Pennon PLC 27 November 2023.
(3) Paul Boote stepped down from his role as Group Chief Financial Officer of Pennon Plc and South West Water Ltd 31 December 2023.
(4) John Halsall was appointed to the Board of South West Water Ltd on 10 July 2023 in his capacity as Chief Operating Officer.
(5) Gill Rider was appointed as Chair of the Board as of 31 July 2020 and as such is providing ongoing strategic support and continuity of the Board for up to three years.
(6) Neil Cooper stepped down from the Board of South West Water Ltd and Pennon Group Plc 31 August 2023.

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side.

The policy is for Non-Executive Directors' letters of appointment to contain a three-month notice period from either side.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

OUTSIDE APPOINTMENTS

Executive Directors may accept one Board appointment in another company. Board approval must be sought before accepting an appointment. Fees may be retained by the Director. Susan Davy remained a Non-Executive Director of Restore plc throughout 2023/24. No other outside Company appointments are held by the Executive Directors other than with industry bodies or governmental or quasi-governmental agencies.

ADDITIONAL CONTEXTUAL INFORMATION

HISTORICAL CHIEF EXECUTIVE REMUNDERATION

As the Company did not have a Chief Executive Officer until 1 January 2016, the table on the following page provides historical single figure information in the form of the average remuneration of the Executive Directors for years up to and including 2014/15. Their remuneration was considered to be the most appropriate to use as they were the most senior executives in the Company. From 2015/16 onwards, the Chief Executive Officer's remuneration for the year is shown.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21(1)		2021/22	2022/23	2023/24
	Average Executive Director	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Susan Davy	Susan Davy	Susan Davy	Susan Davy
Chief Executive Officer single figure remuneration (£000)	378	461	553	493	663	1,068	669(1)	966(1)	764	543	562
Annual Bonus payout (% of maximum)	89.6%	78.3%	65.8%	85%	90%	78%	79.2%	78.1%	30.7%	0%	0%
LTIP (PCP) vesting (% of maximum)	0%	34.5%	43.7%	0%	44%	86.6%	89.9%	89.9%	88.2%	0%	0%

(1) Chris Loughlin stepped down as Chief Executive Officer on 31 July 2020 and was succeeded by Susan Davy. Consistent with the single figure, the figures for Susan Davy relate to the whole of 2020/21, including the portion of the year when she was Chief Financial Officer.

The single figure remuneration shown relates to the full fixed remuneration received by Susan Davy as the Group Chief Executive Officer. A portion (70%) of fixed pay is recharged to South West Water with incentives funded at Group level and not charged to customers.

PERCENTAGE CHANGE IN DIRECTORS' REMUNERATION

Comparison of Directors' remuneration to employee remuneration

The table below shows the percentage change between 2021/22, 2022/23 and 2023/24 in base salary, benefits and annual bonus of the South West Water Chief Operating Officer. Percentage changes in remuneration for the Pennon Executive Directors and Non-Executive Directors are disclosed in full in the Pennon Group Annual Report on page 165.

	Percentage change in salary/fees				Percentage change in benefits				Percentage change in bonus			
	2023/24	202223	2021/22	2020/21	2023/24	2022/23	2021/22	2020/21	2023/24	2022/23	2021/22	2020/21
	Executive Directors											
John Halsall	3.5%	-	-	-	0%	-	-	-	-100%	-	-	-
South West Water	5.45%	3.8%	2.2%	4.28%	-24.4%	-18.7%	-10.1%	4.38%	-7.59%	-18.1%	2.8%	-0.08%
UK employees	6%	3.9%	2.0%	1.22%	-21%	-20.3%	-19.5%	5.7%	-2.2%	-45.4%	-14.3%	-17.8%

RELATIVE IMPORTANCE OF SPEND ON PAY

	2023/24 £m	2022/23 £m	Percentage change (%)
Overall expenditure on pay(1)	120	79	51.7%
Distributions to Parent Company	-	12	(100%)
Net interest charges	155	111	39.6%
Purchase of property, plant and equipment (cash flow)	540.6	285.5	89.3%

(1) Excludes employer's social security costs and non-underlying items.

The above table illustrates the relative importance of spend on pay compared with distributions to shareholders and other Company outgoings. The distributions to Parent Company, interest charges and the purchase of property, plant and equipment (cash flow) have been included as these were the most significant outgoings for the Company in the last financial year.

CHIEF EXECUTIVE OFFICER PAY RATIO

Our CEO pay ratio stands at 21:1 for the median employee. The ratio is higher than in 2022/23 when the CEO opted to forgo all her variable pay for that year. It is lower than the ratio in preceding years. The changes are partially due to our strategy of developing pay for front line roles, which has led to an increase in median pay

Year	Method	25th percentile (P25) pay ratio	50th percentile (P50) pay ratio	75th percentile (P50) pay ratio
2023/24	**Option A**	**27:1**	**21:1**	**16:1**
2022/23	Option A	19:1	14:1	11:1
2021/22	Option A	56:1	43:1	36:1
2020/21	Option A	93:1	69:1	55:1
2019/20	Option A	91:1	64:1	53:1

Option A has been used for the calculations as per the disclosure regulations. The employees at the lower quartile, median and upper quartile (P25, P50, and P75, respectively) have been determined based on a calculation of total remuneration for the financial year 1 April 2023 to 31 March 2024.

- Basic salary for part-time employees and new joiners within the applicable period have been converted to full-time equivalents for the purpose of the calculations.
- Estimated values for employee P11d data have been used in the calculation for 2022/23 to establish the ordering of employees, given the timing of publication. This has been validated and has not led to any change in the published ratio.

The total remuneration of 2023/24 for the employees identified at P25, P50 and P75 is £31,661, £41,512, and £51,538, respectively. The base salary of 2023/24 for the employees identified at P25, P50 and P75 is £29,051, £35,878, and £26,408, respectively. The individual at P75 received a large amount of variable pay during the year, including call-out and standby allowances. For 2023/24 P11d benefits have been pay-rolled during the year and so actual values are used in the calculation.

The CEO pay ratio calculation to the median employee, on the same compensation elements as the wider workforce stands at 14:1.

The ratio, using the remuneration of the Chief Operating Officer, as the most senior director employed by South West Water Ltd would lead to a lower ratio and is reflective of the scale of the business and its focus:

P25	13:1
P50	10:1
P75	8:1

SHARE AWARD AND SHAREHOLDING DISCLOSURES (AUDITED INFORMATION)

Share awards granted during 2023/24

The table below sets out details of share awards made in the year. Details of the share awards for the Chief Executive Officer and Chief Financial Officer are detailed in the Pennon Annual Report and Accounts 2023/24 on pages 166 to 169.

Executive Director	Type of interest	Basis of Award	Face value £000	Percentage vesting at threshold performance	Performance / restricted period end date
John Halsall	LTIP	80% of salary	293	25% of maximum	21 July 2026

Executive Director	Type of interest	Basis of Award	Face value £000	Percentage vesting at threshold performance	Performance / restricted period end date
John Halsall	Deferred bonus / buyout award[1]	50% of bonus awarded	22	N/A	29 November 2026

(1) The deferred bonus award was made in respect of performance during 2022/23 prior to appointment to the Board of South West Water Ltd, and included an amount in respect of bonus forfeited from previous employment during 2022/23. The award was therefore delayed until November, upon confirmation from Network Rail of the bonus amount foregone for the 2022/23 FY.

LTIP awards were calculated using the share price of £7.142 for all participants (including Steve Buck), being the average closing price over the five dealing days preceding the normal date of grant, of 21 July 2023. LTIP awards are also subject to an additional two-year holding period. Deferred bonus awards were calculated using the average share price at which shares were purchased on the market on 29 November 2023 to satisfy the award, which was £7.305. The measures for the 2023 award were based on:

- 50% RORE
- 30% Water Quality and Environment (EPA 10%, Wastewater Pollution Reduction 10%, Storm Overflow reduction)
- 20% Customer Service. (C-Mex, D-Mex, R-Mex, MPS, Trustpilot Score)

Directors' shareholding and interest in shares

The Remuneration Committee believes that the interests of Executive Directors and senior management should be closely aligned with the interests of Pennon Group plc shareholders.

To support this, the Committee operates shareholding guidelines. For 2023/24, this guideline was 100% of salary for the Chief Operating Officer and 200% for the Group Chief Executive Officer and Chief Financial Officer. In line with best practice guidelines, deferred bonuses and LTIP awards subject to a holding period may only count towards the guidelines on a net tax basis.

The Executive Directors are expected to build up a shareholding in the Company within the first five years of joining the Company, or appointment to a new role.

On 12 January 2024 the Group conducted an Equity Capital raise which included a non-pre-emptive placing of new ordinary shares of 61.05 pence each in the capital of the Company to both existing institutional shareholders and new institutional investors. John Halsall acquired 273 ordinary shares in this transaction at a price of £7.30 per share.

The beneficial interests of the Pennon Group Executive Directors in the ordinary shares (61.05p each) of Pennon Group plc as at 31 March 2024 and 31 March 2023, together with their shareholding guideline obligation and interest are shown in the Pennon Group Annual Report and Accounts on pages 166 to 169. The Shareholding of the South West Water Chief Operating Officer is shown below:

	Share interests (including connected parties) at 31 March 2023	Share interests (including connected parties) at 31 March 2024	Vested LTIP awards in holding period[(1)]	Deferred Bonus shares	SAYE	Performance shares (subject to performance conditions)	Share-holding guideline	Share-holding guideline met?
John Halsall	0	341	0	2,997	-	41,008	100%	No

[(1)] These share awards are not subject to further performance criteria and may therefore count towards the guideline on a net-of-tax basis.

Between 1 April 2024 and 1 May 2024, 23 additional ordinary shares in the Company have been acquired by John Halsall as a result of his direct participation in the Company's Share Incentive Plan. There have been no other changes in the beneficial or non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2024 and 1 May 2024

Details of share awards

(a) Long-term incentive plan

In addition to the above beneficial interests, the Chief Operating Officer of South West Water has or had a contingent interest in the number of ordinary shares (61.05p each) of Pennon Group plc shown below, representing the maximum number of shares to which they would become entitled under the plan should the relevant criteria be met in full:

Director and date of award	Vested awards held at 10 July 2023[1]	Conditional awards held at 1 April 2023	Conditional awards made in year	Market price of each share upon award in year	Vesting in year[2]	Value of shares upon vesting (before tax) £000	Vested awards held at 31 March	Vesting awards released in year	Conditional awards held at 31 March 2024	Date of end of restricted period for qualifying conditions to be fulfilled	Expected date of release
John Halsall											
21/07/23	0	0	41,008	714.2p	0	–	0	0	41,008	20/07/26	20/07/28

(b) Annual incentive bonus plan – deferred bonus shares (long- term incentive element)

John Halsall has or had a contingent interest in the number of ordinary shares (61.05 pence each) of Pennon Group plc shown below, representing the total number of shares to which they have or would become entitled under the deferred bonus element of the annual incentive bonus plan (the bonus plan) at the end of the relevant restricted period:

Director and date of award	Restricted awards held at 10 July 2023	Restricted awards made in year	Market price of each share upon award in year	Restricted awards post-share consolidation (restated)	Released in year	Value of shares upon vesting (before tax) £000	Restricted awards held at 31 March 2024	Date of end of restricted period
John Halsall								
29/11/23	–	2,997	730.5p	–	–	22	28/11/26	29/11/23

Non-Executive Directors' shareholding

The beneficial interests of the Non-Executive Directors, including the beneficial interests of their spouses, civil partners, children and step-children, in the ordinary shares of the Pennon Group, are shown in the Pennon Group Annual Report and Accounts on page 167.

Malus and Clawback

Malus and Clawback provisions are embedded in the employment contracts of Executive Directors and relevant scheme documentation.

Malus and clawback provisions apply to all incentive awards. These provisions enable awards to either be forfeited prior to delivery, repaid or made subject to further conditions where the Committee considers it appropriate in the event of any significant adverse circumstances. For awards granted under the term of this policy, the circumstances in which malus and clawback may be applied include a financial misstatement, error in calculation, material failure of risk management, serious reputational damage, serious corporate failure or misconduct.

In respect of the annual bonus, clawback may be applied for the period of three years following determination of the cash bonus. Under the LTIP, clawback may be applied until the end of the holding period.

The Committee have not applied any action under the provisions of malus and clawback during 2023/24.

THE REMUNERATION COMMITTEE AND ITS ADVISERS

Claire Ighodaro, Loraine Woodhouse and Dorothy Burwell were members of the Remuneration Committee throughout the year. Iain Evans joined the Committee on his appointment to Senior Independent Director on 1 September 2023, succeeding Neil Cooper. Gill Rider, Jon Butterworth and Susan Davy attend by invitation as required. During the year, the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from Adele Barker (Group Chief People Officer) and from Deloitte LLP.

During 2018/19, Deloitte LLP was reappointed directly by the Committee with a refreshed advisory team, following a comprehensive retendering process. Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte LLP has been objective and independent.

BOARD OF DIRECTORS AND COMPANY INFORMATION

CHAIR	G Rider CB
CHIEF EXECUTIVE OFFICER	S Davy
CHIEF FINANCIAL OFFICER	S Buck
CHIEF OPERATING OFFICER	J Halsall
SENIOR INDEPENDENT DIRECTOR	I Evans CBE (Non-Executive)
NON-EXECUTIVE DIRECTORS	C Ighodaro CBE D Burwell J Butterworth L Woodhouse
COMPANY SECRETARIES	A Garard
REGISTERED OFFICE	Peninsula House Rydon Lane Exeter Devon EX2 7HR
INDEPENDENT AUDITOR	Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR
COMPANY'S REGISTERED NUMBER	02366665
PRINCIPAL ACTIVITIES	The principal activities of the Company are the provision of water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and Dorset and water only services in parts of Dorset, Hampshire, Wiltshire and Bristol.

DIRECTORS' REPORT

INTRODUCTION

The Directors present their Annual Report and Accounts for the year ending 31st March 2024. The Directors' Report comprises this report and the entire Governance section Including the Chair's Governance Statement. It has been prepared in accordance with the provisions of the Companies Act 2006 and regulations made under it. In accordance with the Financial Conduct Authority Listing's Rules, the information to be included in the 2024 Annual Report and Accounts, where applicable (under Listing Rule 9.8.4), is set out in this Directors Report. Other information relevant to this Report, and which is incorporated by reference, can be located as follows:

Information	Page number
Particulars of important events affecting the Company and/or its subsidiaries which have occurred since the year end	4
Likely future developments of the Company	4
Risk management systems	50 to 65
Certain employee and employee engagement matters as well as the disclosures below	24 to 32
Business relationships/engagement with suppliers, customers and others	9 to 16, 143 to 144
Carbon and greenhouse gas emissions, energy consumption and energy efficiency action	73 to 77
Financial risk management	Note 3 of the notes to the financial statements
Financial instruments	43 to 49, notes 2(n) and 17 of the notes to the financial statements.

This Directors' report (including pages 121 to 202, which form part of this report) fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules.

CAUTIONARY STATEMENT

This Annual Report has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Company in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

CORPORATE

AUDITORS

The External Auditor for the 2023/24 financial year was Ernst & Young LLP. The Independent Auditors' Report starting on page 203 sets out the Information contained In the Annual Report which has been audited by the External Auditor. The Audit Committee considered the performance and audit fees of the External Auditors and the level of non-audit work undertaken. Following a formal comprehensive audit tender it is recommended to the Board that a resolution for the appointment of PricewaterhouseCoopers LLP as the Company's auditor, in respect of the year ending 31st March 2025, be proposed to shareholders at our parent company's AGM on 24th July 2024.

CHANGE OF CONTROL
No person holds securities In the Company carrying special rights with regard to control of the Company. All of the Company's share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions pro-ration for time where appropriate.

FINAL DIVIDEND
A total dividend for the year of £nil was paid during the year (2022/23: £12.3 million). The Report of the Chief Financial Officer on pages 43 to 49 analyses the Company's financial results in more detail and sets out other financial information.

POLITICAL CONTRIBUTIONS
The Company has authority, in accordance with Section 366 of the Companies Act 2006, to make political donations to political parties, political organisations and incur political expenditure subject to limits approved by shareholders. No political donations were made or political expenditure incurred and no contributions were made to a non-UK political party (2022/23: nil)

OTHER CONTRIBUTIONS
During the year, the Company provided a total of £35,000 in charitable donations (2022/23: £15,000) and £105,000 in sponsorships (2022/23: £118,000).

DIRECTORS

APPOINTMENTS
Details of the Directors who served in the year and to the date of this Report can be found on page 124. Biographies for Directors currently in office can be found on pages 127 to 130 and on our website. During the year, John Halsall was appointed as a director on 10th July 2024, Neil Cooper resigned as a Director of the Company on 1st September 2023, Paul Boote resigned as a Director of the Company on 31st December 2023 and Steve Buck was appointed as a Director of the Company on 1st January 2024.

CONFLICTS OF INTEREST
The Board has adopted a Conflicts of Interest Policy. The Board has considered in detail the current external appointments of the Directors that may give rise situational conflicts and, where appropriate, has authorised potential conflicts. Such authorisation can be reviewed at any time but is always subject to annual review.

DIRECTORS' INSURANCE AND INDEMNITIES
The Company has maintained Directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers throughout the year. The Company has entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope that complies with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

DISCLOSURES

FINANCIAL RISK MANAGEMENT
The Directors have carried out a robust assessment of the principal and emerging risks facing the Company, including in relation to its business model, future performance, solvency and liquidity. Details of our principal risks and association mitigations are set out on pages 50 to 65. Note 3 to the Financial Statements gives details of the Company's financial risk management policies and related exposures. This note is incorporated by reference and deemed to form part of this Report.

GOING CONCERN
The going concern basis has been adopted in preparing these financial statements. At 31st March 2024 the Company has access to undrawn committed funds and cash and cash deposits totalling £321 million, including cash and other short-term deposits of £26 million and £295 million of undrawn facilities. Cash and other short-term deposits include £26 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. Considering this the Company has a headroom of £181 million, including the impact of £163 million of loans and facilities due for maturity or renewal within the going concern period through to 30th June 2025.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's going concern status, to do this the Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 50 to

65 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 Company's annual budget for FY 2024/25 and longer-term strategic business plan for the remainder of the going concern period to 30th June 2025.

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, regulatory impacts such as the ongoing Ofwat price and tariff review, i.e. PR24, covering the period from April 2025 to March 2030, 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 Company collectively. The combined weighted impact of the risks occurring is c.£68 million, this value is considered equivalent to an extreme one-off event that could occur within a year, 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 Company 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 Company 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 company has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Company. 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.

In addition, we have modelled a reverse engineered scenario that could possibly compromise the Company's solvency over the going concern assessment period. This scenario builds on the factors above and additionally assumes all the Company's principal risks are incurred within the going concern period, with no probability weightings attached. The Board considered the likelihood of the scenario on the Company's solvency over the going concern period, as remote, given this would require all of the principal risks to be incurred at maximum impact within the same time frame, without implementing controllable mitigations, as noted above, or raising additional funding.

We have considered the Company'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. Subsequent to the year end date, the Company has secured a £150 million private placement, which reflects on the Company's ability to secure finance. Having considered these factors, the Directors have a reasonable expectation that that the Company 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 June 2025, 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.

DATA

As part of our business activity, the Company processes large amounts of personal data. The Company recognises that to enable this use of personal data it is critical that we continue to build on our approach to applying privacy in a lawful and ethical way. A programme of work to support this has been led by our data governance team. The work includes making improvements to our data governance framework and delivering our data privacy function. We have a number of policies, procedures and tools to support this. Compliance with these policies is mandatory. All colleagues undergo regular training to remind them of their responsibilities under these policies.

EMPLOYMENT POLICIES AND EMPLOYEE INVOLVEMENT

CONTINUOUS IMPROVEMENT

South West Water has a culture of continuous improvement through investment in people at all levels within the Company. It is committed to pursuing equality and diversity in all its employment activities including recruitment, training, career development and promotion and ensuring there is no bias or discrimination in the treatment of people. In particular, applications for employment are welcomed from persons with disabilities, and special arrangements and adjustments as necessary are made to ensure that applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible the opportunity is taken to retrain people who become disabled during their employment in order to maintain their employment within the Company.

POLICIES

The Company has policies in place covering health and safety, equal opportunities, diversity and inclusion, ethics and employee relations. Further detail of the contents of the diversity and inclusion policy are set out in the report of the Nomination Committee on page 150. Also, information regarding the employee diversity is provided on page 30. The Board's activities in relation to assessing and monitoring culture can be found in the Corporate Governance Statement on page 123.

FREEDOM OF ASSOCIATION

South West Water respects the right to freedom of association and employees are consulted regularly about changes which may affect them either through their trade union-appointed representatives, through consultation groups or by means of their elected representatives at the Employee Engagement Forum. These forums, together with regular meetings with particular groups of employees, are used to ensure that employees are kept up to date with the business performance of their employer and the financial and economic factors affecting the performance of the Company. South West Water also cascades information monthly to all employees to provide them with important and up to date information about key events and to obtain feedback from them on a monthly basis. Further information about workforce engagement and employment matters relating to the Company are set out on pages 24 to 32 of the Strategic Report.

SHARE OWNERSHIP

South West Water and the Pennon Group as a whole encourages share ownership among its employees in Pennon Group plc by operating an HM Revenue & Customs approved ShareSave scheme and Share Incentive Plan. Following Pennon shareholder approval at the 2014 AGM, these were amended to provide for the increased savings limits approved by Government. At 31st March 2024, approximately 50% (2023: 55%) of the Company's employees were participating in these plans.

MODERN SLAVERY ACT

Our people are fundamental to our business, and we remain committed and passionate about supporting our staff, customers and communities to thrive in creating an environment where everyone can feel safe and supported. We have a clear zero-tolerance approach to modern slavery and are committed to playing our part in helping eradicate it by having systems and processes to monitor, assess and reduce the risk of forced labour and human trafficking.

We remain focused on improving our risk assessment and the widening of our engagement. We have continued to engage and raise awareness, through internal training, and by continuing as a member of Slave Free Alliance. We are part of a utilities sector working group which shares best practice across our industry. We will continue to work hard to tackle this issue collaboratively with our partners, employees, suppliers, and peers, to evolve our approach to ensure it remains effective. Our latest Modern Slavery Statement can be found here: www.pennon-group.co.uk/sites/default/files/attachments/pdf/pennon-modern-slavery-statement-2023.pdf.

ENERGY USAGE

Details of our Energy usage can be found in the Pennon Group Annual report on page 71.

RESEARCH AND DEVELOPMENT

Research and development within the Company involving water and wastewater treatment processes amounted to £0.6 million during the year (2022/23: £0.8 million).

OVERSEAS BRANCHES

The Company has no overseas branches.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with UK adopted international accounting standards (IFRSs) in conformity with the Companies Act 2006.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Estimates and Errors and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Company's financial position and financial performance;
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with the law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Each of the Directors, whose names and functions are listed on pages 127 to 130, confirms that, to the best of his or her knowledge:

i) The financial statements, which have been prepared in accordance with UK adopted international accounting standards in conformity with the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company and undertakings taken as a whole.

ii) The Annual Report, including the Strategic Report (pages 1 to 119), includes a fair review of the development and performance of the business during the year and the position of the Company, together with a description of the principal risks and uncertainties it faces.

iii) They consider that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE COMPANY'S AUDITOR

i. So far as each of the Directors in office at the date of signing of the report is aware, there is no relevant audit information of which the Company's auditor is unaware; and

ii. each of the Directors has taken all the steps that each Director ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' report consisting of pages 197 to 202 was approved by the Board on 14 June 2024.

By Order of the Board

STEVE BUCK
Chief Financial Officer
14 June 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER LIMITED

OPINION

We have audited the financial statements of South West Water Limited for the year ended 31 March 2024 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 41, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included the following procedures.

- We obtained an understanding of the process undertaken by management to perform the going concern assessment.
- We have obtained management's going concern assessment, including the cash flow forecast, liquidity requirements and forecast covenant calculations for the going concern period which covers the period from approval of the 2024 financial statements through to 30 June 2025, and have tested this for arithmetical accuracy. Management has modelled a downside scenario in their cash flow forecast and covenant calculations in order to incorporate unexpected changes in the forecast liquidity and covenant compliance of the company.
- We have challenged the forecasts used for the going concern assessment period, agreed the data to the Board approved plan and, where applicable, corroborated the data with audit information from other areas, including capital commitments, impairment and deferred tax asset recoverability testing. We have evaluated the appropriateness of the key assumptions in management's forecasts including revenue growth, by comparing these to year-to-date performance and through consideration of historical forecasting accuracy and the impact of regulatory price increases.
- The company has an agreed business plan with Ofwat for the five year price period from 1 April 2020 to 31 March 2025. The tariffs allowable for the next five year period to 31 March 2030 are currently under review by Ofwat. We have compared the key assumptions in the company's regulated water business forecasts to the business plans and pricing determinations submitted to Ofwat, for consistency. In addition to this we confirmed that, within the downside scenario, management has considered the risk of

changes to the proposed tariffs and the impact this could have on forecast liquidity and covenant compliance of the company.

- We have evaluated management's stress test modelling including management's downside scenario and specific risk register probability-weighted scenarios, to understand the impact on the company's liquidity and covenant ratios. Management has also modelled a reverse engineered scenario (reverse stress test) assuming all the principal risks materialise within the going concern period with no probability weightings attached. We assessed the reasonableness of management's stress test scenarios by performing our own sensitivity analysis for severe but plausible scenarios.

- We have compared the risks identified and modelled in the cash flow forecasts of management's downside scenario to the company risk register and evaluated the quantification by management. We have considered whether there are other alternative risks that should be taken into consideration based on our knowledge of the business. Our procedures included evaluating management's assessment of the impact of climate change within the going concern period, including the principal risk of availability of sufficient water resources to meet current and future demand, as well as sufficiency of funds available to the company to support the required capital expenditure.

- We have compared facilities assumed in the forecasts to supporting loan documentation and to covenant terms. For facilities, where changes to terms are not finalised or facilities are unagreed at the date of approval of the financial statements, we have evaluated the impact on covenants and liquidity headroom based on existing terms.

- We have evaluated, including assistance from our specialist, events impacting the company immediately after the end of the going concern assessment period, including the effects of maturity of loans and facilities on the company's ability to continue as a going concern.

- We performed testing to consider the likelihood of a scenario causing a liquidity issue or breach of covenants, including the impact of controllable mitigating actions, where relevant.

- We have reviewed the company's going concern disclosures included in the annual report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

We observed at 31 March 2024, the company had access to undrawn committed facilities of £295 million and cash and short-term and other deposits totalling £26 million. The company generated positive net cash flows from operating activities of £163.8 million. Subsequent to the year end date, the company has secured a £150m private placement. Management's forecasts indicate there is headroom in the base case and in the downside scenario. Management considers the reverse engineered scenario, that all the company's principal risks are incurred within the going concern period with no probability weightings attached, to be remote.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 30 June 2025.

In relation to the company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	• Revenue recognition in relation to accrued income relating to measured supplies • Valuation of the expected credit loss provision for customer balances • Capitalisation of costs relating to the capital programme
Materiality	• Overall materiality of £8.6m which represents 5% of the company's earnings before interest, taxes and non-underlying items.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

TAILORING THE SCOPE

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

CHANGES FROM THE PRIOR YEAR

There were no changes to the scope of the audit from the prior year.

CLIMATE CHANGE

Stakeholders are increasingly interested in how climate change will impact South West Water Limited. South West Water Limited has determined that the most significant future impacts from climate change on its operations will be from physical and transitional climate-related risk. These are explained on pages 78 to 116 in the required Task Force for Climate related Financial Disclosures and on pages 50 to 65 in the principal risks and uncertainties. They have also explained their climate commitments on pages 82 to 104. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the company's business and any consequential material impact on its financial statements.

The Company has explained in their basis of preparation to the financial statements how they have reflected the impact of climate change in their financial statements including how this aligns with their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050 which forms part of their disclosures within the Task Force on Climate related Financial Disclosures which forms part of "Other information". Significant judgements and estimates relating to climate change are included in note 2(a) Basis of preparation and note 4 Critical accounting judgements and estimates. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations under the requirements of UK adopted international accounting standards. In Note 4 to the financial statements supplementary narrative explanation of the impact of climate change on long life assets and availability of sufficient funds for the required capital expenditure, has been provided, concluding that the company continues to have sufficient funding in place and there is no specific impact on useful lives of long life assets as at 31 March 2024.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 50-116 and the significant judgements and estimates disclosed in note 4 and whether these have been appropriately reflected in asset values where these are impacted by future cash flows and associated sensitivity disclosures (see notes 2(a) Basis of preparation), following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above. Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition in relation to accrued income relating to measured supplies (2024: £117.3 million, 2023: £87.01 million) *Refer to the Audit Committee Report (pages 156); Accounting policies (page 220); and Note 5 of the Financial Statements (page 232)* The company's revenue stream relates to the provision of water and sewerage services. ISAs (UK & Ireland) presume there is a risk of fraud relating to revenue recognition. For the company, given the targets associated with financial performance and potential pressures to meet market expectations, there is an incentive to overstate revenue. This risk over revenue recognition specifically arises in the following judgemental areas, where there is an opportunity to overstate revenue. Income from measured water services requires an estimation of the amount of unbilled charges at the period end. This is calculated using a combination of system generated information, based on previous customer volume usage, together with management adjustments for a number of	We obtained an understanding of the process, by performing walkthroughs of the supply of measured services, meter reading and related billing in order to assess the completeness of adjustments to reflect the accrual or deferral of revenue at the year-end; We tested key controls linked to system generated information and around the estimation process for measured revenue; We obtained internal and external data on factors that influence demand from customers, weather patterns and leaks in infrastructure networks and formed an expectation of the impact of these matters on revenue to compare to assumptions used in management's estimate; We obtained a system report of invoices raised post year end based on actual meter readings taken since the year end. We selected a sample of items from the report to compare to supporting evidence. We compared this report to the year end assumptions used to accrue income for these customer accounts, to assess the reliability of the assumptions used to determine accrued income; We used data analytics to understand the journal entries posted as part of the revenue, trade receivables and accrued income to cash collection process to	We concluded that the estimation process undertaken by management to calculate the measured income accrual reflected latest operational factors in the key assumptions and that the income accrual was appropriately determined.

different factors not included in the system-generated accrual, such as seasonality and operational data trends regarding consumption. The risk remained consistent in the current year.	identify transactions that were outside of our expectation and agreed these to underlying supporting documentation and business rationale; We performed analytical procedures by comparing revenue balances for the year against expectations and obtained support for significant variances; and In performing our journal testing, we paid increased attention to entries impacting revenue, focusing on non-system postings and those raised in the last two weeks of the year.	
Valuation of the expected credit loss provision for customer balances (2024: £102.8million, 2023: £104.0 million) *Refer to the Audit Committee Report (page 156); Accounting policies (page 224); Note 21 of the Financial Statements (page 242)* The expected credit loss provision is calculated using a combination of system generated information on historic debt recovery rates and management's judgement of the future likely recovery rates. There is a risk that the assumptions, used by management in calculating the expected credit loss provision, may not be appropriate and the valuation of the provision against customer balances may be misstated. Management's key assumptions include: o that the historic level of collections is indicative of the ability to collect at the same levels in the future; and o that the risk of non-recovery from customers varies, depending on factors such as whether the household customer no longer occupies a property in the area, has	We performed a walkthrough of the process for calculating the expected credit loss provision and assessed the design effectiveness of the key controls; For debt relating to household customers, we tested operating effectiveness of key controls over billing systems and integrity of data and the reports utilised to generate the ageing and categorisation of debt within the component's billing systems. For debt relating to non-household customers, we tested the accuracy of data and reports by obtaining underlying evidence to support the parameters relied upon by management in calculating the expected credit loss provision; We tested latest information on collection rates and evaluated how this data was used in the preparation of the expected credit loss provision; We utilised collection trends to determine our own range of the likely ultimate collection of debts existing at the balance sheet date, including performing several scenario analyses and compared these to the provision recorded by management, including assessing assumptions for evidence of management bias; We assessed the assumptions used by management in determining the amounts provided against the different categories and age of debt, by comparing these assumptions to historic	We concluded that the expected credit loss provision is within an acceptable range and appropriately reflects the recent history of collection of outstanding debts and considerations of the impact on future collections from the macro-economic environment.

previously paid/not paid, is/is not on a payment plan etc., and for non-household customers depends on the general economic performance of the business sector they operate within. The risk has remained consistent in the current year.	collection rates and by considering the impact of changes in the methods adopted operationally by management to collect debt, and in the external environment; We considered whether the historic collection performance evidenced the behaviour patterns assumed by management depending on categorisation of household customer and business sector for non-household customers; For debt relating to household customers, we utilised collection information over previous periods, with sensitivities to consider the impact of a deterioration which might arise from a downturn in the economy, to determine an acceptable range of the likely ultimate collection of debts existing at the balance sheet date and compared this to the provision recorded by management; For debt relating to non-household customers, we tested management's segmentation by business sector and the risk factors considered for each sector, regarding non-recovery of debt. We compared this analysis with information on actual collections, by sector, in the current year and since the balance sheet date; We tested the appropriateness of journal entries and adjustments impacting the expected credit loss provision, particularly those raised close to the balance sheet date.	

Capitalisation of costs relating to the capital programme (2024: £579.3million, 2023: £317.2million) *Accounting policies (page 222); and Note 15 of the Financial Statements (page 240)* The company has a substantial capital programme which has been agreed with the Water Services Regulation Authority (Ofwat) and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. There is judgement involved in allocating costs between operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. Therefore, there is a potential for misstatement between the income statement and the balance sheet. In addition, internal expenditure including staff costs to support capital projects is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the company and can be measured reliably. There is a risk that costs capitalised do not meet these criteria. Due to the level of judgement involved, we have determined that there is a potential for fraud through possible manipulation of this balance. The risk has remained consistent in the current year.	We performed a walkthrough of the process for capitalising fixed assets and assessed the design effectiveness of the key controls; We evaluated capital and operating or finance costs, and assessed whether these are appropriately classified and recalculated the amounts included as capital additions to ensure they agree with the underlying supporting documentation. For a sample of capitalised additions, we evaluated the appropriateness of the classification as capital by considering the nature of the expenditure with reference to invoice, certificate or timesheets relating to a specific project or asset. We also considered the judgements management applied in capitalising certain staff costs and overheads; We tested a sample of items allocated to expenditure in the income statement and verified whether they are correctly classified by considering the nature of projects i.e., repairs and maintenance or asset enhancement, to which the expenditure relates; We analysed assets commissioned during the year, on a sample basis, and obtained confirmation from project managers of their use in the business; We made inquiries of project managers to gain an understanding of the on-going capital projects of the company and how costs are reviewed and determined as capital expenditures that meet the company's capitalisation policy; We selected a sample of manual journal entries to record additions within fixed assets, which resulted from a credit posting to an operating expenditure account and checked whether the capitalisation of such expense was appropriately authorised and in accordance with the capitalisation policy.	We concluded that management has applied the capitalisation policy appropriately in determining the expenditure to be capitalised.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

MATERIALITY

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £8.6 million (2023: £8.0 million), which is 5% of earnings before interest, taxes (EBIT) and non-underlying items (2023: 6.1%). We believe that earnings before interest, taxes (EBIT) and non-underlying items provides us with an appropriate measure of the underlying performance of the company, as this excludes the impact of higher interest costs on the company's index-linked debt, driven by the significantly higher levels of inflation and is a measure of focus for users of the financial statements.

Starting basis	• Reported earnings before interest and taxation - £157.2m (2023: reported earnings before interest and taxation £100.1m million)
Adjustments	• Non-underlying items (Refer to Note 7) - by £15.6m (2023: £31.6m)
Materiality	• Totals £172.8 million earnings before interest, taxes and non-underlying items (2023: £131.7 million profit before taxation and non-underlying items) • Materiality of £8.6 million (2023: £8.0 million) 5% of earnings before interest, taxes and non-underlying items (2023: 6.1% of earnings before interest, taxes and non-underlying items)

PERFORMANCE MATERIALITY

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2023: 50%) of our planning materiality, namely £4.3m (2023: £4.0m). We have set performance materiality at this percentage based on our assessment of the company's internal control environment and the extent and nature of audit findings identified in the prior period.

REPORTING THRESHOLD

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.4m (2023: £0.4m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 201, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are;
  - Companies Act 2006
  - Financial Reporting Council (FRC) and the UK Corporate Governance Code
  - Tax legislation (governed by HM Revenue & Customs)
  - Health and Safety legislation
  - Environment Agency environmental permits
  - Ofwat regulations

- We understood how South West Water Limited is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the company's legal counsel, regulatory team and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the above committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management, including the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and Audit Committee Chair. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement. Further discussion of our approach to address the identified risks of management override are set out in the key audit matters section of our report.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the company's voluntary compliance with the UK Corporate Governance Code.

- We attended key meetings with management and legal counsel in order to identify and communicate any instances of non-compliance with laws and regulations

- The company operates in the water sector which is highly regulated. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- Following the recommendation from the audit committee, we were appointed by the company on 31 March 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods.

- The period of total uninterrupted engagement including previous renewals and reappointments is 10 years, covering the years ending 31 March 2015 to 31 March 2024.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Christabel Cowling (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
17 June 2024

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2024

	Notes	Before non-underlying items 2024 £m	Non-underlying items (note 7) 2024 £m	Total 2024 £m	Before non-underlying items 2023 £m	Non-underlying items (note 7) 2023 £m	Total 2023 £m
Revenue	5	731.3	-	731.3	587.6	(21.2)	566.4
Other operating income	6	148.3	-	148.3	-	-	-
Operating costs	8						
Employment costs		(82.2)	(0.6)	(82.8)	(63.2)	-	(63.2)
Raw materials and consumables		(35.8)	-	(35.8)	(29.1)	-	(29.1)
Other operating expenses		(273.8)	(15.0)	(288.8)	(235.0)	(10.4)	(245.4)
Trade receivables impairment		(6.3)	-	(6.3)	(3.6)	-	(3.6)
Impairment in investment in subsidiary	19	(146.3)	-	(146.3)	-	-	-
Earnings before interest, tax, depreciation and amortisation		**335.2**	**(15.6)**	**319.6**	**256.7**	**(31.6)**	**225.1**
Depreciation and amortisation	8	(162.4)	-	(162.4)	(125.0)	-	(125.0)
Operating profit/(loss)		**172.8**	**(15.6)**	**157.2**	**131.7**	**(31.6)**	**100.1**
Finance income	9	3.3	-	3.3	2.5	-	2.5
Finance costs	9	(158.3)	-	(158.3)	(113.5)	-	(113.5)
Net finance costs		**(155.0)**	**-**	**(155.0)**	**(111.0)**	**-**	**(111.0)**
Profit/(loss) before tax		**17.8**	**(15.6)**	**2.2**	**20.7**	**(31.6)**	**(10.9)**
Taxation (charge)/credit	10	(3.6)	3.9	0.3	1.7	6.9	8.6
Profit/(loss) for the year		**14.2**	**(11.7)**	**2.5**	**22.4**	**(24.7)**	**(2.3)**

The above results were derived from continuing operations.

The notes on pages 219 to 260 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2024

	Notes	Before non-underlying items 2024 £m	Non-underlying items (note 7) 2024 £m	Total 2024 £m	Before non-underlying items 2023 £m	Non-underlying items (note 7) 2023 £m	Total 2023 £m
Profit/(loss) for the year		**14.2**	**(11.7)**	**2.5**	**22.4**	**(24.7)**	**(2.3)**
Other comprehensive (loss)/income							
Items which will not be reclassified to profit or loss							
Net re-measurement of defined benefit obligations	27	(7.5)	-	(7.5)	(31.4)	-	(31.4)
Deferred tax on items that will not be reclassified	10, 29	1.9	-	1.9	7.9	-	7.9
Total items that will not be reclassified to profit or loss		**(5.6)**	-	**(5.6)**	**(23.5)**	-	**(23.5)**
Items that may be reclassified subsequently to profit or loss							
Cash flow hedges		(16.3)	-	(16.3)	29.1	-	29.1
Deferred tax credit on items that may be reclassified	10, 29	4.1	-	4.1	(7.3)	-	(7.3)
Total items that may be reclassified subsequently to profit or loss		**(12.2)**	-	**(12.2)**	**21.8**	**-**	**21.8**
Other comprehensive (loss) for the year net of tax		**(17.8)**	-	**(17.8)**	**(1.7)**	**-**	**(1.7)**
Total comprehensive (loss)/income for the year		**(3.6)**	**(11.7)**	**(15.3)**	**20.7**	**(24.7)**	**(4.0)**

The notes on pages 219 to 260 form part of these financial statements.

BALANCE SHEET

AS AT 31 MARCH 2024

	Notes	2024 £m	2023 £m
Assets			
Non–current assets			
Goodwill	16	299.6	299.6
Other intangible assets	14	14.2	13.7
Property, plant and equipment	15	4,571.1	4,144.4
Other non-current assets	18	-	13.9
Derivative financial instruments	22	17.3	32.6
Investment in subsidiary undertakings	19	21.7	168.0
Retirement benefit asset	27	10.8	17.5
		4,934.7	**4,689.7**
Current assets			
Inventories	20	10.2	10.0
Derivative financial instruments	22	22.4	20.1
Trade and other receivables	21	250.2	193.7
Current tax asset	28	8.0	11.5
Cash and cash deposits	23	26.0	46.1
		316.8	**281.4**
Liabilities			
Current liabilities			
Borrowings	25	(259.2)	(345.4)
Derivative financial instruments	22	(5.2)	(2.4)
Trade and other payables	24	(294.7)	(210.2)
Provisions	30	-	(0.4)
		(559.1)	**(558.4)**
Net current (liabilities)		**(242.3)**	**(277.0)**
Non–current liabilities			
Borrowings	25	(3,136.1)	(2,792.0)
Other non–current liabilities	26	(175.9)	(174.9)
Derivative financial instruments	22	(3.2)	(2.4)
Deferred tax liabilities	29	(466.0)	(471.5)
		(3,781.2)	**(3,440.8)**
Net assets		**911.2**	**971.9**
Equity			
Called up share capital	31	295.9	295.9
Share premium account	33	413.0	413.0
Retained earnings and other reserves	34	202.3	263.0
Total Equity		**911.2**	**971.9**

The notes on pages 219 to 260 form part of these financial statements.

The financial statements on pages 214 to 260 were approved and authorised for issue by the Board of Directors on 14 June 2024 and were signed on its behalf by:

S Buck
Chief Financial Officer

Registered office: Peninsula House, Rydon Lane, Exeter, Devon, England EX2 7HR
Registered Number: 02366665

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2024

	Notes	Called up share capital (note 31) £m	Share Premium account (note 33) £m	Retained earnings and other reserves (note 34) £m	Total Equity £m
At 31 March 2022		**295.9**	-	**278.6**	**574.5**
Loss for the year		-	-	(2.3)	(2.3)
Other comprehensive loss for the year		-	-	(1.7)	(1.7)
Total comprehensive loss for the year		-	-	(4.0)	(4.0)
Transactions with owners					
Share capital issue	33	-	413.0	-	413.0
Dividends paid	11	-	-	(12.3)	(12.3)
Watershare+ reserves adjustment				0.3	0.3
Share based payments (net of tax)		-	-	0.4	0.4
Total transactions with owners		-	413.0	(11.6)	401.4
At 31 March 2023		**295.9**	**413.0**	**263.0**	**971.9**
Profit for the year		-	-	2.5	2.5
Other comprehensive loss for the year		-	-	(17.8)	(17.8)
Total comprehensive loss for the year		-	-	(15.3)	(15.3)
Transactions with owners					
Dividends deferred	11	-	-	(45.0)	(45.0)
Share based payments (net of tax)		-	-	(0.4)	(0.4)
Total transactions with owners		-	-	(45.4)	(45.4)
At 31 March 2024		**295.9**	**413.0**	**202.3**	**911.2**

The notes on pages 219 to 260 form part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2024

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Cash generated from operations	35	261.9	271.5
Interest paid		(102.3)	(138.6)
Tax recovered/(paid)		4.2	(0.2)
Net cash generated from operating activities		**163.8**	**132.7**
Cash flows used in investing activities			
Interest received		2.2	0.5
Acquisition of subsidiary		-	5.1
Purchase of property, plant and equipment		(540.6)	(285.5)
Purchase of intangible fixed assets	14	(3.6)	(0.6)
Receipt of grants and contributions		-	5.8
Proceeds from sale of property, plant and equipment		0.7	0.7
Dividend received		4.0	-
Net cash used in investing activities		**(537.3)**	**(274.0)**
Cash flows from financing activities			
Net deposit of restricted funds	23	(3.2)	140.8
Proceeds from new borrowing		441.8	225.0
Repayment of borrowings		(158.7)	(90.4)
Net proceeds from intercompany borrowings		170.0	-
Repayments of intercompany borrowings		(146.3)	(2.8)
Finance lease sale and lease back		64.8	40.2
Finance lease principal repayments		(20.2)	(119.3)
Dividends paid	11	-	(55.3)
Net cash from financing activities		**348.2**	**138.2**
Net decrease in cash and cash equivalents		**(25.3)**	**(3.1)**
Cash and cash equivalents at beginning of the year		24.5	27.6
Cash and cash equivalents at end of the year	23	**(0.8)**	**24.5**

The notes on pages 219 to 260 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

South West Water Limited is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office, the nature of the Company's operations and its principal activities are set out on page 196.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented.

(a) Basis of preparation

These financial statements have been prepared on the historical cost accounting basis (except for fair value items, principally transfers of assets from customers and certain financial instruments as described in accounting policy notes (b), (u) and (n) respectively and in accordance with UK adopted international accounting standards in accordance with the provisions the Companies Act 2006. These financial statements are presented in pounds sterling and all values rounded to the nearest one-hundred thousand pounds, except when otherwise indicated.

A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

The going concern basis has been adopted in preparing these financial statements. At 31 March 2024 the Company has access to undrawn committed funds and cash and cash deposits totalling £321 million, including cash and other short-term deposits of £26 million and £295 million of undrawn facilities. Cash and other short-term deposits include £26 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. Considering this the Company has a headroom of £181 million, including the impact of £163 million of loans and facilities due for maturity or renewal within the going concern period through to 30 June 2025.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's going concern status, to do this the Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 50 to 65, 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 Company's annual budget for FY 2024/25 and longer-term strategic business plan for the remainder of the going concern period to 30 June 2025.

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, regulatory impacts such as the ongoing Ofwat price and tariff review, i.e. PR24, covering the period from April 2025 to March 2030, 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 Company collectively. The combined weighted impact of the risks occurring is c.£68 million, this value is considered equivalent to an extreme one-off event that could occur within a year, 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 Company 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 Company 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 company has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Company. 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.

In addition, we have modelled a reverse engineered scenario that could possibly compromise the Company's solvency over the going concern assessment period. This scenario builds on the factors above and additionally assumes all the Company's principal risks are incurred within the going concern period, with no probability weightings attached. The Board considered the likelihood of the scenario on the Company's solvency over the going concern period, as remote, given this would require all of the principal risks to be incurred at maximum.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation

impact within the same time frame, without implementing controllable mitigations, as noted above, or raising additional funding.

We have considered the Company'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. Subsequent to the year end date, the Company has secured a £150 million private placement, which reflects on the Company's ability to secure finance. Having considered these factors, the Directors have a reasonable expectation that that the Company 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 June 2025, 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 Company will need to invest to protect certain assets such as sewage works and pumping stations against sea level inundation and these considerations form part of the planning process for new capital expenditure. Longer term investment, outlined in the strategic plans, will be needed to manage future risks. To achieve this, combined regulatory and government support within their policy frameworks will be essential. Whilst it is estimated additional spend will be required to manage future risks, the current available information and assessment did not identify any risks that would require the useful economic lives of assets to be reduced in the year or identify the need for impairment that would impact the carrying values of such assets or have any other impact on the financial statements. The impact assessments will be continuously updated to reflect the latest available information on the impact of climate change.

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2023 did not have a material impact on the net assets or results of the Company.

New standards or interpretations due to be adopted from 1 April 2024 are not expected to have a material impact on the Company's net assets or results. Existing borrowing covenants are not impacted by changes in accounting standards.

(b) Exemption from consolidation

The Company is exempt under the provisions of section 400 of the Companies Act 2006 from the requirement to produce group financial statements as it is a wholly-owned subsidiary of Pennon Group plc which is registered within the United Kingdom and which itself produces consolidated financial statements. Accordingly consolidated financial statements have not been prepared and the financial information presented is for the Company as an individual undertaking. Group financial statements are included in the Annual Report of Pennon Group plc which is available from Peninsula House, Rydon Lane, Exeter, EX2 7HR.

(c) Revenue recognition

Revenue is recognised following delivery of performance obligation and an assessment of when control over the product or service is transferred to the customer. Revenue is only recognised when collection of consideration is highly probable.

Revenue is recognised either when the performance obligation in the contract has been performed (point in time recognition) or 'over time' as the performance obligations to the customer are satisfied. For each obligation satisfied over time, the Company applies a revenue recognition method that accurately reflects performance in transferring control of the services to the customer.

Where a contract with a customer includes more than one performance obligation, revenue is allocated to each obligation in proportion to a fair value assessment of the total contract sales value split across the services provided.

At the inception of a contract, the total transaction price is estimated, being the fair value to which the Company expects to be entitled under the contract, including any variable consideration. Variable consideration is based on the most likely outcome of the performance obligations.

Revenue excludes value added tax and trade discounts.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition (continued)

For most of the services provided to domestic customers, contract terms are implied through statute and regulation in the absence of formal, written contracts. South West Water has a duty under legislation to provide domestic customers with services regardless of payment and is not permitted to disconnect domestic customers for non-payment of bills. Charges are set via the periodic review price-setting process, regulated by Ofwat.

In respect of ongoing, continuous services to customers, such as the provision of drinking water and wastewater services, revenue is recognised over time.

Customers with an unmeasured supply are billed at the start of the year for the full amount of the annual charge but typically take advantage of a choice of payment arrangements to pay by regular instalments. The performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue is recognised under IFRS15 as the stand-ready obligation is fulfilled over time.

Customers with a metered supply are sent up to four bills per year, based either on actual meter readings or estimated usage. For these customers, revenue includes an estimation of the amount of unbilled usage at the period end. Payment options for domestic customers include an annual meter payment plan where customers agree to pay a fixed amount per month which is adjusted to reflect actual consumption at the end of the year. Revenue is recognised as water is supplied, based on estimate usage for unbilled elements.

A range of regulated services is offered to property developers and owners who require connection to the water and sewerage networks or need the networks to be extended or altered. Typically, these customers pay an estimate of the charges in advance as a deposit, which is treated as a contract liability and are billed or refunded the difference between the estimate and actual costs on completion of the work.

The principle components of these contributions are as follows:

i. Where the performance obligation relates solely to a connection to the network, revenue is recognised at the point of connection when the customer is deemed to have obtained control
ii. Where assets are constructed or provided by the Company or assets transferred to the Company, it is considered that there is an explicit or implied performance obligation to provide an ongoing water and/or wastewater service, with the result that revenue is recognised over time no longer that the economic life of assets provided by or transferred to the Company.

Contract assets and liabilities

A trade receivable is recognised when the Company has an unconditional right to receive consideration in exchange for performance obligations already fulfilled. A contract asset is recognised when the Company has fulfilled some of its performance obligations but has not yet obtained an unconditional right to receive consideration. The amounts of contract assets, when applicable, are disclosed within note 21 (Trade and other receivables - current) as appropriate. A contract liability is recognised when consideration is received in advance of the Company performing its performance obligations to customers, including, when appropriate, transfers of assets from customers (per paragraph (u) below). The value of contract liabilities is disclosed within note 24 (Trade and other payables - current) and note 26 (Other non-current liabilities) as appropriate.

(d) Segmental reporting

The Directors believe that the whole of the Company's activities constitute one single segment. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Board of Directors.

The Company's country of domicile is the United Kingdom and is the country in which it generates all of its revenue. The Company's non-current assets are all located within the United Kingdom.

In accordance with IFRS 15, revenue has been disaggregated based on the services of supplying clean water, removal and treatment of wastewater and retail and other services. Further details are contained in note 5.

(e) Goodwill

Goodwill arising on consolidation from the acquisition of subsidiary undertakings represents the excess of the purchase consideration over the fair value of net assets acquired, less any subsequent impairment charges.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs) or group of

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill (continued)

CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (i).

When a subsidiary undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of goodwill.

(f) Other intangible assets

Other intangible assets include capitalised software development costs. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful lives, with the expense charged to the income statement through operating costs.

(g) Property, plant and equipment

i) Infrastructure assets (being water mains, sewers, impounding and pumped raw storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS and subsequent additions are recorded at cost less accumulated depreciation and impairment charges. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured and it is probable that incremental future economic benefits will flow to the Company. The cost of day to day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their estimated useful economic lives and are principally:

Dams and impounding reservoirs	100 - 200 years
Water mains	60 - 180 years
Sewers	75 - 150 years

Assets in the course of construction are not depreciated until commissioned.

ii) Other assets (being property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated useful economic lives to their residual value and are principally:

Land and buildings - freehold buildings	10 - 80 years
Land and buildings - leasehold buildings	Over the estimated useful life or the lease period, whichever is shorter
Operational properties	15 - 100 years
Fixed plant	10 - 30 years
Vehicles, mobile plant and computers	4 - 20 years

Assets in the course of construction are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. Assets transferred from customers are recognised at fair value as set out in accounting policy (u).

The assets residual value and useful lives are reviewed annually.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognised within the income statement.

(h) Leased assets

All are accounted for by recognising a right-of use-asset and a lease liability except for:

- Low value assets; and
- Leases with a duration of 12 months or less.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Leased assets (continued)

Contracts are initially measured at the present value of contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. After initial measurement, lease payments are allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The interest element of cash payments in respect of these leases is included within interest payments in determining net cash generated from operating activities. The capital element of the cash payment is included within cash flows from financing activities. Right-of-use assets are amortised on a straight line basis over the remaining term of the lease or the remaining economic life of the asset if shorter. When the Company revisits its estimate of lease term (because, for example, it reassesses an extension option), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which is discounted at the same discount rate that applied on lease commencement. In these circumstances an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

Assets are included as property, plant and equipment as right-of-use assets at the present value of the minimum lease payments and are depreciated over their estimated economic lives or the lease period, whichever is the shorter. The corresponding liability is recorded as borrowings. The interest element of the rental costs is charged against profits using the actuarial method over the period of the lease.

The Company regularly uses sale and lease back transactions to finance its capital programme. A sale and leaseback transaction is where the Company sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. Each transaction is assessed as to whether it meets the criteria within IFRS 15 'Revenue from contracts with customers' for a sale to have occurred. If the sale criteria are met, a lease liability is recognised, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the right retained. Any gain or loss arising relates to the rights transferred to the buyer. If the criteria for a sale under IFRS 15 have not been met the asset is not derecognised and no sale is recorded.

(i) Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Assets subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Value-in-use represents the present value of projected future cash flows expected to be derived from a CGU, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the CGU. Impairments are charged to the income statement in the year in which they arise.

Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Where a previously impairs asset or CGU's recoverable amount is in excess of its carrying amount, previous impairments are reversed to the carrying value that would have expected to be recognised had the original impairment not occurred.

(j) Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment which provide the customer with ongoing access to the water and sewerage networks, are treated as contract liabilities and released to revenue over the economic life of those elements of property, plant and equipment. Grants and contributions receivable in respect of expenses charged against profits in the year have been included in the income statement.

Government grants are recognised where there is reasonable certainty that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. The income from such grants is presented in the financial statements as a deduction from the expense to which it relates.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Investment in subsidiary undertakings

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid. Subsequently, investments are reviewed for impairment on an individual basis annually or if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress includes raw materials and the cost of bringing stocks to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price less cost to sell. The costs of items of inventory are determined using weighted average costs.

(m) Cash and cash deposits

Cash and cash deposits comprise cash in hand and short-term deposits held at banks. Bank overdrafts are offset against cash balances where there is a legally enforceable right to offset and there is an intention to settle the balances on a net basis. Otherwise, overdrafts are included within current borrowings.

(n) Financial instruments

Financial instruments are recognised and measured in accordance with IFRS 9. The Company classifies its financial instruments in the following categories:

i) Debt instruments at amortised cost

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through amortisation.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for expected credit losses (ECLs). In accordance IFRS 9, the Company performs an impairment analysis at each reporting date to measure the ECLs. The Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

iii) Trade payables

Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method**.**

iv) Receivables due from fellow subsidiary undertakings

Amounts owed by fellow subsidiaries are classified and recorded at amortised cost and reduced by allowances for ECLs. Estimated future credit losses are first recorded on initial recognition of a receivable and are based on estimated probability of default. Individual balances are written off when management deems them not to be collectible.

v) Derivative financial instruments and hedging activities

The Company uses derivative financial instruments, principally interest rate swaps, cross-currency interest rate swaps and inflation swaps to hedge risks associated with interest rate and exchange rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value for the reported balance sheet.

The Company designates certain hedging derivatives as either:

- a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge); or
- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Financial instruments (continued)

The gain or loss on re-measurement is taken to the income statement except for cash flow hedges which meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are subsequently recognised in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

In order to qualify for hedge accounting, the Company is required to document in advance the relationship between the item being hedged and the hedging instrument. The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at the end of each reporting period to ensure that the hedge remains highly effective.

The full fair value of a hedging derivative is apportioned on a straight-line basis between non-current and current assets or liabilities based on the remaining maturity of the hedging derivative.

Derivative financial instruments deemed held for trading which do not qualify for hedge accounting are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

The Company uses cross-currency swaps for some of its foreign currency denominated private placement borrowings. The swaps either have the effect of (i) converting variable rate foreign currency borrowings into fixed rate sterling borrowings, (ii) converting fixed rate foreign currency borrowings into fixed rate sterling borrowings, or (iii) converting fixed rate foreign currency borrowings into floating rate sterling borrowings.

(o) Taxation including deferred tax

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity as appropriate.

Current tax is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the position is uncertain. The Company is part of the Pennon Group for tax purposes and accordingly may use the tax group relief provisions whereby current tax liabilities can be offset by current tax losses arising within the same tax group. Payments for group relief are included within the current tax disclosures.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date, and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

The Organisation for Economic Co-operation and Development (OECD)/G20 inclusive Framework on Base Erosion and Profit Shifting published the Pillar Two model rules designed to address the tax challenges arising from the digitalisation of the global economy.

It is unclear if the Pillar Two rules created additional temporary difference, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred tax. In response to this uncertainty, the IASB on 23 May 2023 introduced a mandatory temporary exception to the requirements of IAS12 under which a company does not recognise or disclose information about deferred tax assets and labilities relating to the proposed Pillar Two model rules. The Company applied the temporary exception at 31 March 2024.

Pillar Two legislation has been enacted in the UK which is the only jurisdiction in which the Company operates. The legislation will be effective for the Company’s financial year beginning 1 April 2024. The Company has performed an assessment of the Company’s potential exposure to Pillar two income taxes.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Taxation including deferred tax

This assessment is based on the most recent tax filings, country-by-country reporting and financial statements of the Company. Based on the assessment performed, the Pillar Two effective tax rates in all jurisdictions in which the Company operates are above 15% and management is not currently aware of any circumstances under which this might change. Therefore, the Company does not expect a potential exposure to Pillar Two top-up taxes.

(p) Provisions

Provisions are made where there is a present legal or constructive obligation as a result of a past event and it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made. Where the effect of the time value of money is material, the current amount of a provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as notional interest within finance costs.

(q) Contingent liabilities

The Company is subject to litigation from time to time as a result of its activities. The Company establishes provisions in connection with 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.

There are contingent liabilities that arise in the normal course of business which, if realised, are not expected to result in a material liability to the Company.

(r) Dividend distributions

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholder. Interim dividends are recognised when paid; final dividends when approved by the shareholder at the Annual General Meeting.

(s) Employee benefits

i) Retirement benefit obligations

The Company operates defined benefit and defined contribution pension schemes through its parent company.

Defined benefit pension schemes

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the year less the fair value of plan assets. If the value of the plans assets exceeds the present value of its obligations, the resulting surplus is only realised if the Company has an unconditional right to that surplus.

The defined benefit obligation is calculated by independent actuaries who advise on the selection of Directors' best estimates of assumptions, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation. The increase in liabilities of the Company's defined benefit pension schemes, expected to arise from employee service in the year, is charged against operating profit.

Changes in benefits granted by the employer are recognised immediately as past service cost in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period to which they arise.

Defined contribution scheme

Costs of the defined contribution pension scheme are charged to the income statement in the year in which they arise. The Company has no further payment obligations once the contributions have been paid.

ii) Share-based payment

The Company participates in a number of equity-settled share-based payment plans for employees operated by its parent company Pennon Group plc. The fair value of the employee services acquired in exchange for the grant is recognised as an expense over the vesting period of the grant.

Fair values are calculated using an appropriate pricing model. Non market-based vesting conditions are adjusted for in assumptions as to the number of shares which are expected to vest.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(t) Fair values

The fair value of the interest rate, inflation and cross currency swaps is based on the market price to transfer the asset or liability at the balance sheet date in an ordinary transaction between market participants. The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of non-current bank loans and other loans, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

(u) Transfers of assets from customers

Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised as a contract liability on the balance sheet. The contract liability reduces and revenue is recognised in the income statement as the performance obligations are satisfied. The period over which the credit is recognised depends upon the nature of the service provided, as determined by the agreement with the customer. Where the service provided is solely a connection to the network, the credit is recognised at the point of connection. If the agreement does not specify a period, revenue is recognised over a period no longer than the economic life of the transferred asset used to provide the ongoing service.

The fair value of assets on transfer from customers is determined using a cost valuation approach allowing for depreciation.

(v) Non-underlying items

Non-underlying items are those that in the Directors' view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Company's financial performance.

(w) Foreign exchange

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the closing balance sheet rate. The resulting gain or loss is recognised in the income statement.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Company's activities expose it to a variety of financial risks; liquidity risk; market risk (interest rate and foreign currency risk), credit risk and inflation risk.

The Company receives treasury services from the treasury function of Pennon Group plc, the parent company, which seeks to ensure that sufficient funding is available to meet foreseeable needs and to maintain reasonable headroom for contingencies and manages inflation and interest rate risk.

The principal financial risks faced by the Company relate to liquidity, interest rate and credit counterparty risk.

These risks and treasury operations are managed by the Group Chief Financial Officer in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance, manage risk, optimise the use of surplus funds and manage overall interest rate performance. The Company does not engage in speculative activity.

i) Liquidity risk

The Company actively maintains a mixture of long-term and short-term committed facilities which are designed to ensure the Company has sufficient available funds for operations and planned expansions equivalent to at least one year's forecast requirements at all times. Details of undrawn committed facilities and short-term uncommitted facilities are provided in note 25.

Refinancing risk is managed under a Company policy that requires that no more than 20% of Company net borrowings should mature in any financial year.

The Company has entered into covenants with lenders. While terms vary, these typically provide for limits on gearing (primarily based on the water business's regulatory capital value and EBITDA) and interest cover. Existing covenants are not impacted by subsequent changes to accounting standards.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

Contractual undiscounted cash flows including interest payments, at the balance sheet date were:

31 March 2024	**Due within 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 5 years £m**	**Over 5 years £m**	**Total £m**
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	208.3	107.7	246.6	1,716.2	2,278.8
Interest payments on borrowings	84.3	76.4	213.0	767.4	1,141.1
Lease liabilities including interest	89.8	153.6	215.5	1,192.6	1,651.5
Trade and other payables	286.7	-	-	-	286.7
Derivative financial liabilities					
Derivative contracts – net payments/(receipts)	(19.1)	(6.5)	(9.3)	(3.8)	(38.7)

31 March 2023	**Due within 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 5 years £m**	**Over 5 years £m**	**Total £m**
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	313.4	57.3	222.6	1,479.1	2,072.4
Interest payments on borrowings	76.5	73.0	188.9	733.4	1,071.8
Lease liabilities including interest	70.9	88.6	282.1	1,243.7	1,685.3
Trade and other payables	202.9	-	-	-	202.9
Derivative financial liabilities					
Derivative contracts – net payments/(receipts)	(0.8)	(4.6)	(0.6)	0.3	(5.7)

ii) Market risk

The treasury policy states at least 60% of the Company's debt should be fixed, this is managed through fixed rate debt and the use of derivatives to ensure these levels are met. Of the Company's net borrowings a proportion is RPI index-linked. The interest rate for index-linked debt is based mainly upon an RPI measure; due to current Ofwat methodology the Company has considered other borrowings linked to other indices, which are also used in determining the amount of revenue from customers. The Company uses a combination of fixed rate, index-linked borrowings and fixed rate interest swaps as cash flow hedges of future variable interest payments to achieve this policy. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not therefore an exposure for the Company. These instruments are analysed in note 22.

The Company has no significant interest-bearing assets upon which the net return fluctuates from market risk. Deposit interest receivable is expected to fluctuate in line with interest payable on floating rate borrowings. Consequently the Company's income and cash generated from operations (note 35) are independent of changes in market interest rates.

For 2024 if interest rates on variable net borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £7.4 million (2023 £4.6 million), for the equity sensitivity fair value, with derivative impacts excluded. This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the range of expected volatility is within the range of 0%-2%.

For 2023 if the indices on index-linked borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £4.8 million (2022 £4.3 million). This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the range of expected volatility is within the range of 0%-2%.

Foreign currency risk occurs at transactional and translation level from borrowings and transactions in foreign currencies. These risks are managed through forward contracts, which provide certainty over foreign currency risk.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk factors (continued)

iii) Credit risk

Credit counterparty risk arises from cash and cash deposits, derivative financial instruments and exposure to customers, including outstanding receivables. Further information on the credit risk relating to trade and other receivables is given in note 21.

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. The Board has agreed a policy for managing such risk, which is controlled through credit limits, counterparty approvals, and rigorous monitoring procedures.

The Company has no other significant concentration of credit risk. The Company's surplus funds are managed by the Company's treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet a Board approved minimum criteria based on their short-term credit rating and therefore be of good credit quality.

iv) Inflation risk

Market inflation has caused inflationary pressures across the Company, the Company has index linked facilities which are predominately Retail Price Index (RPI) linked.

Inflation risk arises if the indexes increase meaning the Company will either be paying or accreting the inflation, this could put pressure on the gearing or interest cover ratios.

Inflation risk is mitigated through the index linked nature of our revenues and RCV calculations.

(b) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

The Company's policy is to have a minimum of 12 months pre-funding of projected capital expenditure. At 31 March 2024 the Company had cash and facilities, including restricted funds, of £321 million (2023 £196 million), meeting this objective.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings are analysed in note 36 and is calculated as total borrowings less cash and cash deposits. Total capital is calculated as equity plus net borrowings. The Company currently manages a net debt position of £3,369.3 million (2023 £3,091.3 million).

The gearing ratios at the balance sheet date were:

	Note	2024 £m	2023 £m
Net borrowings	36	3,369.3	3,091.3
Total equity		911.2	971.9
Total capital		**4,280.5**	**4,063.2**
Gearing Ratio		**78.7%**	**76.1%**

Consistent with the industry peer group, the Company is also monitored on the basis of the ratio of its net borrowings to Regulated Capital Value (RCV). South West Water's net debt to RCV has increased to 65.0% which is higher than Ofwat's notional gearing target for the K7 (2020-25) regulatory period is set at 60.0%. This is due to increased capital expenditure and reduced operating cashflows.

	Note	2024 £m	2023 £m
Shadow Regulatory Capital Value		5,186.4	4,715.9
Company net borrowings	36	3,369.3	3,091.3
Loan from Bristol Water plc	25	-	(171.1)
Net borrowings		3,369.3	2,920.2
Net borrowings / Regulatory Capital Value		**65.0%**	**61.9%**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Capital risk management (continued)

The Company uses Shadow RCV as it provides a current view of the gearing position. The acquisition and statutory transfer of Bristol Water plc by the Company on 1st February 2023 created an intercompany loan, this was excluded from the prior year calculation. The value of the loan at 31 March 2024 is £26.6 million (31 March 2023: £171.1 million).

The Company has entered into covenants with lenders and, whilst terms vary, these typically provide for limits on gearing and interest cover. The Company has been in compliance with its covenants during the year.

When considering the South West Water sub-group, including the wholly owned subsidiaries of South West Water Finance plc and Bristol Water plc, the net borrowings are £3,294.7m, providing effective South West Water group gearing of 63.5%.

(c) Determination of fair values

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Company's financial instruments are valued principally using level 2 measures as analysed in note 22.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value, less expected credit losses, of trade receivables and payables are assumed to approximate their fair values

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However, given the judgemental nature of such estimates, actual results could be different from the assumptions used.

Estimates

Provision for doubtful debts

The Company has a material level of exposure to collection of trade receivables. Provisions in respect of these balances are calculated based on assumptions of historical credit loss experience, adjusted for forward-looking factors which by their nature are subject to uncertainty. Analysis of actual recovery compared with provisioning levels have not, to date, resulted in material variances.

Under its regular review procedures, at the balance sheet date, the Company applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables and contract assets. Therefore, the Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. South West Water has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment. The Company policy is to write-off trade receivables where the expectation of recovery is considered highly unlikely.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2024 the Company's current trade receivables were £288.3 million (2023: £252.0 million), against which £102.8 million (2023: £104.0 million) had been provided for ECLs (note 21). Whilst the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently the charge or credit to the Income Statement. In determining the allowance for ECLs a provisioning matrix is applied to the debt of customers in Devon, Cornwall and

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Bournemouth, as set out in note 21. An increase/decrease in the provision rates for current occupiers of 1% would lead to an increase/decrease in the level of provision by £1.4 million.

Retirement benefit obligations

The Company operates defined benefit pension schemes, through its parent company, for which actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The most recent triennial valuation of the main scheme was as at 31 March 2022, the outcome of which is summarised in note 27.

The pension cost and liabilities under IAS 19 are assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on CMI 2019 actuarial tables with an allowance for future longevity improvement. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in those assumptions and future funding obligations are set out in note 27.

Judgements

Non-underlying items

In establishing which items are disclosed separately as non-underlying, to enable a full understanding of the Company's financial performance, the Directors exercise their judgement in assessing the size, nature or incidence of specific items. See note 7 for further details.

Goodwill allocation

The Company's operations compromise the regions of South West Water, Bournemouth Water and Bristol Water. The Company operates under one management structure with functional integration across the operating segment generating the synergies of the combination. The recoverable amount is the higher of fair value, less costs to sell, and the value-in-use. Value-in-use represents the present value of projected future cash flows expected to be derived from the Company, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the Company. Impairments are charged to the income statement in the year which they arise.

Other estimates

Revenue recognition

Management assessed and resolved that the level of estimation for revenue recognition of accrued revenue relating to water and wastewater should not be considered critical as the estimates are largely calculated on a systematic basis and have not, to date, resulted in a material adjustment within the following 12-month period. However, management consider the total level of estimation of accrued revenue relating to water and wastewater to be material and highlight this as a material other estimate.

Capitalisation and determination of useful economic lives of property, plant and equipment

The property, plant and equipment of the Company relates primarily to infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls) as well as other assets which include fixed plant and operational properties. The useful economic lives of these types of asset vary from 10 to 200 years. Asset lives are reviewed annually and amended where changes are made to assumptions relating to the expected life of the asset from judgement around usage and performance experience, technological advancement and other relevant factors. Overall assessments on the impact of climate change on long life assets have been completed and will be continuously updated for the latest available information. The most recent assessment of the impact on climate change, which includes the potential to mitigate adverse impacts, has not identified any specific impact on the useful economic lives of long life assets. Environmental factors and climate change form part of the planning process for new capital expenditure. The depreciation charge is sensitive to amendments of the useful economic lives of these assets, a significant change in the estimated life of these assets could have a material impact on depreciation, this is therefore noted as a material other estimate.

5. REVENUE

Revenue has been disaggregated based on the services of supplying clean water, removal and treatment of wastewater and other services.

	2024 £m	2023 £m
Water	413.1	265.3
Wastewater	278.0	250.1
Other services	40.2	51.0
Total	**731.3**	**566.4**

6. OTHER OPERATING INCOME

During the year, the Company received dividends of £148.3 million. A dividend in specie of £143.0 million was received from Bristol Water Plc and a dividend of £5.3 million was received from Peninsula Properties (Exeter) Limited, of which £4.0m was received in cash. The net assets of Pennon Properties (Exeter) Limited were written down to £nil, accordingly the investment in that company was reduced to £nil. The investment held in Bristol Water plc was reduced by the value of the dividend received.

7. NON-UNDERLYING ITEMS

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable full understanding of the Company's financial performance in the year and business trends over time. The presentation of results is consistent with internal performance monitoring.

	Note	2024 £m	2023 £m
Revenue			
Watershare+[1]		-	13.6
Drought incentive[2]		-	7.6
Operating Costs			
Transformation[3]		13.8	**-**
Drought costs[2]		1.8	9.4
Watershare+[1]		-	1.0
Earnings before interest, tax, depreciation and amortisation		**15.6**	**31.6**
Current tax credit arising on non-underlying items[4]	10	-	(2.7)
Deferred tax credit arising on non-underlying items[5]	10	(3.9)	(3.2)
Deferred tax change in rate[6]	10	-	(1.0)
Net non-underlying charge		**11.7**	**24.7**

1. In September 2020, the Company offered its WaterShare+ scheme to its customers whereby customers could choose to accept a credit on their bill or take shares in Pennon Group plc. The scheme operated again in the year ended 31 March 2023. The value of the rebate equates to £13 per customer and the total value of £13.6 million has been recognised in full as a non-underlying reduction to revenue in the year. £13.3 million of the WaterShare+ credits were taken as credits on customers' bills, with the balance of £0.3 million being taken as shares in Pennon Group Plc. This item is non-underlying in nature given its individual size and its non-recurring nature. Additional costs of £1.0m were incurred in relation to the offering.

2. 2022 was one of the driest and hottest years on record. Elevated demand on the South West Water region from increased tourism and the hot, dry weather led to an approximate 15% increase in distribution input in the year against the expected level from 2017 included in the drought plan. The combination of these individually extreme factors led to extremely low water storage levels in the Colliford Water Resource Zone, with the main supply of Colliford reservoir falling to around 14% capacity in October. A drought was declared by the Environment Agency in Devon and Cornwall in August 2022. In order to react to the drought and water shortage, South West Water invoked a series of emergency measures and one-off expenditure to ensure the region could be supplied with water over the summer and continuing into 2023. Due to the exceptional combination of these events and significance of the emergency actions, certain costs have been classified as non-underlying given their size, nature and non-recurring incidence. The costs directly addressing these exceptional circumstances include charges for drought permits, water tankering and other water saving measures. In November 2022, South West Water asked households in Cornwall to reduce

water usage as part of the ‘Stop the Drop’ campaign to increase reservoir levels. Household customers were offered a £30 bill credit if Colliford reservoir reached 30% storage capacity by 31 December 2022 from a low level of around 14%. In December 2022 the company announced that the water level in Colliford reservoir reached 30% and as a result all household customers in Cornwall received a £30 credit on their bill. This one-off incentive was provided as part of the response to the drought conditions in the Cornwall area in order to further prompt customers to reduce water usage. The total value of the bill credits amounted to £7.6 million.

3. £13.8 million of costs were in connection with the business transformation of South West Water following the merger of Bristol Water into South West Water, £0.6 million of which were employment costs. These implementation 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. The programme is still ongoing with further costs of c.£8.0 million are expected to be incurred in the year ended 31 March 2025.

4. The prior year tax credit arising on non-underlying items reflects a £2.7 million current tax credit in respect of losses which will be carried back against prior year taxable profits.

5. The net tax credit arising on non-underlying items, relates to a deferred tax credit in respect of tax losses carried forwards, generated by business transformation costs and drought costs.

6. Following the Chancellor's Budget on 4 March 2021 and subsequent substantial enactment of the Finance Act on 24 May 2021, the UK's main rate of corporation tax increased to 25% from 1 April 2023. All deferred tax assets and liabilities were therefore reviewed and where they will crystallise after 1 April 2023 were recalculated to crystallise at 25%. This charge is considered non-underlying due to it arising from a material legislative change and its treatment is consistent with that applied in relation to previous changes in corporation tax rates. A £1.0 million deferred tax credit in respect of rate change arose in the year ended 31 March 2023, in respect of tax losses carried forwards which will be relieved at 25%.

8. OPERATING COSTS BEFORE NON-UNDERLYING ITEMS

	Note	2024 £m	2023 £m
Employment costs before non-underlying items	12	82.2	63.2
Raw materials and consumables		35.8	29.1
Other operating expenses include			
Profit on disposal of property, plant and equipment		(0.5)	(0.5)
Operating lease rentals payable:			
Short term/low value asset lease expense		3.0	5.2
Government grant receivable		-	(18.6)
Research and development expenditure		0.6	0.8
Trade receivables impairment	21	6.3	3.6
Depreciation of property, plant and equipment:			
Owned assets		125.0	91.9
Under leases		34.3	32.6
Amortisation of other intangible assets		3.1	0.5
		162.4	125.0

During the prior year, the Company received financial support from the UK Government’s Energy Relief Bill Scheme totalling £18.6 million.

Fees payable to the Company’s auditor’s in the year were:

	2024 £000	2023 £000
Fees payable to the Company’s auditors and its associates for the audit of the financial statements	593	536
Fees payable to the Company's auditors and its associates for other services:		
Audit related assurance	68	64
All other services	64	57
Total fees	**725**	**657**

8. OPERATING COSTS BEFORE NON-UNDERLYING ITEMS (CONTINUED)
Expenses reimbursed to the auditors in relation to the audit of the Company were £nil (2022/23: £nil).

A description of the work of the Audit Committee is set out in its report on page 156 to 166 which includes an explanation of how the auditor's objectivity and independence are safeguarded when non-audit services are provided by the auditor's firm.

9. NET FINANCE COSTS

	2024 Finance cost £m	2024 Finance income £m	2024 Total £m	2023 Finance cost £m	2023 Finance income £m	2023 Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	(79.9)	-	(79.9)	(23.6)	-	(23.6)
Interest element of finance lease rentals	(42.9)	-	(42.9)	(29.4)	-	(29.4)
Interest element of operating lease rentals	(1.1)	-	(1.1)	(1.4)	-	(1.4)
Other finance costs	(2.6)	-	(2.6)	(2.1)	-	(2.1)
Interest receivable	-	2.5	2.5	-	1.2	1.2
Intercompany interest to subsidiaries	(31.8)	-	(31.8)	(57.0)	-	(57.0)
Working capital adjustment	**(158.3)**	**2.5**	**(155.8)**	**(113.5)**	**1.2**	**(112.3)**
Notional interest						
Retirement benefit obligations (note 27)	-	0.8	0.8	-	1.3	1.3
Finance (costs)/income	**(158.3)**	**3.3**	**(155.0)**	**(113.5)**	**2.5**	**(111.0)**

In addition to the above, finance costs of £14.1 million (2023: £4.0 million) have been capitalised on qualifying assets included in property, plant and equipment at an average borrowing rate of 6.4% (2023: 5.1%).

10. TAXATION

	Before non-underlying items 2024 £m	Non-underlying items (note 7) 2024 £m	Total 2024 £m	Before non-underlying items 2023 £m	Non-underlying items (note 7) 2023 £m	Total 2023 £m
Analysis of (credit)/charge in year						
Current year tax credit	(0.7)	-	(0.7)	(2.7)	(2.7)	(5.4)
Deferred tax charge/(credit)	4.3	(3.9)	0.4	2.1	(3.2)	(1.1)
Deferred tax arising on change of rate of corporation tax	-	-	-	(1.1)	(1.0)	(2.1)
Total deferred tax charge/(credit)	4.3	(3.9)	0.4	1.0	(4.2)	(3.2)
Tax charge/(credit) for year	**3.6**	**(3.9)**	**(0.3)**	**(1.7)**	**(6.9)**	**(8.6)**

UK Corporation tax is calculated at 25% (2022/23: 19%) of the estimated assessable profit for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £nil (2022/23: £2.7 million credit) and a prior year deferred tax credit of £0.7 million (2022/23: £2.4 million charge).

These items arise following the recording of the routine return to provision adjustments following the submission of the tax computations for the year ended 31 March 2023 to HMRC ahead of the 31 March 2024 filing deadline.

10. TAXATION (CONTINUED)

The tax for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 25% (2022/23: 19%). The differences are explained below:

Reconciliation of total tax credit	**2024 £m**	**2023 £m**
Profit/(loss) before tax	2.2	(10.9)
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 25% (2022/23: 19%)	0.5	(2.1)
Effects of:		
Expenses not deductible for tax purposes	0.1	0.3
Change in rate of corporation tax	-	(2.1)
Adjustments to tax charge in respect of prior years	(0.7)	(0.3)
Depreciation charged on non-qualifying assets	0.9	0.6
Non-deductible loss on impairment of subsidiary	36.6	-
Dividends receivable not taxable	(37.1)	-
Other	(0.6)	(5.0)
Tax credit for year	**(0.3)**	**(8.6)**

Reconciliation of current tax credit	**2024 £m**	**2023 £m**
Profit/(loss) before tax	2.2	(10.9)
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 25% (2022/23: 19%)	0.5	(2.1)
Effects of:		
Relief for capital allowances in place of depreciation	(37.2)	(34.4)
Disallowance of depreciation charged in the accounts	35.7	21.5
Expenses not deductible for tax purposes	0.1	0.3
Adjustments to tax charge in respect of prior years	-	(2.7)
Depreciation charged on non-qualifying assets	0.9	0.6
Relief for capitalised interest	(3.5)	(0.7)
Losses carried forward	3.8	13.8
Non-deductible loss on impairment of subsidiary	36.6	-
Dividends receivable not taxable	(37.1)	-
Other timing differences	(0.5)	(1.7)
Current Tax credit	**(0.7)**	**(5.4)**

South West Water's current tax credit is higher than the UK headline rate of 25% for a variety of different reasons as explained below. Capital allowances provide tax relief when a business incurs expenditure on qualifying capital items such as plant and machinery used by the business. As an infrastructure business, these allowances help the Company to plan major investment and consequentially to maintain lower customer bills, as corporation tax relief is given against the investments made.

The Company benefits from the 100% full expensing and 50% enhanced allowances in respect of qualifying spend after 1 April 2023. The Company incurs significant capital expenditure each year as it maintains and enhances it assets for the benefit of its customers, communities and the environment.

Expenses not deductible is made up of share-based payments, entertaining and sundry disallowables.

Other differences relate to the timing of relief for items including pensions, general provisions and financial derivatives. The reduction in the year relates mainly to additional pension contributions made to fund deficits in the scheme on which tax relief arises in the year.

Adjustments to the tax charge in respect of prior year arise from the return to provision adjustments booked having completed and submitted the corporation tax returns for the year ended 31 March 2023 in March 2024. This is a routine item with any adjustments reflected in the following years tax charge.

10. TAXATION (CONTINUED)

Depreciation charged on non-qualifying assets generates a permanent adjustment which increases the tax charge. Non-qualifying assets are those which do not qualify for writing down tax allowances including certain fixed assets typically in relation to structures and premises.

Tax losses generated in the year and carried forward generate a deferred tax rather than current tax credit, hence the adjustment to current tax. When utilised, the adjustment will be reflected through a movement from deferred to current tax.

Dividends receivable are not taxable in accordance with UK tax legislation as they qualify for exemption.

The loss on disposal of subsidiaries is non-taxable in accordance with UK tax legalisation.

Immediate tax relief is available in respect of capitalised interest and foreign exchange gains/losses.

In addition to the amounts recognised in the income statement the following tax charges and credits were also recognised:

	2024 £m	2023 £m
Amounts recognised directly in other comprehensive income		
Deferred tax credit on defined benefit pension schemes	(1.9)	(7.9)
Deferred tax (credit)/charge on cash flow hedges	(4.1)	7.3
Amounts recognised directly in equity		
Deferred tax charge on share-based payments	0.1	0.3

Factors affecting future tax charges

The Chancellor announced in the November 2023 Autumn statement, that full expensing will be retained permanently in respect of plant and machinery assets. The 50% first year allowance in relation to special rate assets will also be made permanent. The company therefore anticipates generating tax losses in future.

Pillar Two legislation has been enacted in the UK which is the only jurisdiction in which the Company operates. The legislation will be effective for the Company's financial year beginning 1 April 2024. The Company has performed an assessment of the Company's potential exposure to Pillar two income taxes.

This assessment is based on the most recent tax filings, country-by-country reporting and financial statements of the constituent entities in the Company. Based on the assessment performed, the Pillar Two effective tax rates in all jurisdictions in which the Company operates are above 15% and management is not currently aware of any circumstances under which this might change. Therefore, the Company does not expect a potential exposure to Pillar Two top-up taxes.

11. DIVIDENDS

	2024 £m	2023 £m
Amounts recognised as distributions to equity holders in the year:		
Base dividend of 4.1p per ordinary share in respect of 2022/23 paid 31 March 2023	-	12.0
Watershare+ dividend	-	0.3
Declared and approved:		
Declared dividend of 15.2p per ordinary share in respect of 2023/24	45.0	-
	45.0	**12.3**

Dividends of £nil were paid to the parent undertaking (2022/23: £12.3 million). A dividend of £45.0 million was approved by the Board and a liability has been recognised as a transaction with owners during the year ended 31 March 2024. This is to be deferred and paid in 2024/25.

12. EMPLOYMENT COSTS

The average number of persons (including Executive Directors) employed by the Company was 2,761 (2023: 1,886).

	Note	2024 £m	2023 £m
Wages and salaries		108.7	72.0
Social security costs		11.2	7.6
Pension costs	27	11.6	6.5
Share-based payments		(0.3)	0.6
Total employment costs		**131.2**	**86.7**
Charged as follows:			
Employee costs		82.2	63.2
Capital schemes		47.8	22.9
Employment costs (non-underlying items)	7	0.6	-
Research and development		0.6	0.6
Total employment costs		**131.2**	**86.7**

Details of Directors' emoluments are set out in note 13. There are no personnel other than Directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the Company. Members of other executive committees assist the Directors in their duties but do not hold authority to control the activities of the Company.

13. DIRECTORS' EMOLUMENTS

	2024 £000	2023 £000
Executive Directors:		
Salary	901	429
Performance-related bonus paid or payable	-	4
Share-based payments	542	380
Other emoluments, including payments in lieu of pension provision	121	63
Non-Executive Directors (including Chair)	454	309
Total emoluments	**2,018**	**1,185**

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) and share interests is shown in the Annual Report on Remuneration on pages 176 to 195. This report also details arrangements with Pennon Group plc for the payment and recharging of emoluments relating to Directors who serve as Directors of both Pennon Group and South West Water. The cost of share-based payments represents the amount charged to the income statement, as described in note 32.

The aggregate gains on vesting of Directors' share-based awards amounted to a total of £nil (2023: £98,000).

At 31 March 2024 there were no Directors accruing retirement benefits under defined benefit pension schemes (2023: none). At 31 March 2024 there was no Directors (2023: none) accruing benefits under defined contribution pension schemes with contributions of £10,000 made during the year (2023: £1,000). At 31 March 2024 three Directors received payments in lieu of pension provision (2023: two).

14. OTHER INTANGIBLE ASSETS

	Total £m
Cost:	
At 31 March 2023	**16.2**
Additions	3.6
Disposals	(1.4)
At 31 March 2024	**18.4**
Accumulated amortisation:	
At 31 March 2023	**2.5**
Charge for year	3.1
Disposals	(1.4)
At 31 March 2024	**4.2**
Carrying amount:	
At 31 March 2023	**13.7**
At 31 March 2024	**14.2**

Other intangible assets, including computer software, is amortised over the useful life of the assets, which at acquisition was ten years. The average remaining life is two years (2023: one year).

The carrying values of other intangible assets are reviewed annually or when events or changes in circumstance indicate that the carrying amounts may not be fully recoverable.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Cost:						
At 31 March 2022	**86.2**	**2,035.8**	**790.4**	**2,180.3**	**159.0**	**5,251.7**
Arising on acquisitions	30.1	473.9	160.4	17.1	31.7	713.2
Additions	1.6	41.3	6.8	83.7	183.9	317.3
Assets adopted at fair value	-	14.3	-	-	-	14.3
Disposals	-	(1.5)	(0.5)	(0.8)	-	(2.8)
Transfers/reclassifications	1.2	36.4	3.4	43.1	(84.1)	-
At 31 March 2023	**119.1**	**2,600.2**	**960.5**	**2,323.4**	**290.5**	**6,293.7**
Additions	1.4	65.0	14.3	118.4	380.2	579.3
Assets adopted at fair value	-	10.6	-	-	-	10.6
Disposals	-	(1.5)	-	(3.2)	-	(4.7)
Transfers/reclassifications	1.6	33.3	12.3	78.8	(126.0)	-
At 31 March 2024	**122.1**	**2,707.6**	**987.1**	**2,517.4**	**544.7**	**6,878.9**
Accumulated depreciation:						
At 31 March 2022	**21.6**	**343.2**	**308.9**	**1,350.0**	**-**	**2,023.7**
Charge for year	2.9	27.4	11.0	86.9	-	128.2
Disposals	-	(1.5)	(0.3)	(0.8)	-	(2.6)
At 31 March 2023	**24.5**	**369.1**	**319.6**	**1,436.1**	**-**	**2,149.3**
Charge for year	3.7	36.5	21.4	101.4	-	163.0
Disposals	-	(1.5)	-	(3.0)	-	(4.5)
At 31 March 2024	**28.2**	**404.1**	**341.0**	**1,534.5**	**-**	**2,307.8**
Net book value:						
At 31 March 2022	**64.6**	**1,692.6**	**481.5**	**830.3**	**159.0**	**3,228.0**
At 31 March 2023	**94.6**	**2,231.1**	**640.9**	**887.3**	**290.5**	**4,144.4**
At 31 March 2024	**93.9**	**2,303.5**	**646.1**	**982.9**	**544.7**	**4,571.1**

Out of the total depreciation charge for the Company of £163.0 million (2022/23: £128.2 million), the sum of £1.6 million (2022/23: £1.5 million) has been charged to capital projects, £2.2 million (2022/23: £2.2 million) has been offset by deferred income and £159.2 million (2022/23: £124.5 million) against profits. During the year borrowing costs of £14.1 million (2022/23: £4.0 million) have been capitalised on qualifying assets, at an average borrowing rate of 6.4% (2022/23: 5.1%).

Groups of assets forming cash generating units are reviewed for indicators of impairment. No indicators of impairment were identified during the year. Asset lives and residual values are reviewed annually. No significant changes were required in 2023/24.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company leases many assets as a lessee, across several categories of asset. Right-of-use assets held under leases included in property, plant and equipment above were:

	Freehold land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Total £m
Cost:					
At 31 March 2023	**35.4**	**383.9**	**335.1**	**387.6**	**1,142.0**
Additions	1.8	20.1	1.8	44.1	67.8
Disposals	-	-	-	(0.9)	(0.9)
At 31 March 2024	**37.2**	**404.0**	**336.9**	**430.8**	**1,208.9**
Accumulated depreciation:					
At 31 March 2023	**5.1**	**69.8**	**90.6**	**190.5**	**356.0**
Charge for year	1.2	5.3	5.8	21.9	34.2
Disposals	-	-	-	(0.8)	(0.8)
At 31 March 2024	**6.3**	**75.1**	**96.4**	**211.6**	**389.4**
Net book value:					
At 31 March 2023	30.3	314.1	244.5	197.1	786.0
At 31 March 2024	**30.9**	**328.9**	**240.5**	**219.2**	**819.5**

When the Company enters into sale and leaseback arrangements, the accounting for the arrangement depends on whether the transaction meets the criteria within IFRS 15 for a sale to have occurred. If the sale criteria are met, the associated property, plant and equipment asset is derecognised, and a right-of-use asset is recognised at the proportion of the carrying value relating to the right retained. If the criteria for a sale under IFRS 15 have not been met the asset is not derecognised, but is reclassified to right-of-use assets (within property, plant and equipment). Right of use assets includes assets held under sale and leaseback arrangements with a carrying value of £798.8 million (2023: £786.0 million).

16. GOODWILL

	2024 £m	2023 £m
Cost		
At 1 April	299.6	51.3
Arising on acquisitions	-	248.3
At 31 March	**299.6**	**299.6**

In the prior year, goodwill of £248.3 million was recognised on acquisition of Bristol Water. It is attributable to synergies and outperformance arising from the merger of operating activities as well as the value of the workforce, which cannot be recognised as an intangible asset. Goodwill of £51.3 million was recognised on acquisition of Bournemouth Water in 2016/17.

Impairment testing of goodwill

The Company tests goodwill for impairment annually or more frequently if there are any indications that impairment may have arisen.

The recoverable amount, is assessed using level 2 fair value hierarchy techniques, with reference to the market value of the merged water business, using a market based observable premium to Regulated Capital Value as defined by Ofwat.

The results of tests performed during the year demonstrate significant headroom in the recoverable amount of goodwill, and it is judged that no reasonable change in the key assumptions would cause the carrying amount of the goodwill to exceed the recoverable amount.

17. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items as below:

	Note	Fair value	Amortised cost		
		Derivatives used for cash flow hedging £m	Loans and receivables £m	Trade receivables and trade payables £m	Total £m
31 March 2024					
Financial assets					
Trade and other receivables	21	-	14.4	185.5	199.9
Cash and cash deposits	23	-	26.0	-	26.0
Derivatives	22	39.7	-	-	39.7
		39.7	**40.4**	**185.5**	**265.6**
Financial liabilities					
Borrowings	25	-	(3,395.3)	-	(3,395.3)
Trade and other payables	24	-	(54.2)	(191.1)	(245.3)
Derivatives	22	(8.4)	-	-	(8.4)
		(8.4)	**(3,449.5)**	**(191.1)**	**(3,649.0)**

	Note	Fair value	Amortised cost		
		Derivatives used for cash flow hedging £m	Loans and receivables £m	Trade receivables and trade payables £m	Total £m
31 March 2023					
Financial assets					
Trade and other receivables	21	-	15.6	148.0	163.6
Cash and cash deposits	23	-	46.1	-	46.1
Derivatives	22	52.7	-	-	52.7
		52.7	**61.7**	**148.0**	**262.4**
Financial liabilities					
Borrowings	25	-	(3,137.4)	-	(3,137.4)
Trade and other payables	24	-	(12.3)	(135.5)	(147.8)
Derivatives	22	(4.8)	-	-	(4.8)
		(4.8)	**(3,149.7)**	**(135.5)**	**(3,290.0)**

18. OTHER NON-CURRENT ASSETS

Non-current receivables	2024 £m	2023 £m
Interest receivable	-	13.9

19. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2024 £m	2023 £m
At 31 March 2023	168.0	3.3
Arising on acquisition	-	164.7
Impairment in investment in subsidiary	(146.3)	-
At 31 March 2024	**21.7**	**168.0**

19. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (CONTINUED)

The Company has the following wholly-owned trading subsidiaries, South West Water Finance plc, South West Water Customer Services Limited, Peninsula Properties (Exeter) Limited (the company ceased trading in the year) and Bristol Water plc. The Company also has the following wholly-owned dormant subsidiaries, Bournemouth Water Investments Limited, BWH Enterprises Limited, Bournemouth Water Limited and Avon Valley Water Limited. All of these subsidiaries are registered at Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR, except Bristol Water plc which is registered at Bridgewater Road, Bristol, England, BS13 7AT and are also incorporated and operate in England. The Company has a 50% joint venture share holding in CREWW Executive Board Ltd and also has a minority shareholding in Landlord Tap Limited, both are incorporated, registered and operate in England.

During the year, the Company received dividends of £148.3 million. A dividend in specie of £143.0 million was received from Bristol Water Plc and a dividend of £5.3 million was received from Peninsula Properties (Exeter) Limited, of which £4.0m was received in cash. The net assets of Pennon Properties (Exeter) Limited were written down to £nil, accordingly the investment in that company was reduced to £nil. The investment held in Bristol Water plc was reduced by the value of the dividend received.

Consolidated financial statements have not been prepared, as explained in note 2(b).

In the opinion of the Directors, the total value of the investments in subsidiaries is not less than the amount at which they are shown in the balance sheet.

20. INVENTORIES

	2024 £m	2023 £m
Raw materials and consumables	10.2	10.0

21. TRADE AND OTHER RECEIVABLES – CURRENT

	2024 £m	2023 £m
Amounts receivable from customers	288.3	252.0
Less: provision for expected credit losses	(102.8)	(104.0)
Net trade receivables	**185.5**	**148.0**
Amounts owed by fellow subsidiary companies	14.4	15.6
Interest receivable	7.9	3.9
Other receivables	26.0	14.3
Prepayments and accrued income	16.4	11.9
Trade and other receivables – current	**250.2**	**193.7**

Trade receivables include accrued income relating to customers with water budget payment plans. Trade receivables have increased year on year, effect in the prior year of one-off bill reductions in the final quarter in relation to Watershare+ and the drought incentive along with tariff increases in the South West Water region.

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value. There is no concentration of credit risk in trade receivables. The Company has a large number of customers who are dispersed and there is no significant loss on trade receivables expected that has not been provided for. The Company applies the simplified approach in calculating the expected credit losses for trade receivables allowing a provision matrix to be used which is based on the expected life of trade receivables, default rates for different customer categories within the collection process and forward looking information.

As at 31 March, an analysis of the aging of gross trade receivables is as follows:

	2024 £m	2023 £m
Not due	47.8	63.1
Past due 1 - 30 days	32.3	9.1
Past due 31 - 120 days	13.9	9.8
More than 120 days	194.3	170.0
Total trade receivables	**288.3**	**252.0**

21. TRADE AND OTHER RECEIVABLES – CURRENT (CONTINUED)

The Company specifically reviews separate categories of debt to identify an appropriate allowance for expected credit losses as outlined in note 2 (n) ii. South West Water has a duty under legislation to continue to provide domestic customers with services regardless of payment. The provision matrix adopted for household customers in the most significant operating region of Devon, Cornwall and Bournemouth is outlined in the table below, showing the range of provision rates dependent on phase of collection. The table also includes the gross debt and provision rates for other customer areas:

	2024		2023	
	Trade Receivables £m	**Allowance for ECL's £m**	**Trade Receivables £m**	**Allowance for ECL's £m**
Devon, Cornwall and Bournemouth (household customers)				
• Current occupier < 12 months: 1% - 30%	44.8	0.2	35.3	0.2
• Current occupier 12 – 24 months: 10% - 60%	23.1	3.2	14.6	2.8
• Current occupier 24 – 36 months: 15% - 80%	11.5	2.8	10.8	3.4
• Current occupier > 36 months: 20% - 100%	89.2	48.2	90.4	49.5
• Previous occupier: 55% - 100%	53.3	31.3	51.9	31.3
Bristol	46.4	17.1	42.0	16.4
Other	20.0	-	7.0	0.4
	288.3	**102.8**	**252.0**	**104.0**

No material expected credit loss provision has been recognised in respect of amounts owed by fellow subsidiary undertakings.

The movement in the allowance for expected credit losses in respect of trade receivables was:

	2024 £m	**2023 £m**
At 1 April	**104.0**	**84.5**
Acquisition provision for expected credit losses	-	17.8
Provision for expected credit losses	6.3	3.6
Net Receivables written-off during the year as uncollectable	(7.5)	(1.9)
At 31 March	**102.8**	**104.0**

22. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives used for cash flow hedging:	**2024 £m**	**2023 £m**
Assets		
Current assets	22.4	20.1
Non-current assets	17.3	32.6
Total assets	**39.7**	**52.7**
Liabilities		
Current liabilities	(5.2)	(2.4)
Non-current liabilities	(3.2)	(2.4)
Total liabilities	**(8.4)**	**(4.8)**

The Company's financial risks and risk management policies are set out in note 3. The fair value of derivatives is split between current and non-current assets or liabilities based on the maturity of the cash flows. The ineffective portion recognised in the income statement arising from hedging relationships was £nil (2022/23: £nil).

Interest rate swaps, primarily cash flow hedges, and fixed rate borrowings are used to manage the mix of fixed and floating rates to ensure at least 60% of Company net borrowings are at fixed rate.

At 31 March 2024 the company had interest rate swaps to swap from floating to fixed rate and hedge financial liabilities with a notional value of £939 million and a weighted average maturity of 3.5 years (2023: £853 million, with 3.4 years). The weighted average interest rate of the swaps for their nominal amount was 1.85% (2023: 1.54%).

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

At 31 March 2024 the Company had interest rate swaps to swap from RPI Linked to fixed rate and hedge financial liabilities with a notional value of £300 million and a weighted average maturity of 0.8 years (2023: £300 million). The weighted average interest rate of the swaps for their nominal amount was 7.98% (2023: 7.98%).

The Company had cross currency swaps and hedged financial liabilities with a notional value of £40 million and a weighted average maturity of 6.1 years. The weighted average exchange rate of the swaps for their nominal amount was 0.80.

The Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the swaps are identical to the hedged risk components. To test the hedge effectiveness, the Company uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item

The impact of the hedging instrument on the statement of financial position as at 31 March 2024 is £nil (2023: £nil).

	Notional Amount £m	Carrying Amount £m	Line item in the statement of financial position £m	Change in fair value used for measuring ineffectiveness for the period £m
31 March 2024				
Interest Rate Swaps	939.4	37.6	Derivative financial instruments	(14.8)
RPI Swaps	300.0	(4.5)	Derivative financial instruments	(0.1)
Cross Currency Swaps	40.1	(1.9)	Derivative financial instruments	(1.9)
31 March 2023				
Interest Rate Swaps	853.4	52.4	Derivative financial instruments	33.6
RPI Swaps	300.0	(4.4)	Derivative financial instruments	(4.4)
Cross Currency Swaps	-	-	Derivative financial instruments	-

The periods for which cash flow hedges are expected to affect future profit or loss as follows:

	<1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
31 March 2024					
Assets	22.4	3.9	9.2	4.2	39.7
Liabilities	(5.2)	(0.6)	(1.9)	(0.7)	(8.4)
31 March 2023					
Assets	20.1	18.5	8.8	5.3	52.7
Liabilities	(2.4)	(2.0)	(0.2)	(0.2)	(4.8)

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Valuation hierarchy

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The Company's financial instruments are valued using level 2 measures:

	2024 £m	2023 £m
Assets		
Derivatives used for cash flow hedging	39.7	52.7
Liabilities		
Derivatives used for cash flow hedging	(8.4)	(4.8)

23. CASH AND CASH DEPOSITS

	2024 £m	2023 £m
Cash at bank and in hand	-	24.5
Other deposits	26.0	21.6
Cash and cash deposits	**26.0**	**46.1**

Company short-term deposits have an average maturity of nil working days (2023: one working day).

Company other deposits have an average maturity of 92 days (2023: 92 days).

Company other deposits include restricted funds of £26.0 million (2023: £21.6 million) to settle long-term lease liabilities (note 25). Restricted funds are available for access, subject to being replaced by an equivalent valued security.

For the purposes of the cash flow statement, cash and cash equivalents comprise:

	2024 £m	2023 £m
Cash and cash deposits as above	26.0	46.1
Overdraft	(0.8)	-
Less: deposits with a maturity of three months or more (restricted funds)	(26.0)	(21.6)
Cash and cash equivalents	**(0.8)**	**24.5**

24. TRADE AND OTHER PAYABLES – CURRENT

	2024 £m	2023 £m
Trade payables	191.1	135.5
Amounts owed to subsidiary companies	6.8	10.4
Amounts owed to parent undertaking	47.4	1.9
Other tax and social security	3.7	3.0
Other payables	23.0	13.8
Accruals	18.4	41.3
Contract liabilities	4.3	4.3
	294.7	**210.2**

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Included in the amounts owed to parent undertaking is £45.0m relating to payment of the dividend based which was approved by the Board in March 2024, and will be paid in the financial year ending 31 March 2025.

The movement in the current and non-current contract liabilities was:

Contract liabilities	2024 £m	2023 £m
At 1 April	179.2	139.2
Arising on acquisition	-	20.9
Revenue recognised in the year	(5.2)	(3.4)
Consideration received in advance of completion of performance obligations	6.2	22.5
At 31 March	**180.2**	**179.2**

The analysis of contract liabilities between current and non-current is:

	2024 £m	2023 £m
Current	4.3	4.3
Non-current (note 26)	175.9	174.9
	180.2	**179.2**

Performance obligations related to the current contract liabilities closing balance above are expected to be satisfied, and revenue will be recognised, within the financial year ended 31 March 2025.

25. BORROWINGS

	2024 £m	2023 £m
Current		
Bank overdraft	0.8	-
Bank and other external loans	104.0	92.8
Loan from parent company (note 39)	100.0	73.1
Loan from subsidiary company (note 39)	3.5	147.5
	208.3	**313.4**
Leases	50.9	32.0
Total current borrowings	**259.2**	**345.4**
Non-current		
Bank and other external loans	911.5	934.6
Private Placements	507.8	184.9
Fixed Rate Bonds	57.0	60.2
Loan from subsidiary company (note 39)	594.3	579.3
	2,070.6	**1,759.0**
Leases	1,065.5	1,033.0
Total non-current borrowings	**3,136.1**	**2,792.0**
Total borrowings	**3,395.3**	**3,137.4**

25. BORROWINGS (CONTINUED)
The loan from subsidiary company represents a loan from South West Water Finance plc of £571.2 million (2023: £555.6 million), a UK company whose purpose is to raise borrowings for South West Water Limited, and a loan from Bristol Water plc of £26.6 million (2022: £171.1 million).

The fair value of the non-current borrowings, valued using level 2 measures (set out in note 22) were:

	2024 Book value £m	2024 Fair value £m	2023 Book value £m	2023 Fair value £m
Current				
Bank overdraft	0.8	0.8	-	-
Bank and other external loans	104.0	104.0	92.8	92.8
Loan from parent company (note 39)	100.0	100.0	73.1	73.1
Loan from subsidiary company (note 39)	3.5	3.5	147.5	147.5
	208.3	**208.3**	**313.4**	**313.4**
Leases	50.9	-	32.0	-
Total current borrowings	**259.2**	**208.3**	**345.4**	**313.4**
Non-current				
Bank and other external loans	911.5	926.4	934.6	965.3
Private Placements	507.8	528.9	184.9	174.6
Fixed Rate Bonds	57.0	64.6	60.2	67.0
Loan from subsidiary company (note 39)	594.3	584.0	579.3	493.1
	2,070.6	**2,103.9**	**1,759.0**	**1,700.0**
Leases	1,065.5	-	1,033.0	-
Total non-current borrowings	**3,136.1**	**2,103.9**	**2,792.0**	**1,700.0**
Total borrowings	**3,395.3**	**2,312.2**	**3,137.4**	**2,013.4**

Under IFRS 13 the disclosure relating to the fair value of leases is not required.

Where market values are not available, fair values of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates.

During the year, as part of its ongoing programme to renew and raise new financing, the Company entered into £150 million of new terms loans and leasing facility arrangements, with an average maturity of 8 years, £325 million of private placements.

The maturity of non-current borrowings, excluding leases, was:

	2024 £m	2023 £m
Between 1 and 2 years	107.7	57.3
Over 2 and less than 5 years	246.6	222.6
Over 5 years	1,716.3	1,479.1
	2,070.6	**1,759.0**

The weighted average maturity of non-current borrowings, excluding leases, was 14.0 years (2023 13.0 years).

Undrawn committed borrowing facilities at the balance sheet date were:

	2024 £m	2023 £m
Floating rate:		
Expiring within one year:	40.0	39.8
Expiring after one year:	255.0	110.0
	295.0	**149.8**

In addition, the Company has undrawn uncommitted short-term bank facilities of £nil (31 March 2023: £nil).

25. BORROWINGS (CONTINUED)

The Company has leases for various assets as shown in note 15.

The maturity of lease liabilities was:

	2024 £m	2023 £m
Within 1 year	50.9	32.0
Over 1 year and less than 5 years	176.1	181.7
Over 5 years	889.4	851.3
	1,116.4	**1,065.0**

Analysed as:

	2024 £m	2023 £m
Current	50.9	32.0
Non-current	1,065.5	1,033.0
	1,116.4	**1,065.0**

For the purposes of calculating debt or borrowings under the Company's financing agreements, all of which were negotiated under IFRS prior to the implementation of IFRS 16, borrowings that were previously categorised as operating leases under IAS 17 are excluded from the definition of debt. As at 31 March 2024 the carrying value of leases previously categorised as IAS 17 operating leases was £37.9 million (2023: £37.3 million).

The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the treasury function.

The discount rate used to calculate the lease liabilities above involves estimation. Where the Company cannot readily determine the rate implicit in the lease the Company uses an estimated incremental borrowing rate (IBR). At 31 March 2024 the range of IBRs used was between 6.1% and 6.8% (2023 between 2.6% and 3.9%) and the weighted average IBR across all leases was 6.3% (2023 3.3%). If the weighted average rate used increased or decreased by 10bps, this would result in a c.1.0% increase or reduction in the present value of lease liabilities recognised at 31 March 2024 (2023 c.1.1%).

The period for repayment of certain leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £26.0 million at 31 March 2023 (2023: £21.6 million), are currently being held to settle the lease liability subject to rights to release by negotiation with the lessor. The deposits are subject to a registered charge given as security to the lessor for the balance outstanding.

Cash outflows in respect of leasing relate to principal repayments of £20.2 million (2023 £120.3 million) and interest repayments of £53.9 million (2023 £100.5 million), in addition to inflows from lease financing arrangements of £64.8 million (2023 £40.2 million).

Other information required to be disclosed under IFRS 16 is included in note 15.

26. OTHER NON-CURRENT LIABILITIES

	2024 £m	2023 £m
Contract liabilities	175.9	174.9

Non-current contract liabilities relate to consideration received in advance of the Company performing its performance obligations to customers where performance obligations will not be completed within twelve months of the balance sheet date. The overall movement in total contract liabilities is disclosed in note 24. Contract liabilities reflect the fair value of assets transferred from customers. The majority of the contract liabilities included above are expected to unwind after five years.

27. RETIREMENT BENEFIT OBLIGATIONS

The Company's employees are eligible to participate in a defined contribution scheme, operated by the parent company, Pennon Group plc. The Company is also a member of the Pennon Group defined benefit scheme which was closed to new members on or before 1 April 2008. The principal plan within the Group is the Pennon Group Pensions Scheme (PGPS), which is a funded defined benefit, final salary pensions scheme in the UK.

The Pennon Group's pension schemes are established under trust law and comply with all relevant UK legislation. The assets of the scheme are held in separate trustee-administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of the schemes' trustees is determined by the schemes' trust documentation. The Pennon Group has a policy for the PGPS that one-half of all trustees, other than the Chair, are nominated by members of the schemes, including pensioners. PGPS is closed to future accrual.

In June 2023, the High Court handed down a decision (Virgin Media Limited v NTL Pension Trustees II Limited and others) which potentially has implications for the validity of amendments made by schemes, including the PGPS and other Group defined benefit schemes, which were contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. This decision has been appealed and is due to be reconsidered by the Court of Appeal in June 2024. The impact will therefore be uncertain for some time to come. Given this uncertainty, the updated valuation as at 31 March 2024 does not reflect the High Court ruling as it is currently unclear as to whether any additional liabilities might arise, and if they were to arise, how they would be reliably measured. The case is subject to appeal in 2024 and following the outcome of the appeal and any DWP response, management will conclude whether any subsequent actions or amendments to IAS 19 liabilities are required.

Defined contribution schemes

Pension costs for defined contribution schemes were £9.1 million (2022/23: £5.2 million).

Defined benefit schemes

The principal actuarial assumptions at 31 March were:

	2024	2023	2022
	%	%	%
Rate of increase in pensionable pay	2.6	2.7	3.0
Rate of increase for current and future pensions	2.8	2.8	3.1
Rate used to discount schemes' liabilities and expected return on scheme assets	4.8	4.7	2.75
Inflation	3.2	3.3	3.6

Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2022 actuarial tables with an allowance for future longevity improvement.

The average life expectancy in years of a member having retired at age 62 on the balance sheet date is projected at:

	2024	2023	2022
Male	23.9	24.0	24.8
Female	26.6	26.6	27.1

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2024	2023	2022
Male	25.0	25.1	25.6
Female	27.9	27.9	27.1

27. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The sensitivities regarding the principal assumptions used to measure the schemes' liabilities are:

	Change in assumption	Impact on schemes' liabilities
Rate of increase in current and future pensions	+/- 0.5%	+/-4.9%
Rate used to discount schemes' liabilities	+/- 0.5%	+/- 6.4%
Inflation	+/- 0.5%	+/- 4.4%
Life expectancy	+/- 1 year	+/- 3.8%

The sensitivity analysis shows the effect of changes in the principal assumptions used for the measurement of the pension liability. The method used to calculate the sensitivities is approximate and has been determined taking into account the duration of the liabilities and the overall profile of each scheme's membership. This is the same approach as has been adopted in previous years.

The amounts recognised in the balance sheet were:

	2024 £m	2023 £m
Present value of financial obligations	(461.2)	(466.8)
Fair value of plan assets	472.0	484.3
Net asset recognised in the balance sheet	**10.8**	**17.5**

The movement in the net defined benefit obligation over the accounting period is as follows:

			2024			2023
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	**(466.8)**	**484.3**	**17.5**	**(645.2)**	**692.3**	**47.1**
Current service cost	(1.4)	-	(1.4)	(0.8)	-	(0.8)
Interest (expense)/income	(21.4)	22.2	0.8	(17.3)	18.6	1.3
Past service cost and gains and losses on settlements	(0.2)	-	(0.2)	-	-	-
	(489.8)	**506.5**	**16.7**	**(663.3)**	**710.9**	**47.6**
Remeasurements:						
Loss on plan assets excluding amounts included in interest expense	-	(10.2)	(10.2)	-	(199.7)	(199.7)
Gain from change in demographic assumptions	3.9	-	3.9	5.8	-	5.8
Gain from change in financial assumptions	9.2	-	9.2	172.8	-	172.8
Experience loss	(10.4)	-	(10.4)	(10.3)	-	(10.3)
	2.7	**(10.2)**	**(7.5)**	**168.3**	**(199.7)**	**(31.4)**
Contributions:						
Employers	-	1.6	1.6	-	1.3	1.3
Payments from plans:						
Benefit payments	24.6	(24.6)	-	27.3	(27.3)	-
Administration costs	1.3	(1.3)	-	0.9	(0.9)	-
	25.9	**(24.3)**	**1.6**	**28.2**	**(26.9)**	**1.3**
At 31 March	**(461.2)**	**472.0**	**10.8**	**(466.8)**	**484.3**	**17.5**

27. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Recognition of surplus on principal pension scheme

In accordance with IAS 19 'Employee Benefits', the value of the net pension scheme surplus that can be recognised in the statement of financial position is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. In respect of the principal pension scheme, PGPS, the surplus has been recognised as the Company believes that ultimately it has an unconditional right toa refund of any surplus assuming the full settlement of the plan's liabilities in a single event, such as a scheme wind up.

Employer contributions are made into the scheme by South West Water and other companies within the Pennon Group based upon pensionable pay of employees in each section of the scheme. Full details of the scheme are included within the Pennon Group plc financial statements (see note 30).

The assets in the schemes and the expected long-term rates of return at year end were:

		2024		**2023**
	Quoted prices in active market £m	**Fund %**	**Quoted prices in active market £m**	**Fund %**
Equities	126.0	27	95.8	20
Property	56.8	12	31.9	7
Bonds	217.6	46	286.2	59
Diversified Growth Fund	29.9	6	33.8	7
Insurance linked securities	34.0	7	31.7	6
Other	7.7	2	4.9	1
	472.0	**100**	**484.3**	**100**

Through the Pennon Group defined benefit pension plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility: The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long-term but can give risk to volatility and risk in the short term. As the funding of the schemes improves, an increasing proportion of the schemes' assets are invested in less volatile asset classes such as cash and bonds which more closely reflect market movements in the schemes' liabilities. The allocation to growth assets is monitored such that it is aligned with the scheme's long-term objectives.

Changes in bond yields: A decrease in corporate bond yields will increase the value placed on the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.

Inflation risk: The majority of the scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation).The scheme uses LDI's ('Liability Driven Investment Funds') within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rate and inflation expectations. The structure allows the scheme to both hedge against the risks and retain capital investment in assets that are expected to generate higher returns. Whilst LDI's are an integral part of the hedging strategy, risk management and monitoring strategies are in place to ensure that the collateral requirements to maintain these structures are closely managed.

Life expectancy: The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In conjunction with its investment advisors, the trustees have structured the scheme's investments with the objectives of balancing investment returns and levels of risk. The asset allocation has three principal elements:

- holding of cash funds and bonds which is expected to be less volatile than most other asset classes and reflects market movements in the scheme's liabilities
- A proportion of assets with fund managers having freedom in making investment decisions to maximise returns, and

27. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

- Investment of a proportion of the schemes' assets in alternative asset classes which give the potential for diversification (currently property, insurance linked securities and diversified growth).

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected increases in pensionable pay.

As funding of our principal pension scheme has improved the investment portfolio has been de-risked through increasing the scheme's real gilts hedging position through LDIs (Liability Driven Investments), which are commonly used by UK pension schemes.

The weighted average duration of the defined benefit obligation is 12 to 13 years (2023: 12 to 15 years).

The 2022 triennial actuarial valuation of the principal defined benefit scheme was agreed in 2024 with an actuarial valuation surplus of £7.6 million. No deficit recovery contributions are required as a result of the 2022 valuation. Additional contributions of £1.6 million were paid into the scheme in respect of scheme expenses (2023: £1.3 million). Pennon Group plc monitors funding levels on an annual basis, the Company expects to pay total contributions of around £1.4 million during the year ending 31 March 2025.

28. CURRENT TAX ASSET

	2024 £m	2023 £m
Current year asset	0.4	3.5
Prior year tax items	7.6	8.0
At 31 March	**8.0**	**11.5**

29. DEFERRED TAX LIABILITIES

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates. Movements on deferred tax were:

	2024 £m	2023 £m
Liabilities at 1 April	**471.5**	**380.1**
Arising on acquisition	-	94.9
Underlying charge to the income statement	4.3	1.0
Non underlying credit to the income statement	(3.9)	(4.2)
Credited to equity/other comprehensive income	(5.9)	(0.3)
Liabilities at 31 March	**466.0**	**471.5**

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The majority of the Company's deferred tax assets and liabilities are expected to be recovered over more than one year. All deferred tax assets and liabilities within the same jurisdiction are offset where the taxable temporary differences are expected to reverse in the same periods as the deductible temporary differences and there is a right of offset.

29. DEFERRED TAX LIABILITIES (CONTINUED)

The movements in deferred tax assets and liabilities were:

Deferred tax liabilities

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Derivatives £m	Total £m
At 31 March 2022	**365.9**	**11.0**	**4.7**	**381.6**
Arising on acquisitions	95.2	-	-	95.2
Charged to the income statement	13.1	1.1	-	14.2
(Credited)/charged to other comprehensive income/equity	-	(7.9)	7.3	(0.6)
At 31 March 2023	**474.2**	**4.2**	**12.0**	**490.4**
Charged/(credited) to the income statement	5.9	0.2	(0.1)	6.0
Credited to other comprehensive income/equity	-	(1.9)	(4.1)	(6.0)
At 31 March 2024	**480.1**	**2.5**	**7.8**	**490.4**

Deferred tax (assets)

	Provisions £m	Tax Losses £m	Derivatives £m	Share based payments £m	Total £m
At 31 March 2022	**(0.7)**	**-**	**-**	**(0.8)**	**(1.5)**
Arising on acquisitions	(0.3)	-	-	-	(0.3)
Charged/(credited) to the income statement	0.6	(14.0)	-	0.2	(13.2)
Non-underlying credit to the income statement	-	(4.2)	-	-	(4.2)
Charged to other comprehensive income/equity	-	-	-	0.3	0.3
At 31 March 2023	**(0.4)**	**(18.2)**	**-**	**(0.3)**	**(18.9)**
Charged/(credited) to the income statement	0.1	(1.9)	-	0.1	(1.7)
Non-underlying credit to the income statement	-	(3.9)	-	-	(3.9)
Charged to other comprehensive income/equity	-	-	-	0.1	0.1
At 31 March 2024	**(0.3)**	**(24.0)**	**-**	**(0.1)**	**(24.4)**

Deferred tax credited to other comprehensive income/equity during the year was:

	2024 £m	2023 £m
Remeasurement of defined benefit obligations	1.9	7.9
Cash-flow hedges	4.1	(7.3)
Share-based payments	(0.1)	(0.3)
	5.9	**0.3**

Capital allowances are available when a business incurs qualifying expenditure on capital items such as infrastructure assets. Capital allowances provide tax relief on these items in place of accounting depreciation which is not tax deductible. Over the period of ownership of an asset, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates typically vary from 3% up to 100%. Given the Company's continuing capital expenditure programme, it is unlikely that the deferred tax liability will crystallise in the near future.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Company is not the same as the profit reported in the financial statements. The adjustments for this are reflected in the current tax reconciliation. As explained in note 10, the Government has introduced permanent full expensing and 50% first year allowances for certain qualifying expenditure. This provides an increase in current tax relief for the Company with a consequently higher deferred tax liability and charge due to the additional capital allowance deductions.

29. DEFERRED TAX LIABILITIES (CONTINUED)

Short term temporary differences arise on items such as retirement benefit obligations, derivatives, fair value adjustments and share based payments because the treatment of such items are different for tax and accounting purposes. These differences reverse over future years following that in which they arise, as is reflected in the deferred tax charge in these financial statements. Specifically, retirement benefit obligations will crystallise over the life of the pension scheme and/or the period when spreading applies (this can be up to three years for spreading purposes), whilst share based payments will crystallise over the remaining life of the share schemes which are up to five years. Short term liabilities including provisions will typically crystallise in the following year.

Where interest charges or other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

Derivatives reflect the fair value movements on treasury derivatives, these can fluctuate considerably each year. The balance will crystallise when derivative items are either terminated or mature, the life of these items can be up to ten years.

Tax losses relate to trading losses and non-trade deficits carried forwards in relation to the UK's corporate interest restriction rules. These are available indefinitely. With respect to trading losses, these are recognised on the basis the UK Group has taxable temporary differences that are expected to reverse in the same periods as the unused tax losses and there is a right of offset. With respect to the non-trade deficits, current forecasts indicate that these deficits will be utilised over the next 25 to 35 years on the basis the group does not retract any of its existing Public Benefit Exemption elections.

30. PROVISIONS

	2024 £m	2023 £m
Restructuring		
At 1 April	**0.4**	**1.0**
Utilised during year	(0.4)	(0.6)
At 31 March	**-**	**0.4**

The restructuring provision principally relates to severance costs and was fully utilised within the year.

31. CALLED UP SHARE CAPITAL

	2024 £m	2023 £m
Authorised		
500,000,000 Ordinary shares of £1 each	500.0	500.0
Allotted and fully paid		
295,923,000 Ordinary shares of £1 each	**295.9**	**295.9**

During the prior year the Company issued 1 share at a premium of £413.0 million.

32. EMPLOYEE SHARE SCHEMES

The Company participates in a number of share plans for the benefit of employees operated by Pennon Group plc. Details of each plan are:

i) Sharesave Scheme

An all-employee savings related plan is operated that enables employees to invest up to a maximum of £500 per month for three or five years. These savings can then be used to buy Ordinary shares, at a price set at either a 17% or 20% discount to the market value at the start of the savings period, at the third or fifth anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Pennon Group before the option exercise period commences.

32. EMPLOYEE SHARE SCHEMES (CONTINUED)

Outstanding options to subscribe for Pennon Group plc Ordinary shares of 61.05p each under the Sharesave scheme are:

Date granted	Subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March 2024	2023
03 July 2018	635p	2021 – 2023	-	96
09 July 2019	620p	2022 – 2024	66	77
16 July 2020	928p	2023 – 2025	27	171
06 July 2021	879p	2024 – 2026	290	516
06 July 2022	828p	2025 – 2027	273	463
04 July 2023	663p	2026 – 2028	658	-
			1,314	**1,323**

The number and weighted average exercise price of Sharesave options are:

	2024 Number of Ordinary shares (thousands)	2024 Weighted average exercise price per share (p)	2023 Number of Ordinary shares (thousands)	2023 Weighted average exercise price per share (p)
At 1 April	1,323	835	1,149	774
Granted	741	663	467	828
Forfeited	(530)	829	(116)	867
Exercised	(71)	639	(337)	633
Expired	(149)	858	(31)	752
Transferred from Bristol Water Plc	-	-	191	869
At 31 March	**1,314**	**748**	**1,323**	**835**

The weighted average share price at the date of exercise of Sharesave options during the year was 689p (2022/23: 919p). The options outstanding at 31 March 2024 had a weighted average exercise price of 748p (31 March 2023: 835p) and a weighted average remaining contractual life of 2.0 years (31 March 2023: 1.85 years). The number of exercisable Sharesave options at 31 March 2024 was 1,000 (2023: 1,000) and the weighted average exercise price of exercisable Sharesave options was 799 pence (2023: 620 pence).

The aggregate fair value of Sharesave options granted during the year was £0.6 million (2022/23: £0.7 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model, at the date of issue of the options, were:

	2024	2023
Weighted average share price	700p	957p
Weighted average exercise price	663p	828p
Expected volatility	25.6%	25.3%
Expected life	3.4 years	3.3 years
Risk free rate	4.5%	1.3%
Expected dividend yield	6.1%	4.0%

Expected volatility was determined by calculating the historical volatility of the Pennon Group's share price over the previous three years.

ii) Long Term Incentive Plan

Executive Directors and Senior Management receive a conditional award of Ordinary shares in Pennon Group plc. Share awards vest subject to the achievement of specific performance conditions measured over a performance period of not less than three years.

32. EMPLOYEE SHARE SCHEMES (CONTINUED)

The number and price of shares in the LTIP are:

	2024 Number of Ordinary shares (thousands)	2024 Weighted average exercise price per share (p)	2023 Number of Ordinary shares (thousands)	2023 Weighted average exercise price per share (p)
At 1 April	163	1,007	263	954
Granted	51	714	45	1,038
Lapsed	(35)	1,071	(107)	961
Released	(21)	790	(38)	803
At 31 March	**158**	**922**	**163**	**1,007**

The awards outstanding at 31 March 2024 had a weighted average exercise price of 922p (31 March 2023: 1,007p) and a weighted average remaining contractual life of 2.7 years (31 March 2023: 2.5 years).

The aggregate fair value of awards granted during the year was £0.1 million (2023: £0.2 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depend on non-market performance vesting conditions.

iii) Annual Incentive Bonus Plan – Deferred Shares

Awards under the plan to Executive Directors and Senior Management involve the release of Ordinary shares in Pennon Group plc to participants. There is no performance condition since vesting is conditional upon continuous service with the Pennon Group for a period of three years from the award.

The number and weighted average price of shares in the Incentive Bonus Plan are:

	2024 Number of Ordinary shares (thousands)	2024 Weighted average exercise price per share (p)	2023 Number of Ordinary shares (thousands)	2023 Weighted average exercise price per share (p)
At 1 April	43	1,056	58	944
Granted	17	988	21	988
Vested	(15)	1,079	(28)	756
Lapsed	(7)	1,149	(8)	1,021
Cancelled	-	-	-	-
At 31 March	**38**	**904**	**43**	**1,056**

The awards outstanding at 31 March 2024 had a weighted average price of 904p (31 March 2023: 1,056p) and a weighted average remaining contractual life of 1.4 years (31 March 2023: 1.3 years). The Company's share price at the dates of the awards ranged from 700p to 1,141p (2023: 988p to 1,141p).

The aggregate fair value of awards granted during the year was £0.1 million (2022/23: £0.2 million), determined from market value. No option pricing methodology is applied since dividends declared on the shares are receivable by the participants in the scheme.

Further details of the plans and options granted to Directors, included above, are shown in the Directors' remuneration report.

33. SHARE PREMIUM ACCOUNT

	2024 £m	2023 £m
At 1 April	**413.0**	**-**
Share issue	**-**	413.0
At 31 March	**413.0**	**413.0**

During the prior year, the Company issued 1 share at a premium of £413.0 million.

34. RETAINED EARNINGS AND OTHER RESERVES

	Note	Hedging reserve £m	Retained earnings £m	Total £m
At 31 March 2022		**16.7**	**261.9**	**278.6**
Loss for the year		-	(2.3)	(2.3)
Other comprehensive income/(loss) for the year		21.8	(23.5)	(1.7)
Dividends paid/payable	11	-	(12.3)	(12.3)
Share-based payments (net of tax)		-	0.4	0.4
Watershare+ reserves adjustment		-	0.3	0.3
At 31 March 2023		**38.5**	**224.5**	**263.0**
Profit for the year		-	2.5	2.5
Other comprehensive loss for the year		(12.2)	(5.6)	(17.8)
Dividends paid/payable	11	-	(45.0)	(45.0)
Share-based payments (net of tax)		-	(0.4)	(0.4)
At 31 March 2024		**26.3**	**176.0**	**202.3**

The hedging reserve is used to record the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

In the prior year, The Watershare+ reserves adjustment relates to the shares in Pennon issued through Company's rebate scheme (see note 7).

35. ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

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

	2024 £m	2023 £m
Profit/(loss) for the year	2.5	(2.3)
Adjustments for:		
Share based payments	(0.3)	0.6
Profit on disposal of property, plant and equipment	(0.5)	(0.5)
Depreciation charge	159.3	124.5
Amortisation of intangible fixed assets	3.1	0.5
Finance income	(3.3)	(1.2)
Finance costs	158.3	112.2
Taxation	(0.3)	(8.6)
Dividend received	(148.3)	-
Impairment of investment	146.3	-
Non-underlying Watershare+ rebate retained earnings adjustment	-	0.3
Changes in working capital:		
Increase in inventories	(0.2)	(1.8)
(Increase)/Decrease in trade and other receivables	(52.5)	35.4
(Decrease)/Increase in trade and other payables	(1.8)	13.5
Decrease in retirement benefit obligations	-	(0.5)
(Decrease)/Increase in provisions	(0.4)	(0.6)
Cash generated from operations	**261.9**	**271.5**

During the year, the Company completed a number of sale and leaseback transactions in respect of its infrastructure assets as part of its ongoing financing arrangements. Cash proceeds of £64.8 million (2023: £40.2 million) were received and a gain of nil (2023: nil) was recognised. These assets are being leased back at market rentals over varying lease terms from 9.0 to 9.5 years.

36. NET BORROWINGS

	2024 £m	2023 £m
Cash and cash deposits	**26.0**	**46.1**
Borrowings – current		
Other current borrowings	(208.3)	(168.9)
Lease obligations	(50.9)	(32.0)
Total current borrowings	**(259.2)**	**(200.9)**
Borrowings – non-current		
Other non-current borrowings	(2,070.6)	(1,903.5)
Lease obligations	(1,065.5)	(1,033.0)
Total non-current borrowings	**(3,136.1)**	**(2,936.5)**
Total net borrowings	**(3,369.3)**	**(3,091.3)**

The movement in net borrowings during the periods presented were as follows:

	Net borrowings at 1 April 2022 £m	Bristol Water Acquisition £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2023 £m
Cash and cash deposits	189.3	5.1	(149.0)	-	0.7	46.1
Bank and other current borrowings	(43.1)	(217.6)	(6.9)	(45.9)	0.1	(313.4)
Current lease obligations	(170.0)	(0.4)	197.6	(59.2)	-	(32.0)
Bank and other non-current borrowings	(1,240.3)	(367.6)	(125.0)	45.9	(72.0)	(1,759.0)
Non-current lease obligations	(1,041.1)	(0.8)	(16.9)	59.2	(33.4)	(1,033.0)
Total net borrowings	**(2,305.2)**	**(581.3)**	**(100.2)**	**-**	**(104.6)**	**(3,091.3)**

	Net borrowings at 1 April 2023 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net borrowings at 31 March 2024 £m
Cash and cash deposits	46.1	(22.0)	-	1.9	26.0
Bank and other current borrowings	(313.4)	19.2	(58.9)	144.8	(208.3)
Current lease obligations	(32.0)	20.2	(34.2)	(4.9)	(50.9)
Bank and other non-current borrowings	(1,759.0)	(326.0)	58.9	(44.5)	(2,070.6)
Non-current lease obligations	(1,033.0)	(64.8)	34.2	(1.9)	(1,065.5)
Total net borrowings	**(3,091.3)**	**(373.4)**	**-**	**95.4**	**(3,369.3)**

Other non-cash movements on cash and cash deposits includes £0.8 million overdraft position presented in borrowings (note 25).

37. CONTINGENCIES

	2024 £m	2023 £m
Guarantee of borrowings of subsidiary undertaking	525.9	509.4

Guarantees in respect of performance bonds, the last of which expire in 2057 and which will be reduced in line with repayments of the borrowings of the subsidiary undertaking, are entered into in the normal course of business.

Other contractual and litigation uncertainties

Ofwat and the Environment Agency announced an industry-wide investigation into sewage treatment works on 18 November 2021. On 27 June 2022, as part of its ongoing investigation, Ofwat announced enforcement action against South West Water Limited, the company is now included alongside the five companies that received enforcement notices in March 2022. The Company continues to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The Company has undertaken its own internal investigation and investment interventions have been undertaken at a small number of our sites. In addition, the Company 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 Summer 2024.

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 Company 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 23 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 Company 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 Company 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 Company recognises opportunities to enhance data quality to improve the estimation process and these have been shared 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 Company 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 2 February 2024 summons were received by South West Water Limited from the EA in relation to alleged breaches of environmental permits relating to the illegal water discharge activity at 7 locations with a total of 30 charges. The initial court hearing took place on 16 April 2024 at which the company entered no plea, proceedings have been adjourned to 3 July 2024. In May 2024 the EA withdrew 6 of the 30 charges. The potential outcome of the remaining prosecutions is currently unknown.

The Company 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.

38. CAPITAL COMMITMENTS

	2024 £m	2023 £m
Contracted but not provided	174.0	70.8

39. RELATED PARTY TRANSACTIONS

	2024 £m	2023 £m
Parent company		
Purchase of goods and services		
– Group expenses	10.5	4.8
Payment for provision of finance		
- Loan interest	1.6	0.9
Sale of goods and services		
– Administrative services	0.5	0.5
Dividends paid	-	55.3
Subsidiaries of the Company		
Purchase of goods and services		
– Property consultancy	-	0.2
– Billing and collection services	16.5	16.6
Payment for provision of finance		
– Loan interest	30.2	56.1
Sale of goods and services (administrative services)	1.4	1.6
Fellow subsidiaries of the Pennon Group		
Purchase of goods and services		
– Management charges	0.2	0.2
Sale of goods and services		
– Non-household services	91.3	93.8
Year end balances		
Borrowings		
– Current loan from parent	100.0	73.1
– Current loan from subsidiary	3.5	147.5
– Non-current loan from subsidiary	594.3	579.3
Receivables		
– Subsidiaries	1.0	1.4
– Fellow subsidiaries	13.4	14.2
Payables		
– Parent company	47.4	1.9
– Subsidiaries	6.8	10.4

The receivables due from related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made, or are considered necessary, for doubtful debts in respect of these amounts due.

40. PARENT COMPANY

The parent company, and ultimate controlling party, is Pennon Group plc which is registered in England. Group financial statements are included in the Annual Report of Pennon Group plc which is available from Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR.

41. EVENTS AFTER THE REPORTING PERIOD

On 15th May 2024 outbreak of cryptosporidium was detected in the water supply in the Brixham area of Devon, causing South West Water to issue a notice to boil water before consuming. All customers issued with a notice to boil water have been offered compensation of a bank payment or bill credit ranging from £115 to £265 per household. The boil notice was lifted for the majority of properties on 18th May, with the notice still in place for around 2,500 properties. The Company is completing an extensive, and thorough, cleaning operation across the area working with Public Health partners. This includes flushing, ice pigging and swabbing the network. Whilst the work to clean the network and lift the final boil notice is ongoing the total cost of the incident and subsequent operation are uncertain but are estimated to be in the region of £5 million to £10 million.